GRANT STREET ASSET MANAGEMENT, INC.
QUARTERLY LETTER
4TH QUARTER 2022
JANUARY 13, 2023

With the fourth quarter and the entirety of 2022 in the rearview mirror, investors are looking forward to 2023. Last year was undoubtedly a challenging year, both for markets and geopolitically. "Uncertainty" seemed to be the theme of the year. Russia invaded Ukraine, energy and food prices spiked, the U.S. faced a mid-term election, and the Federal Reserve took off on a historically rapid rate-hiking campaign with a fervor that was unexpected by investors. What historically would have taken the Fed two years in terms of hiking rates, it accomplished in less than one year, as it aggressively battled high inflation.

Volatility was heightened for most of the year, with choppy weeks and months of market performance across equities and fixed income. While the months of July, October and November brought welcome recovery that pulled us up from the depths of the sell-off reached in June, markets ended the year in the red across nearly all asset classes, except 3-month U.S. Treasuries. For long-term investors, this challenging year fortunately comes on the back of solid equity market performance in 2020 and 2021, as reflected below.

Equity Index	**4Q 2022**	**2022**	**Last 3 Yrs. thru 12/31/22 (Cum.)**
S&P 500 (Large Companies)	7.6%	-18.1%	24.8%
Nasdaq 100 (Technology-heavy)	0.0%	-32.4%	28.4%
S&P 400 (Mid-sized Companies)	10.8%	-13.1%	23.3%
Russell 2000 (Small-sized Companies)	6.2%	-20.4%	9.6%
MSCI EAFE (Europe, Australia & Far East)	17.3%	-14.5%	2.6%
MSCI Emerging Markets	9.7%	-20.1%	-7.9%
MSCI ACWI (All Country World Index)	9.8%	-18.4%	12.1%

Source: Morningstar Direct

Fixed Income Index	**4Q 2022**	**2022**	**Last 3 Yrs. thru 12/31/22 (Cum.)**
Morningstar US Core Bond	1.8%	-13.0%	-8.0%
U.S. 10-year Treasury	0.7%	-16.3%	-10.8%
ICE BofA 1-3 Yr. U.S. Treasury	0.7%	-3.6%	-1.2%
U.S. 3-month T-Bills	0.8%	1.5%	2.2%
ICE BofA U.S. High Yield	4.0%	-11.2%	-0.7%
ICE BofA 7-10 Yr. Municipal Bond	4.3%	-6.7%	-1.0%

Source: Morningstar Direct

Grant Street was proactive in adjusting portfolios throughout 2022. The fixed income section of clients' portfolios looks quite different now than this time last year. After years of diligently positioning the fixed income section to achieve positive returns in a low-yielding world, and in anticipation of higher interest rates, we shifted to more traditional high-quality holdings with shorter maturities as the Fed hiked rates. Within equities, we reduced our weighting to developed international stocks early in the year. This was in response to the Russia-Ukraine war and a looming recession in Europe, but we maintained some exposure to the asset class due to very attractive valuations as well as a strong U.S. dollar. After a very difficult first three quarters of the year, international equities rallied strongly in the fourth quarter, primarily driven by a weakening U.S. dollar. This rally resulted in the MSCI EAFE Index outperforming U.S. large cap stocks for the first calendar year since 2017.

To recap fourth quarter events, inflation continues to run hot across the globe, although U.S. levels have fallen consistently since their peak in June (7.0% PCE/9.0% CPI), as energy and food prices have cooled. The most recent November PCE (Personal Consumption Expenditure Price Index) reading for inflation was 5.5%. On the geopolitical front, while not much has changed in the Russia-Ukraine war, China's notable easing of COVID restrictions in December should positively impact global trade and travel in 2023. In U.S. politics, November's mid-term election results reflect a split congress for the next two years. A split congress typically proves beneficial for markets since extreme legislation from either side is unlikely to pass. With that said, the last major piece of legislation passed in 2022 was SECURE Act 2.0. This is a $1.65 trillion omnibus spending bill that will fund the federal government through September 2023, but it also included several provisions that impact the finances and retirement savings of everyday Americans. *We summarize many of the changes that will impact clients in a special insert following this letter.*

Looking forward to 2023, our Investment Committee is digesting plenty of economic data to identify trends and turning points in the economy as well as in the equity and fixed income markets. It is important to note that we do not expect the turning points across these segments to coincide. Economically, we anticipate that data in the U.S. will get worse before it gets better. The consumer remained incredibly resilient throughout 2022, but the consumer personal savings rate has recently fallen to the lowest level in over a decade. Revolving consumer debt levels (i.e., credit card debt) have also spiked from recent all-time lows. We believe this indicates the consumer has finally exhausted pandemic and stimulus savings and has turned to consumer credit to finance consumption. As a result, we expect consumer spending to slow, which will certainly create a drag on GDP growth. While a concerning trend if continued, we do not expect spending to nosedive. On the contrary, compared to previous recessionary periods, the consumer is still in reasonable shape. Current debt payments are 9.8% of disposable personal income, which is comfortably below the 11-13% levels we experienced between 1985 and 2007. With pre-pandemic years of 2011-2021 averaging about 10-11%, the takeaway is that the consumer is nowhere near overleveraged at this time, and we expect employment to remain resilient.

As for corporate earnings, which drive stock prices, corporations on average maintained stable earnings and revenue growth through the end of 2022. This occurred despite fighting higher labor and input costs. Year-over-year EPS (earnings per share) growth for S&P 500 companies was 9.2% in Q3 and revenue growth was 11.6%. On the surface, these numbers indicate stability, but recall that last year's revenues were boosted by inflation, which is easing, and earnings are backward looking. Looking forward, we anticipate that, as inflation falls further and the consumer reduces spending, revenue growth will weaken. Although companies seem to have some pricing power left to offset declining volumes, margins and earnings are likely to weaken for the first part of 2023. Our belief in caution is rooted in the fact that the full impact of interest rate increases by the Federal Reserve has yet to be completely felt across the economy. The Fed has pushed rates up 4% to bring the target federal funds rate to 4.25% - 4.50%. The Fed remains committed to battling inflation, and we expect rate hikes to continue into the first half of 2023, albeit at a slower pace. These realities have recently been reflected in weaker corporate guidance commentary from executives.

In a recent interview, the head of the International Monetary Fund commented that 2023 is going to be tougher on the global economy than 2022, and they even expect one-third of the world economy to be in recession in 2023. We are positioning portfolios today for potentially choppy equity markets in the first half of 2023. We are expecting a mild and short-lived U.S. recession, given a moderate consumer debt picture and historically low unemployment. We remain prepared to tilt portfolios more defensively, if necessary, by reducing the overall equity allocation and increasing traditional fixed income. The biggest difference in investment opportunity this year compared to last year is that investors once again have a defensive section that can truly be defensive, with high-quality U.S. Treasuries yielding over 4% with little to no interest rate risk. This means balanced investors, or those using fixed income to hedge away some stock risk, should experience a less volatile portfolio in challenging periods. We believe those willing to take on the full risk of 100% equities will be the winners over time, but we do not believe the ups and downs of the equities markets are quite behind us in the near term. At this time, we anticipate that the second half of 2023 will be a period of recovery and growth for investors. Rest assured, there are attractive valuations to be found for long-term investors today. Equity and fixed income markets are forward looking. Equities will bottom and begin to recover well before we observe positive economic data. As such, we are closely monitoring valuations in markets to take advantage of buying opportunities in 2023 while staying focused on preservation of capital in challenging periods. As always, we value your trust and confidence in the Grant Street team, and we look forward to a successful and prosperous 2023.

GRANT STREET TEAM UPDATE

We wish to announce that Shannin Pettigrew joined the Grant Street team in December as a Client Service Administrator. Shannin comes to us with a professional background in technical writing as well as marketing and promotion experience. Shannin lives in Canonsburg with her husband, Matt, daughter, Veah (15), son, Drew (11) and three dogs. She enjoys theater and fitness in her free time. You will hear her friendly voice when you call into the office, and we are thrilled to have her join us.

SECURE ACT 2.0

The following are some highlights of the important changes that came out of the recently passed Secure Act 2.0 that will affect many of our clients. We continue to monitor guidance of how and when these changes will be implemented. There are additional impacts from this law, and we highlight only a select number here.

- **Required Minimum Distributions (RMDs).** The age to start taking RMDs increases to age 73 in 2023 and to 75 in 2033. If you turned 72 in 2022 or earlier, you are still required to continue taking RMDs as scheduled. If you are turning 72 in 2023, and have already scheduled your withdrawal, you may want to consider updating your withdrawal plan. Starting in 2023, the steep penalty for failing to take an RMD will decrease to 25% of the RMD amount not taken, down from 50%. The penalty will be reduced to 10% for IRA owners if the account owner withdraws the RMD amount previously not taken and submits a corrected tax return in a timely manner.
- **Higher catch-up contributions.** ***Within employer-sponsored retirement plans:*** Starting January 1, 2025, individuals ages 60 through 63 years old will be able to make catch-up contributions up to $10,000 annually, and that amount will be indexed to inflation. (The catch-up amount for people aged 50 and older in 2023 is currently $7,500.) One caveat- If you earn more than $145,000 in the prior calendar year, all catch-up contributions at age 50 or older will need to be made to a Roth account in after-tax dollars. Individuals earning $145,000 or less, adjusted for inflation going forward, will be exempt from the Roth requirement. ***Within IRAs:*** IRAs currently have a $1,000 catch-up contribution limit for people aged 50 and over. Starting in 2024, that limit will be indexed to inflation, meaning it could increase every year, based on federally determined cost-of-living increases.
- **Employer Matching in Roth Accounts.** Within employer-sponsored plans, employers will be able to provide employees the option of receiving vested matching contributions to Roth accounts (although it may take time for plan providers to offer this and for payroll systems to be updated). Previously, matching in employer-sponsored plans were made only on a pre-tax basis. Contributions to a Roth retirement plan are made after-tax, after which earnings can grow tax-free. Important to know: Unlike Roth IRAs, RMDs from an employer-sponsored plan are required for Roth accounts until tax year 2024.
- **Qualified Charitable Distributions (QCDs).** Beginning in 2023, people who are age 70½ and older may elect as part of their QCD limit a one-time gift up to $50,000, adjusted annually for inflation, to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity. This is an expansion of the type of charity, or charities, that can receive a QCD. This amount counts toward the annual RMD, if applicable. *[Note: for gifts to count, they must come directly from your IRA by the end of the calendar year.]*
- **Emergency Savings.** Defined contribution retirement plans are now able to add an emergency savings account. This Account is a designated Roth account eligible to accept participant contributions for non-highly compensated employees starting in 2024. Contributions would be limited to $2,500 annually (or lower, as set by the employer), and the first 4 withdrawals in a year would be tax and penalty-free. Depending on plan rules, contributions may be eligible for an employer match. In addition to giving participants penalty-free access to funds, an emergency savings fund could encourage plan participants to save for short-term and unexpected expenses.
- **529 Plans.** After 15 years, 529 plan assets can be rolled over to a Roth IRA for the beneficiary, subject to annual Roth contribution limits and an aggregate lifetime limit of $35,000. Rollovers cannot exceed the aggregate before the 5-year period ending on the date of the distribution. The rollover is treated as a contribution toward the annual Roth IRA contribution limit.