XPYRIA INVESTMENT ADVISORS

Markets at a Glance

First Quarter 2023

Equities

- Global equity markets, as measured by the MSCI World Index, rose 7.73% for the quarter despite a volatile ride that included headlines regarding persistent inflation, central bank policy, and challenges in the banking sector. International developed equities outperformed both emerging market and U.S. equities. The U.S. dollar weakened as it depreciated 0.98% versus a basket of EAFE currencies and depreciated 0.18% versus a basket of emerging market currencies during the quarter.

- Large-cap stocks, as measured by the S&P 500 Index, rose 7.50%. The ten largest stocks in the S&P 500 Index were responsible for 90% of the index's gain during the quarter. Information Technology and Communication Services were the best performing sectors, up 21.82% and 20.50%, respectively. Financials and Energy were the worst performing sectors, down -5.56% and -4.71%, respectively. U.S. Services Purchasing Managers Index (PMI) data moved back into expansionary territory, primarily driven by a sharp rise in output and domestic demand.

- Small-cap stocks, as measured by the Russell 2000 Index, rose 2.74%. The small gain masked some noteworthy extremes as the Russell 2000 Index was up 13.7% year-to-date through February 2nd before declining 11% and finishing the quarter with a modest gain. Information Technology and Consumer Discretionary were the best performing sectors, up 13.51% and 11.85%, respectively. Financials and Energy were the worst performing sectors, down -8.72% and -4.77%, respectively. In five out of the last six quarters, the Russell 2000 Index has experienced an increase of at least 10% and a decline of at least 10% intra-quarter.

- International equities, as measured by the MSCI EAFE Index, rose 8.47%. France contributed the most to the index's return during the quarter due to its heavy weighting towards luxury brands and consumer products. In addition, Germany experienced strong economic data as all sub-components of its IFO index (business climate, business situation, and business expectations) improved substantially during the quarter. Eurozone Services PMI data rebounded back into expansionary territory due to a rise in new business volumes, order backlogs, and employment. Eurozone unemployment remained near an all-time low of 6.60% in February.

- Emerging market (EM) equities, as measured by the MSCI EM Index, rose 3.96%. Mexico was one of the strongest performers due to improving manufacturing data and robust GDP growth. China outperformed the MSCI EM Index due to its relaxation of COVID regulations, which had constrained the country's economic growth since 2020. As China comprises 32.66% of the MSCI EM Index, investors welcomed the easing of strict pandemic-related regulations and a pivot towards pro-growth policies. Emerging Market Manufacturing and Services PMI both improved during the quarter and are in expansionary territory.

- Global Real Estate, as measured by the EPRA/NAREIT Developed Index, rose 1.04%. U.S. REITS experienced relative outperformance as they rose 1.56%. As a result of 30-year mortgage rates remaining elevated at 6.86%, home prices declined for the eighth consecutive month and the supply of existing homes in the U.S. decreased to 2.6 months. Nontraditional real estate, such as data centers and self-storage, outperformed vs. more traditional areas, such as office, retail, and residential REITs.

Fixed Income Markets

- Core bonds, as measured by the Bloomberg Aggregate Bond Index rose 2.96%, while Bank Loans (3.23%) and High-Yield Bonds (3.57%) outperformed. U.S. Corporate Bonds (3.50%) outperformed U.S. Treasuries (3.01%) and Agency Mortgage-Backed Securities (2.53%).

- Federal Reserve (Fed) Chairman Jerome Powell reiterated that he is "strongly committed" to bringing down inflation, but he also indicated that the recent banking events may result in tighter credit conditions, which may mean fewer interest rate hikes are necessary. The short-end of the Treasury yield curve steepened due to continued rate hikes. Despite a wide range during the quarter – a low of 3.37% and a high of 4.08% – the ten-year Treasury yield fell from 3.88% to 3.48%. The two-year Treasury yield fell from 4.41% to 4.06%, while the yield differential between a ten and two-year Treasury remained inverted.

- The Fed raised the fed funds rate by 0.50% during the quarter, bringing its target rate to a range of 4.75% to 5.00%. The Fed continued its balance sheet reduction program, which involves allowing $60 billion of U.S. Treasuries and $35 billion of Agency Mortgage-Backed Securities to mature or be sold each month. The Fed's balance sheet increased by $155 billion during the quarter due to its intervention amidst the March banking events, but this is expected to be temporary as the Fed's net discount window is a short-term funding solution and the Bank Term Funding Program provides loans of up to one year to help banks meet the liquidity needs of their depositors. Employment data (unemployment at 3.50%) remained strong, while inflation data (Core PCE at 4.60%) decelerated but remains well above the Fed's long-term average target of 2.00%.

- The European Central Bank (ECB) raised its main deposit rate by 0.50% in February and 0.50% in March, bringing the main deposit rate to 3.50%. The ECB noted that the pace of its rate hikes will be "data dependent" but it is determined to return inflation back to 2.0% in the medium-term, as Eurozone inflation remained elevated at 6.9% in March.

Market Performance
As of 03/31/2023

Asset Class	Index	1st Qtr.	1 Year
EQUITIES			
Domestic			
Large-Cap	S&P 500	7.50%	-7.73%
Large-Growth	R1000 Growth	14.37%	-10.90%
Large-Value	R1000 Value	1.01%	-5.91%
Small-Cap	Russell 2000	2.74%	-11.61%
Small-Growth	R2000 Growth	6.07%	-10.60%
Small-Value	R2000 Value	-0.66%	-12.96%
International			
Developed Mkts.	MSCI EAFE	8.47%	-1.38%
Emerging Mkts.	MSCI EM	3.96%	-10.70%
Global			
Developed Mkts.	MSCI World	7.73%	-7.02%
Real Estate Investments			
U.S. REITs	NAREIT	1.56%	-19.64%
Global REITs	EPRA/NAREIT Developed	1.04%	-20.63%
FIXED INCOME			
High-Yield	ICE BofA US HY	3.57%	-3.34%
Interm.-Term	Bloomberg Agg	2.96%	-4.78%
Short-Term	Blmbrg G/C 1-3	1.51%	0.26%