Relationship Review

Prepared for: Episcopal Diocese

Presented: June 30, 2024

Investment products and services are:
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July 11, 2024

Market views – July 2024

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Upfront conclusions

1. We see value in a portfolio orientation favoring growth and inflation, guiding clients to tilt portfolios toward equities and real assets and away from traditional fixed income. Within fixed income, we favor more credit-focused strategies.

2. With global growth impulses likely fading yet still positive, how central banks balance interest rate cuts with contemporary macro data will help shape market activity alongside domestic elections looming large in the fourth quarter.

3. Our mosaic approach to global capital market analysis includes focus on consumer spending trends, liquidity/capital flows, the labor market, commercial real estate and global election developments. We retain a glass half-full perspective but continue to assess the growth and inflation tradeoff amid elevated valuations across most asset classes.

Current capital market focus

1. **Equity market: Sector and region participation are broadening, but valuations remain elevated in large-company domestic equities**
   Of the 11 major sectors within the S&P 500, year-to-date only the real estate sector has posted a negative total return. Domestic large-cap equities remain the standout global performer and, despite elevated valuations, they continue to deliver on earnings expectations which remain stable for the next two years.

2. **Bond market: The global growth downshift could lead to rising prices and lower yields while central banks look to cut interest rates**
   Near term, markets are focused on if inflationary pressures will subside enough for the major central banks that have not yet lower interest rates to do so, and we see opportunities across bond subsectors should inflation expectations migrate lower.

3. **Real assets: Despite some giveback since late May, commodities seeing ongoing interest as an inflation hedge**
   Gold, silver and copper have been standout performers as investors seek inflation protection, but mild weakness in the energy complex bears watching, particularly crude and natural gas. The commodity universe continues to evaluate growth prospects and inflation risks heading into the U.S. election season.

The bottom line

1. We advocate for a portfolio orientation favoring stocks and real assets over fixed income in the current environment, still favorable on the corporate profit picture and growth impulses but mindful of election and central bank risks.

2. Corporate earnings estimates appear stable and achievable into 2025, but consumer activity vis-à-vis the labor market, interest rates' forward path and what emerges from the Republican and Democratic conventions and campaign trails will be paramount as we turn the page to the year's second half.

3. Risks we are focused on include pesky or accelerating inflation, liquidity tightening, commercial real estate issues and election risks in the U.S. and other major economies. Over time, we continue to have concerns regarding debt trends and are focused on where the Federal Reserve will set interest rates on a more equilibrium basis, with upcoming communications critical to our assessment.

Global economy

Quick take: Positive job growth and wage gains underpin resilient U.S. consumer spending, while elevated interest rates remain a headwind for single-family housing market activity. Weak consumer sentiment continues to weigh on China's growth prospects.
Our view: The global economy continues to see moderating growth, especially across manufacturing activity, and inflation continues to decelerate. Despite higher interest rates, the U.S. Bank Economic Team sees conditions consistent with a soft landing in the U.S.

- **U.S. retail sales were flat in June** due to reductions in gasoline sales on lower prices and a fall in motor vehicle sales, but most other categories posted gains. In the second quarter, control group sales, which exclude gasoline stations, autos, building materials and restaurants, rose almost 1%. Consumer spending remains resilient, buoyed by a solid labor market despite soft consumer sentiment.
- **U.S. homebuilder sentiment remains depressed** by high borrowing costs and concerns about slowing buyer traffic. The National Association of Home Builders Housing Market Index slipped one point to 42 in July, the lowest reading since December. June housing starts and building permits improved relative to May estimates but at 1.35 million and 1.45 million units, respectively, are well below year-ago rates. High interest rates remain a challenge for housing market activity despite low inventories.
- **Property market struggles and soft consumer spending weighed on China's second quarter gross domestic product (GDP)**. GDP slowed to a year-over-year pace of 4.7% from 5.3% in the first quarter. Retail sales, industrial production and fixed asset investments were all softer. An acceleration in exports and a decrease in imports were supportive but likely reflect one-time boosts. Policy easing efforts are doing little to rekindle consumer spending, and home prices continue to moderate.
- **Sunday afternoon, President Joe Biden announced he will no longer seek the Democratic nomination for re-election** but will serve his remaining presidential term. He endorsed Vice President Kamala Harris as the Democratic candidate, but the process for determining the party's next nominee remains unclear just four weeks before the Democratic National Convention on August 19. According to Real Clear Politics, prediction markets early Monday morning continue to show former President Trump leading potential Democratic challengers, with bettors favoring Kamala Harris as the eventual nominee.

Equity markets

Quick take: Large-company U.S. equities are retreating despite favorable fundamentals, just before of two of the historically worst performing months of the year.
Our view: The fundamental backdrop remains favorable for U.S. equities. Inflation is falling, interest rate cuts are looming, earnings are trending higher, performance breadth is expanding, and consumer and business spending appear resilient. However, valuations are elevated, and August and September are historically among the worst months for the S&P 500.

- **Year- and month-to-date performance reflect differing trends and shifting investor sentiment.** As of Friday's close, the S&P 500 and NASDAQ Composite are up 15.4% and 18.1%, respectively, for the year; all 11 S&P 500 sectors are positive, with five up 10% or more. The Real Estate sector is the relative laggard, up a modest 1.0%. Conversely, in July, the S&P 500 is up only 0.8% and Real Estate is the best-performing sector, up 5.4%. The small cap-oriented Russell 2000 is up 6.7% for the month after gaining only 1% in the first two quarters.
- **Seasonality trends suggest tempered returns during the "dog days of summer."** Over the past 20 years, July ranks as the best-performing month, up an average 2.4%. August and September are among the worst, with August up a modest 0.1% and September losing 0.6%.
- **Broad market valuations are elevated, but rising earnings provide valuation support.** Analysts forecast S&P 500 earnings of roughly $243 per share for full-year 2024 and $277 in 2025, according to Bloomberg, FactSet and S&P Cap IQ, reflecting robust 10% and 14% year-over-year growth, respectively. Price-earnings multiples of roughly 23.5 times last 12-month earnings and 20.9 times next 12-month estimates are both modestly above 30-year averages, albeit still short of extremes.
- **Second quarter results are trending in line with expectations.** As of Friday's close, with 14% of S&P 500 companies reporting results, sales and earnings are advancing 4.3% and 8.8%, respectively, in line with expectations of 4.4% and 8.6%. More definitive conclusions about the pace of inflation, consumer and business spending trends, and expectations for the second half will be forthcoming this week and next when another 63% of companies release results.

Important disclosures provided on page 4

Bond markets

Quick take: Yields were relatively steady across most bond categories last week as evidence of gradually cooling economic activity in the Federal Reserve's (Fed) Beige Book report on regional business conditions remained broadly in line with investor expectations for rate cuts starting later this year. **Our view:** Normal bond exposures appropriately position investors for gradually slowing economic growth. Primarily allocating to high-quality bonds generates stable portfolio income while modestly allocating to riskier high yield bonds may improve return potential over time.

- **Mounting evidence of slowing inflation keeps Fed interest rate cuts in play.** In an interview last week, Fed Chairman Jerome Powell noted inflation slowed in the second quarter and is in a "pretty good place," roughly meeting the Fed's expectation for progress toward the price stability target. The Fed also released its Beige Book, which summarizes surveys on economic conditions across the regional Fed districts. While the Beige Book noted modest overall price increases, almost every Fed district reported anecdotes of retailers discounting items and consumers shifting spending to lower-cost goods or only essential items. Reports on economic activity were also mixed, with seven districts noting slight increases in activity and five reporting flat or declining activity. These anecdotes largely confirm recent softening in growth and inflation data, providing additional evidence in support of the Fed reducing rates later this year. Bond yields reflect investor expectations that the Fed will reduce rates 0.25% in September and cut an additional one or two times before year end. High-quality bonds with normal maturity profiles offer compelling yields with opportunity for slight bond price increases should the Fed gradually reduce rates.
- **Corporate and municipal bond valuations reflect expectations for positive credit conditions going forward.** Riskier high yield corporate and municipal bonds offer extra yields over Treasuries that are below historical averages. While this implies valuations are somewhat high, it also reflects strong demand for riskier bonds and investor confidence in accepting credit risk. Slowing corporate defaults and improving bond ratings actions from Moody's, a credit ratings agency, back investor optimism. Like most fixed income categories, high yield corporate and municipal bonds offer meaningful income opportunities relative to their recent history.

Real assets

Quick take: Most real assets traded well versus the S&P 500 last week, with a technology-related selloff in the equity market leading to strong performance from the year's laggards. Real estate and infrastructure stocks outperformed the broader market for a second consecutive week, but participation was not as broad-based as the previous week. Commodities were led lower by industrial metals, but all commodity sub-sectors posted negative results.
Our view: Diversified publicly traded real estate remains inexpensive relative to private real estate. Tangible assets with stable cash flows present relative opportunities if currently strong investor sentiment erodes. Commodities can be compelling due to their potential for inflation protection.

- **Real estate outperformed the S&P 500 by 3.5% last week.** Retail and industrial properties posted the strongest returns while data centers and office companies fared the worst. Publicly traded real estate continues to trade at discounts to private markets (individual properties).
- **Infrastructure stocks beat the broader market by 1.8% last week.** Railroads and midstream energy led gains while airports and utilities were the worst performers.
- **Crude oil prices fell 3.3% last week despite large declines in domestic inventories of crude and gasoline.** Over a longer-term horizon, the crude oil market appears undersupplied, which should act as a tailwind to prices. However, we acknowledge downside risk to prices if tensions in the Middle East de-escalate or if economic growth disappoints.

Important disclosures provided on page 4

Performance Summary as of 6/30/2024

Episcopal Diocese Balanced Fd IAS

Account XXXXXX1200

-	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Total Portfolio Net of Fees	1.18%	6.06%	11.53%	3.09%	7.48%	6.42%	7.43%
Benchmark - Episcopal 2	1.28%	6.06%	12.11%	2.45%	6.79%	6.18%	7.09%
Total Equity	1.65%	9.66%	17.24%	5.66%	11.21%	9.36%	9.87%
Large Cap U.S. Equity	4.95%	15.86%	26.97%	11.52%	16.29%	13.77%	14.49%
Benchmark - S&P 500 Index (Total Return)	4.28%	15.29%	24.56%	10.01%	15.05%	12.86%	14.15%
Mid Cap U.S. Equity	-5.42%	6.15%	10.01%	6.82%	12.09%	10.99%	12.08%
Benchmark - Russell Midcap Index	-3.35%	4.96%	12.88%	2.37%	9.46%	9.04%	11.47%
Small Cap U.S. Equity	-3.15%	2.02%	11.12%	0.10%	7.76%	7.32%	9.98%
Benchmark - Russell 2000 Index	-3.28%	1.73%	10.06%	-2.58%	6.94%	7.00%	9.39%
Developed Markets Equity	-0.74%	4.06%	8.37%	2.16%	6.97%	4.75%	6.95%
Benchmark - MSCI EAFE Index (Net)	-0.42%	5.34%	11.54%	2.89%	6.46%	4.33%	6.50%
Emerging Markets Equity	5.47%	8.62%	11.17%	-6.22%	3.32%	2.93%	2.83%
Benchmark - MSCI Emerging Markets Index (Net)	5.00%	7.49%	12.55%	-5.07%	3.10%	2.79%	3.14%
Total Fixed Income	0.63%	0.75%	5.21%	-1.01%	1.37%	2.37%	5.37%
Benchmark - BBARC US Aggregate Bond Index	0.07%	-0.71%	2.63%	-3.02%	-0.23%	1.35%	5.34%
Total Real Assets	-5.32%	-8.23%	0.74%	-3.89%	3.11%	-	3.47%
Benchmark - Wilshire REIT Index	-0.25%	-0.26%	8.56%	0.32%	4.02%	-	5.66%
Total Other	2.45%	5.32%	4.58%	2.63%	3.03%	-	1.05%
Total Cash Equivalents	1.30%	2.62%	5.34%	3.02%	2.07%	1.42%	2.97%
Benchmark - FTSE 3 Month Treasury Bill Index	1.37%	2.76%	5.64%	3.17%	2.22%	1.53%	2.99%

* The Inception Date for Total Portfolio Net of Fees is 10/1/2012.

For performance and rate of return methodologies, as well as other important information, please refer to the Appendix/Disclosures provided.

Performance Summary as of 6/30/2024

Episcopal Diocese Fixed Income Fd

Account XXXXXX5500

	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Episcopal Diocese Fixed Income Fd							
Total Portfolio Net of Fees	0.26%	0.09%	3.84%	-1.78%	0.62%	1.66%	1.72%
Total Fixed Income	0.31%	0.16%	4.24%	-1.58%	0.83%	2.04%	3.30%
Benchmark - BBARC US Aggregate Bond Index	0.07%	-0.71%	2.63%	-3.02%	-0.23%	1.35%	2.58%
Total Cash Equivalents	1.30%	2.62%	5.34%	3.02%	2.07%	1.42%	1.03%
Benchmark - FTSE 3 Month Treasury Bill Index	1.37%	2.76%	5.64%	3.17%	2.22%	1.53%	1.03%

* The Inception Date for Total Portfolio Net of Fees is 10/1/2012.

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Performance Summary as of 6/30/2024

Episcopal Diocese Cash Fund

Account XXXXXX5600

	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Episcopal Diocese Cash Fund							
Total Portfolio Net of Fees	1.06%	2.14%	4.13%	2.33%	1.66%	1.22%	1.04%
Total Cash Equivalents	1.30%	2.62%	5.11%	2.94%	2.02%	1.40%	0.96%
Benchmark - FTSE 3 Month Treasury Bill Index	1.37%	2.76%	5.64%	3.17%	2.22%	1.53%	1.05%

* The Inception Date for Total Portfolio Net of Fees is 10/1/2012.

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Performance Summary as of 6/30/2024

Episcopal Diocese Esg Fund

Account XXXXXX4700

	3 Month	YTD	1 Year	3 Year	Since Inception
Episcopal Diocese Esg Fund					
Total Portfolio Net of Fees	0.87%	5.51%	10.06%	0.29%	0.29%
Total Equity	1.92%	10.58%	19.03%	5.39%	5.39%
Large Cap U.S. Equity	3.11%	13.69%	23.43%	8.20%	8.20%
Benchmark - S&P 500 Index (Total Return)	4.28%	15.29%	24.56%	10.01%	10.01%
Mid Cap U.S. Equity	-	-	-	-	-
Benchmark - Russell Midcap Index	-	-	-	-	-
Small Cap U.S. Equity	-4.17%	1.80%	9.76%	0.00%	0.00%
Benchmark - Russell 2000 Index	-3.28%	1.73%	10.06%	-2.58%	-2.58%
Developed Markets Equity	0.42%	6.23%	11.42%	1.46%	1.46%
Benchmark - MSCI EAFE Index (Net)	-0.42%	5.34%	11.54%	2.89%	2.89%
Emerging Markets Equity	4.81%	5.36%	9.41%	-6.30%	-6.30%
Benchmark - MSCI Emerging Markets Index (Net)	5.00%	7.49%	12.55%	-5.07%	-5.07%
Total Fixed Income	0.01%	-0.51%	3.04%	-3.60%	-3.60%
Benchmark - BBARC US Aggregate Bond Index	0.07%	-0.71%	2.63%	-3.02%	-3.02%
Total Other	2.46%	5.61%	5.61%	-	2.14%
Total Cash Equivalents	1.30%	2.62%	5.34%	3.02%	3.02%
Benchmark - FTSE 3 Month Treasury Bill Index	1.37%	2.76%	5.64%	3.17%	3.17%

* The Inception Date for Total Portfolio Net of Fees is 7/1/2021.

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