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MARKET REVIEW
JUNE 2023

SMB Trust Services

DE-DOLLARIZATION EFFORTS

– The U.S. dollar has served as the world's dominant currency for global trade and finance for nearly 80 years.

– Concerns about dollar weaponization through sanctions led some emerging market countries to seek dollar alternatives.

– China's unwillingness to open its financial markets presents a major obstacle for the yuan to gain international traction.

The U.S. dollar has served as the world's dominant currency for global trade and finance since the 1940s. The dollar accounts for nearly 60% of global foreign exchange reserves and around 50% of global trade invoicing uses dollars. The dollar's central role in the global payment system enables the U.S. to wield unrivaled influence over other countries. The Biden administration's economic sanctions imposed on Russia last year, including freezing hundreds of billions of dollars of Russia's foreign reserves, was a startling reminder of foreign countries' reliance on the dollar.

Concerns about dollar weaponization through sanctions led Chinese President Xi Jinping to engage with other emerging market countries about exploring ways to circumvent the U.S. currency. Saudi Arabia and China have held talks to settle Chinese oil transactions using the yuan. Brazil and China have agreed to settle bilateral trade in their currencies. A meeting this month among finance ministers from the BRICS group (Brazil, Russia, India, China and South Africa) discussed how to boost their global influence and evaluated a proposal to create a shared currency. However, the shared currency proposal was met with skepticism given the likely challenges of coordinating across multiple central banks.

The diplomatic push in some countries to create non-dollar currency arrangements has raised questions about the dollar's durability as the world's top reserve currency. There may be limited cases of some countries partially replacing their use of the dollar and increasing the diversification of foreign exchange reserves. Yet, completely replacing the dollar in global trade and finance faces multiple challenges that make it unlikely to occur on a large scale over the next decade.

The biggest challenge to replacing the dollar is the lack of viable alternatives. Economists point to a few key factors that determine the usefulness of a currency for reserves and trade. These factors include the size and importance of the economy in international trade, the size and openness of financial markets, and convertibility of the currency. The euro is the closest alternative to the dollar, but several factors have limited its use. According to the National Bureau of Economic Research "there is an inadequate supply of high-quality euro-denominated assets that international investors and central banks can use as a store of value" and "there is no eurozone-wide "safe" government-backed asset." In 2018, the amount of marketable dollar-denominated U.S. government-backed debt was more than three times greater than euro-denominated marketable sovereign debt. The lack of policy coordination across eurozone countries and fragmentation risk are other criticisms of the euro. Fragmentation risk refers to the potential issue of one eurozone member's government debt crisis threatening the financial stability of the rest of the currency union such as the Greek government debt crisis in 2015.

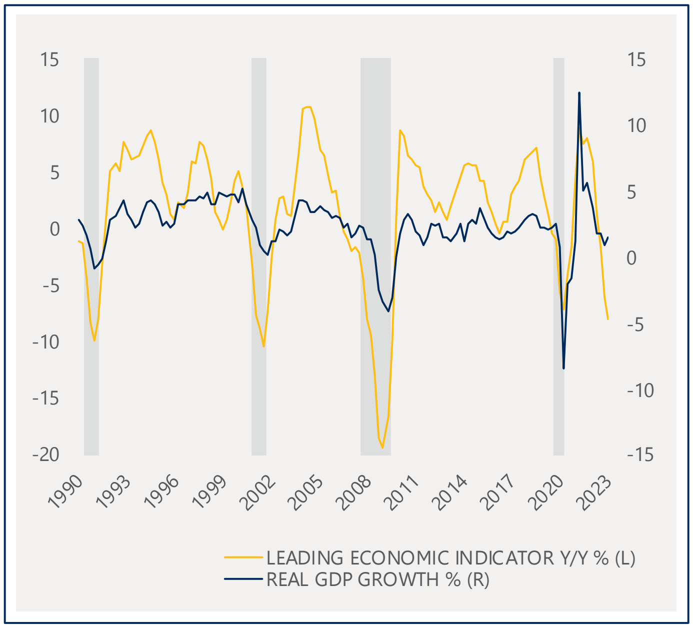
Despite China's ambition to increase the yuan's prominence in the world, the Chinese Communist Party's unwillingness to open its financial markets presents a major obstacle for the currency to gain traction. Trading partners that agree to settle transactions in the yuan will be exposed to China's capital controls that prevent capital from freely moving in and out of the country. Without open capital markets, the yuan is unlikely to earn the confidence of the global financial system to become a stronger reserve currency contender.

> "THE BIGGEST CHALLENGE TO REPLACING THE DOLLAR IS THE LACK OF VIABLE ALTERNATIVES."

Uprooting the current global monetary regime would likely require a huge momentum shift. Historically, shifting to a new global reserve currency has required a massive geopolitical or macroeconomic upheaval, rather than a slow accumulation of a few countries making alternative arrangements. The dollar replaced the British pound as the top reserve currency only after World War II reorganized the global power dynamic. The pound was the premier reserve currency in the 19th and early 20th centuries until two world wars reduced the U.K.'s economic influence. The dollar's top reserve currency status was cemented in the Bretton Woods agreement in 1944 that included 44 countries. Widespread international cooperation to adopt a new global currency order such as in 1944 is unlikely to occur anytime soon given that many countries have significant financial and geopolitical ties with the U.S.

MIXED SIGNALS

LEADING ECONOMIC INDICATOR INDEX DIVERGES FROM GDP



Source: Bloomberg. Grey shading indicates NBER-designated recessions. Past performance does not guarantee future results.

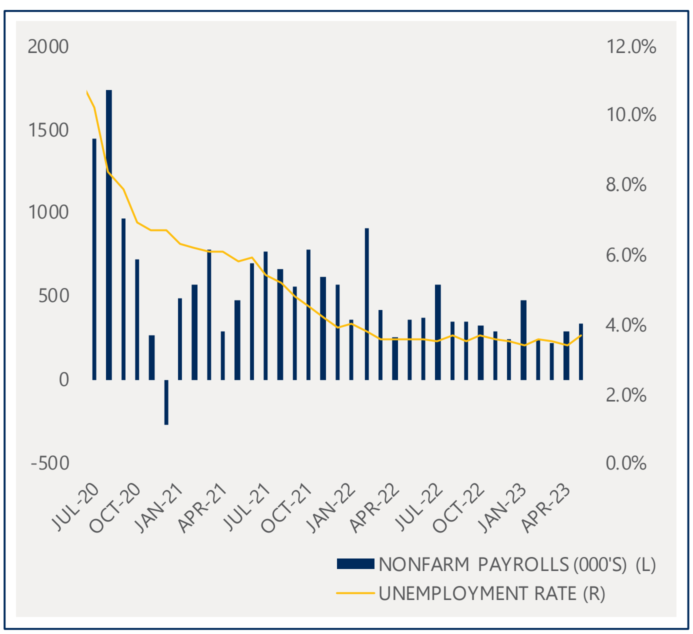
The Conference Board's Leading Economic Indicator Index has declined to levels typically associated with recessions, however, annualized gross domestic product has shown resilient economic growth. A Bloomberg survey of 43 economists shows the majority of respondents expect the U.S. economy to experience a recession in the next 12 months.

The LEI index has fallen for 13 consecutive months and is down 8.0% on a year-over-year basis in April. In each recessionary period shown on the chart, the LEI has turned negative shortly before the National Bureau of Economic Research (NBER) announced a recession was underway.

The current level of the LEI might be overstating economic weakness since it is heavily weighted towards the weaker manufacturing and goods sectors, while the services sector is stronger. Economists project U.S. economic growth will slow to 0.6% in the second quarter from 1.3% in the first quarter.

LABOR MARKET STRENGTH

JOB GAINS ARE MORE RESILIENT THAN EXPECTED



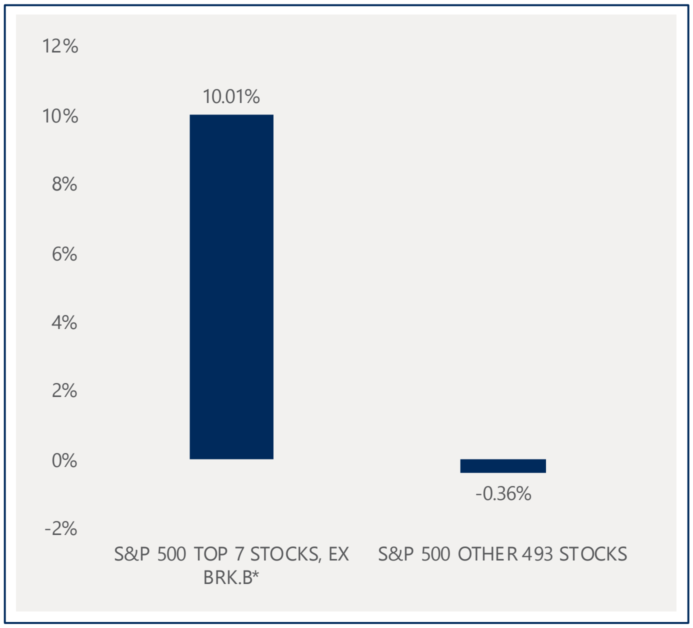
Source: Bloomberg. Past performance does not guarantee future results.

Although most labor market data are lagging indicators for the trajectory of the economy, the preponderance of employment data (monthly payroll additions, weekly jobless claims, JOLTS job openings, and average hourly wage growth) suggests there still might be too much labor demand for the economy to enter a recession imminently as some economists forecast.

The labor market's surprisingly strong 339,000 job additions in May easily exceeded economists' expectations. Job gains in the prior two months were revised higher by almost 100,000. Payrolls have risen faster than economists' estimates for 14 straight months, the longest streak on record. The unemployment rate ticked up to 3.7% in May from 3.4% in April but the increase was partly due to a decline in self-employed workers.

Job openings unexpectedly rose in April to 10.1 million after three months of declines. Job openings remained well above the 5.7 million workers looking for jobs. The quit rate continued to slow to 2.4%, a sign that the labor market is gradually cooling, but still remains above pre-pandemic levels.

MEGA CAP TECH DRIVES MARKET PERFORMANCE
CONTRIBUTION TO S&P 500 YTD RETURN



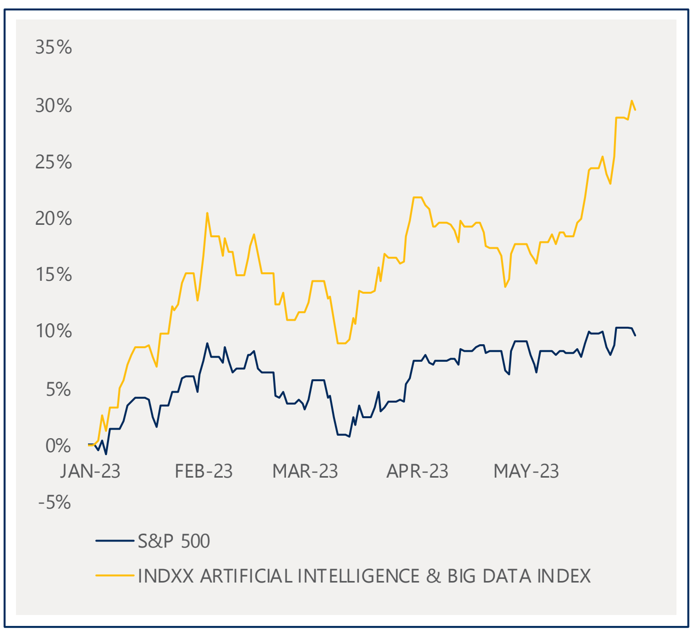
Source: Morningstar. Past performance does not guarantee future results.
*AAPL, MSFT, GOOGL, AMZN, NVDA, TSLA, META

U.S. large cap equities rose for a third consecutive month in May amid resilient economic data and enthusiasm for technology stocks with exposure to artificial intelligence. The S&P 500 index gained 0.43% in the month, which brought its return this year to 9.65%.

Market leadership this year has become increasingly concentrated in a few mega capitalization technology stocks and technology-adjacent stocks such as Google's parent company Alphabet (GOOGL) and Facebook's parent company Meta Platforms (META). The S&P 500's largest seven stocks, excluding Berkshire Hathaway, account for all of the index's performance this year, while the performance for the remaining 493 stocks is slightly negative. The average performance this year for the leading seven stocks is 72%. Shares of Nvidia (NVDA) and META are both up over 100% this year.

Emerging markets lagged in May as an 8.42% monthly decline in the MSCI China index offset strong performance in India, South Korea, and Taiwan stocks. China's weaker-than-expected economic recovery this year from easing its stringent COVID policies has disappointed investors.

STOCKS WITH AI EXPOSURE ARE OUTPERFORMING
YTD PERFORMANCE AS OF MAY 31, 2023



Source: Morningstar. Past performance does not guarantee future results.

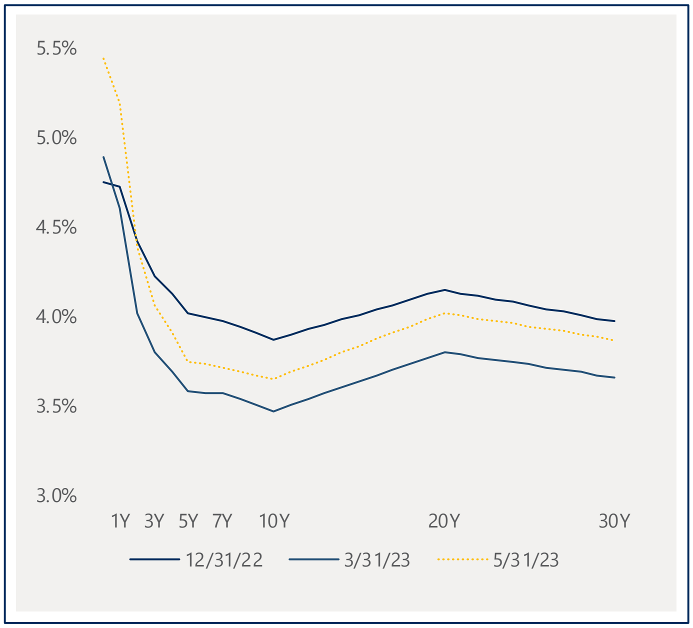
Artificial intelligence (AI) hype received a big boost in recent months from the rapid adoption of the generative AI app ChatGPT which reached 100 million downloads in just two months, a faster pace of downloads than both TikTok and Uber achieved. The swift rise of generative AI led to investors piling into shares of technology stocks that have exposure to AI. The Indxx Artificial Intelligence & Big Data Index, which tracks 85 stocks positioned to benefit from AI, is up 30% this year.

Shares of NVDA jumped 24% on May 25 after the company reported earnings and management provided a very optimistic growth projection for next quarter driven by growing demand for AI hardware including NVDA's GPU semiconductors. NVDA's management expects earnings to grow around 64% next quarter to $11 billion, well above the median analyst forecast for $7.2 billion.

Bloomberg's equity research analysts forecast generative AI could become a $1.3 trillion market over the next decade and eventually account for 10%-12% of total technology spending, up from less than 1% today.

SELECTED U.S. TREASURY YIELD CURVES

DECEMBER 2022 THROUGH MAY 2023



Source: Bloomberg. Data as of 5/31/23. Past performance does not guarantee future results

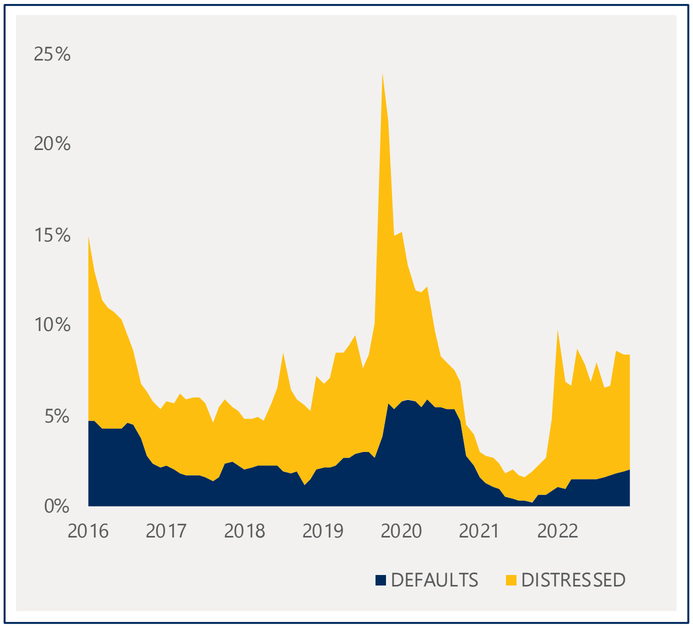
The U.S. Treasury yield curve shifted higher in May as investors repriced rates amid a cooling in banking sector stress and labor market data that was more resilient than expected. Market pricing in shorter-dated yields has come back in line with Fed messaging that its benchmark rate is likely to stay "higher for longer."

Yields on the policy-sensitive two-year Treasury note have climbed from a six-month low of 3.77% on March 24 to 4.5% in the first week of June. Ten-year yields have approached 3.8% in recent weeks after wavering between 3.3% and 3.6% from mid-March through mid-May.

Most parts of the U.S. Treasury yield curve remain inverted, with shorter-dated yields higher than their longer-dated counterparts. Yield curve inversions are typically interpreted as the collective bond market discounting an economic slowdown and a subsequent easing of monetary policy. The 2-year-to-10-year portion of the yield curve has been inverted since early July 2022.

U.S. HIGH YIELD BOND DEFAULTS AND DISTRESS

JUNE 2016 THROUGH MAY 2023



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

Speculative-grade U.S. credit markets experienced a three-week period of moderate stress following several regional bank failures in March but have proven more resilient than many investors expected after a challenging 2022. Corporate defaults are generally expected to increase over the next 6 to 12 months amid tightening bank lending standards and expectations of further pressure on corporate profits.

The proportion of the Bloomberg U.S. High Yield Index classified as defaulted in May was roughly 2%, or about $24.5 billion of the index's $1.27 trillion market capitalization. This is an increase from the sub-1% default rates seen for nine straight months from September 2021 to May 2022 but remains well below levels that exceeded 5% in the second half of 2020.

The percentage of high yield issues classified as distressed in the Bloomberg U.S. High Yield Index has wavered between 5% and 7% for the last 10 months. This is higher than the 4.2% median monthly reading over the last seven years but below the 10%-plus levels in the summer of 2016 and spring of 2020. Bonds defined by Bloomberg as "distressed" are those trading at option-adjusted credit spreads in excess of 10% relative to a similar maturity Treasury security.

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NOT A DEPOSIT	NOT FDIC INSURED	MAY LOSE VALUE	NOT BANK GUARANTEED
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY			