WAYPOINT

Market Notes

(As of March 31, 2023)

Key Points

- Over 95% of the S&P 500's return YTD can be attributed to 10 stocks.

- Silicon Valley Bank & Signature Bank were the first victims of the Federal Reserve's inflation fight, which will likely lead to less credit availability and slower economic growth.

- The Bond market is pricing in a recession during the 2nd half of this year that will lead the Fed to cut interest rates.

- The Equity market is pricing in rate cuts WITHOUT a recession, which is atypical when compared to history.

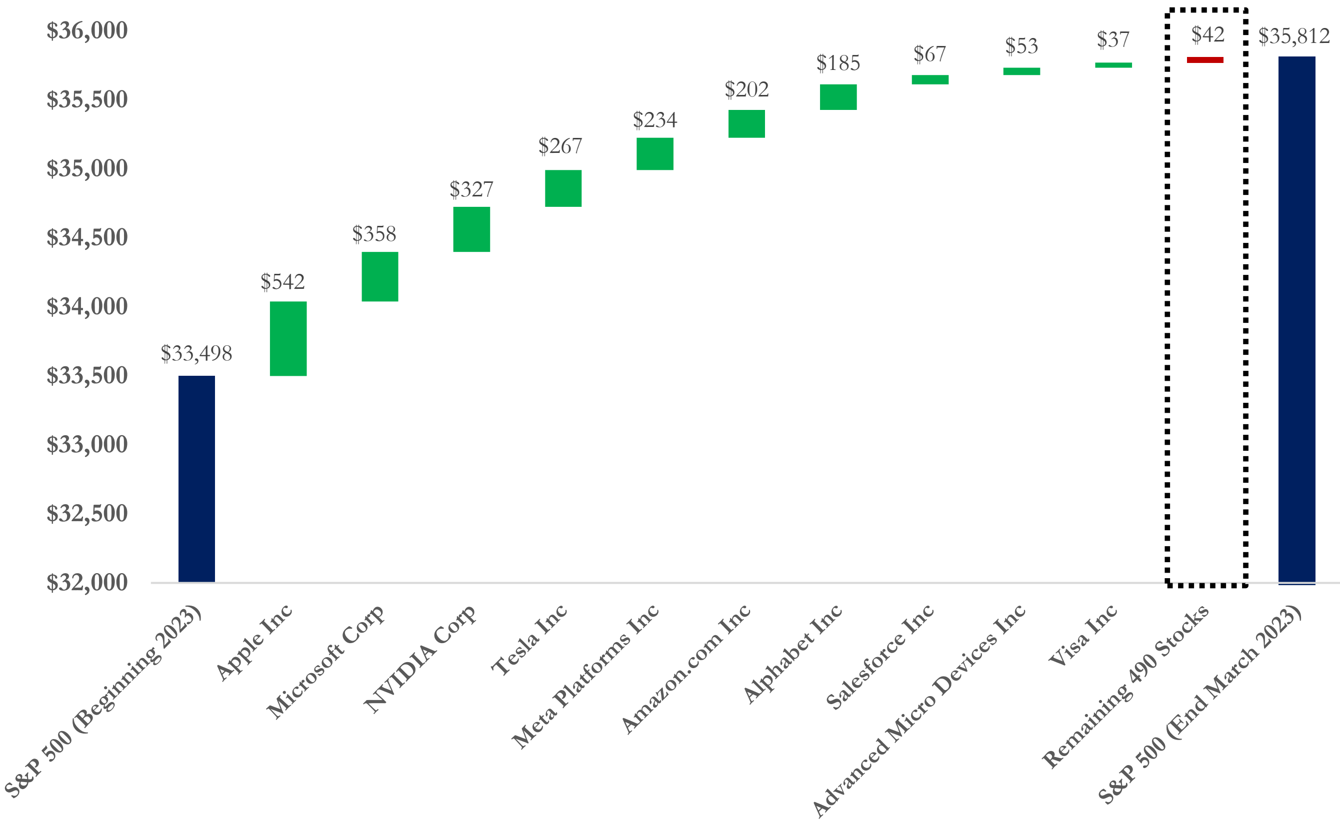
- Historically, corporate earnings fall -30% during recessions.

- Various leading economic indicators are pointing to a deterioration in corporate earnings which has not been reflected in analyst estimates or Equity prices.

- Based on current levels of inflation and interest rates, stocks may be overvalued relative to historical comparisons.

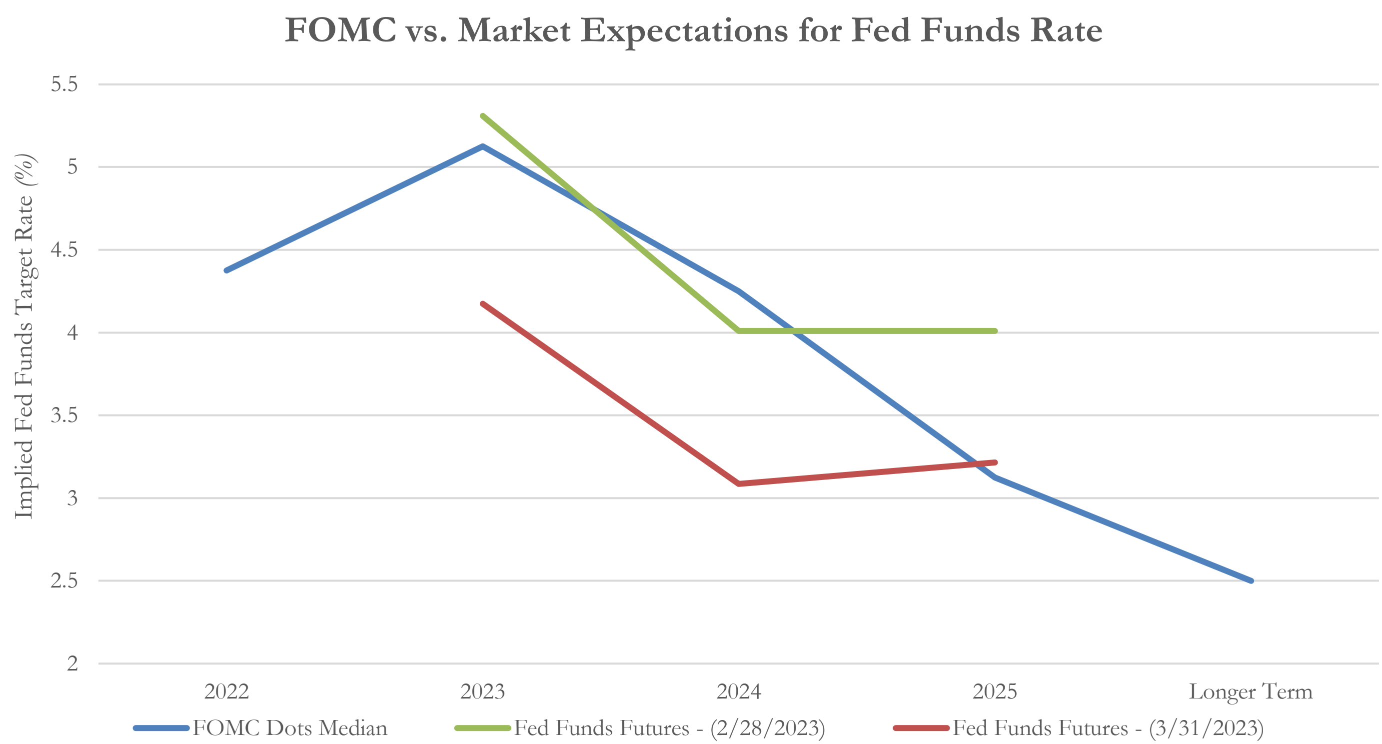
- While inflation has moderated off peak levels, several months of sub +0.2% CPI growth will be needed for inflation to approach the Federal Reserve's 2% target.

S&P 500 YTD Change in Market Cap *($B)*



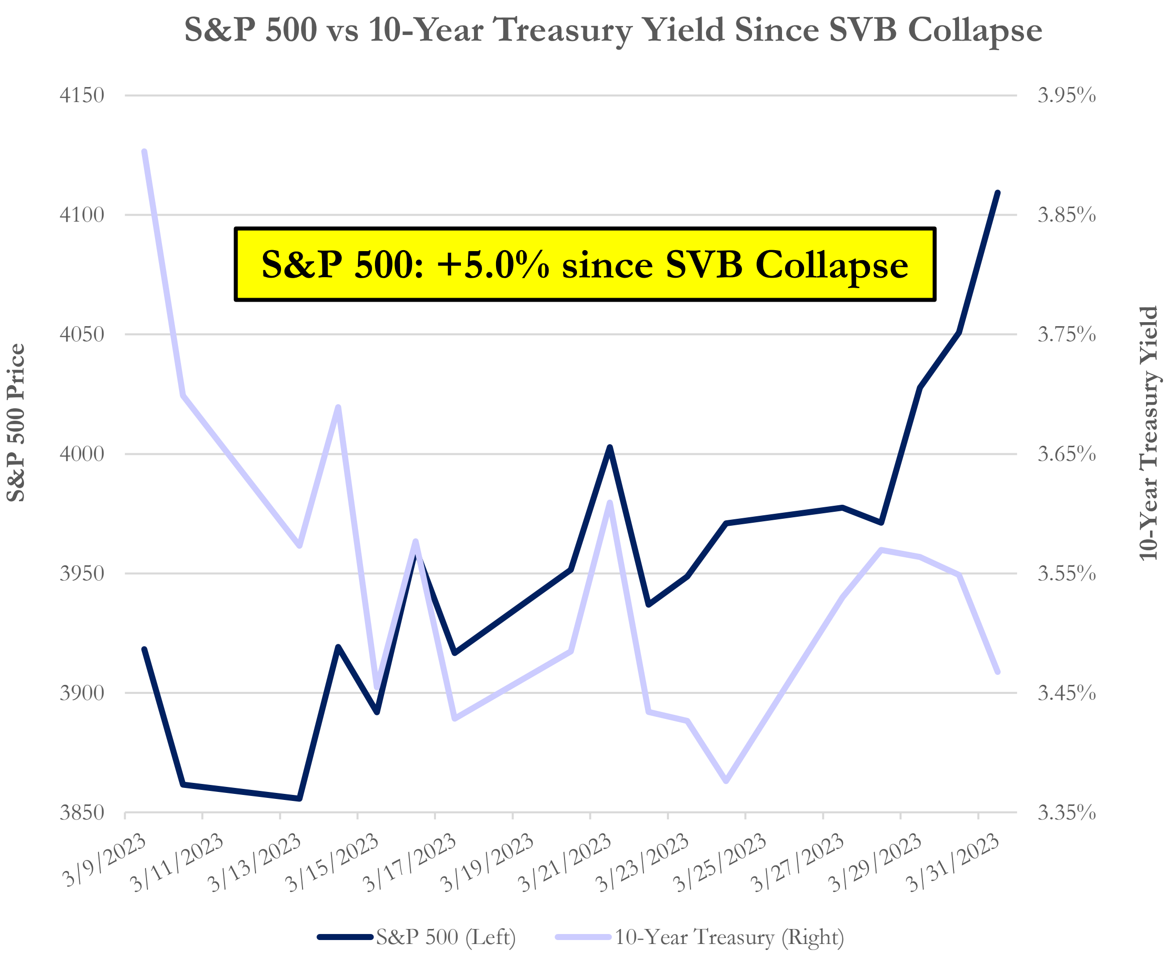
- The S&P 500 is up +7.5% YTD through March 2023, however, over 95% of the return can be attributed to 10 stocks in the index.

Source: Bloomberg data as of 3/31/2023 *(SPX Index);* the S&P 500 is widely regarded as the best single gauge of large-cap U.S. equities and serves as a foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The securities identified in the graph represent the 10 stocks with the biggest positive contribution to the market capitalization of the index YTD.



- In response to the bank failures in March, the market has started pricing in rate cuts into the second half of 2023.
- However, the dot plots from March's FOMC meeting suggest that the Federal Reserve still intends to keep policy "tighter for longer" in their effort to quell inflation.

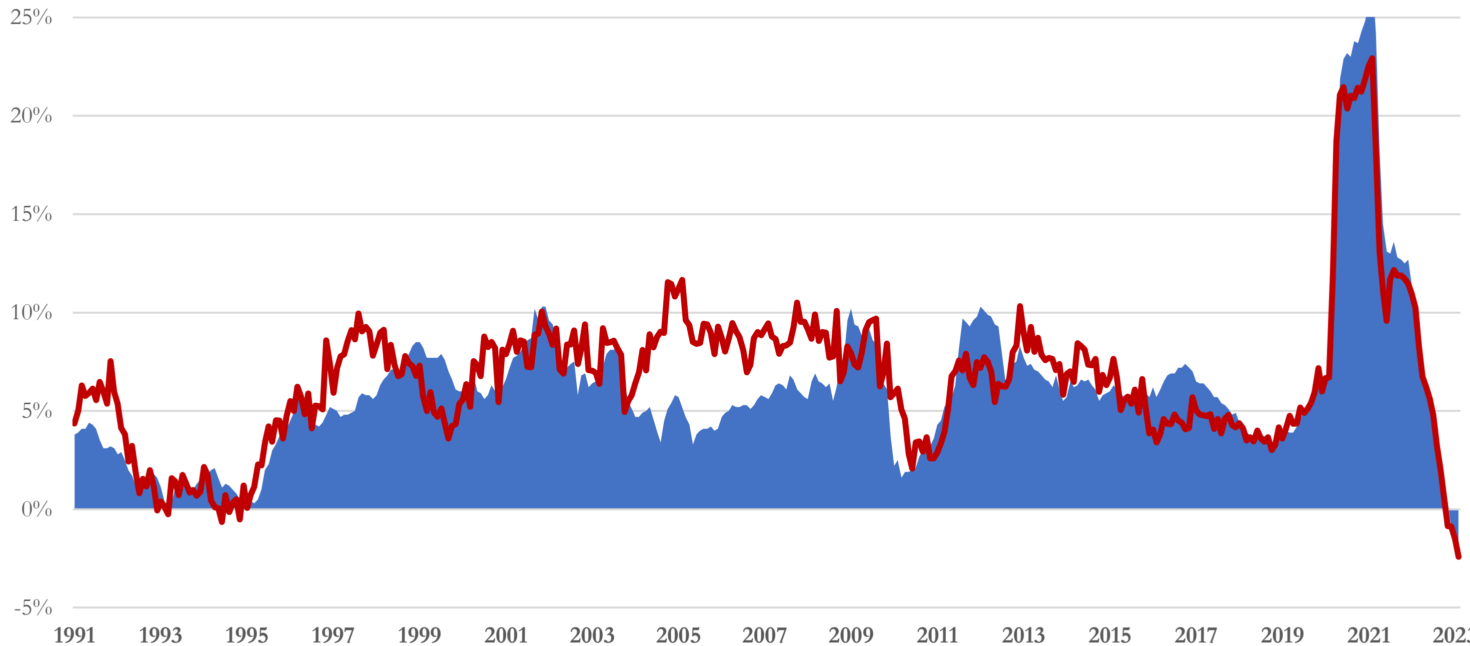
Source: Bloomberg data as of 3/31/2023 *(FOMC Dot Plot)*; the Federal Open Market Committee *(FOMC)* refers to the 12-member board that determines monetary policy decisions in the United States which influence interest rates and money supply; Fed Funds Futures are futures contracts that reflect market participant expectations for the Federal Funds Rate *(overnight bank lending rate)*, which is the Federal Reserves primary policy making tool.



- SVB & Signature Bank were the first casualties of the Federal Reserve's unprecedentedly aggressive tightening measures to combat inflation.
- With the S&P 500 up +5% since SVB's collapse, Equity markets appear to be looking past these bank failures, and pricing in a dovish pivot from the Fed without a recession.
- The 10-Year Treasury Yield, however, has fallen -44 bps since SVB's collapse, indicating that the Bond market is less optimistic about economic growth prospects.

Source: Bloomberg data as of 3/31/2023 *(SPX Index; USGG10YR Index)*; the 10-Year Treasury Yield is widely considered the benchmark rate for longer dated bonds; 10-Year US Treasury Bonds are generally viewed as a "safe haven asset" and can reflect bond market sentiment regarding the economy; bond prices move up when yields move down.

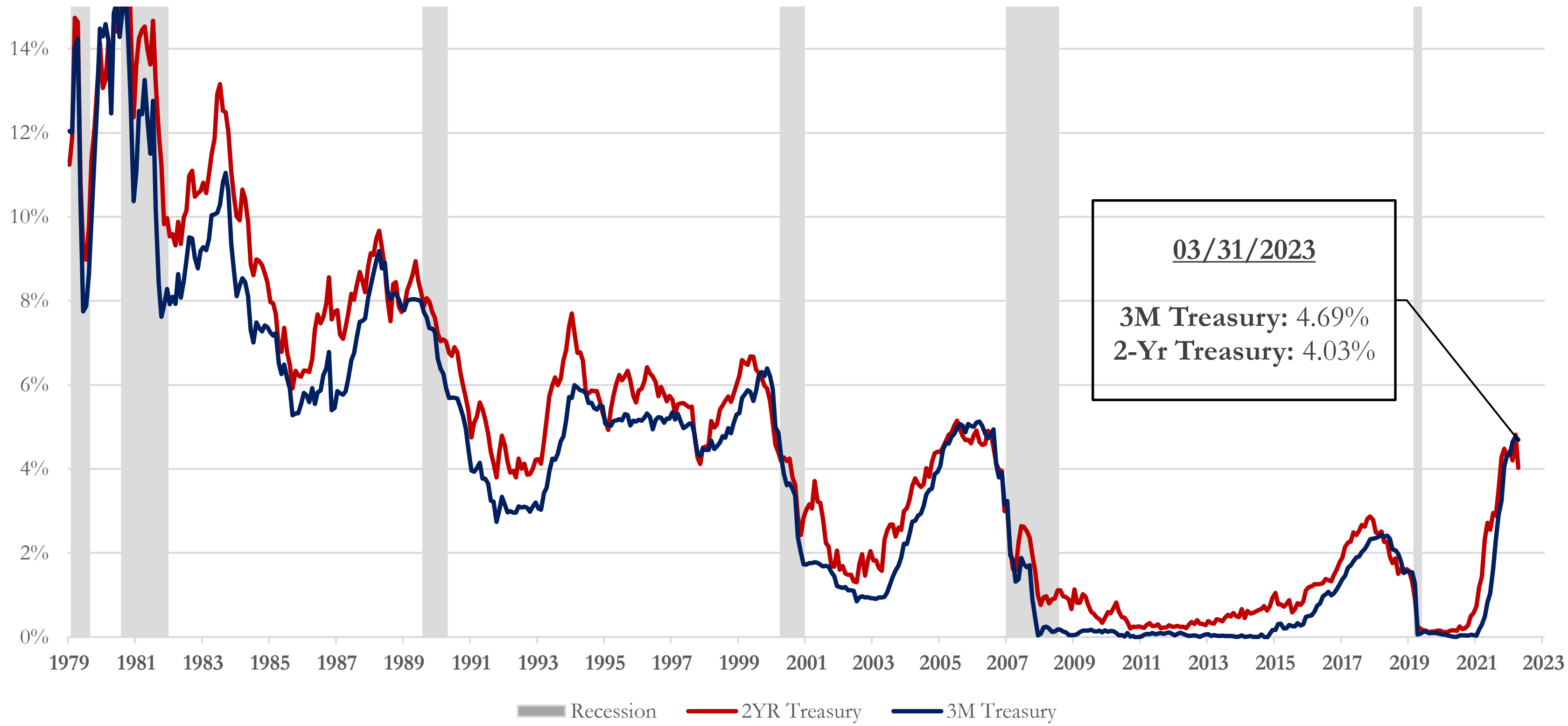
M2 Money Supply *(% YoY)* & US Commercial Bank Deposits *(% YoY)*



- The Federal Reserve's primary tool in fighting inflation has been raising interest rates, but they also have been reducing the money supply *(M2),* which closely tracks US Commercial Bank Deposits.
- A significant decline in Commercial Bank Deposits will reduce credit availability *(amount banks can lend)*, leading to tighter credit standards that limit Commercial Real Estate, Business, & Consumer loans, resulting in weaker economic growth.
- As of February 2023, both M2 Money Supply & Commercial Bank Deposits experienced negative growth for the first time in over 30 years and may continue to fall after March's bank failures.

Source: Bloomberg data as of 02/28/2023 *(M2% YOY Index, ALCLDEPO Index - % change YoY);* M2 is the Federal Reserve's estimate of the total money supply including all cash people have on hand plus all of the money deposited in checking, savings, and other short-term vehicles*;* US Commercial Bank Deposit information tracked and published by Federal Reserve

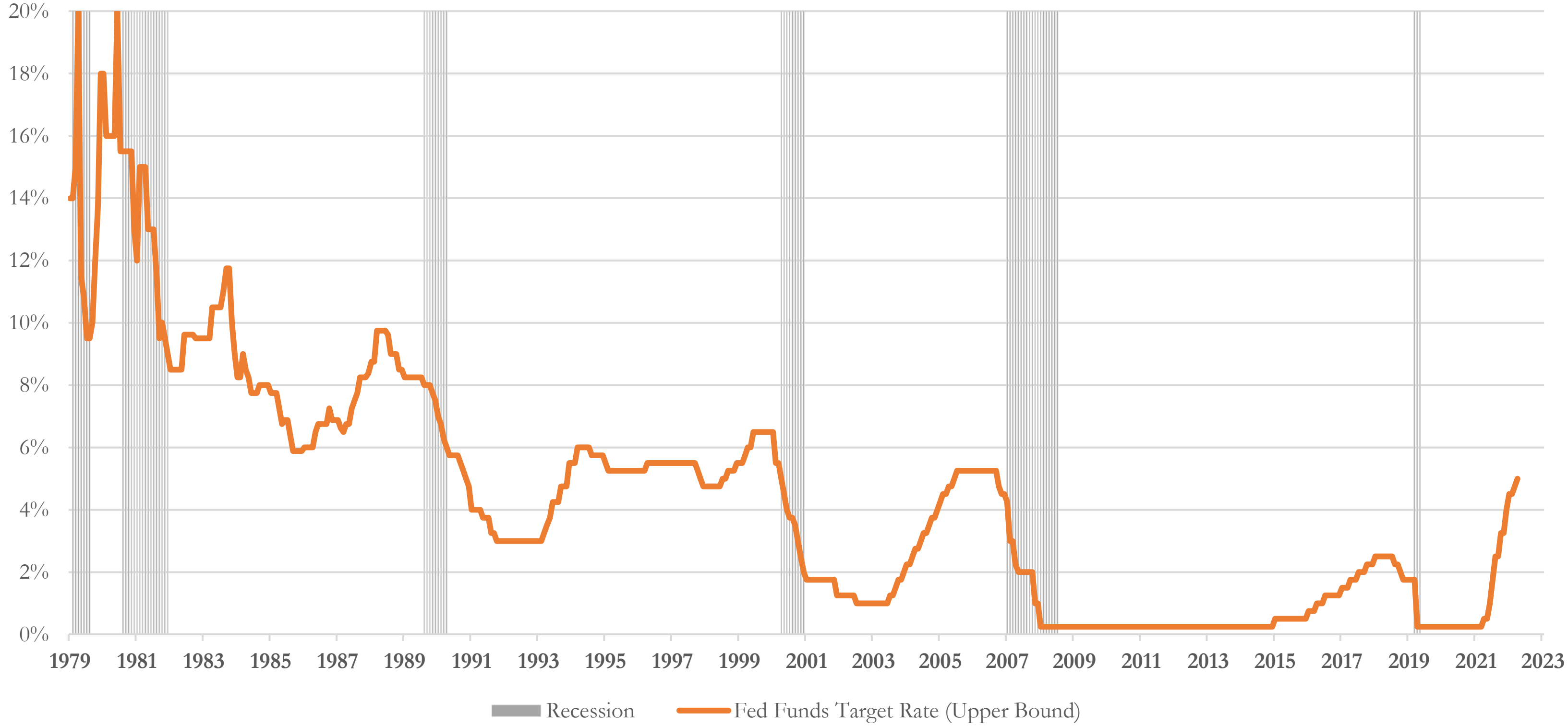
3M Treasury Yield vs. 2-Year Treasury Yield



- The 3M Treasury Bill Yield reflects the current Fed Funds rate, while the 2-Year Treasury Yield generally indicates future expectations for the Fed Funds rate.
- With the 3M firmly above the 2-Year, the Bond market is expecting rate cuts within the year.

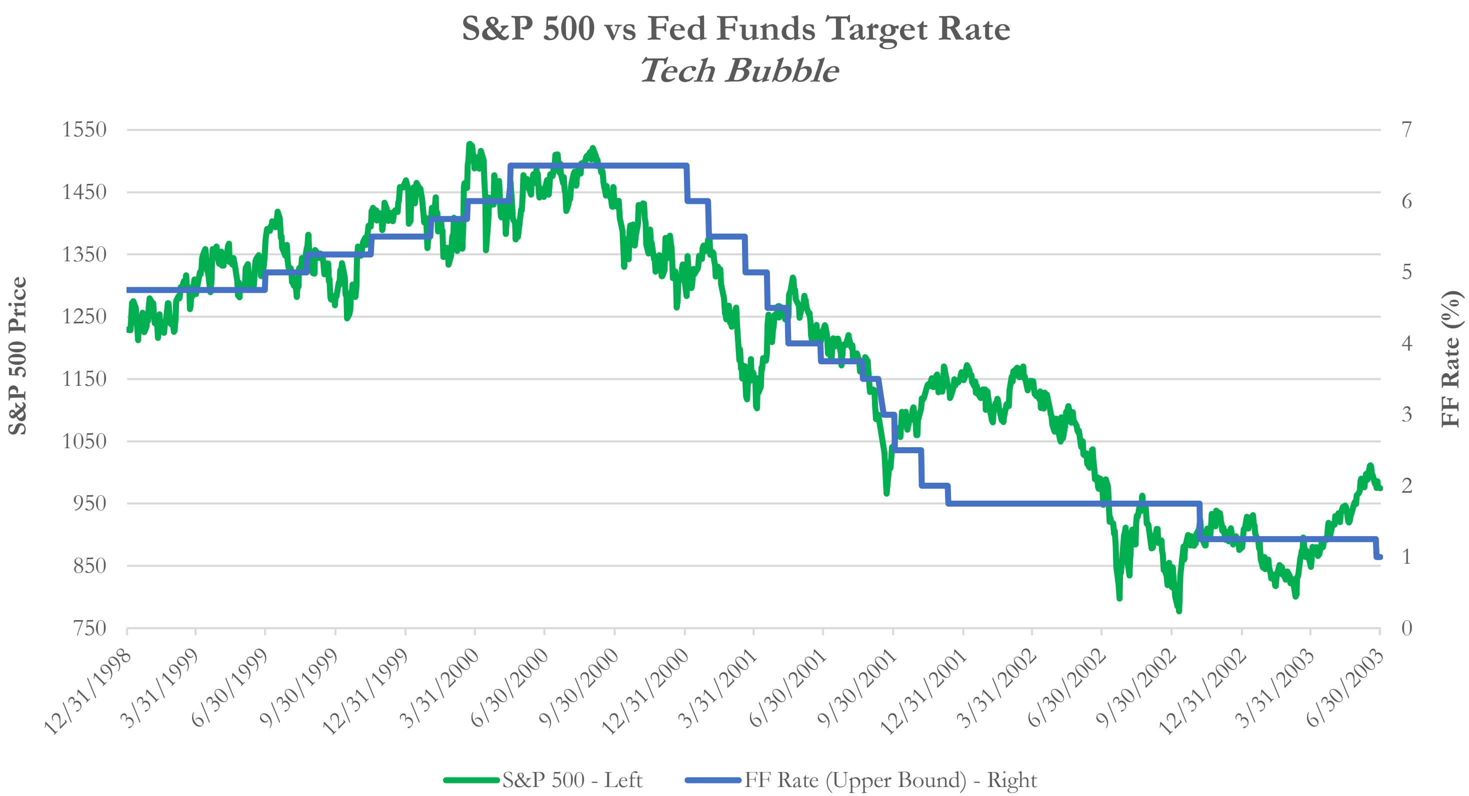
Source: Bloomberg data as of 3/31/2023 *(USGG2YR Index / USGG10YR Index)* ; Recessions identified by National Bureau for Economic Research *(NBER)*

Fed Funds Target Rate & Recessions



- The Federal Reserve typically cuts interest rates in response to a recession, which is currently not being priced into Equity markets.

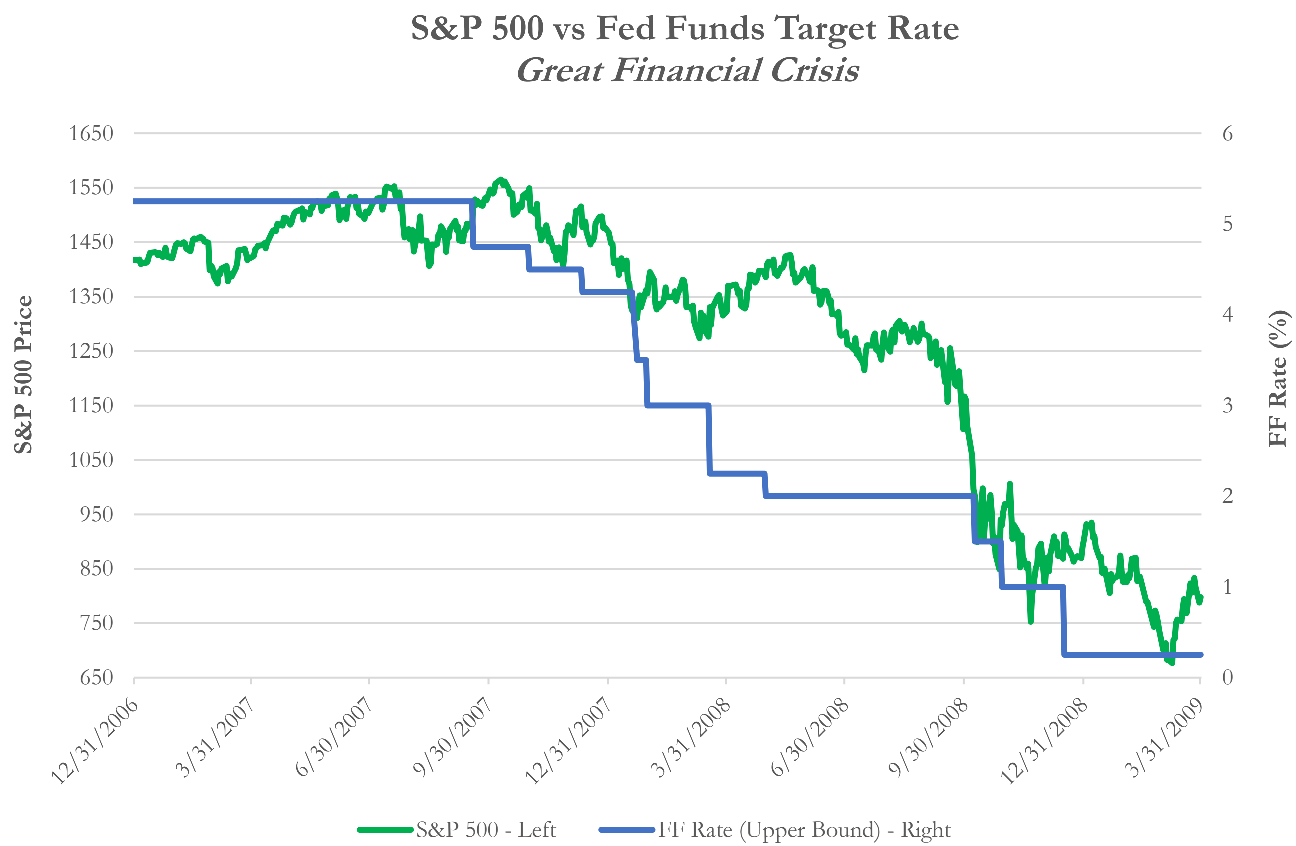
Source: Bloomberg data as of 3/31/2023 *(FDTR Index)* ; Recessions identified by National Bureau for Economic Research *(NBER);* Fed Funds Target Rate *(Upper Bound)* reflects the upper bound of the 25 basis point range for the Federal Funds Rate *(overnight bank lending rate)*, which is the Federal Reserve's primary monetary policy tool.



- Equity markets have responded favorably towards the prospect of the Federal Reserve lowering the Federal Funds Rate; however, the Fed historically has cut rates in response to an economic shock which negatively impact the stock market.

- During the GFC, from the date of the first cut *(1/2/2001)* to the date of the last cut *(6/25/2003)* the S&P 500 lost -21.1%. During the same period, the NASDAQ fell -29.4%.

Source: Bloomberg data as of 3/31/2023 *(SPX Index; FDTR Index; CCMP Index);* the NASDAQ Composite Index is a market capitalization-weighted index of more than 3,700 stocks and is broadly considered to be a benchmark for Technology stocks.



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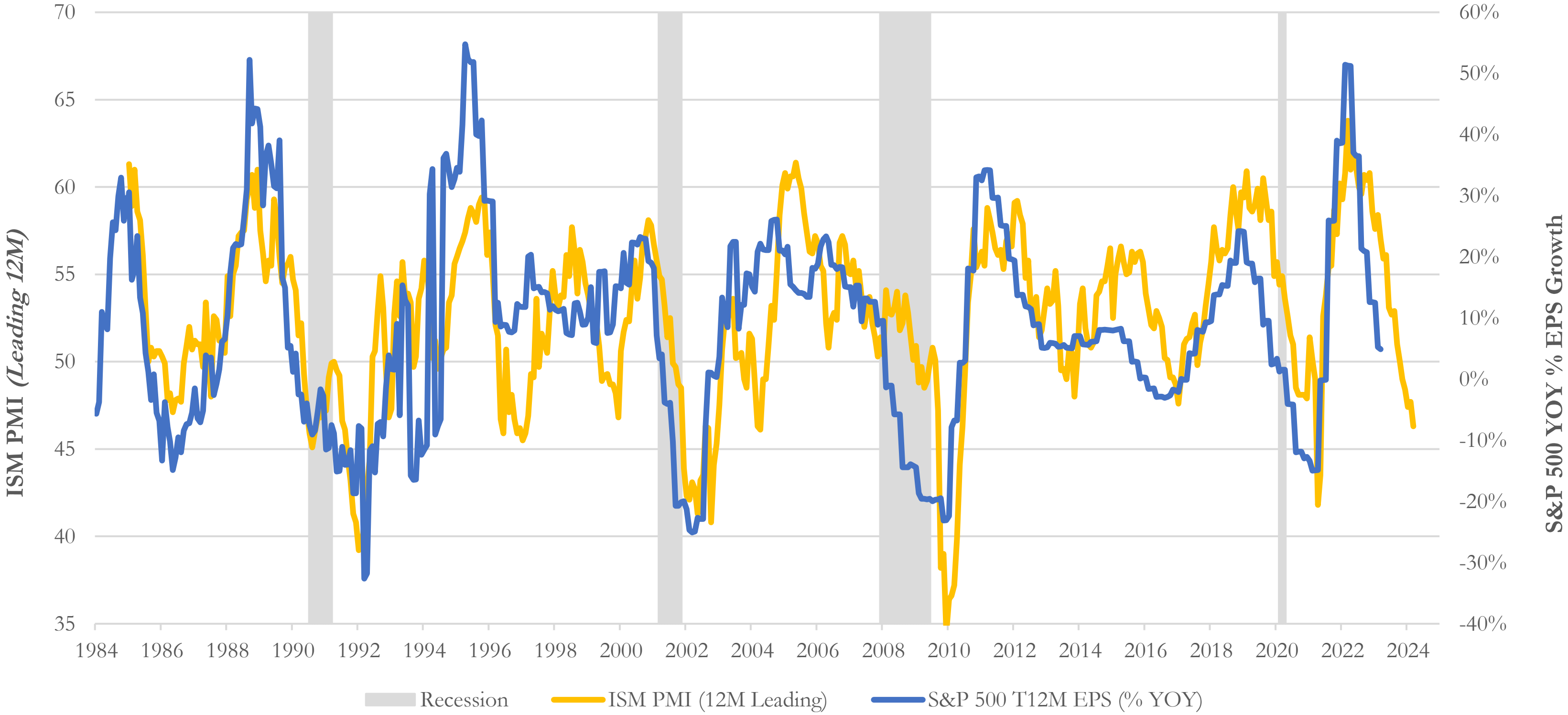
- During the GFC, from the date of the first cut *(9/17/2007)* to the date of the last cut *(12/15/2008)*, the S&P 500 lost -39.5%. During the same period, the NASDAQ lost -40.9%.

Source: Bloomberg data as of 3/31/2023 *(SPX Index; FDTR Index; CCMP Index);* the NASDAQ Composite Index is a market capitalization-weighted index of more than 3,700 stocks and is broadly considered to be a benchmark for Technology stocks.

ISM Manufacturing PMI & S&P 500 EPS Growth *(% YOY)*



- ISM Manufacturing PMI typically lead corporate earnings by about 12 months. March 2023's reading of 46.3 would indicate a -8% decline in corporate earnings over the next year, however, a further decline in the macro economic backdrop could see these projections materially weaken.

Source: Bloomberg data as of 3/31/2023 *(NAPMI Index – Pulled forward 12 Months; SPX Index – YOY Earnings Per Share Growth)*; Recessions identified by National Bureau for Economic Research *(NBER)*; ISM Manufacturing PMI is based on monthly data acquired from over 400 industrial companies and is generally considered a leading economic indicator; S&P 500 EPS Growth measures the earnings per share of S&P 500 companies for the prior 12 months compared to the EPS from the previous year..

Earnings Typically Fall -30% During Recessions

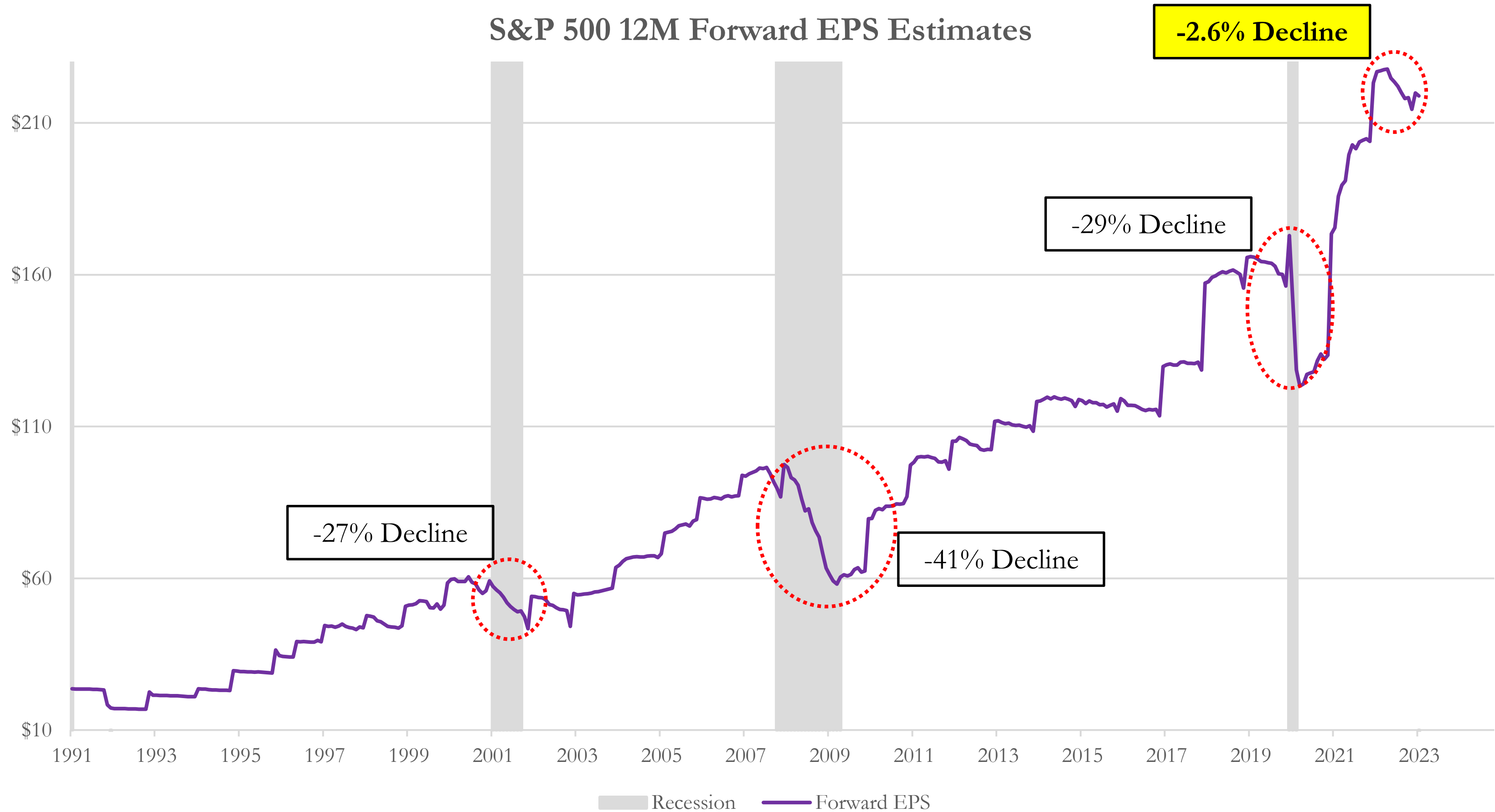
S&P Earnings Declines & Recoveries During Prior Economic Cycles & Recessions

Full-Cycle Period	Recession Period	Reported Earnings Declines	Reported Earnings Recoveries
1Q'28 - 1Q'33	3Q'29 - 1Q'33	-74.5%	-
2Q'33 - 2Q'38	3Q'37 - 2Q'38	-49.2%	197.6%
3Q'38 - 4Q'45	1Q'45 - 4Q'45	-29.4%	91.9%
1Q'46 - 4Q'49	4Q'48 - 4Q'49	-3.3%	185.7%
1Q'50 - 2Q'54	2Q'53 - 2Q'54	-17.6%	22.4%
3Q'54 - 2Q'58	3Q'57 - 2Q'58	-22.0%	57.7%
3Q'58 - 1Q'61	2Q'60 - 1Q'61	-11.7%	19.1%
2Q'61 - 4Q'70	4Q'69 - 4Q'70	-12.9%	94.4%
1Q'71 - 1Q'75	4Q'73 - 1Q'75	-14.8%	77.6%
2Q'75 - 3Q'80	1Q'80 - 3Q'80	-4.6%	97.0%
4Q'80 - 4Q'82	3Q'81 - 4Q'82	-19.1%	5.3%
1Q'83 - 1Q'91	3Q'90 - 1Q'91	-36.7%	103.1%
2Q'91 - 4Q'01	1Q'01 - 4Q'01	-54.0%	236.3%
1Q'02 - 2Q'09	4Q'07 - 2Q'09	-91.9%	243.9%
3Q'09 - 2Q'20	1Q'20 - 2Q'20	-32.5%	1933.1%
	Average	**-31.6%**	**240.4%**

Below was published by Strategas on 6/29/22:

"Historically earnings have fallen -30% during recessions."

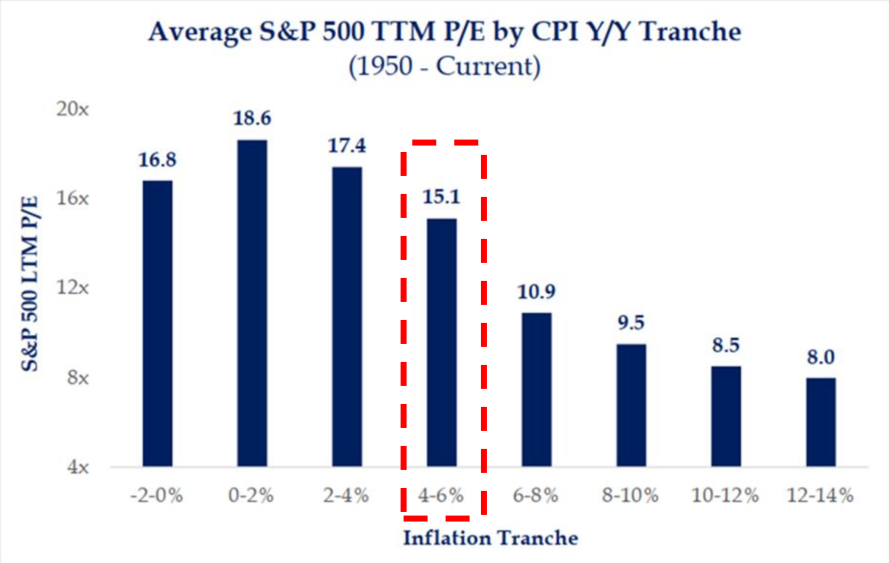
Source: Strategas Research as of 6/29/2022. The above chart references Earnings Per Share declines for the S&P 500 Index during NBER reported recessions.

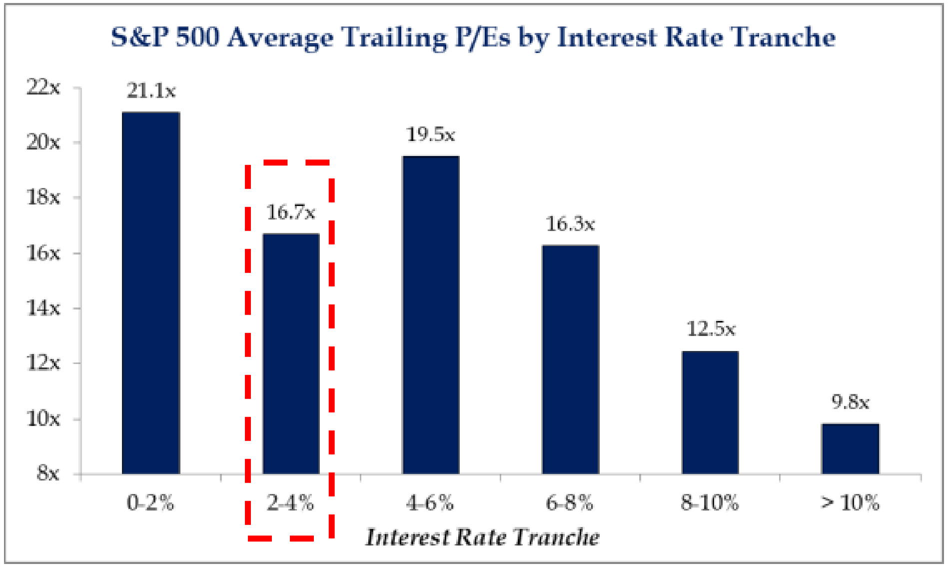


- During previous recessions, 12M earnings estimates have declined up to -41% from peak-to-trough.
- As of March 2023, Forward EPS has declined -2.6% from its peak, indicating that Equity markets are not pricing in a recession.

Source: Bloomberg data as of 3/31/2023 *(SPX Index – 12 Month Forward EPS Estimates);* Recessions identified by National Bureau for Economic Research *(NBER);* Forward EPS reflects analyst estimates over the next year for S&P 500 companies.

Higher Interest Rate & Inflationary Environments Negatively Affect Equity Multiples





- When inflation and interest rates are low *(the status quo since the Great Financial Crisis)*, investors require a lower rate of return to maintain their purchasing power and are willing to pay higher prices for a company's earnings *(leading to higher Price-to-Earnings Ratios)*. Stock prices are also elevated by lower interest rates, as their future cash flows are discounted at a lower rate.

- Conversely, when inflation is high, investors require a higher rate of return to maintain their purchasing power and are less willing to pay higher prices for company earnings *(leading to lower P/E Ratios)*. Current stock prices are also negatively impacted by higher interest rates, as their future cash flows are discounted at a higher rate.

- The above charts show the average S&P multiple during various inflation & interest rate environments. The S&P 500 P/E ratio as of 3/31/23 is 19.7x, meaning that stocks are likely overvalued at current levels.

Source: Strategas Research as of 6/30/2022. The Price-to-Earnings Ratio is a valuation metric used in Equity analysis. Higher P/E Values may indicate overvaluation, while lower P/E values may indicate undervaluation; Consumer Price Index *(CPI)* is the most common measure of inflation, published monthly by the US Bureau of Labor Statistics; "Interest Rate Tranche" refers to the level of the 10-Year Treasury Yield.

Current S&P Price	**4109.31**
Trailing 12M EPS	**$222.40**
Forward P/E	**18.78**
Forward EPS	**$218.87**
Current Est. EPS Decline	**-1.6%**

		P/E Ratio												
% from Trailing 12M	**EPS**	**20x**	**19.5x**	**19x**	**18.5x**	**18x**	**17.5x**	**17x**	**16.5x**	**16x**	**15.5x**	**15x**	**14.5x**	**14x**
15%	$255.76	24.5%	21.4%	18.3%	15.1%	12.0%	8.9%	5.8%	2.7%	-0.4%	-3.5%	-6.6%	-9.8%	-12.9%
10%	$244.64	19.1%	16.1%	13.1%	10.1%	7.2%	4.2%	1.2%	-1.8%	-4.7%	-7.7%	-10.7%	-13.7%	-16.7%
5%	$233.52	13.7%	10.8%	8.0%	5.1%	2.3%	-0.6%	-3.4%	-6.2%	-9.1%	-11.9%	-14.8%	-17.6%	-20.4%
0%	$222.40	8.2%	5.5%	2.8%	0.1%	-2.6%	-5.3%	-8.0%	-10.7%	-13.4%	-16.1%	-18.8%	-21.5%	-24.2%
-5%	$211.28	2.8%	0.3%	-2.3%	-4.9%	-7.5%	-10.0%	**-12.6%**	**-15.2%**	-17.7%	-20.3%	-22.9%	-25.4%	-28.0%
-10%	$200.16	-2.6%	-5.0%	-7.5%	-9.9%	-12.3%	-14.8%	**-17.2%**	**-19.6%**	-22.1%	-24.5%	-26.9%	-29.4%	-31.8%
-15%	$189.04	-8.0%	-10.3%	-12.6%	-14.9%	-17.2%	-19.5%	**-21.8%**	**-24.1%**	-26.4%	-28.7%	-31.0%	-33.3%	-35.6%
-20%	$177.92	-13.4%	-15.6%	-17.7%	-19.9%	-22.1%	-24.2%	-26.4%	-28.6%	-30.7%	-32.9%	-35.1%	-37.2%	-39.4%
-25%	$166.80	-18.8%	-20.8%	-22.9%	-24.9%	-26.9%	-29.0%	-31.0%	-33.0%	-35.1%	-37.1%	-39.1%	-41.1%	-43.2%
-30%	$155.68	-24.2%	-26.1%	-28.0%	-29.9%	-31.8%	-33.7%	-35.6%	-37.5%	-39.4%	-41.3%	-43.2%	-45.1%	-47.0%

- Using the information from the previous slides, the above matrix shows a range of optimistic and pessimistic scenarios for S&P 500 performance from current levels.

- Further EPS deterioration driven by a weakening macro economic backdrop would see stocks declining at current valuation levels.

- EPS deterioration combined with Equity multiples that reflect a recessionary environment would see stocks sell off meaningfully from current levels.

Source: Bloomberg data as of 3/31/2023 *(S&P 500 – Price, Trailing 12 Month EPS, Forward Price-to-Earnings Ratio, Forward EPS)*; the above data reflects hypothetical price returns of the S&P 500 index under various Earnings and Valuation scenarios; the highlighted areas reflect a possible range of outcomes derived from the data from the previous slides in this deck and is not a guarantee of future performance.

Months		Actual CPI YOY *(%)*	Fed Funds Rate *(%)*
Apr-22		8.3%	0.3%
May-22		8.6%	0.8%
Jun-22	**Peak CPI:**	**9.1%**	1.6%
Jul-22		8.5%	2.3%
Aug-22		8.3%	2.3%
Sep-22		8.2%	3.1%
Oct-22		7.7%	3.1%
Nov-22		7.1%	3.8%
Dec-22		6.5%	4.3%
Jan-23		6.4%	4.3%
Feb-23		6.0%	4.6%
Mar-23		5.0%	4.8%

Constant Month-over-Month Changes to CPI *(Non-Seasonally Adjusted)*

Future YOY CPI	-0.1% MoM	0% MoM	0.1% MoM	0.2% MoM	0.3% MoM	0.4% MoM	0.5% MoM	0.6% MoM	0.7% MoM	Fed Funds Futures
Apr-23	4.3%	4.4%	4.5%	4.6%	4.7%	4.8%	4.9%	5.0%	5.1%	4.8%
May-23	3.1%	3.3%	3.5%	3.7%	3.9%	4.1%	4.3%	4.5%	4.7%	5.0%
Jun-23	1.6%	1.9%	2.2%	2.5%	2.8%	3.1%	3.4%	3.7%	4.0%	5.0%
Jul-23	1.5%	1.9%	2.3%	2.7%	3.1%	3.5%	3.9%	4.3%	4.8%	5.0%
Aug-23	1.4%	1.9%	2.4%	2.9%	3.5%	4.0%	4.5%	5.0%	5.5%	4.9%
Sep-23	1.1%	1.7%	2.3%	2.9%	3.5%	4.2%	4.8%	5.4%	6.0%	4.8%
Oct-23	0.6%	1.3%	2.0%	2.7%	3.4%	4.2%	4.9%	5.6%	6.4%	4.7%
Nov-23	0.6%	1.4%	2.2%	3.0%	3.8%	4.7%	5.5%	6.4%	7.2%	4.5%
Dec-23	0.8%	1.7%	2.6%	3.5%	4.5%	5.4%	6.4%	7.3%	8.3%	4.4%
Jan-24	-0.1%	0.9%	1.9%	2.9%	4.0%	5.0%	6.1%	7.1%	8.2%	4.3%
Feb-24	-0.8%	0.3%	1.4%	2.6%	3.7%	4.8%	6.0%	7.2%	8.3%	4.1%

- For reference, January & February's monthly CPI print came in at +0.5% & +0.6% respectively. March CPI came in at +0.3%.
- The above estimates are meant to be illustrative and are not market forecasts, however, the above chart shows that several months of sub +0.2% CPI growth *(or even negative CPI)* are necessary for inflation to approach the Federal Reserve's 2% inflation target.

Source: Bloomberg data as of 3/31/2023 *(CPURNSA Index – Year-Over-Year, Month-Over-Month)*; Consumer Price Index *(CPI)* is the most common measure of inflation, published monthly by the US Bureau of Labor Statistics and is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services

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