Grant Street Asset Management, Inc.
INVESTMENT ADVISORS

GRANT STREET ASSET MANAGEMENT, INC.
QUARTERLY LETTER
1ST QUARTER 2023
APRIL 14, 2023

While markets struggled to find stable ground for most of 2022, the equity market recovery that started in the fourth quarter maintained its momentum for much of the first quarter of 2023. However, investors were reminded that all the excesses resulting from recent years' zero-interest environment cannot be ignored. The fall of Silicon Valley Bank and Signature Bank that required the U.S. Treasury to step in to backstop depositors lead to an abrupt U-turn in sentiment. Investors became reminiscent of the 2008-2009 Financial Crisis, and the memory of those years is not too far in the rear-view mirror to ignore. As the letter we wrote to clients in mid-March comments, we are confident that recent events with select middle-sized banks are isolated and not a signal of weakness within the banking sector overall. As larger banks, which are well capitalized, joined together to support the liquidity of the system, investors came to a similar conclusion. Stocks rebounded in the latter part of March to finish strong through the quarter end.

The GSAM investment committee continues to track fundamental economic data as a vital part of our investment process. There are several data points we wish to highlight that support our outlook for the next twelve months. Spoiler alert: despite terribly negative commentary within the media, there are consistently positive and resilient factors supporting the U.S. economy as we progress through 2023. First, inflation has come down and continues to cool. The Federal Reserve raised rates faster and more aggressively than most investors expected this time last year. The Fed Funds rate now sits at 4.75-5.00%, the highest target rate since 2007. This underlying rate (that the Fed controls) influences all other market interest rates, from U.S. Treasury bonds to mortgages and car loans. The theory is, the higher the interest rates are, the less consumers and businesses want to borrow to spend, which cools economic growth. Despite the scare the banking failures gave to investors recently, the Fed continued its rate hiking campaign, albeit at a slower pace, with 0.25% increases during the February and March meetings. We believe the Fed is nearing the end and will pause in the first half of the year to observe the impact of their hikes over the next twelve months.

Second, the U.S. labor market remains very resilient, and this is an important support for the U.S. consumer. Job openings per available worker have barely budged from record highs, despite the aggressive moves from the Fed. Likewise, layoffs are barely above historic lows and employees continue to quit their jobs at near-historic rates. While the employment data has deteriorated slightly from what we observed in 2021-2022, not by much. We believe this bodes well for the consumer, who is likely to remain employed or at least be able to find another job promptly if laid off. Consumers continue to remain healthy from a debt perspective as well. While consumers have started to run up some credit card and auto loan debt over the past year, debt burden sits well below the prior three decades' average debt to disposable income figures. The U.S. consumer is far from drowning in debt. Recall consumer spending makes up two thirds of U.S. GDP growth. A stable consumer means any recession we may experience over the next year is likely to be very mild.

PITTSBURGH:	380 SOUTHPOINTE BLVD.	PLAZA II, SUITE 315	CANONSBURG, PA 15317	412-257-8060	FAX 412-257-8435
CHARLOTTE:	128 SOUTH TRYON STREET	SUITE 1581	CHARLOTTE, NC 28202	704-719-1060	FAX 412-257-8435

Finally, manufacturing and service activity data in the U.S. and aboard continues to show signs of resilience, with nearly all countries reporting expansionary data figures. All this data together reflects a solid economy that is well positioned for a forced slowdown in economic activity. Although the Fed's goal is to force the economy to slow in ultimately control inflation, we believe these areas of positive activity should lead to a modest slowdown rather than a deep recession.

Shifting our thoughts toward capital markets and away from the economy, both equities and fixed income posted a solid start to the year, as referenced in the tables below.

Equity Index	**1Q 2023**	**Last 3 Yrs. thru 12/31/22 (Cum.)**
S&P 500 (Large Companies)	7.5%	24.8%
Nasdaq 100 (Technology-heavy)	20.8%	28.4%
S&P 400 (Mid-sized Companies)	3.8%	23.3%
Russell 2000 (Small-sized Companies)	2.7%	9.6%
MSCI EAFE (Europe, Australia & Far East)	8.5%	2.6%
MSCI Emerging Markets	4.0%	-7.9%
MSCI ACWI (All Country World Index)	6.9%	12.1%

Source: Morningstar Direct

Fixed Income Index	**1Q 2023**	**Last 3 Yrs. thru 12/31/22 (Cum.)**
Morningstar US Core Bond	2.9%	-8.0%
U.S. 10-year Treasury	4.2%	-6.2%
ICE BofA 1-3 Yr. U.S. Treasury	1.6%	-1.2%
U.S. 3-month T-Bills	1.1%	2.2%
ICE BofA U.S. High Yield	3.7%	-0.7%
ICE BofA 7-10 Yr. Municipal Bond	2.5%	-1.0%

Source: Morningstar Direct

Within equities, both domestic U.S. stocks and international stocks enjoyed positive performance in the first quarter. Although the tech sector was battered throughout most of 2022, many of those companies have been optimizing costs through staff and expense cuts. Unexpectedly, investors also fled to the tech-heavy Nasdaq as a "high-quality" trade during the banking turmoil. This was driven by how much cash the large tech companies have on their balance sheets. As a result, tech has rebounded the most of any segment in the first quarter. U.S. mid-sized and small-sized company stocks, while still positive for the quarter, trailed large caps due to higher financials and lower technology sector weightings. International stocks benefitted from a weakening of the U.S. dollar for the second consecutive quarter and continued to outpace the S&P 500 index into the first part of the year.

In fixed income, we view the 10-year U.S. Treasury bond as the market barometer for intermediate-term maturity bonds. Throughout the quarter, the yield on the 10-year U.S. Treasury clawed its way back above 4.0% for the first time since fall 2022. However, when investors digested the banking sector headlines, they fled to high quality U.S. Treasuries, plummeting rates for the 10-year to 3.4% nearly overnight. As of the writing of this letter, the 10-year Treasury yields 3.39%. Alternatively, the 2-year U.S. Treasury yield is higher at 3.97% and the 6-month even higher at 4.95%. This is a classic inverted yield curve and reflects investors' expectations that growth is likely to slow over the next one to two years. Inverted yield curves are also a consistent signal of a coming recession, which typically occurs nine to eighteen months after an inversion.

Regarding portfolio construction, it is important to recall that the anticipated slowdown in economic activity is not a secret to investors. We may observe equity valuations come down slightly from current levels within the year, but we will be looking for buying opportunities knowing that much of what is to come has already been priced in by investors. On the equity side, Grant Street remains overweight large cap U.S. equity, as we expect those names to handle the economic slowdown better than mid- and small-company stocks. Over the last quarter or so, GSAM increased international stocks that were previously reduced in 2022, when Russia invaded Ukraine. This allocation increase was driven by recognition that international equities currently trade at a 30% discount relative to U.S. stocks, nearly double their long-term average discount. Coupled with the prospect of a continued weakening of the U.S. dollar, upside potential is attractive for stocks outside the U.S.

Within the defensive side of portfolios, GSAM continues to hold the majority of our defensive positioning in short-term high-quality bonds. With the inverted yield curve and higher yields available on shorter term bonds relative to longer ones, we felt that the risk-reward tradeoff for trying to time when rates would peak and move lower was not attractive given the unpredictability of the Federal Reserve. Our strategy is to remain short until rates normalize in the middle part of the curve. In the meantime, we collect a higher yield and experience less price volatility, resulting in a truly defensive portion of the portfolio.

Despite the uncomfortable markets and volatility in 2022, this positive start to 2023 reinforces the importance of a diversified portfolio and remaining invested for the long term. Grant Street maintains a positive overall outlook for both equities and fixed income over the next twelve months. Fixed income as an asset class now offers a respectable yield across various sectors and once again serves as the defensive ballast when equities waiver up and down. Although equity markets remain below early 2022 levels, they are well off their 2022 lows. Valuations are trading very close to long-term averages. At this point, if the Fed chooses to pause rate hikes at their next meeting, instead of opting for an additional rate increase, we expect to see a positive market reaction. GSAM's investment committee continues to monitor the trends and data of the macro economy that drive fundamentals and influence our portfolio positioning. As always, we value your trust and confidence in the Grant Street team, and we thank you for allowing us to serve you.

GRANT STREET TEAM UPDATE

We wish to announce that Landon Buzzerd joined the Grant Street team in February as an Associate Wealth Advisor. Prior to joining our team, Landon worked in a similar role for an advisory firm in his home state of Maryland. Landon graduated from the University of Maryland in 2020 and he recently passed the Certified Financial Planner exam. He lives in Bridgeville with his fiancé, Amy. He enjoys hiking and spending time on the golf course, when the Pittsburgh climate cooperates.