

2023 MID-YEAR ECONOMIC & MARKET OUTLOOK



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MACROECONOMIC OUTLOOK

“May you live in interesting times” is an English translation of a supposed Chinese curse. But it is apocryphal—there is no proven Chinese source. These certainly are interesting times, though, so we’ll start there, authentic or not.

The economic and market landscapes may be witnessing a “regime shift” at this point in 2023, as we face volatile trends in inflation, earnings, economic growth, Federal Reserve (Fed) policy and geopolitics. Perhaps the most noteworthy factor for the markets to consider is the path for future U.S. monetary policy. With the Fed arguably at, or close to, the end of this rate hike cycle, investors will be confronted by ongoing confusion about how long a “pause” could last. It could ultimately be followed by a debate over the timing and magnitude of potential rate cuts.

As always, we suggest focusing on key market signals, which we define as:

- + Economic growth rates
- + Inflation expectations
- + Monetary policy
- + Interest rates
- + Corporate earnings growth rates

And we provide our thoughts for the remainder of 2023 on:

- + Equities
- + Fixed income
- + Real assets and alternatives

At the time of writing, there are a few “known unknowns” that could affect our perspective. These include:

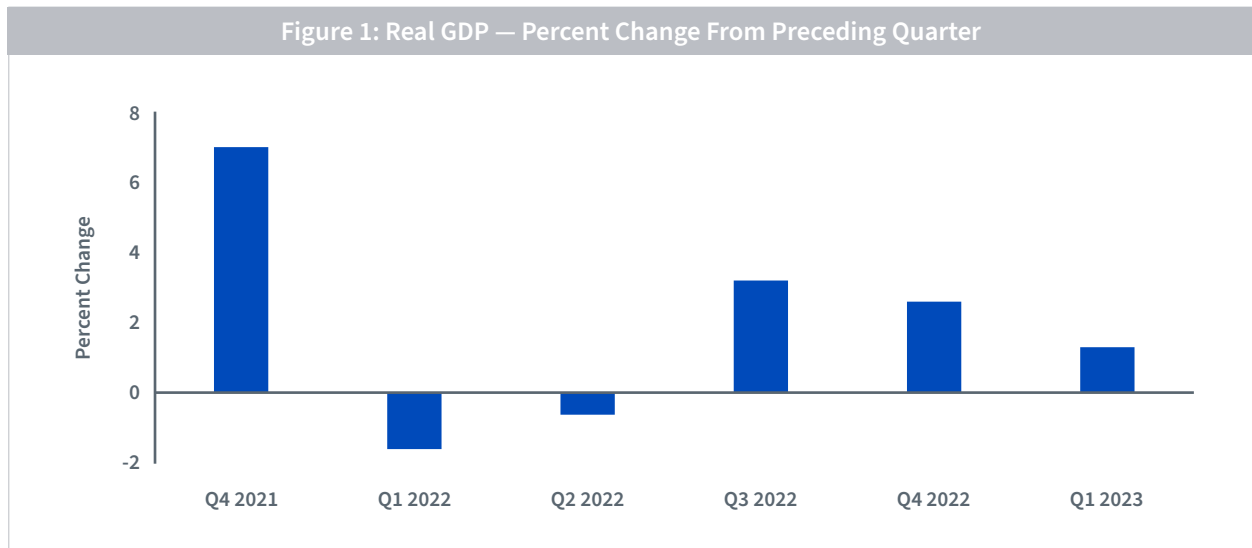
- 1. What’s next from the Fed?** With this rate hike cycle arguably coming to an end, the debate surrounding “rates higher for longer” vs. rate cuts will take center stage, more than likely keeping the volatility quotient elevated.
- 2. The Russia/Ukraine War.** The media is reporting on an upcoming spring counteroffensive by Ukraine. We won’t pretend to have all the answers, but it does seem that this horrible conflict is heading toward an inflection point whereby Ukraine succeeds in fending off Russia and perhaps regains Crimea. Another path could be a negotiated peace settlement in which both sides declare victory and simply stop shooting.
- 3. Geopolitical challenges between the U.S., China, Russia and Iran.** The temperature seems to have cooled across the geopolitical front, as all parties seem to recognize it is in no one’s best interest to heighten tensions. But the issues remain bubbling beneath the surface, including recent saber-rattling by the Chinese military.

Glossary found at end for terms and Index definitions.

The following are our views on the signals we can currently observe:

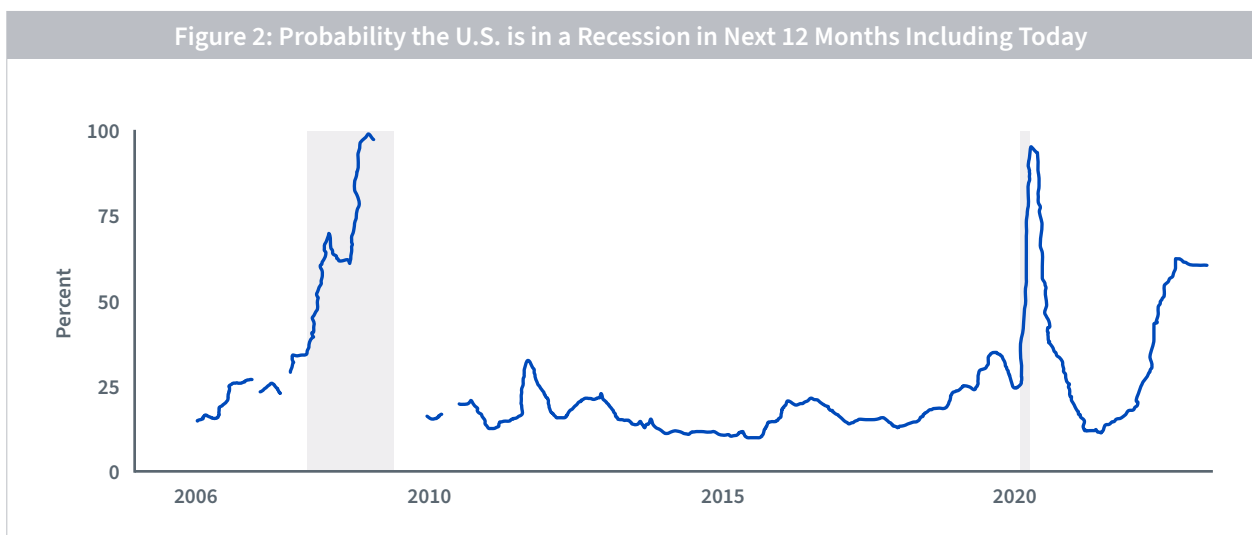
ECONOMIC GROWTH RATES

In the U.S., the second revision to Q1 gross domestic product (GDP) showed an annualized 1.3% growth rate, according to the Bureau of Economic Analysis.



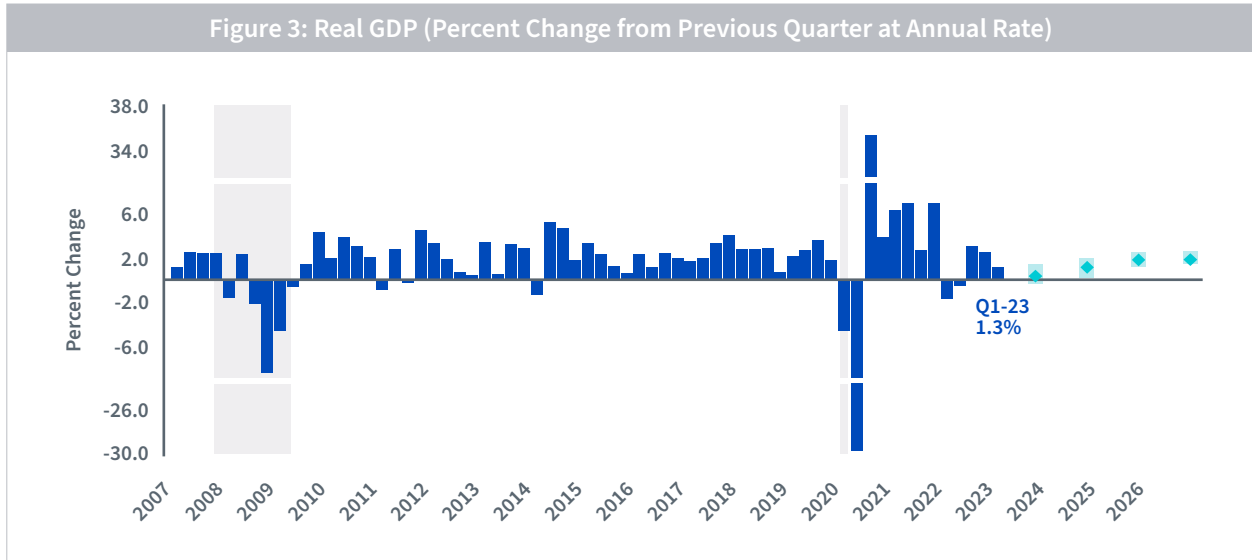
Source: U.S. Bureau of Economic Analysis, as of 5/26/23.

At the same time, the *Wall Street Journal's* April survey of economists suggests a 65% probability of the U.S. falling into recession within the next 12 months.



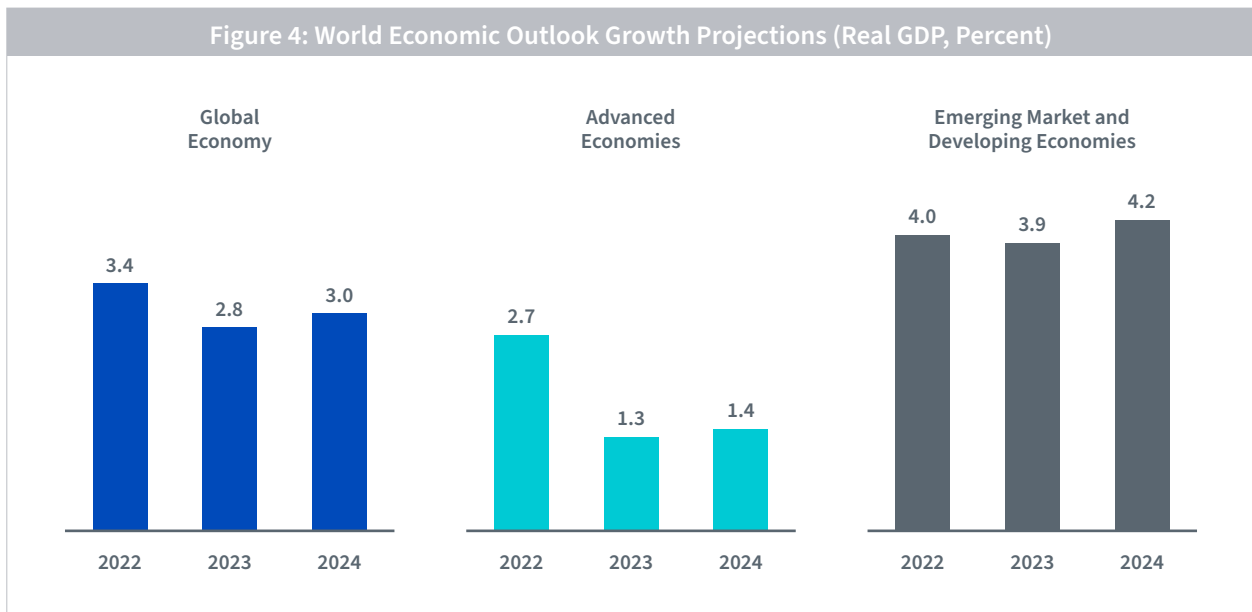
Source: *Wall Street Journal* survey of economists, 4/15/23. Note: Gaps indicate questions not asked or data unavailable. There is no guarantee that any projection, forecast or opinion will be realized. Actual results may vary. Shaded areas indicate U.S. recessions.

The Richmond Federal Reserve Bank disagrees.



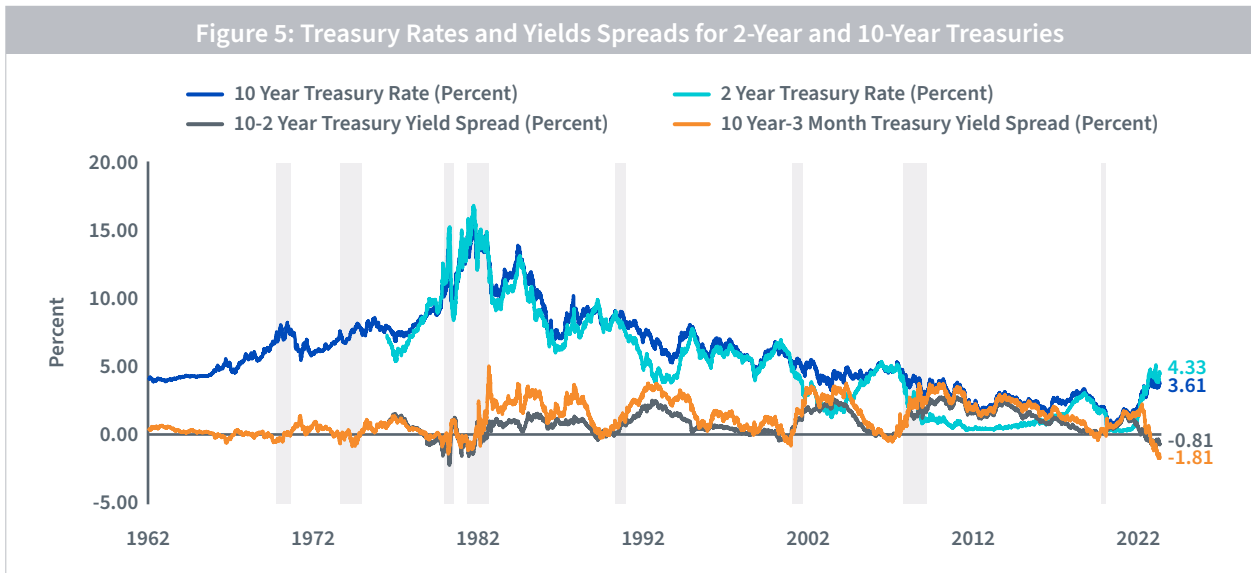
Source: The Richmond Fed “National Economic Indicators,” as of May 2023. Note: Projection is the median, central tendency and range from the March 2023 Summary of Economic Projections. Teal dots indicate median projections. Projections of change in real gross domestic product (GDP) are from the fourth quarter of the previous year to the fourth quarter of the year indicated. Shaded areas indicate U.S. recessions.

Outside the U.S., the International Monetary Fund (IMF) is suggesting modest but positive global GDP growth.



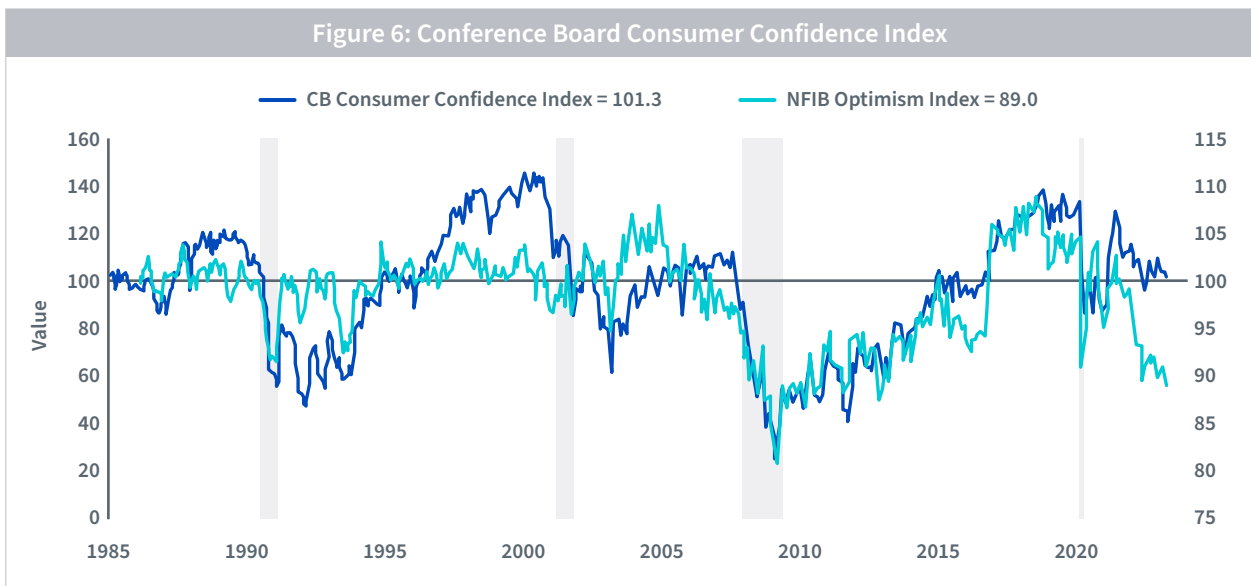
Source: International Monetary Fund, World Economic Outlook, Global GDP forecast as of April 2023. There is no guarantee that any projection, forecast or opinion will be realized. Actual results may vary.

The message that seems to be appearing is that the U.S. and global economies may not be in as bad shape as commonly believed. One counterargument is the deeply inverted U.S. yield curve, which has witnessed longer-term yields at lower levels than short-term rates since Q4 2022. Note in figure 5 that the U.S. has not in recent memory seen a yield curve this inverted for this long without subsequently heading into recession (gray bars), though there is often a lag.



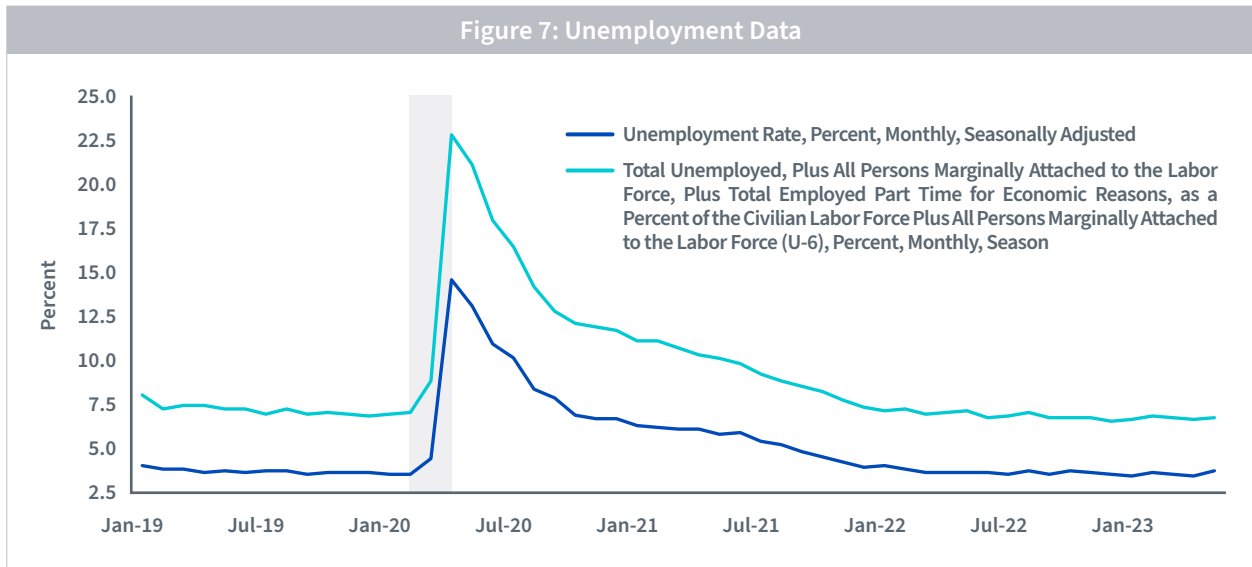
Source: YCharts, as of 6/5/23. **Past performance does not guarantee future results.** Shaded areas indicate U.S. recessions.

Consumer and small business sentiment is falling as fears grow over inflation, rising interest rates and a potential recession (as shown in figure 6). This trend may prove to be a factor in overall economic activity as consumers and small business owners take a “seek shelter” approach in their behavior.



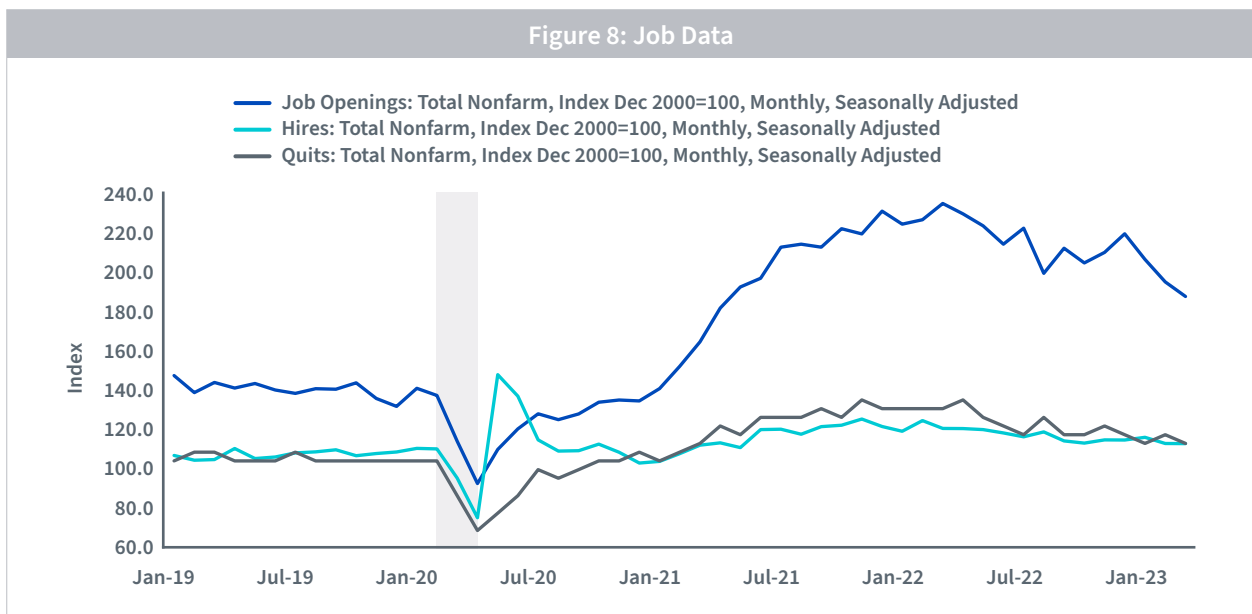
Source: VettaFi Advisor Perspectives, dshort, data through April 2023. Shaded areas indicate U.S. recessions.

Finally, in figure 7, both the headline U-3 unemployment rate and the less-followed “U-6” partial employment level (workers who are involuntarily working part-time) suggest the U.S. labor market remains tight—a counterbalance to tightened monetary conditions.



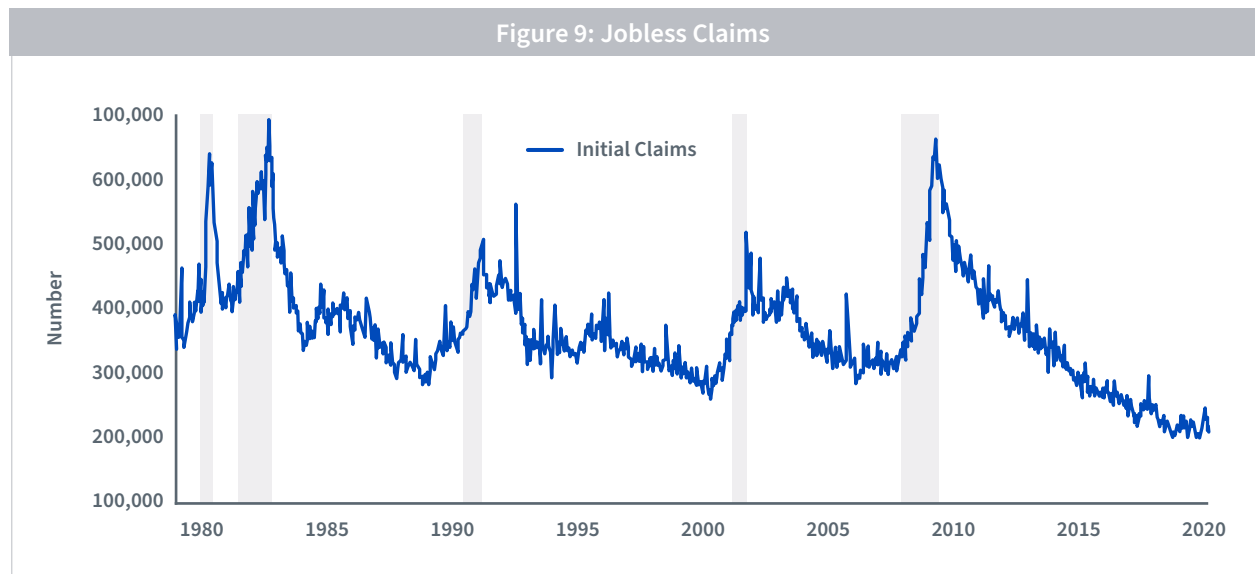
Source: U.S. Bureau of Labor Statistics, data through May 2023. Shaded areas indicate U.S. recessions.

At the same time, there are plenty of jobs available, shown in figure 8—though the quantity is declining. But employers continue to find it difficult to find enough qualified workers to fill positions (suggested by the disparity between the job openings level and the hires level). The flat-lining of the quits rate, however, suggests workers are less confident about finding a new job if they leave their current one.



Source: U.S. Bureau of Labor Statistics, data through April 2023. Shaded areas indicate U.S. recessions.

Another countervailing force is the level of jobless claims, one of the 10 closely watched leading economic indicators shown in figure 9. The absolute level of weekly claims continues to rest at low levels consistent with the full employment backdrop prior to COVID-19. In fact, total claims were roughly 100,000, if not more, above their current reading prior to the last five recessions going back to 1980.

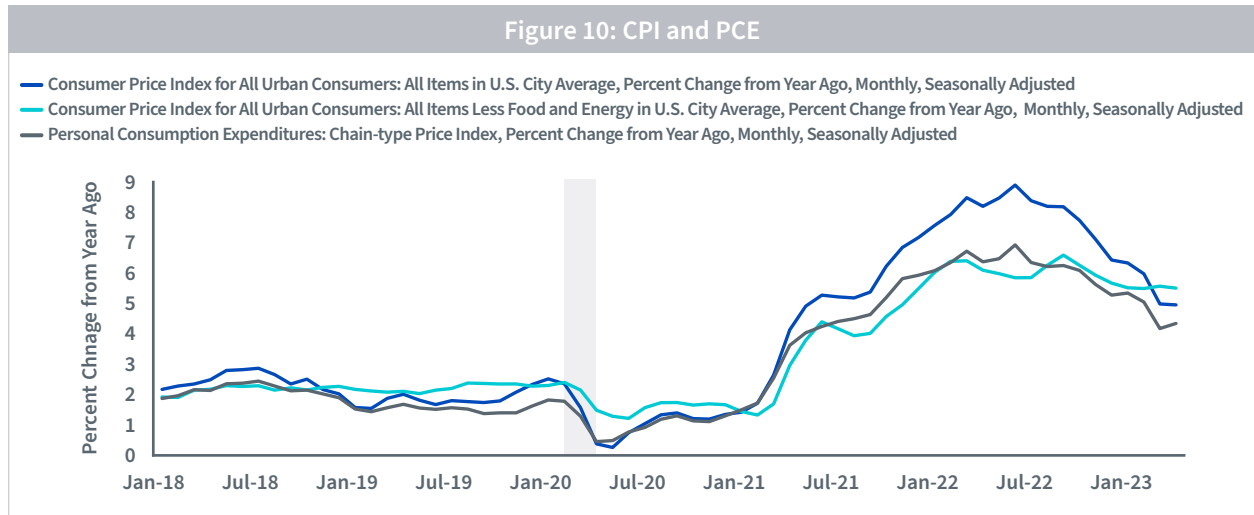


Source: U.S. Employment and Training Administration, data through 5/30/23. Shaded areas indicate U.S. recessions.

Summary: We have a “mixed bag” with respect to the U.S. and global economies. Based on the yield curve alone, history has shown the U.S. economy could be headed into a recession over the next several quarters, but it may not be as severe as some are predicting. As the Fed likes to say, it will be completely “data dependent.” Our direction may depend on the Fed’s actions.

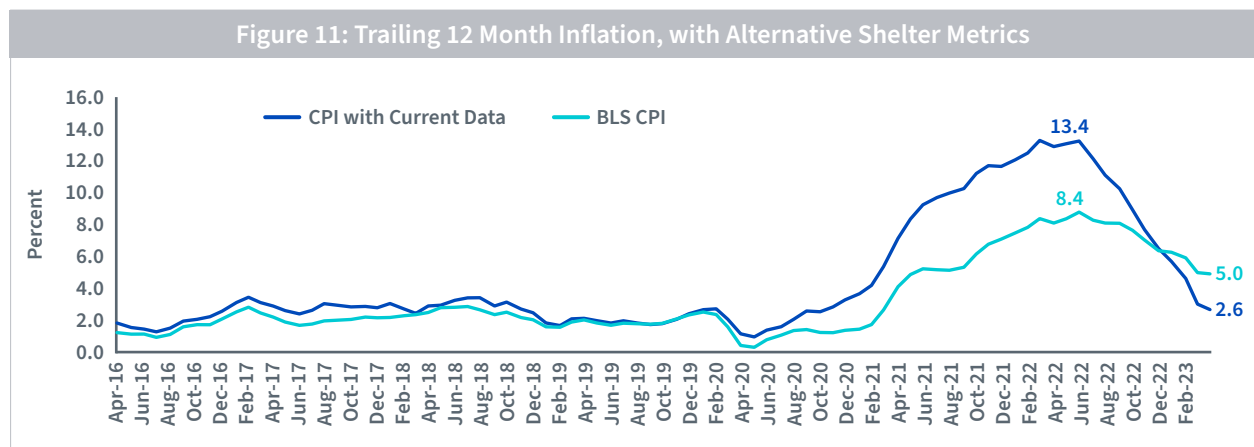
INFLATION EXPECTATIONS

While inflation has continued to cool in 2023, official government headline readings excluding food and energy have remained sticky. The overall Consumer Price Index (CPI) has seen its year-over-year (YoY) increase subside to +4.9% in April from a 40-year high of +9.1% at last year’s peak, but core inflation has only fallen about a percentage point to +5.5% YoY. Disturbingly, the Fed’s preferred personal consumption expenditure (PCE) gauge recently ticked up a notch to +4.7%, noted in figure 10.



Sources: Bureau of Labor Statistics (BLS) and Bureau of Economic Analysis (BEA), data through March 2023. Shaded areas indicate U.S. recessions.

It is interesting to note that there has been increasing discussion about just how accurate the official government measures of inflation are. While the Fed may be paying close attention to gauges such as core services ex-shelter, the debate is whether the proxy utilized by the BLS accurately captures pricing trends in the housing sector. WisdomTree’s alternate inflation measure reveals that inflation has come down far more than the headlines suggest, as shown in figure 11.

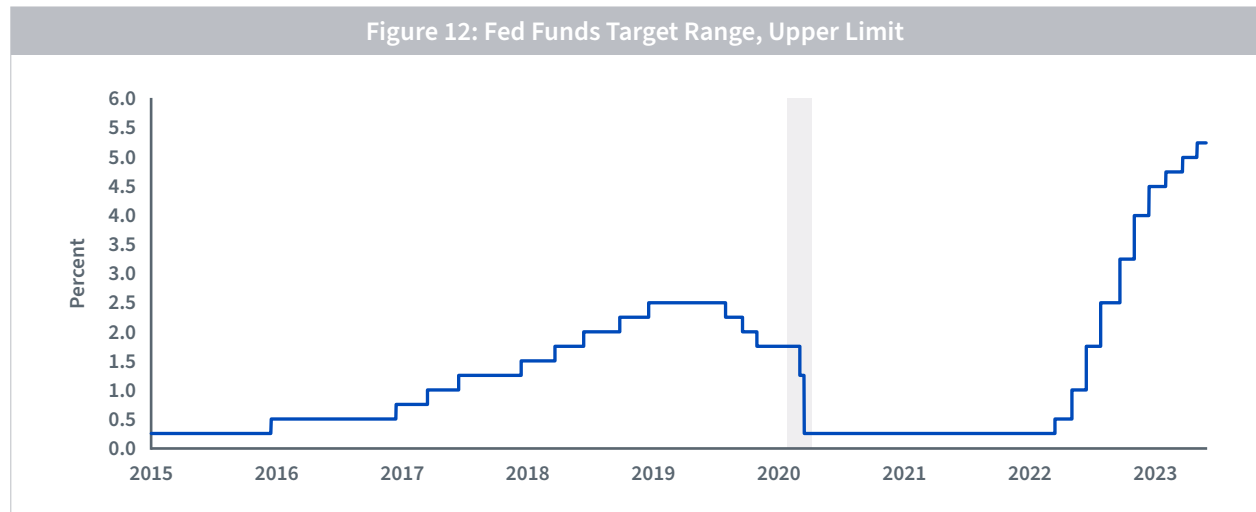


Source: WisdomTree calculations. Inflation data from BLS. Alternate measures of shelter inflation include replacing Primary Rent with Zillow Rental Index and BLS Owners’ Equivalent Rent with Case-Shiller Housing Data as of 5/31/23.

Summary: Without a doubt, inflation data will continue to dominate the markets’ focus, along with the jobs number. The decelerating trend in price pressures is certainly a welcome development, but a sustained downward trajectory will be needed going forward if the Fed and the bond market are to be convinced that the inflation dragon has been slayed.

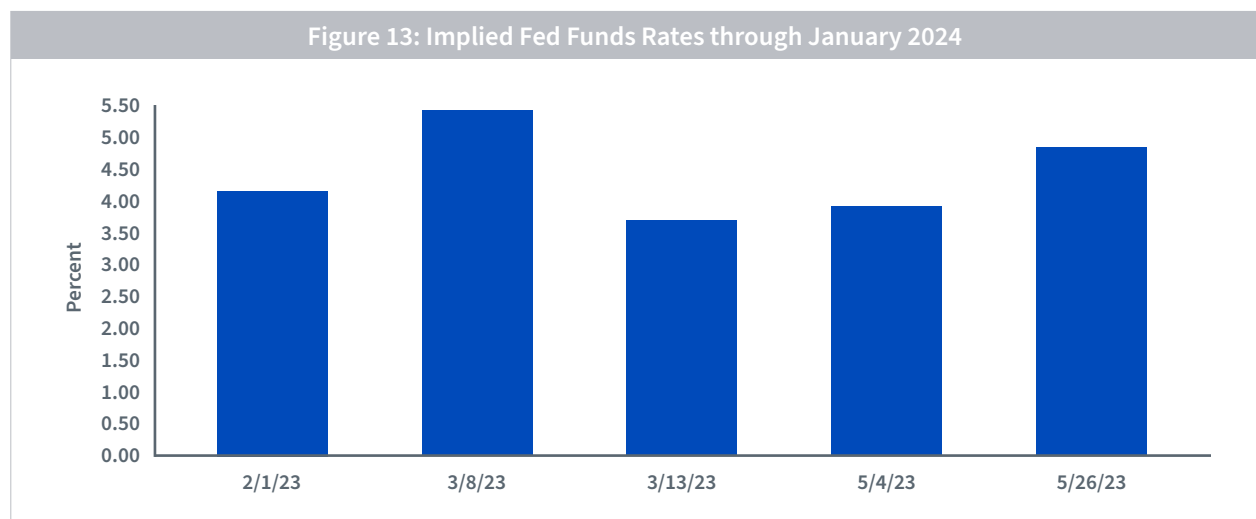
MONETARY POLICY

Arguably, the most important factor for the stock and bond markets is the outlook for U.S. monetary policy. With the Fed at, or close to, the end of this cycle’s rate hikes, the debate will now turn to the timing for potential rate cuts. The debate will center on two schools of thought: 1) rates will be higher for longer (the Fed’s current stance), and 2) the Federal Open Market Committee (FOMC) will be forced into cutting rates sooner, and by a larger magnitude, due to economic concerns.



Source: Board of Governors of the Fed, as of 5/30/23. Shaded areas indicate U.S. recessions.

From the Fed’s perspective, Chairman Powell seems to be weighing the full impact of the 500 basis points (bps) in rate hikes that have already occurred in conjunction with the expected further tightening in credit conditions from the regional banking fallout. This puts the policy makers in full “data dependent” mode and has recently given rise to the notion that decisions will be made on a meeting-by-meeting basis.



Source: Bloomberg, as of 5/30/23.

However, the uncertainty quotient has been on the rise of late in terms of market expectations. Immediately following the May FOMC meeting, Fed Funds Futures were pointing to rate cuts beginning this summer, with the implied probability for the January 2024 level falling to as low as 3.93%, or not too far removed from the reading that was being printed at the height of the regional banking crisis in early March. Since then, the implied probability has increased in a noticeable fashion, rising almost a full 100 bps by Memorial Day.

Summary: While the Fed will be paying close attention to incoming inflation data, it is the labor market reports that could ultimately decide the central bank's future course of action. Presently, the "higher for longer" interest rate camp seems to be in the majority at the FOMC, but rate cuts could come into focus in Q4.

EQUITIES

There is never a dull moment in the stock market. While the singular focus a half year ago was a consensus that China's COVID-19 reopening would pull the global economy up with it despite a tighter G7 monetary policy regime, now the stock market's primary focus has shifted to artificial intelligence (AI). The poster child has been chipmaker Nvidia, which spent this summer's early days busting through a \$1 trillion market capitalization on the heels of a blowout revenue number.

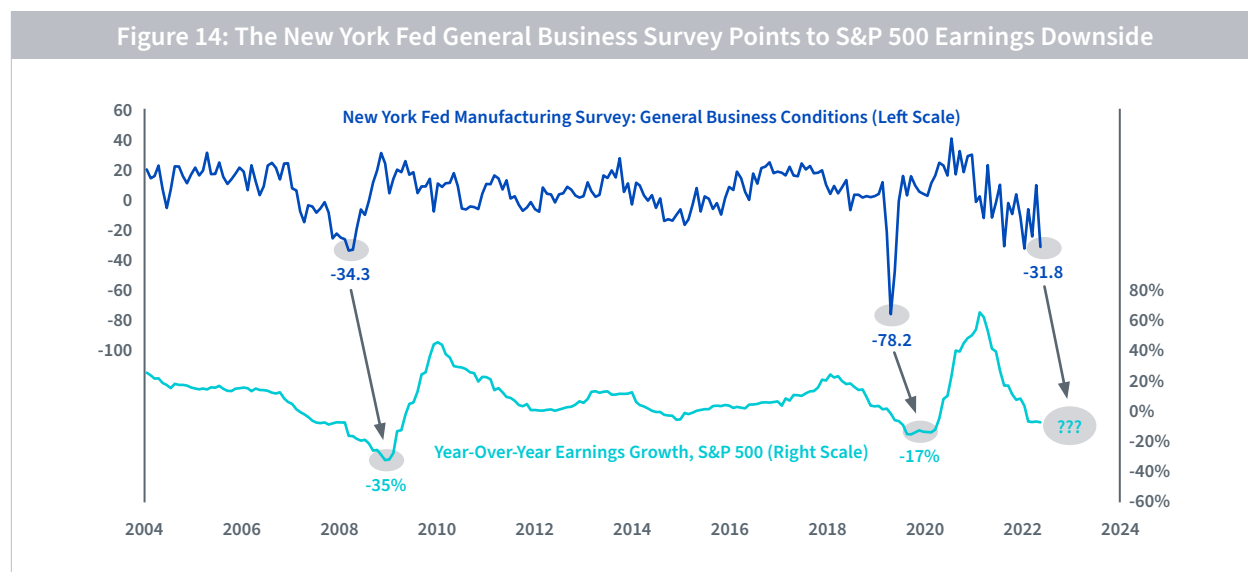
Corporate chieftains know that what is working in the stock market right now is AI, whether it's the proverbial chipmakers supplying axes and shovels or the AI-focused companies themselves. According to John Butters at FactSet, 110 companies played the AI card this earnings season, mentioning it on their conference calls, a cool doubling from just two quarters ago. Turns out another 10th of the S&P 500 has in some way entered the AI business since Thanksgiving. No one knows how profits will manifest because of this technology, but such matters are of little concern to many players right now.

We don't want to give full credit to AI for the tech run that has almost single-handedly pulled the S&P 500 out of its funk since the October 12 low, but it does deserve the lion's share of the Index attribution. There is one other concept that put a bid into the Silicon Valley giants this spring, though it's hard to quantify how much force it punched. As spring rolled around and the debt ceiling crisis became more acute, some players started to view 1-Month and 2-Month t-bills as hot potatoes. Better to park capital in the equity of the big behemoths while the saga unfolded, went the theory. Now that the debt ceiling saga appears behind us, this catalyst for mega-cap tech is dissipating.

Q1 S&P 500 earnings were down 9%, according to Zacks. This is no big surprise. Truth be told, it was a generally positive earnings season because the red ink was widely anticipated. One issue that we are respecting because it is disconcerting: the much-awaited revenue pinch is starting to show up in these quarterly numbers. There are several main causes, namely a follow-through of wage inflation in what appears to be a disinflationary goods environment going forward, plus the adverse effect on 2023 profits that comes from the lagging-in of 2022's USD strength. On the latter matter, the positive for out-quarter earnings, perhaps Q4 2023 or Q1 2024, is the boost to earnings that will stem from this year's dollar reversal.

We suspect many of our Indexes are positioned to benefit from the wage-induced revenue pinch, as the very concept of return on equity (ROE) has profit margins as an input. The overwhelming majority of our Indexes have either an explicit ROE screen or an implicit one via concepts such as dividend coverage ratios and the like.

Nevertheless, we anticipate that some of the forthcoming earnings seasons may splash more red ink on headline S&P 500 earnings, though sentiment is dour enough that it may not put a fright into many nerves. One look at the New York Fed's General Business survey indicates that the next couple of earnings seasons are going to need more than AI ebullience to hold the profits picture together (figure 14).



Sources: Refinitiv, NY Fed, as of May 2023. S&P 500 earnings calculated using Datastream P/E tabulations. There is no guarantee that any projection, forecast or opinion will be realized. Actual results may vary.

For now, the consumer is hanging tough, which is a moral victory given the severity of the inflation shock. For evidence, consider that Memorial Day weekend air travel volumes exceeded the 2019 numbers. Also, our in-house alternative inflation calculations, which account for the home price and rent slowdowns, show that the inflation issue may be over for the near term.

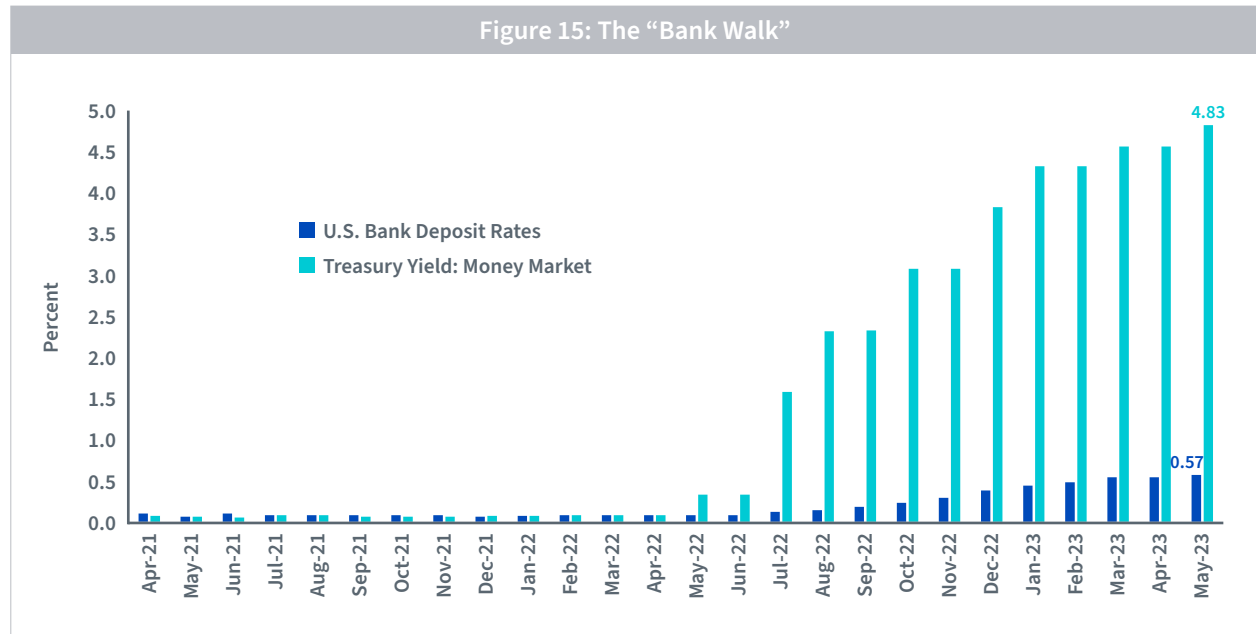
However, a sector like Consumer Discretionary must contend with credit card interest rates having spiked above 20%, up from the mid-teens last year. This is happening in tandem with the student loan payment brick wall that will face millions. Additionally, while commercial banks were extending 48-month auto loans at 4.58% at the COVID-19 trough in November 2021, the most recent print on that figure was 7.46%. While on the topic of “7-handles” on important interest rates, the 30-year conforming mortgage briefly flirted with that level a few weeks ago.

We have been favoring Consumer Staples, though valuations there are on the rich side because many companies were rewarded when they showed an ability to pass on inflation in their 2022 numbers.

Thus far, the Fed's Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) says that credit has been tightening for commercial and industrial (C&I) loans to small firms for “only” four quarters. Historically, when net tightening starts to get into the second year, that's when the market comes to appreciate the extent of the credit contraction, often causing a bout of relative performance for Staples. Assuming Q3 witnesses more caution at lending institutions, that puts this cycle into that age range. It's rewarding to defensive value concepts.

The key issue of 2023, in our view, may be the “Bank Walk.” Unlike a bank run, a bank walk is the term we came up with to describe the shift of capital out of bank accounts and into money market funds because of opportunity, not fear.

It’s a simple enough concept: with money markets suddenly paying 4.83% while the national average deposit rate is just 0.57%, money will find a home where it is treated most kindly (figure 15).

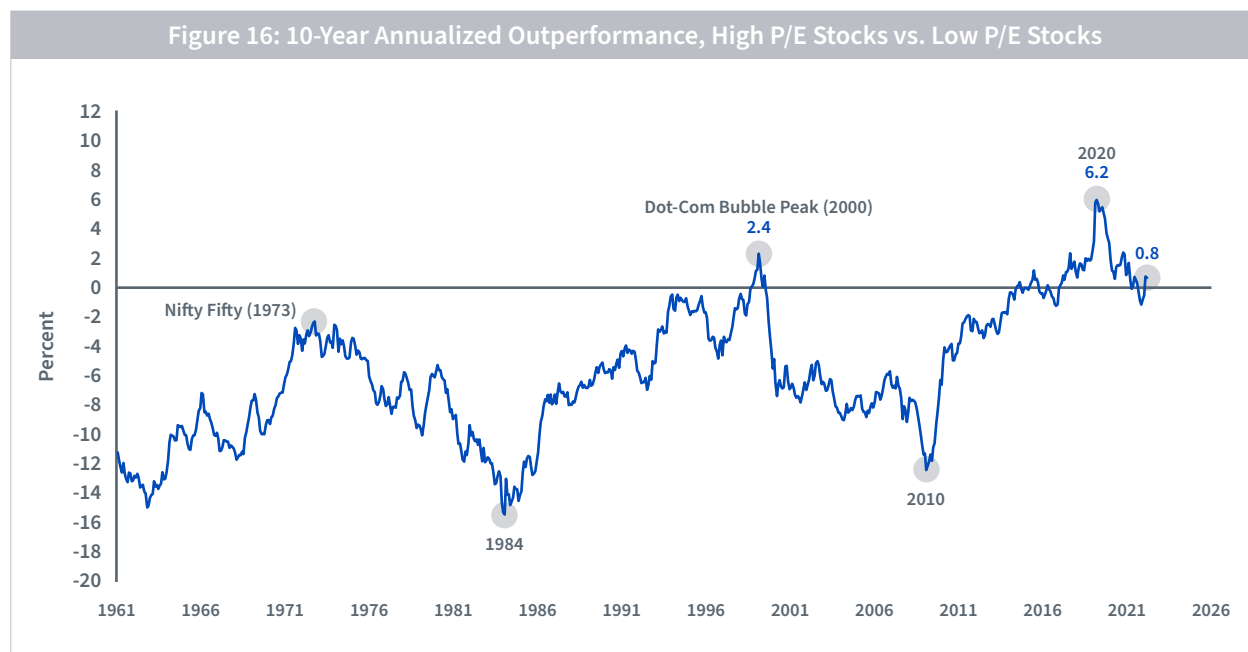


Source: FDIC, as of May 2023.

Though this phenomenon may cause a reflexive concern for bank stocks, it may be smart to go a little deeper into the thought process, especially since the headwinds for banks’ profitability are no secret. At this point, in summer 2023, almost everyone who is allocating serious capital has participated in the bank walk themselves, with their own money.

The bigger concept, the critical one, is from Banking 101: fewer deposits, fewer loans. Companies with scant or non-existent earnings, often a condition that goes hand-in-hand with iffy balance sheets, are to be under-weighted as the system contends with a rarity: a retrenchment in bank lending stemming from the Bank Walk. It begs the question: how far deep did the system get when it blew off 2021’s excesses during 2022?

One of the WisdomTree themes is “Value for the 2020s.” Though 2023 has been rough, figure 16 may offer a guide for how far along the market is in the process of the multi-year value rotation. As we march into summer, it is worth remembering that the 2022 action barely skimmed the froth that formed over the post-global financial crisis years. Even after the carnage wrought on high price-to-earnings (P/E) stocks in 2022, the 10-year performance gap between the market’s expensive and cheap stocks is still about as extreme as it was in the final innings of the dot-com bubble. Many companies that couldn’t turn a profit in the go-go days when COVID-19 stimulus programs were pouring in bundles may have a tough go of it if financing remains cold(ish) in 2024.



Source: Ken French Data Library, CRSP database, 7/31/1951–3/31/2023, data for April 2023 sourced from WisdomTree PATH using Russell 3000 Index attribution. Stocks separated into top quintile minus bottom quintile. **Past performance does not guarantee future results.**

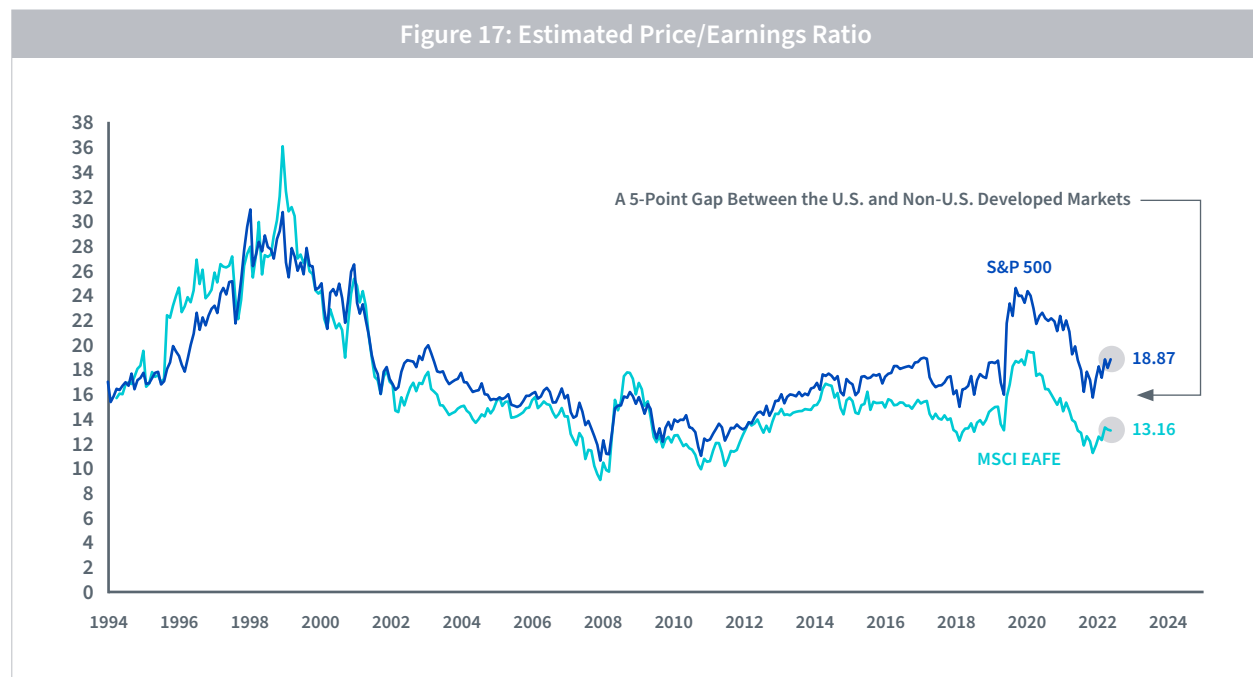
We don’t want to make it sound like the “only” thing running right now is the AI theme, though that largely sums up the scene in U.S. markets this year. We provide more commentary on that below. A market that is catching a bid, a strong one, is international developed equities. Part of it stems from valuations. For example, the largest country in many developed market indexes, Japan, has a 3.9% shareholder yield—the sum of its dividend and buyback yields. It is now higher than the S&P 500’s 3.7%. That condition—Japan paying bigger dividends and buying back more stock than the U.S.—is something that has rarely occurred in WisdomTree’s database, which dates back to 2006.

That country also has several other drivers working for it. Warren Buffett recently upped his holdings there. His investing style—a combination of high profitability and reasonable valuations—provides us with some degree of confidence, as that plays into our quality dividend growth concepts.

Another catalyst to watch, one that is firm-specific but critical when you think of the optics: keep an eye on whether stockholders can drive management out at Toyota. In the unlikely case that it comes to pass, it would be viewed as a big coup for shareholder rights.

Being long on developed markets (DMs) means stepping into the murky waters of British equities, perhaps the most hated of the major stock markets. That country's weight in the MSCI EAFE Index is 15%, making it the second-largest country in the non-U.S. developed market index. Britain has given off an aura of incompetence as a former world power that struggles to find its way, lumbering from one prime minister to the next. With Brexit having caused a shift of many finance jobs to Paris, the City of London has lost its sense of purpose. The idea of a tech initial public offering in London, to name a common concern, is felt to be a lost cause. Why float equity there when a premium valuation can be garnered in New York? The positive part of this: all of the above is a well-known and -worn quantity.

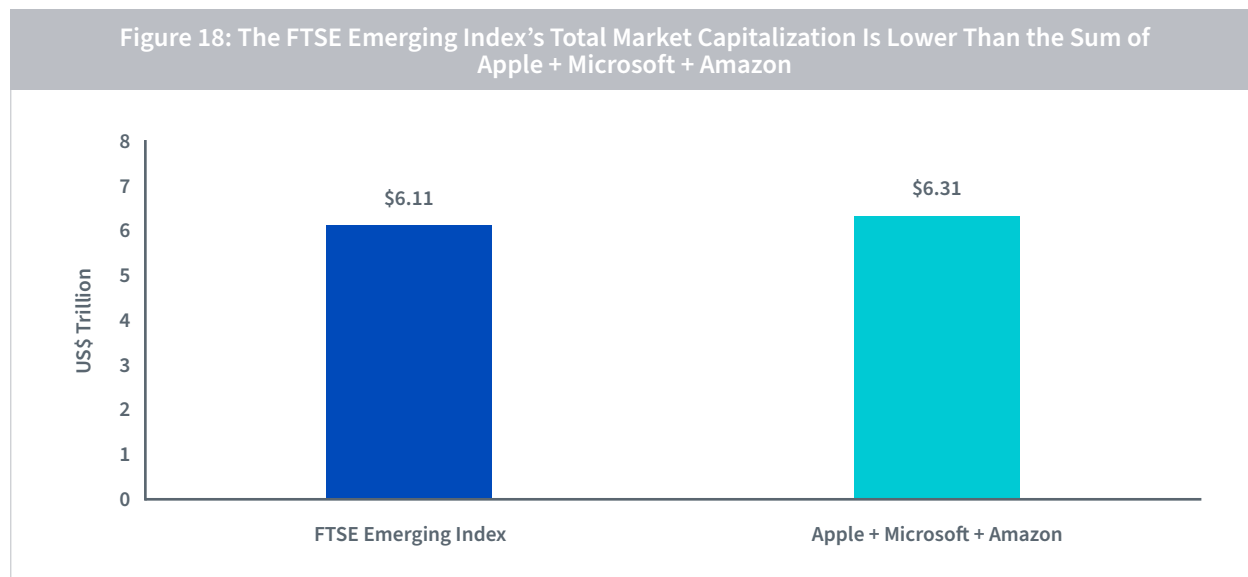
Britain and its neighbors have positive portents working for them. For one, Spain just reported year-over-year inflation of just 2.9%, while Germany's May wholesale prices showed outright YoY deflation. These two economic releases flew under the radar, buried under the Nvidia and AI ebullience. The catalyst is clear: the European Central Bank—and maybe the Bank of England—may end its monetary tightening programs. We like the five-point P/E discount on MSCI EAFE relative to the S&P 500 and anticipate the gap will close, shown in figure 17.



Source: WisdomTree PATH, as of April 2023.

Another matter that is critical for H2 2023 sentiment: we do not think the market fully appreciates the anti-trust drums being beaten at the Federal Trade Commission and its overseas equivalents. One of the main rolling headlines is Microsoft's acquisition of Activision Blizzard, where both American and British regulators are trying to block the deal. There is a feeling in the air that maybe the major techcos got too big for their britches.

Right now, the entire basket of emerging markets stocks is valued at less than the total value of Apple, Microsoft and Amazon. Did these companies get too powerful for the good of society? It's not for us to answer that question. But if society's answer is "yes," it may be catalyst enough for owning asset classes such as emerging markets instead of the S&P 500 top brass.



Source: Refinitiv, as of 5/22/23.

When we run screens on our emerging strategies, many of them show up at multi-year wides to U.S. large caps on metrics such as trailing and forward P/Es, dividend yields and price-to-sales ratios. Much of the cause is the question mark on China. Nevertheless, as we write this, there isn't a day that goes by inside WisdomTree's four walls where we aren't talking amongst ourselves about "8-handle" dividend yields on some of the deeper value emerging market screens that we have been running since before Lehman. An economic picture that has something like a mild slowdown or muddle-through may be enough to give the asset class a bid relative to the top-heavy and FTC-daggered S&P 500.

Summary: We are increasingly constructive on both developed and emerging equities relative to the U.S., especially as a domestic blend has turned into "domestic quasi-growth," courtesy of the mega caps that dominate the S&P 500. Some markets, namely Japan, have perhaps a dozen catalysts that we can count off the top of our heads. We cannot figure out why Japan bulls are still so few and far between. It's an opportunity for the rest of us.

Among smart beta factors, we like the quality dividend growth business, as we suspect unprofitable firms or those with scant profits will struggle in a 5% money market regime. Additionally, because we believe credit conditions are tightening and will continue to deteriorate as 2023 continues, defensive value may be poised for outperformance. An ideal situation for that group will be if the S&P 500 chooses to be disagreeable. Anything like 2022's bearish vibe would fit that bill, but then again, a "sideways chop" could be enough to get it done. Sober markets are where we often find most of our alpha in the dividend-weighted concepts, not the melt-up markets.

A Comment On Artificial Intelligence

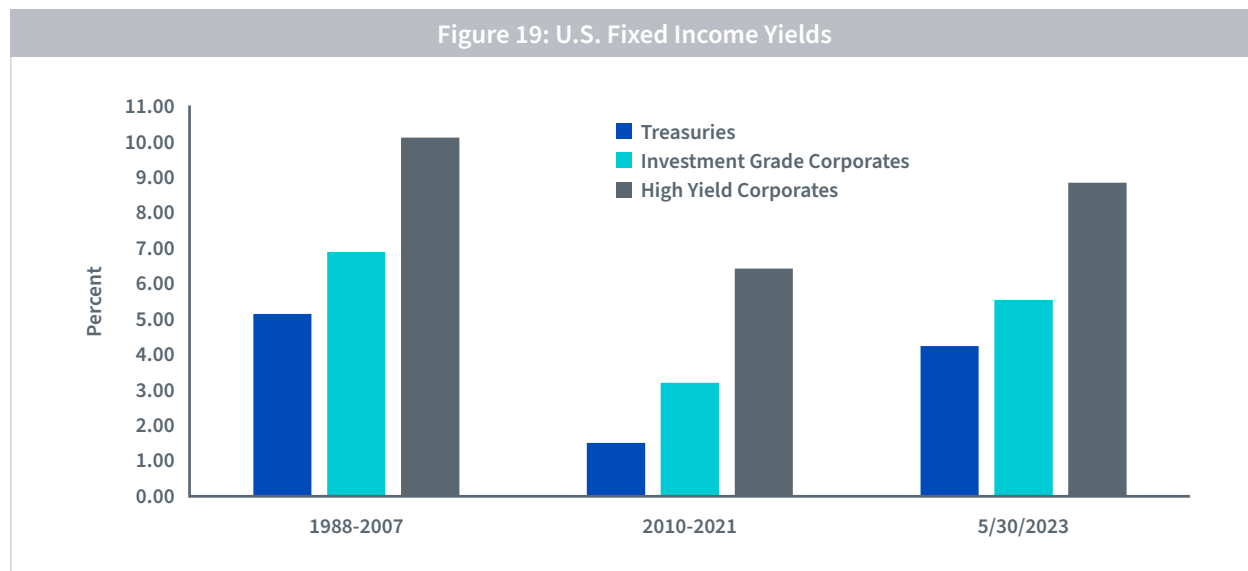
Many investors are looking at the broader benchmarks being led higher by the world’s largest companies. Many are associated with “generative AI,” with Nvidia’s chips powering the technology.

A good conceptual framework in our thematic research is that things are rarely as extreme as they seem. We are only about a half year beyond the original release of ChatGPT. We don’t yet know what we don’t know. So far, it looks like the large platforms, like the Android store of Office 365, will be able to deploy certain productivity-enhancing features. The large cloud platforms will be able to provide access to different models too. We don’t yet know what the longer tail of smaller and mid-sized players will look like.

While generative AI brings Nvidia to mind for many, and for good reason, we would remind investors that no company, for an idea as big as this, does everything themselves. For example, Taiwan Semiconductor Manufacturing Company is the only company that can currently fabricate Nvidia’s most advanced chips. Data centers are also critical; these devices need to sit in purpose-built, physical locations. Finally, generative AI search could be three to five times as energy-intensive as classical standard searches. When the world is excessively excited by one or a handful of companies, it may make more sense to look at the companies on which such companies may rely.

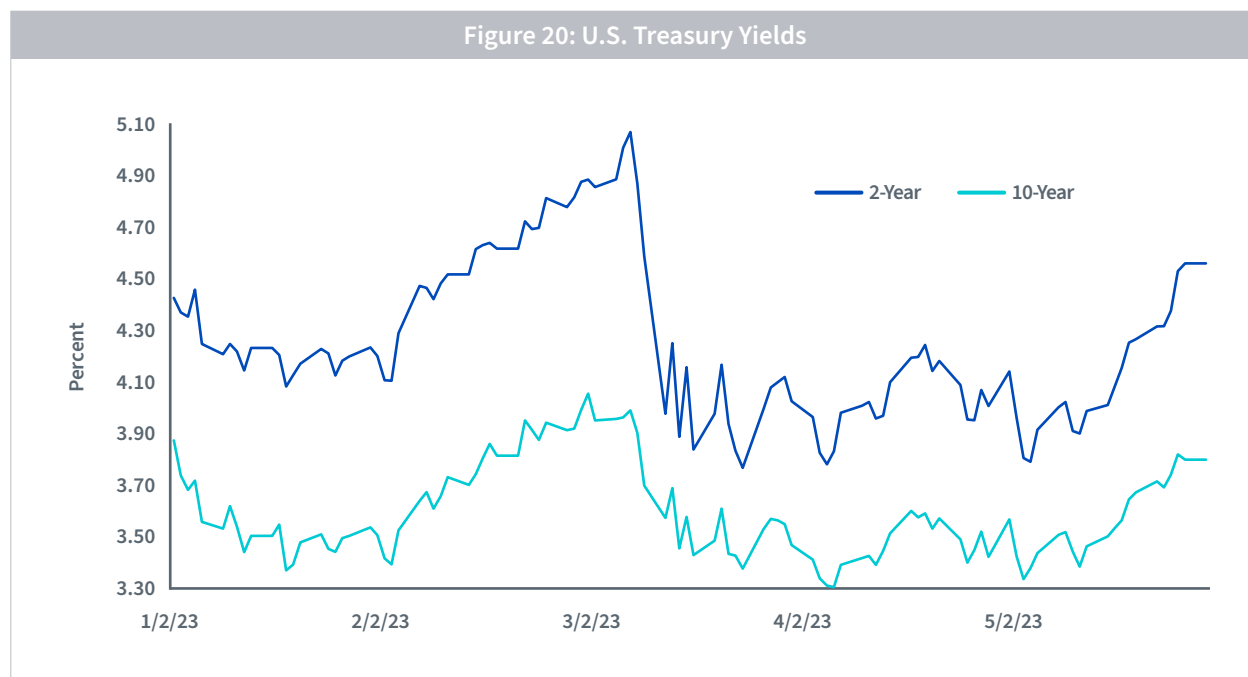
FIXED INCOME

A recurring theme for WisdomTree related to the bond market is that “there is income back in fixed income.” If we have learned anything from the Fed’s historical pace of rate hikes, it’s that U.S. interest rates are now back to levels that haven’t been seen in roughly 15 years or so. This phenomenon has occurred for Treasuries and U.S. investment-grade (IG) corporates, and outside of some of the risk-off periods that have occurred since 2007, the U.S. high-yield (HY) arena is also in a similar position.



Source: Bloomberg, as of 5/30/23. **You cannot invest in an index, and past performance does not guarantee future results.** Proxy for Investment Grade Corporates is the Bloomberg U.S. Aggregate Corporate Index Yield to worst; and for High Yield Corporates, the Bloomberg U.S. Corporate High Yield Index Yield to worst.

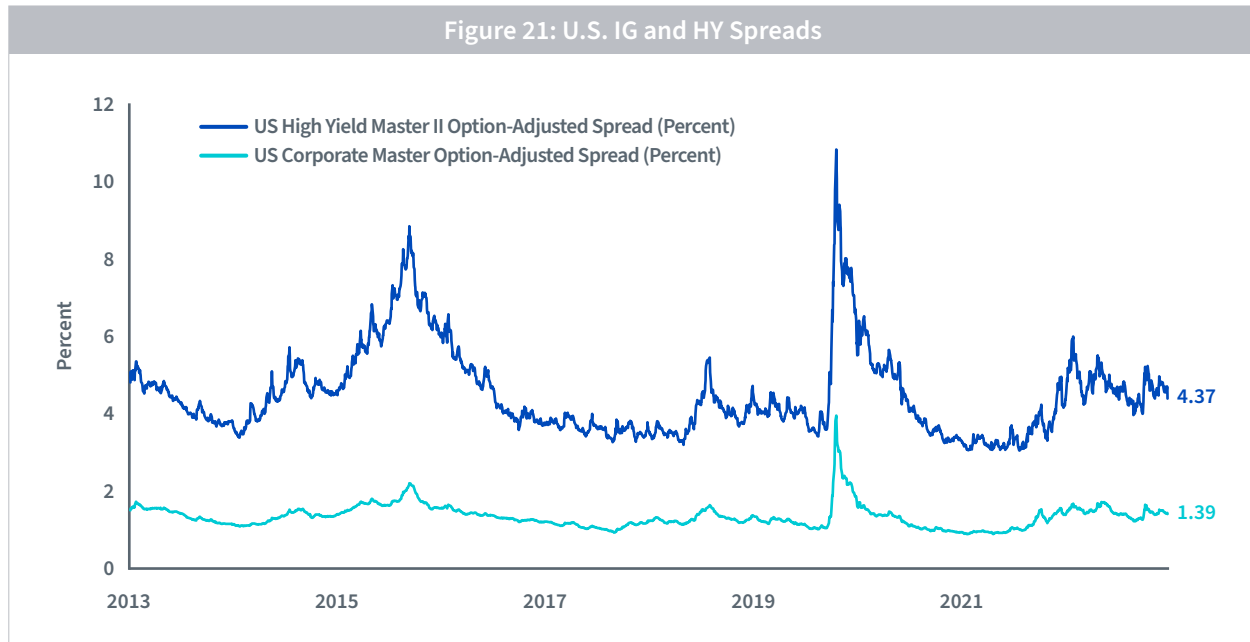
While the current yield levels are not quite back to their 1988–2007 readings, they are visibly above their 2010–2021 postings. In our opinion, the post-great financial crisis world of negative/zero interest rates skewed investors’ perception of where U.S. bond yields typically resided when monetary policy was not being impacted to fight off the harsh effects of global financial and Great Recession crises. Yes, it took that long (and a once-in-a-generation pandemic) before more traditional economic forces like inflation forced central banks, i.e., the Fed, to return interest rates to levels a generation of advisors and investors had not witnessed before.



Source: Bloomberg, as of 5/30/23. **Past performance does not guarantee future results.**

The H2 2023 outlook for U.S. Treasury (UST) yields will seemingly be a struggle between the “don’t fight the Fed” and “don’t fight the tape” camps. A data-dependent Fed naturally pushes the UST market into that same mode. As a result, volatility will more than likely continue to be heightened, with rates being skewed more to the upside of recent ranges.

On the credit side of the ledger, U.S. IG and HY spreads, shown in figure 21, have remained within the higher bands of trading activity that became evident about a year ago. Both credit arenas appear to have discounted the possibility of slower growth and, arguably, maybe even a modest recession. The trend throughout the prior 12 to 15 months has been one of renewed buying opportunities when spreads increase out to their “wides,” a pattern that could remain in place as long as economic activity doesn’t show signs of significantly deteriorating.

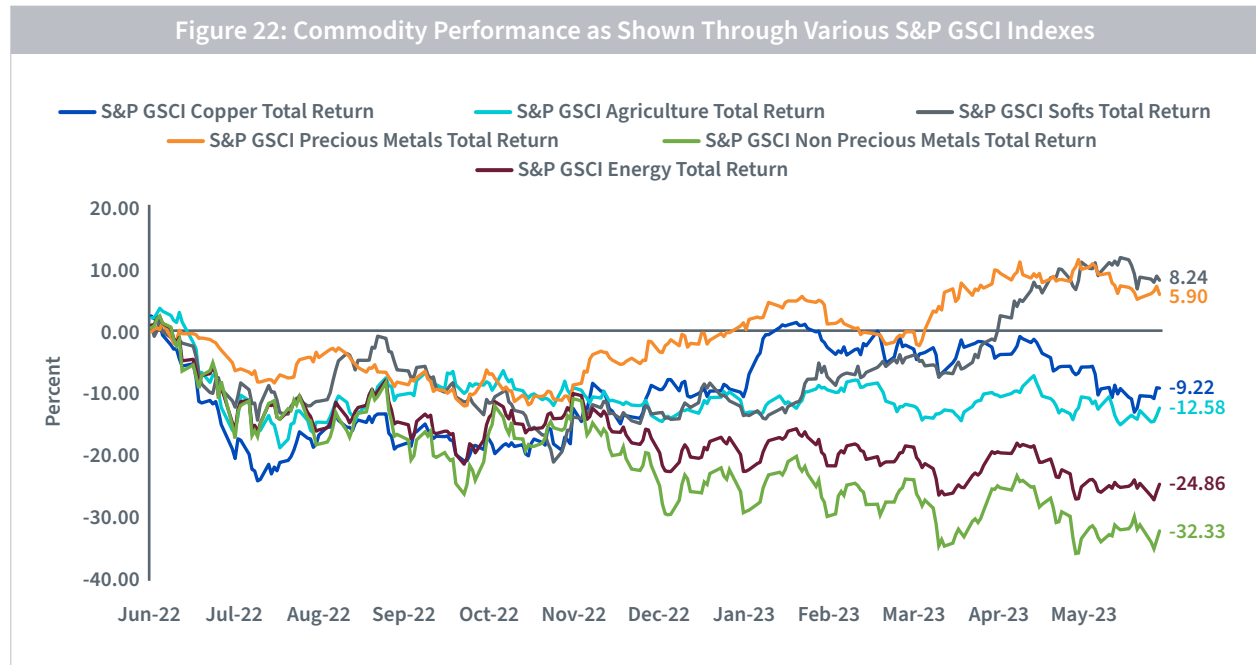


Source: YCharts, 10-year data through 6/2/23. **You cannot invest in an index, and past performance does not guarantee future results.**

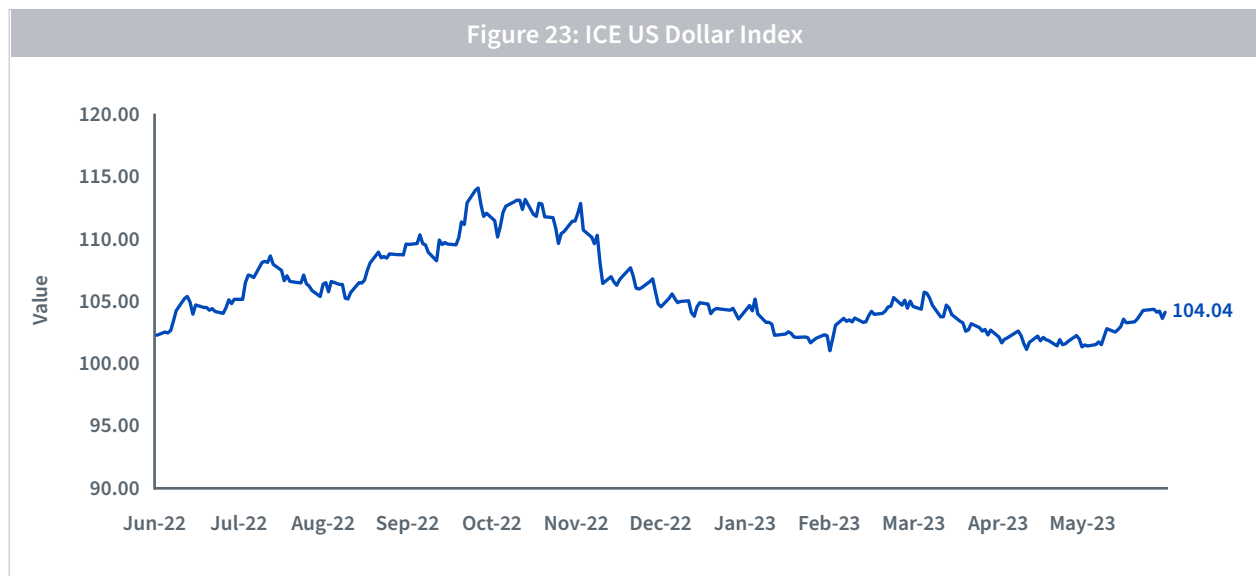
Summary: U.S. money and bond markets will continue to take their cue from the Fed, but uncertainty regarding the timing for potential rate cuts will be a key aspect for trading activity. The inverted yield curve offers no urgency to move out in duration as we would still rather be “late than early to the duration party.” However, reducing an under-weight in duration to the benchmark in deliberate steps should be considered. Within the U.S. credit markets, the increase in yields within HY offers a cushion for investors should spreads widen out from current readings.

REAL ASSETS AND ALTERNATIVES

We have “cooled” on our outlook for real assets, given the slower-than-expected China “reopening” and a generally slowing global economy, combined with uncertainty over the future direction of the U.S. dollar.

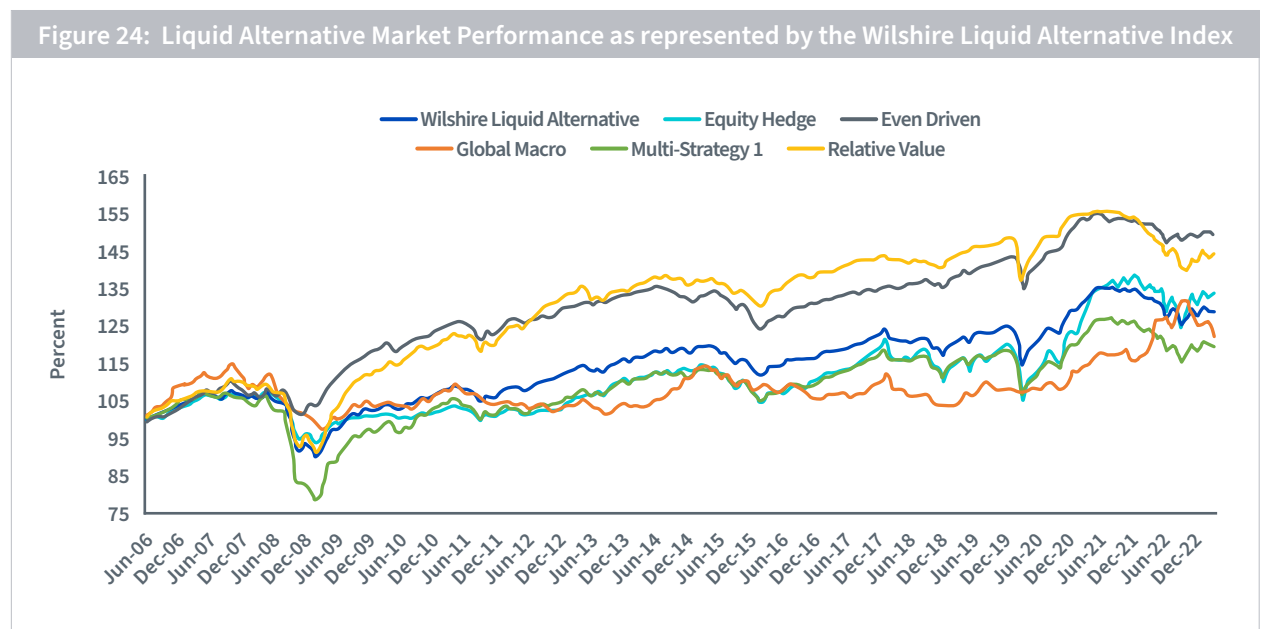


Source: YCharts, 12-month data as of 6/2/23. **You cannot invest in an index, and past performance does not guarantee future results.**



Source: YCharts, 12-month data through 6/2/23. **You cannot invest in an index, and past performance does not guarantee future results.**

Historically, nontraditional, or alternative investment strategies have performed their best in a rising interest rate and volatility market regime. Volatility is “complacent” right now (i.e., lower than we believe it should be), and the direction of interest rates remains uncertain (though we believe they are headed higher over the medium term), but we continue to receive inbound calls from advisors regarding “what else” they might allocate to in these uncertain times.



Source: Wilshire, as of 3/31/23. **You cannot invest in an index, and past performance does not guarantee future results.** The Wilshire Liquid Alternative Index measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe. The Index is designed to provide a broad measure of the liquid alternative market by combining the performance of the Equity Hedge, Global Macro, Relative Value, Multi-Strategy and Event Driven Indexes.

Summary: Current market conditions are not all that positive for real assets and alternatives. However, we are not convinced the market is correctly pricing in future movements in either interest rates or volatility.

SUMMARY AND ASSET ALLOCATION IMPLICATIONS

This is a very uncertain time for both the economy and the investment market, especially given where we are in the Fed's rate hike cycle and waiting to see what could come next for monetary policy. The economy is sending mixed signals but generally suggesting a slowdown. Earnings are holding their own, while recession fears and the interest-rate-driven rally in large-cap "mega-tech" has driven valuations in large-cap stocks back up to historically high levels. We continue to believe there is relative value (for patient investors) in U.S. small caps and non-U.S. markets.

This uncertainty has two explicit implications for advisors and investors:

1. A growing need for diversification within the portfolio.
2. A re-emergence of active management (or non-cap-weighted beta) within the portfolio. This is a time when advisors and investors have the potential to add real value in their asset allocation, portfolio construction and security selection decisions.

Based simply on the data, this is a cautiously "risk-off" investment environment. We believe in being fully invested over full market cycles, but now may not be the time to be taking overly aggressive active risk bets. The inverted Treasury yield curve suggests short-term floating rate Treasuries may be a reasonable place to "hide" until the fog clears.

Current Strategic Asset Class Positioning and Outlook

Equities	-	Neutral	+
Equities vs. Bonds			
U.S. Large Cap Growth			
U.S. Large Cap Value			
U.S. Mid/Small Cap Growth			
U.S. Mid/Small Cap Value			
Developed International			
Developed International Small Cap			
Emerging Markets			
Emerging Markets Small Cap			
Fixed Income	-	Neutral	+
Duration			
U.S. Treasuries			
Investment Grade Credit			
High Yield Credit			
Securitized Credit			
Non-U.S.			
Alternatives	-	Neutral	+
Commodities			
Managed Futures			
MLPs			

Source: WisdomTree, as of 5/25/23. Evaluations are subject to change as market conditions change. This is for illustration purposes only and does not represent investment advice. All evaluations are on a relative and not absolute basis. Red = a negative relative evaluation; yellow = a neutral relative evaluation; green = a positive relative evaluation. **You cannot invest in an index, and past performance does not guarantee future results.**

ASSET ALLOCATION GUIDELINES

- + We have a neutral stance on stocks versus bonds for the remainder of 2023.
- + In equities, we remain roughly in line with the MSCI ACWI Index in terms of our regional exposures to the U.S., EAFE and EM (i.e., roughly 60% U.S. and 40% non-U.S.). Our EAFE allocation has worked well for us this year.
- + We have a modest over-weight in small-cap stocks in the U.S., EAFE and EM. While this trade has not been in favor in recent weeks, we think the relative valuation opportunity presented by small caps should be beneficial for patient investors.
- + Growth stocks dominate current market performance, and our embedded “tilts” toward value, size and dividends have not helped us this year (after dramatically outperforming in 2022). We also believe quality (companies with stronger earnings, cash flows and balance sheets) will become an increasingly important factor as recession fears and market uncertainty rise.
- + Within fixed income, we continue to slightly favor shorter duration and an over-weight in credit, with an emphasis on quality security selection. We continue to see opportunities in floating rate Treasuries as a way of accessing income without the volatility and high-yield corporate credit given the yield cushion currently offered.
- + We are neutral on the broader commodity complex due to a slowing global economy. We reduced our exposures within our Model Portfolios accordingly.
- + We continue to see value in alternative investment allocations for investors seeking to increase overall portfolio diversification and add in additional potential relative return drivers.
- + Generating relative and absolute returns will be key in 2023—that is, we believe the remainder of 2023 will present opportunities for advisors and investors to focus on “alpha generation” and not simply “beta wave” performance. Expectations for returns from traditional assets remain muted, given current rates, spreads and valuations and the ability of traditional diversified portfolios to achieve desired objectives. We are not bearish on the markets—we simply are uncertain this is the time to be taking overly aggressive active bets.

Glossary:

Alpha: Can be discussed as both risk-adjusted excess return relative to a specific benchmark, or absolute excess return relative to a benchmark. It is sometimes more generally referred to as excess returns in general. **Artificial intelligence (AI):** A field that combines computer science and robust datasets to enable problem-solving. **Balance sheet:** Refers to the cash and cash equivalents part of the current assets on a firm's balance sheet and cash available for purchasing new positions. **Basis point (bp):** 1/100th of 1 percent. **Bearish:** Characterized by or associated with falling share prices. **Beta:** A measure of the volatility of a security or a portfolio in comparison to a benchmark. In general, a beta less than 1 indicates that the investment is less volatile than the benchmark, while a beta more than 1 indicates that the investment is more volatile than the benchmark. **Brexit:** An abbreviation of "British exit" that mirrors the term Grexit. It refers to Britain's withdrawal from membership in the European Union. **Bureau of Labor Statistics (BLS):** A unit of the United States Department of Labor that measures labor market activity, working conditions, price changes and productivity in the U.S. economy to support public and private decision-making. **Buyback:** When a company uses its own cash to purchase its own outstanding shares; may positively impact the share price. **Buyback yield:** The amount of a company's buybacks divided by its market capitalization. **Commodity:** A raw material or primary agricultural product that can be bought and sold. **Core inflation:** Inflation excluding the impact of food and energy. **Corporate bond:** A debt security issued by a corporation. **Disinflation:** Term used to describe instances of slowing inflation, different from deflation in that price levels are still increasing overall, just at a slower rate. **Dividend yield:** A financial ratio that shows how much a company pays out in dividends each year relative to its share price. **Downside:** Currency depreciation. **Duration:** A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up. **Earnings growth:** The annual compound annual growth rate of earnings from investments. **Emerging market:** Characterized by greater market access and less potential for operational risks when compared to frontier markets, which leads to a larger base of potentially eligible investors. **Estimated P/E ratio:** Share price divided by estimated 12-month earnings per share. Lower numbers indicate an ability to access greater amounts of estimated 12-month earnings per dollar invested. **Federal Funds (Fed Funds):** Excess reserves that commercial banks and other financial institutions deposit at regional Federal Reserve banks. **Federal Open Market Committee (FOMC):** The branch of the Federal Reserve Board that determines the direction of monetary policy. **Federal Reserve (Fed):** The Federal Reserve System is the central banking system of the United States. **Futures market:** An auction market in which participants buy and sell commodity and futures contracts for delivery on a specified future date. **Gross domestic product (GDP):** The sum total of all goods and services produced across an economy. **Growth:** Style of investing emphasizing stocks with share prices typically higher in relation to financial metrics, such as dividends or earnings. **Hawkish:** Description used when worries about inflation are the primary concerns in setting monetary policy decisions. **High yield (HY):** Sometimes referred to as "junk bonds," these securities have a higher risk of default than investment-grade securities. **Inflation:** Characterized by rising price levels. **Initial public offering (IPO):** The first sale of stock by a private company to the public. **International Monetary Fund (IMF):** The International Monetary Fund is an international financial institution headquartered in Washington, D.C., consisting of 190 countries. **Investment grade (IG):** A rating that signifies a municipal or corporate bond presents a relatively low risk of default. **Market capitalization:** Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap. **Master limited partnership (MLP):** Investment structure where holdings typically must derive most of their cash flows from real estate, natural resources or commodities, combining the tax benefits of a partnership—taxes occur when holders receive distributions—with the liquidity of a publicly traded company. **Monetary policy:** Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates. **New York Fed's General Business Survey:** The monthly survey of manufacturers in New York State conducted by the Federal Reserve Bank of New York. **Personal Consumption Expenditure (PCE) Price Index:** A measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The core PCE Price Index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends. **Price-to-earnings (P/E ratio):** The ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS). **Price-to-sales (P/S) ratio:** Share price divided by per-share revenue. **Quality:** Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets and operating profitability. This term is also related to the quality factor, which associates these stock characteristics with excess returns versus the market over time. **Recession:** Two consecutive quarters of negative GDP growth, generally characterized by a slowing economy and higher unemployment. **Relative value:** The relationship between a particular attribute, e.g., a dividend, and the firm's share price compared to that of another firm. **Securitized:** A debt security whose value is backed by an asset or pool of assets such as a mortgage. **Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS):** A survey the Federal Reserve conducts to gain insight into bank lending practices and conditions. **Size capitalization:** A measure by which a company's size is classified. Large caps are usually classified as companies that have a market cap of more than \$10 billion. Mid-caps range from \$2 billion to \$10 billion. Small caps are typically new or relatively young companies and have a market cap between \$200 million and \$2 billion. **Spread:** Typically refers to a difference between a measure of yield for one asset class and a measure of yield for either a different subset of that asset class or a different asset class entirely. **Treasury (UST):** Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government. **Treasury bill:** A t-bill is a short-term debt obligation backed by the U.S. government with a maturity of one month (four weeks), three months (13 weeks) or six months (26 weeks). **U-3 unemployment level:** The official unemployment rate. It measures the number of people who are jobless but actively seeking employment. **U-6 partial employment level:** The percentage of workers who are involuntarily working at less than full employment. **Valuations:** Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive. **Value:** Style of investing characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the value factor, which associates these stock characteristics with excess returns versus the market over time. **Yield:** The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value. **Yield curve:** Graphical depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis. **Yield to worst:** The rate of return generated assuming a bond is redeemed by the issuer on the least desirable date for the investor.

Index Definitions:

Bloomberg U.S. Aggregate Corporate Index: A broad base, market capitalization-weighted bond market index representing investment grade corporate bonds traded in the United States. **Bloomberg U.S. Corporate High Yield Index:** Measures the USD-denominated, high yield, fixed-rate corporate bond market. **Case-Shiller Home Prices Indexes:** The Standard & Poor's CoreLogic Case-Shiller Home Price Indexes are repeat-sales house price indexes for the United States. There are multiple Case-Shiller Home Price Indexes: A national home price index, a 20-city composite index, a 10-city composite index and 20 individual metro area indexes. **Conference Board Consumer Confidence Index:** The monthly Consumer Confidence Survey®, based on a probability-design random sample, is conducted for The Conference Board by Nielsen, a leading global provider of information and analytics around what consumers buy and watch. The Conference Board is a global, independent business membership and research association working in the public interest. **Consumer Price Index (CPI):** A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. **Dow Jones FXCM Dollar Index:** The value of the United States dollar relative to a basket of four currencies: the euro, the British pound, the Japanese yen and the Australian dollar. **FTSE Emerging Markets Index:** A free float-adjusted market capitalization index that is designed to measure the equity market performance of emerging markets. **ICE US Dollar Index (DXY):** A leading benchmark for the international value of the U.S. dollar. **MSCI ACWI Index:** A free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. **MSCI EAFE Index:** A market cap-weighted index composed of companies representative of the developed market structure of developed countries in Europe, Australasia and Japan. **MSCI Emerging Markets Index:** A broad market cap-weighted index showing the performance of equities across 24 emerging market countries defined as “emerging markets” by MSCI. **NFIB Small Business Optimism Index:** The NFIB Research Foundation has collected Small Business Economic Trends Data with quarterly surveys since 1973 and monthly surveys since 1986. The sample is drawn from the membership files of the National Federation of Independent Business (NFIB). **Russell 3000:** Measures the performance of the 3,000 largest U.S. companies based on total market capitalization. **S&P 100 Index:** Refers to a subset of the S&P 500 Index that represents the leading stocks with exchange-listed options. **S&P 500 Index:** A market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee, designed to represent the performance of the leading industries in the United States economy. **S&P GSCI Index (Copper/Agriculture/Softs/Precious Metals/Non-Precious Metals/Energy):** A leading measure of general commodity price movements and performance over time. **U.S. Corporate Master Option-Adjusted Spread:** Uses an index of bonds that are considered investment grade (those rated BBB or better). When the last calendar day of the month takes place on the weekend, weekend observations will occur as a result of month-ending accrued interest adjustments. **U.S. High Yield Master II Option-Adjusted Spread:** The calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond's OAS, weighted by market capitalization. **Wilshire Liquid Alternative:** Measures the performance of a focused basket of mutual funds that provides risk-adjusted exposure to equity hedge, global macro, relative value and event-driven alternative investment strategies. **Zillow Rental Index:** Measures changes in asking rents over time, controlling for changes in the quality of the available rental stock.

IMPORTANT INFORMATION

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There are risks associated with investing, including the possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging or offshore markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Funds focusing their investments on certain sectors and/or regions and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility.

Dividends are not guaranteed, and a company currently paying dividends may cease paying dividends at any time.

Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. High-yield or “junk” bonds have lower credit ratings and involve a greater risk to principal. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline.

Diversification does not guarantee a profit or eliminate the risk of a loss.

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