Q2

Quarterly Market Review

Second Quarter 2023

TRINITY
FINANCIAL ADVISORS LLC

Quarterly Market Summary

Second Quarter 2023

U.S. GROWTH STOCKS IGNITE GLOBAL EQUITIES IN Q2

Global stocks continued to recover from last year's drawdown, with the MSCI All Country World Index returning 6% over the quarter and outperforming global bonds for the third consecutive quarter.

Globally, information technology was the best performing sector, lifting the returns of large growth stocks, while value-oriented sectors such as energy and financials lagged the overall market. In the U.S., large growth stocks with low profitability outperformed the rest of the market. Those that performed particularly well included NVIDIA, up more than 50%, Tesla and Netflix, both of which returned over 25%.

GLOBAL ASSET CLASS RETURNS *Q2 2023*

STOCKS	US	8.39%
	Developed ex US	2.67%
	Emerging Markets	1.62%
BONDS	US	-0.84%
	Global ex US	0.73%

GLOBAL PREMIUM RETURNS *Q2 2023*

SIZE	Large	6.7%
	Small	3.6%
VALUE	Value	4.7%
	Growth	8.0%
PROF	High	5.6%
	Low	7.1%

GLOBAL SECTOR RETURNS *Q2 2023*

Information Technology	14.3%
Consumer Discretionary	8.1%
Communication Services	6.7%
Industrials	6.5%
Global	5.9%
Financials	5.0%
Health Care	2.7%
Energy	1.2%
REITs	0.6%
Utilities	0.3%
Consumer Staples	0.2%
Real Estate	-0.4%
Materials	-0.5%

FIXED INCOME

U.S. Treasury yields climbed higher in the second quarter as the Federal Reserve continued to raise its benchmark interest rate. After rate increases in May and July, it is anticipated that more rate hikes may be needed later this year to continue to bring inflation down. The yield curve further inverted as short-term yields rose more than long-term rates.

In terms of total returns, the High Yield Corporate Bond Index returned +1.75% for the quarter and +5.38% for the year; while the U.S. Aggregate Bond index declined -0.84% for the quarter but is still +2.09% year to date.

ALTERNATIVES

Demand worries in the U.S. and China weighed broadly on the commodities, notably metals and energy. The markets grappled with whether the Federal Reserve's aggressive monetary policy tightening will put the U.S. into a recession.

After being the top asset class in 2022, commodities continued their year-long slide with the Bloomberg Commodity Total Return Index down another -2.56% for the quarter and -7.79% year to date. Zinc and Nickel were the worst performers for the period, declining -18.1% and -14.67% respectively.

As interest rates have started to stabilize, U.S. Real Estate Investment Trusts (REITs) continued to trend positive, up +2.92% for the quarter and +5.77% year to date. Global REITs continued to decline weighed heavily by China's struggling property sector. Many investors are wary of the commercial property sector, wondering if it is the next shoe to drop.

ECONOMY

The first half of the year has given investors plenty to process – from banking turmoil to a morphing yield curve to the debt ceiling debate. It is interesting to note some of the financial and stock market related events that have happened so far:

- U.S. Sovereign Debt downgraded for the first time since 2011.
- The regional bank debacle earlier this year which led to the 2nd and 3rd largest bank collapses in U.S. banking history.
- The Federal Reserve increased interest rates to the highest level in more than two decades.
- The interest payment on U.S. government debt (yes, just the interest) is set to surpass $1 Trillion annually.
- U.S. Household debt hit an all-time high of $17.1 trillion.

At the beginning of the year had we told you these things, few if any would have expected the S&P500 index to be up 19 percent year to date.

The surprise in some areas has been the resilience of the U.S. economy. The GDP came in better than expected with a strong 2.4% annualized gain in the second quarter. All of this has boosted consumer confidence, with the University of Michigan Consumer Sentiment Index registering a reading of 71.6 in July, well above its all-time low of 50.0 set in June 2022.

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The labor market also came in stronger than expected. The unemployment rate stood at 3.6% as of the end of June, not far off from the multi-decade low of 3.3% in January 2020, prior to the COVID pandemic. That being said, some cracks under the surface are starting to appear in the labor market. Both overtime hours and the use of temporary staffing have dropped precipitously, now back to 2020 pre-COVID baseline levels.

In June 2022, seasonally adjusted year-over-year CPI inflation hit a more than 40-year high of 8.9%. Since then, inflation has declined for 12 straight months, falling to 3.1% by the end of June 2023. Indicators are that inflation may move sideways for the remainder of the year before hopefully tempering down in 2024.

LOOKING FORWARD

As we take a closer look at valuations, a good place to start is with U.S. equities. One metric wisely used to assess the valuation of the overall stock market is by looking at the price earnings ratio or P-E ratio. This is a ratio of earnings relative to the price of a company's stock. Currently the S&P500 Index as a whole is trading at more than a 15% premium to its 25-year average.

However, as has increasingly been the case in recent years, there is a huge difference between the P-E ratio of the top 10 mega-cap stocks (Apple, Amazon, Microsoft, Google, etc) and the remaining 490 stocks that make up the overall S&P500 Index. In particular, these top 10 stocks in the S&P500 index are currently selling at a 50% premium relative to the rest of the 490 stocks in the index. It's not unusual for there to be a sizable discrepancy, but it's not typically this large.

It is also notable that that non-U.S. stocks (Europe, Japan, Canada) are selling at close to a 30% discount relative to the U.S. stock market. With more than double the dividend yield of U.S. stocks, international stocks can generate significant income in the short run with the potential for a sizable capital gain with a closing of a relative valuation gap, a further fall in the dollar, or both.
Recession concerns have been a fixture in the news lately, prompting many investors to wonder about what factors go into a recession announcement and how an economic downturn would impact their portfolios.

Recessions can understandably trigger worries over how markets might perform. However, investors should be aware that recession announcements are backward-looking, in contrast to the forward-looking nature of markets. Recessions are typically determined using macroeconomic indicators such as employment rates, consumption and income data, and gross domestic product growth—information that is rapidly incorporated into market prices. In fact, recessions are often officially declared *after* the market is already on the path to recovery.

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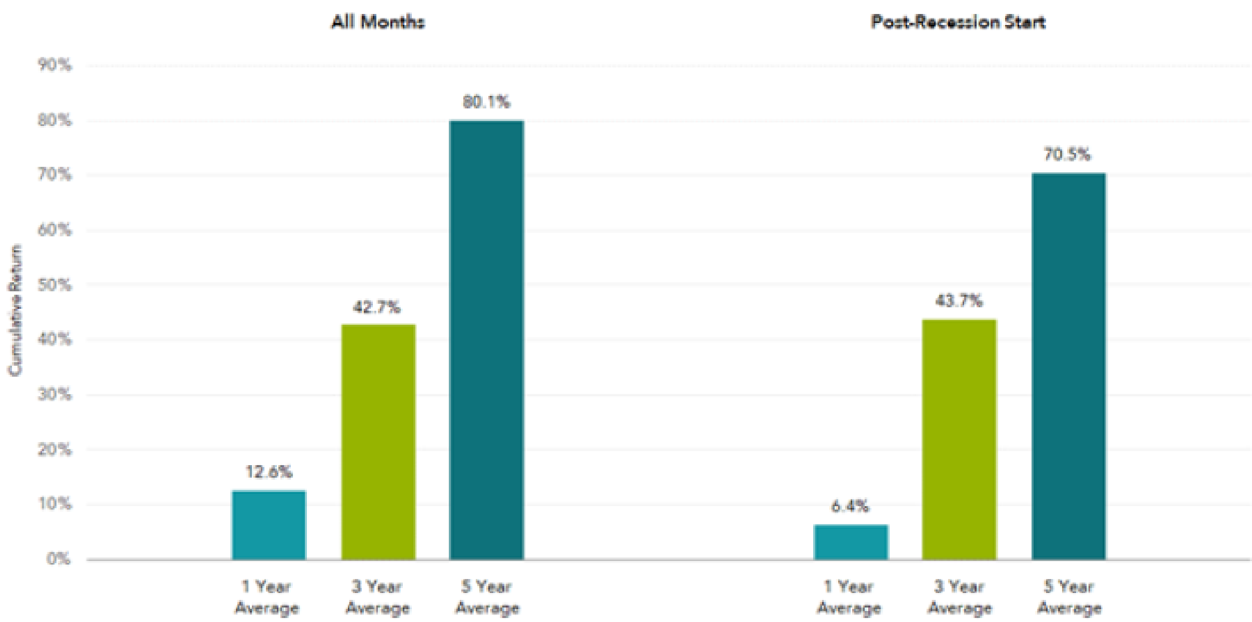
Consistent with forward-looking expectations, average U.S. equity returns have been positive after the onset of a recession (**Exhibit 1**).

Exhibit 1: Average Cumulative S&P 500 Index Returns (1947–2022)



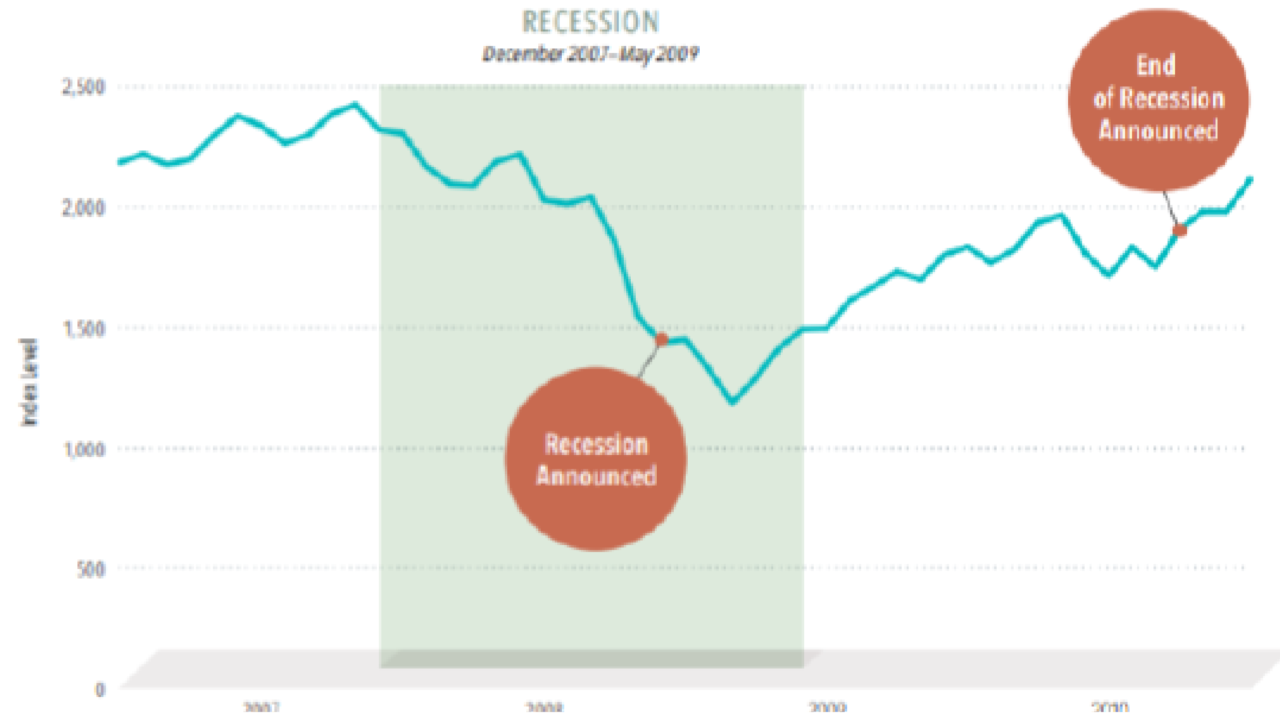
This illustrates that the S&P 500 Index had positive average returns following recession start dates that were similar to overall averages across 1-, 3- and 5-year time horizons from 1947–2022. The historical data suggests that investors can benefit from a disciplined approach that avoids making investment decisions based on lagged economic outcomes.

In short, history shows that markets incorporate expectations ahead of the news.

As an example, look back at the last global financial crisis. The official “in recession” announcement came in December 2008—a year after the recession had started. By then, stock prices had already dropped more than 40%. Although the recession ended in May 2009, the announcement came 16 months later when U.S. stocks had already rebounded.

Exhibit 2: US Recession and Stock Performance during the Global Financial Crisis

S&P 500 Index, January 2007–December 2010



Investors who look beyond these after-the-fact headlines about markets and the economy, and stick to a plan, will be better positioned for long-term success.

Remember, we're here to help. This also is where the time invested upfront with each of you shows its value. Formulating a solid and adaptable financial plan together and discussing liquidity, cash flows, and reserves provides the solid footing needed for times like these with many changing facets.

We appreciate the opportunity to work with each of you. We recognize that each client's situation is unique and incorporates different factors into their investment and financial plan.

As always, if you have any questions or concerns about current market trends and the impact on your personal situation and plan, please contact us and we would be happy to discuss.

All the best,

Geoff

Quarterly Market Summary

Index returns

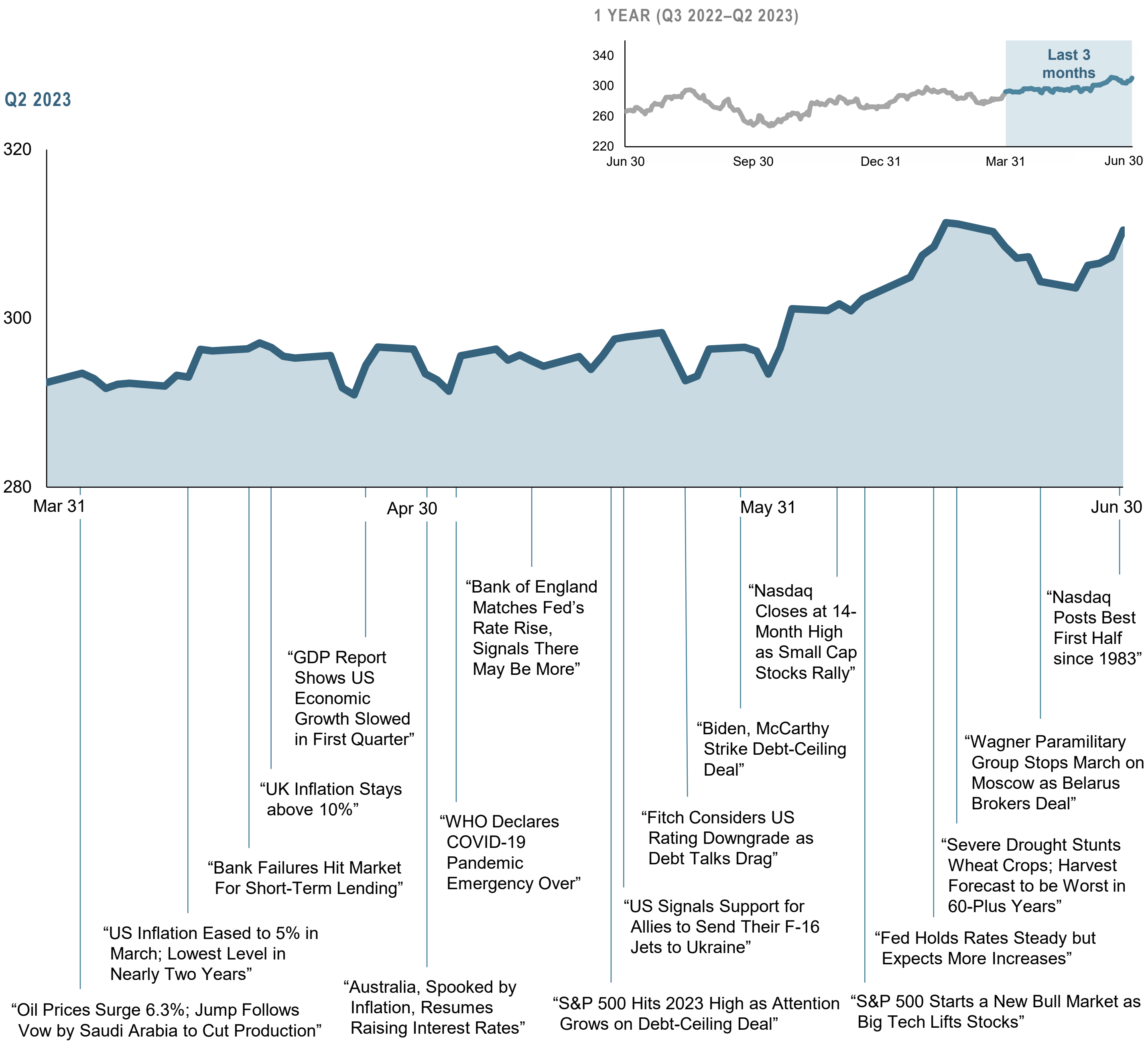
Q2 2023	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	8.39%	3.03%	0.90%	0.71%	-0.84%	0.73%

Since Jan. 2001	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Average Quarterly Return	2.3%	1.5%	2.5%	2.2%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2001 Q3**	**2008 Q4**
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2022 Q1**	**2022 Q1**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2023



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio.
Past performance is not a guarantee of future results.

US Stocks

Second quarter 2023 index returns

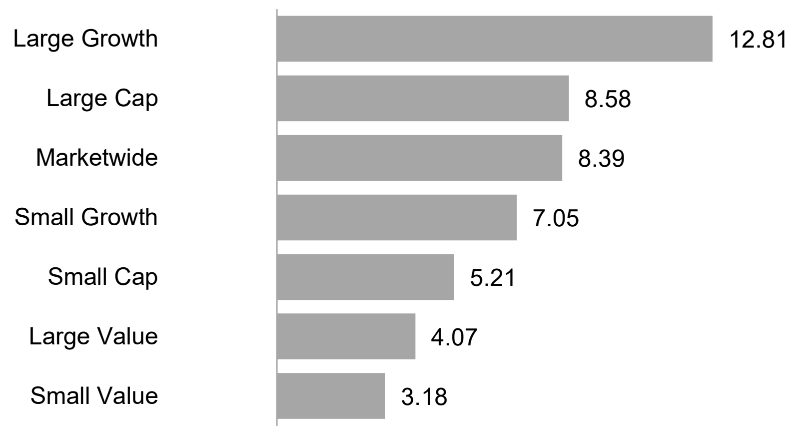
The US equity market posted positive returns for the quarter and outperformed both non-US developed and emerging markets.

Value underperformed growth.

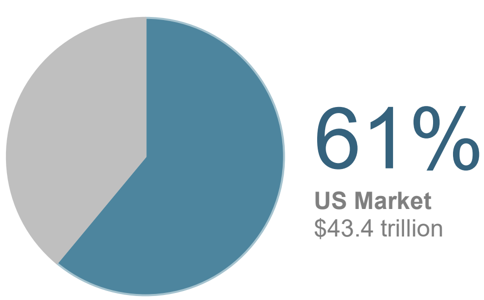
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized 3 Years	Annualized 5 Years	Annualized 10 Years
Large Growth	12.81	29.02	27.11	13.73	15.14	15.74
Large Cap	8.58	16.68	19.36	14.09	11.92	12.64
Marketwide	8.39	16.17	18.95	13.89	11.39	12.34
Small Growth	7.05	13.55	18.53	6.10	4.22	8.83
Small Cap	5.21	8.09	12.31	10.82	4.21	8.26
Large Value	4.07	5.12	11.54	14.30	8.11	9.22
Small Value	3.18	2.50	6.01	15.43	3.54	7.29

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International Developed Stocks

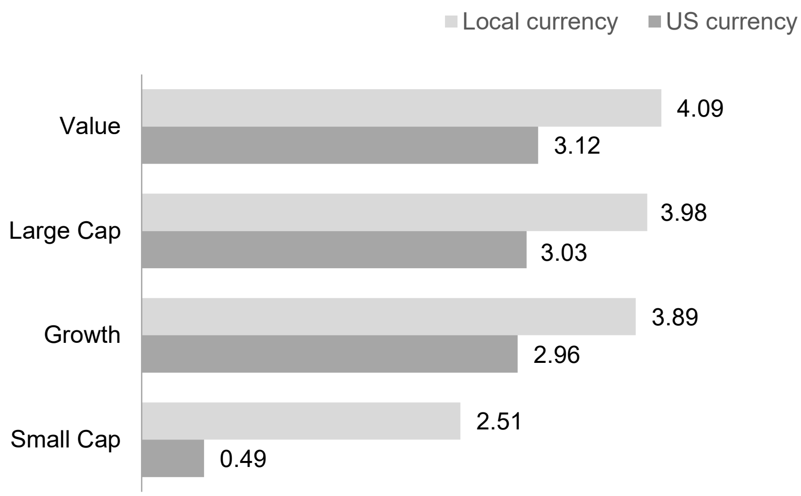
Second quarter 2023 index returns

Developed markets outside of the US posted positive returns for the quarter and underperformed the US market, but outperformed emerging markets.

Value outperformed growth.

Small caps underperformed large caps.

Ranked Returns (%)

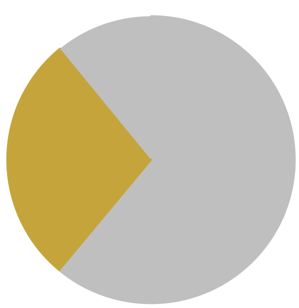


World Market Capitalization—International Developed

28%

International Developed Market

$20.0 trillion



Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Value	3.12	8.92	15.49	12.07	3.24	4.25
Large Cap	3.03	11.29	17.41	9.30	4.58	5.40
Growth	2.96	13.76	19.4	6.24	5.46	6.28
Small Cap	0.49	5.50	10.05	6.42	1.83	5.97

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Emerging Markets Stocks

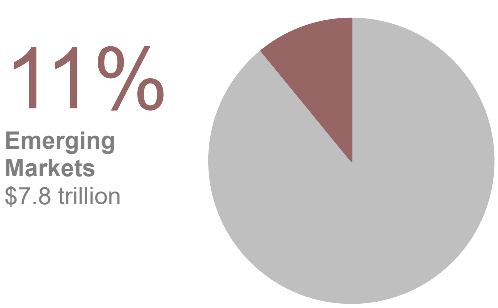
Second quarter 2023 index returns

Emerging markets posted positive returns for the quarter and underperformed both US and non-US developed markets.

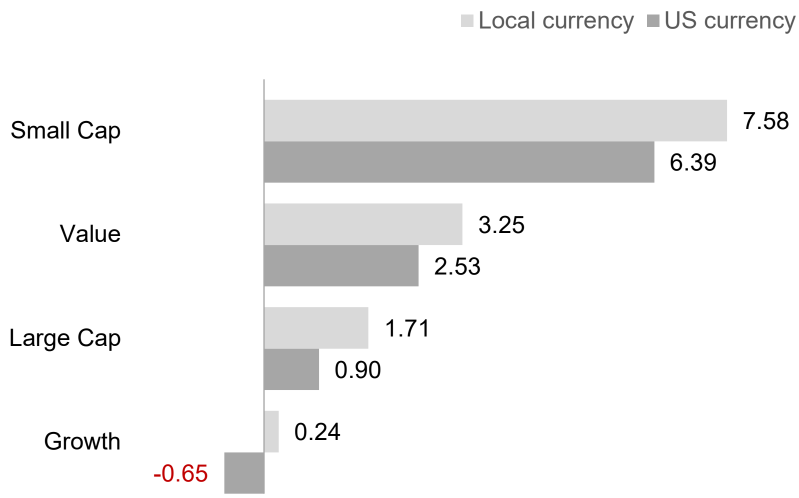
Value outperformed growth.

Small caps outperformed large caps.

World Market Capitalization—Emerging Markets



Ranked Returns (%)



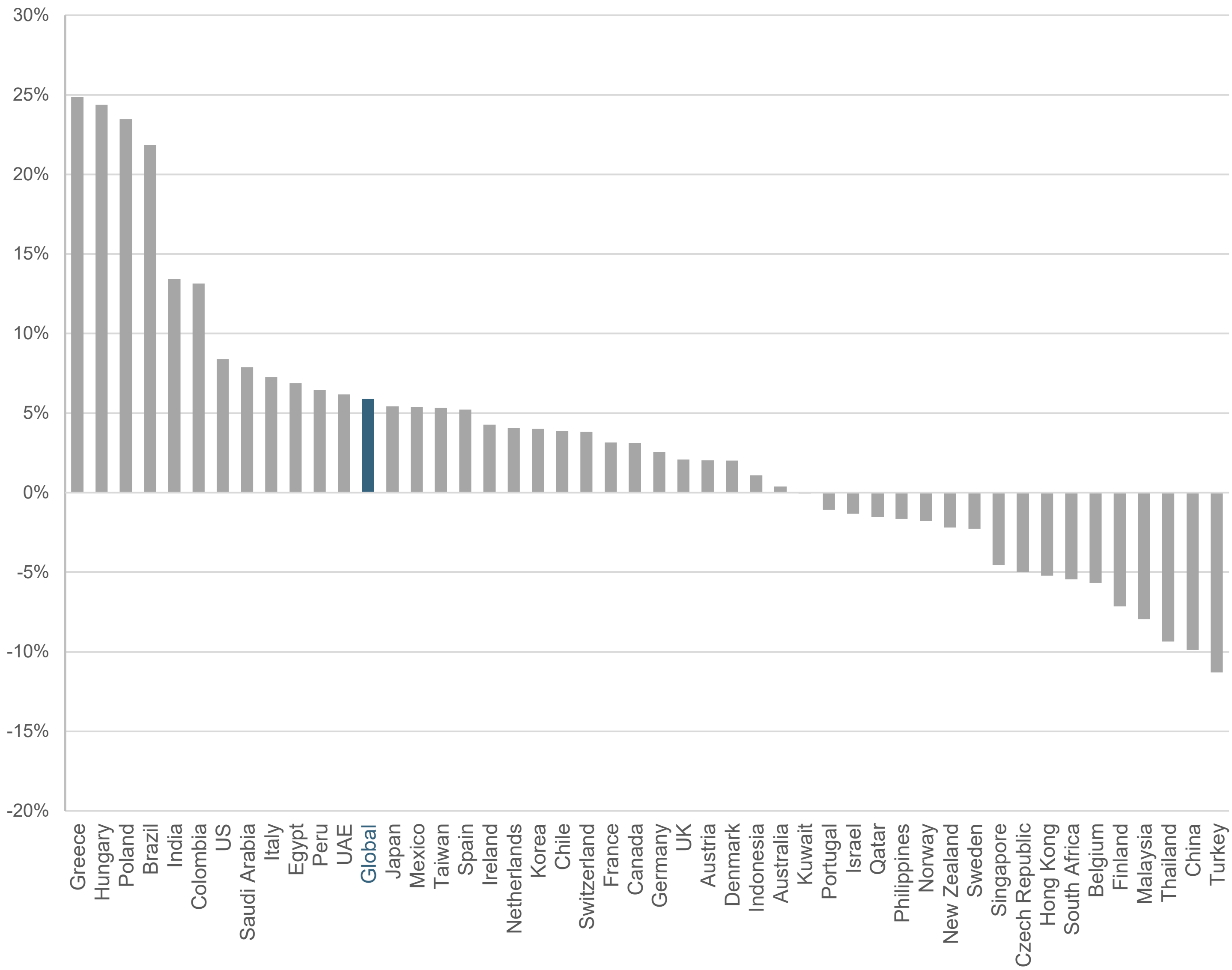
Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Small Cap	6.39	10.50	13.28	13.72	4.93	4.63
Value	2.53	6.53	4.13	6.27	1.22	1.99
Large Cap	0.90	4.89	1.75	2.32	0.93	2.95
Growth	-0.65	3.32	-0.45	-1.36	0.53	3.79

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market.

Country Returns

Second quarter 2023 index returns



Past performance is no guarantee of future results.

Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

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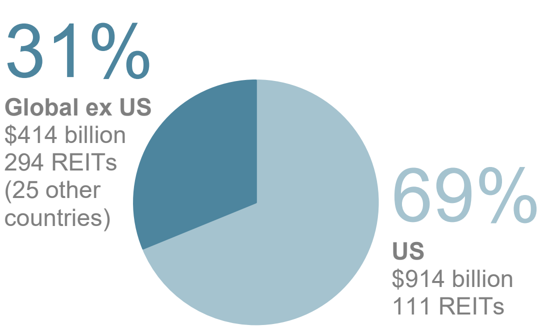
Real Estate Investment Trusts (REITs)

Second quarter 2023 index returns

US real estate investment trusts outperformed non-US REITs during the quarter.

Ranked Returns (%)

Total Value of REIT Stocks



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized 3 Years	5 Years	10 Years
US REITS	2.92	5.77	-0.69	9.17	3.28	5.75
Global ex US REITS	-2.98	-3.85	-7.02	0.31	-2.61	1.36

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market.

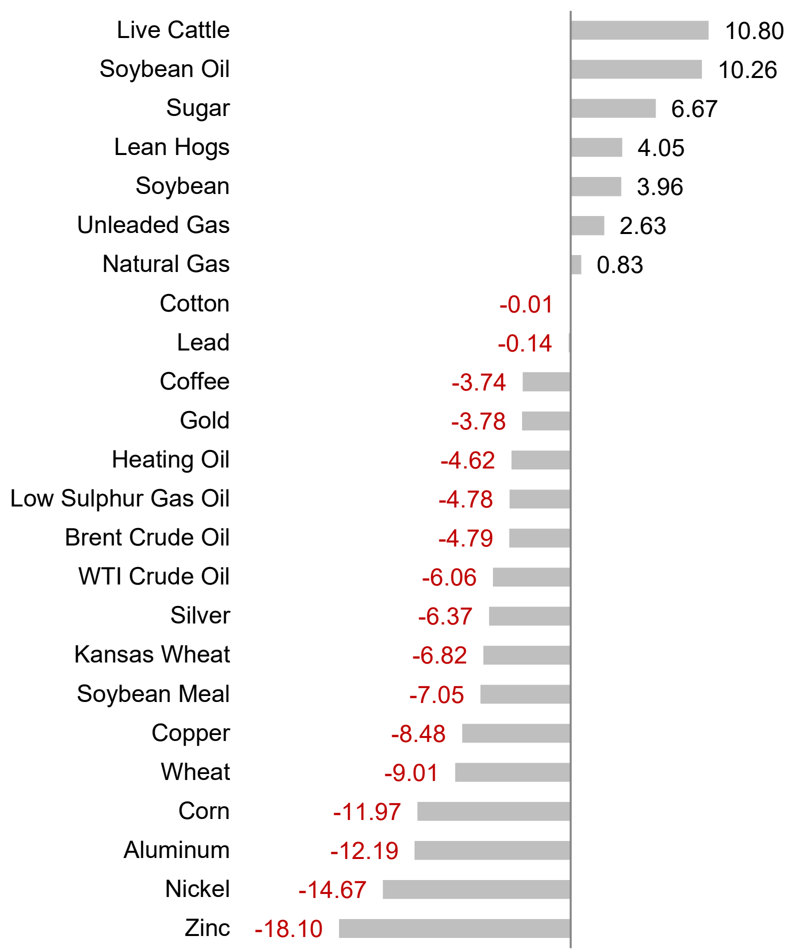
Commodities

Second quarter 2023 index returns

The Bloomberg Commodity Total Return Index returned -2.56% for the second quarter of 2023.

Zinc and Nickel were the worst performers, returning -18.10% and -14.67% during the quarter, respectively. Live Cattle and Soybean Oil were the best performers, returning +10.80% and +10.26% during the quarter, respectively.

Ranked Returns (%)



Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Commodities	-2.56	-7.79	-9.61	17.82	4.73	-0.99

Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

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Fixed Income

Second quarter 2023 index returns

Interest rates increased across all bond maturities in the US Treasury market for the quarter.

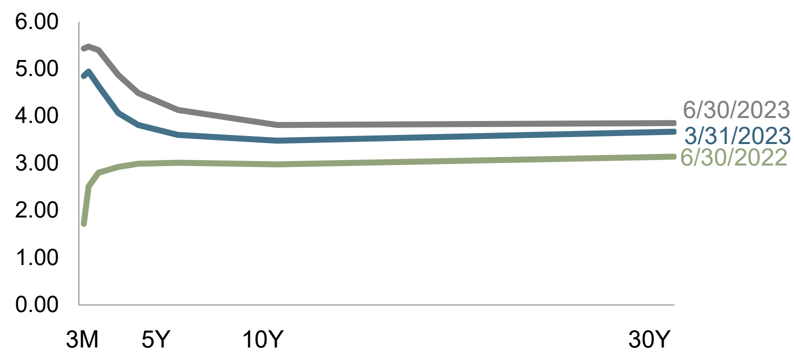
On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 50 basis points (bps) to 5.24%, while the 1-Year US Treasury Bill yield increased 76 bps to 5.40%. The yield on the 2-Year US Treasury Note increased 81 bps to 4.87%.

The yield on the 5-Year US Treasury Note increased 53 bps to 4.13%. The yield on the 10-Year US Treasury Note increased 33 bps to 3.81%. The yield on the 30-Year US Treasury Bond increased 18 bps to 3.85%.

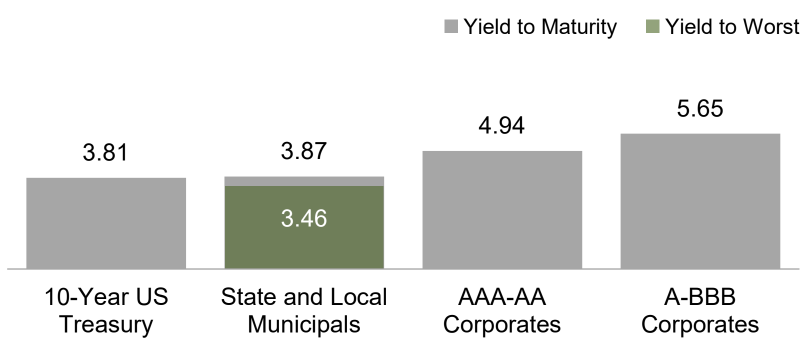
In terms of total returns, short-term US treasury bonds returned -0.90% while intermediate-term US treasury bonds returned -1.15%. Short-term corporate bonds returned +0.07% and intermediate-term corporate bonds returned -0.16%.[1]

The total returns for short- and intermediate-term municipal bonds were -0.37% and -0.72%, respectively. Within the municipal fixed income market, general obligation bonds returned -0.41% while revenue bonds returned +0.04%.[2]

US Treasury Yield Curve (%)



Bond Yields Across Issuers (%)



Period Returns (%)

Asset Class	QTR	YTD	1 Year	3 Years (Annualized)	5 Years (Annualized)	10 Years (Annualized)
Bloomberg U.S. High Yield Corporate Bond Index	1.75	5.38	9.06	3.13	3.36	4.43
ICE BofA US 3-Month Treasury Bill Index	1.17	2.25	3.59	1.27	1.55	0.98
ICE BofA 1-Year US Treasury Note Index	0.42	1.67	1.93	0.23	1.30	0.89
Bloomberg Municipal Bond Index	-0.10	2.67	3.19	-0.58	1.84	2.68
FTSE World Government Bond Index 1-5 Years (hedged to USD)	-0.27	1.53	0.28	-1.15	0.95	1.14
Bloomberg U.S. Aggregate Bond Index	-0.84	2.09	-0.94	-3.96	0.77	1.52
FTSE World Government Bond Index 1-5 Years	-1.19	0.87	-0.27	-2.84	-0.77	-0.67
Bloomberg U.S. TIPS Index	-1.42	1.87	-1.40	-0.12	2.49	2.08
Bloomberg U.S. Government Bond Index Long	-2.29	3.73	-6.79	-12.02	-0.88	1.81

1. Bloomberg US Treasury and US Corporate Bond Indices.
2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg.