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MARKET REVIEW

FEBRUARY 2023

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SURGING U.S. DOLLAR RELENTS

Last year, the U.S. dollar experienced a historic rise to its strongest level since 1985. The Federal Reserve Trade-Weighted Broad U.S. Dollar index, which compares the dollar against 26 currencies, rose 10.25% during the first ten months of 2022 before giving back some of its gains over the following three months through the end of January. That was only the fifth time since the index's 1973 inception that the broad dollar index rose by double digits over a ten-month span. The other occurrences were in 2015, 2009, 1998, and the mid-1980s. The dollar's rise against the euro and Japanese yen last year were particularly notable. In 2022, the dollar strengthened 18.5% versus the euro intra-year, and for the first time in 20 years the dollar was more valuable than the euro (during most of September and October). Meanwhile, intra-year the dollar surged 30.5% against the yen to a 32-year high.

The primary catalyst for the strengthening dollar was the Fed's aggressive rate hikes. Tightening policies of the European Central Bank initially lagged the Fed, while the Bank of Japan still has barely taken a first step toward tighter monetary policy. The widening interest rate differentials between U.S. bond yields and other developed countries drove up foreign investor demand for assets funded by borrowing in foreign currencies. The dollar received additional support last year from foreign capital flowing to the U.S. for its currency safety and better near-term economic growth prospects amid the Russia-Ukraine war, European energy crisis, and China's stringent zero-COVID lockdown policy.

The dollar's abrupt increase created a currency mismatch problem for foreign governments and companies that borrow in dollars because it increased their debt payments in local currency terms. This is problematic for emerging market (EM) countries since some lenders prefer dealing in dollars to avoid the foreign exchange rate risk of being paid in more volatile EM currencies. The dollar's ascent also added to inflation pressures for foreign countries. If a foreign currency weakens relative to the dollar, many imports become more expensive and are likely to further stoke inflation in the foreign economy. This is particularly the case with commodities, which are mostly priced in dollars. Around 40% of global trade is priced in dollars, well beyond the U.S.'s 10% share of global trade. The International Monetary Fund estimates that a 10% dollar appreciation raises inflation by 1% in foreign countries. This relationship is relevant for EM nations that rely more than developed economies on dollar-invoiced imports.

EM central banks tried to limit the dollar's impact on their economies by deploying more than $300 billion of their foreign exchange reserves during the first three quarters of 2022. Central banks sometimes use their foreign exchange reserves to try to prop up their currencies by selling dollar reserves and buying their own currencies. Several EM currencies falling to record lows against the dollar last year, including the Indian rupee, Philippine peso, and Chilean peso, evoked painful memories of the Latin America debt crisis in the 1980s and Asian financial crisis in the late 1990s. Both were linked to dollar strength.

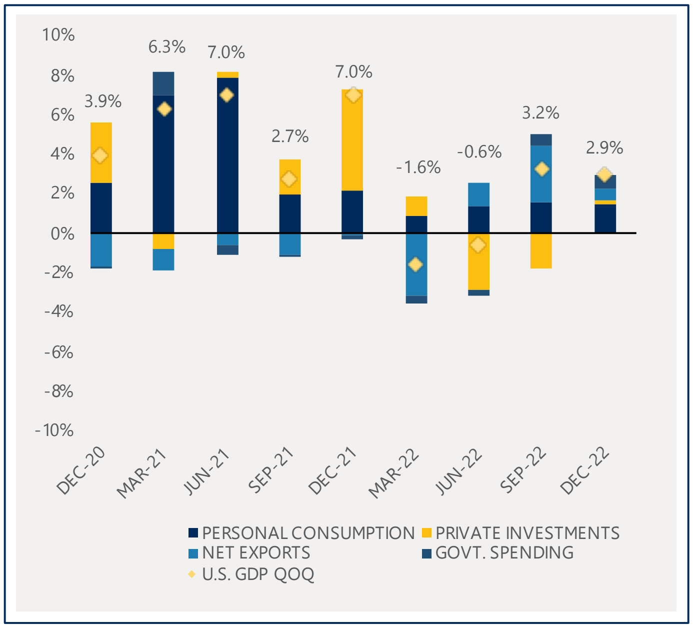
Another EM financial crisis induced by dollar strength is less likely to occur now since many EM countries have reduced their reliance on dollar denominated bonds. Foreign currency denominated bonds account for around 12% of EM sovereign and corporate debt, down from over 20% a decade ago. More severe financial stress from currency mismatches of foreign denominated bonds appears to be mostly contained to poorer countries struggling with internal fiscal challenges.

"FOREIGN SALES ACCOUNT FOR 29% OF S&P 500 REVENUE AND A 10% RISE IN THE DOLLAR REDUCES THE INDEXES' EARNINGS BY AN ESTIMATED 2.5%."

The dollar's appreciation is a double-edged sword for U.S. businesses because it lowers their import prices but also reduces multinational companies' earnings. A rising dollar makes U.S. exports more expensive for foreign buyers and lessens the value of domestic firms' foreign revenue when translated back into dollars for accounting purposes. According to Goldman Sachs equity research analysts, foreign sales account for 29% of S&P 500 revenue, and a 10% rise in the dollar reduces the indexes' earnings by an estimated 2.5%.

Cooling inflation starting late last year and investors' growing anticipation of a slowdown in the Federal Reserve's rate hike campaign contributed to the Fed's broad dollar index falling 6.22% over the last three months. Improving economic growth expectations outside the U.S., particularly China and Europe, was another catalyst for the dollar weakening. Further softness in the dollar would help flip the economic headwinds into tailwinds as currencies recover for foreign economies previously mentioned. The negative effects of the dollar may switch to the U.S. if a sustained dollar decline raises import prices enough to reignite supply side inflation pressures.

CONTRIBUTIONS TO % CHANGE IN GDP
4Q20 THROUGH 4Q22



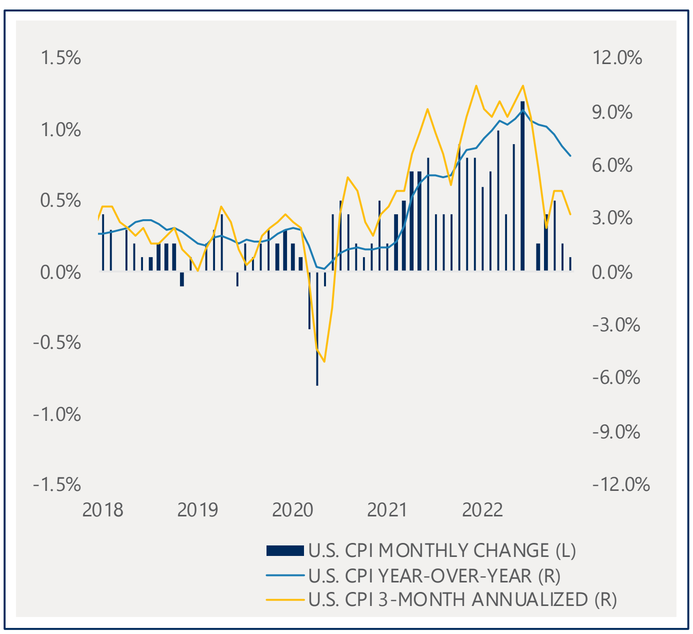
Source: Bloomberg. Past performance does not guarantee future results.

Gross domestic product (GDP) expanded at an above-trend 2.9% pace in the fourth quarter, showcasing the resiliency of the U.S. economy and consumer spending. This was slightly slower than the third quarter's 3.2% growth that was largely driven by exports.

Consumer spending, which accounts for around two-thirds of economic activity, rose 2.1% during the fourth quarter. Consumer spending is projected to slow this year as inflation and higher interest rates erode consumers' savings.

A large rebound in inventories brought the private domestic investment component of GDP back into positive growth territory (1.4%) after two quarters of large declines. Private investment is projected to return to negative growth during the next few quarters as housing investment declines and business spending slows.

SLOWING INFLATION
JANUARY 2018 THROUGH DECEMBER 2022



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

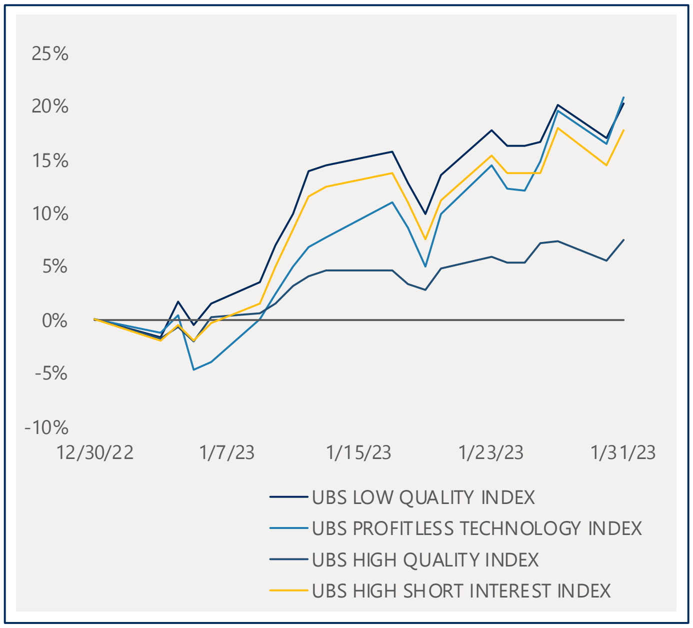
Headline inflation fell to 6.5% on a year-over-year basis in December from 7.1% in November. Core CPI (excluding energy and food) slowed to 5.7% in December from 6.0% in November.

Disinflation, a decelerating rate of inflation, materialized in the second half of 2022 largely due to lower prices for energy and durable goods. A deceleration in energy and goods inflation has been partially offset by an acceleration in services inflation, particularly as seen in higher housing costs.

An easing of pandemic-driven global supply chain constraints and a pivot in U.S. consumer spending from goods to services have led to disinflation across a growing number of categories including major household appliances and used cars.

LOW QUALITY RALLY IN JANUARY

UBS INDEXES JANUARY PERFORMANCE



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

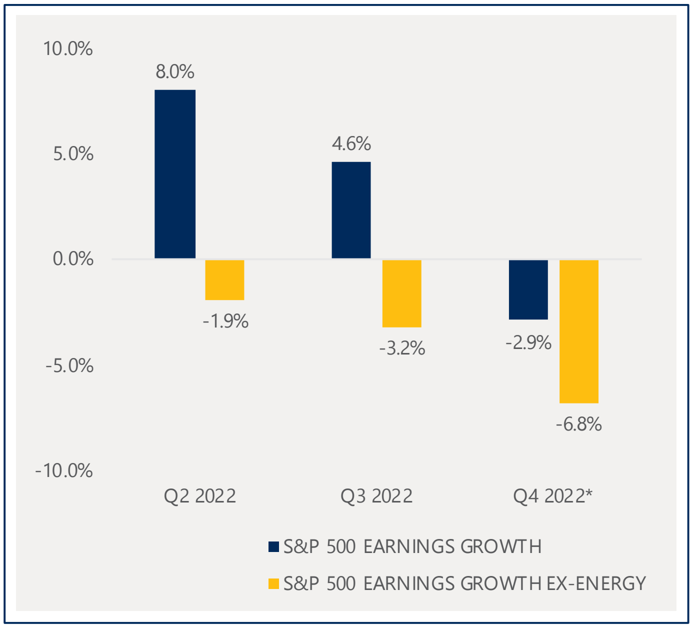
Global equities had a strong start to the year amid signs that inflation is easing and investors' expectations that the Fed's rate hikes might be nearing an end. The S&P 500 index gained 6.28% in the month, while the small capitalization Russell 2000 performed even better with a 9.75% return.

The January stock market rally was led by 2022's biggest losers including lower quality companies. The UBS Low Quality and UBS Profitless Technology indexes both gained around 20% in the month, after falling 40.65% and 64.49% last year, respectively. The UBS High Quality index gained a more pedestrian 7.50% in January following its 22.60% decline in 2022.

The strong rebound in heavily shorted stocks, as measured by the UBS High Short Interest index, suggests a short squeeze may have boosted performance for some areas of the market.

THIRD CONSECUTIVE EARNINGS DECLINE EX-ENERGY

S&P 500 QUARTERLY EARNINGS GROWTH



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

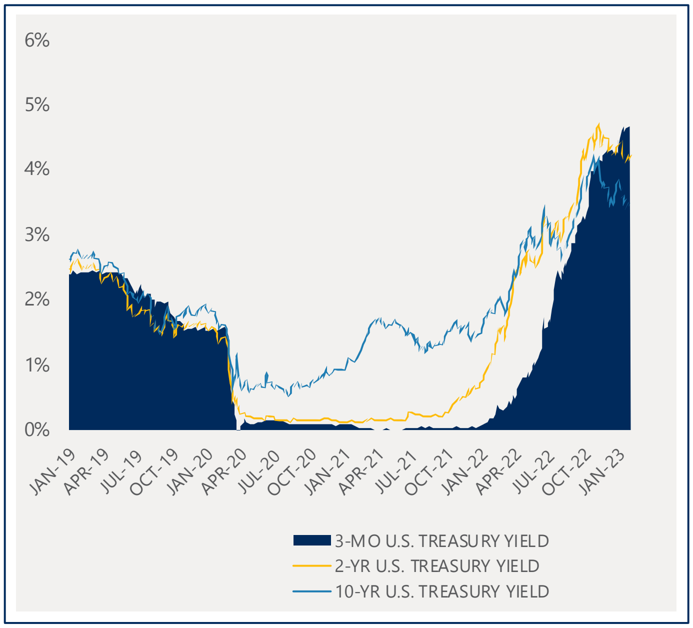
At the halfway mark of fourth quarter earnings reporting season, S&P 500 earnings growth is on pace for its first contraction (-2.93%) since 2020. This is slightly better than analysts' forecast for a 3.26% decline. Excluding outlier growth in the energy sector driven by higher oil prices, earnings posted a third consecutive quarterly contraction with a 6.82% decline.

Analysts' earnings forecast for 2023 was revised 2.6% lower in January. Analysts currently project an earnings rebound in the second half of this year will result in a modest 1.1% earnings contraction this year. However, earnings estimates could be dragged lower if a recession occurs.

Sales are holding up better than earnings. S&P 500 sales are on pace for 4.11% growth in the fourth quarter and are projected to maintain positive growth throughout this year.

FIXED INCOME

SELECTED U.S. TREASURY YIELDS
JANUARY 2019 THROUGH JANUARY 2023



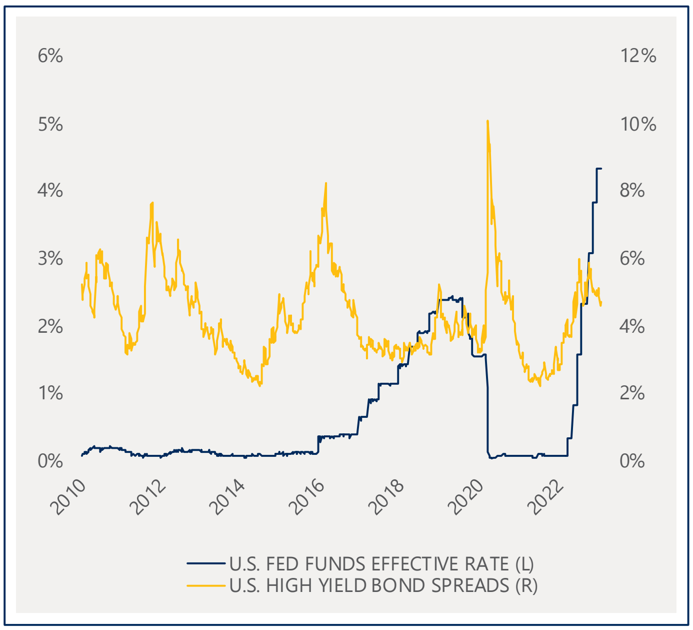
Source: Bloomberg. Data as of 1/31/23. Past performance does not guarantee future results.

Large parts of the U.S. Treasury yield curve have been inverted since last July as the Fed's aggressive tightening campaign has lifted yields on shorter-dated maturities substantially higher than their longer maturity counterparts.

The 3.68% rise in the policy-sensitive 2-year U.S. Treasury yield in 2022 was the largest annual increase since 1977. Bond market volatility was extreme last year. The yield on the 10-year U.S. Treasury note surged by more than 1.35% from March 3 (1.73%) through May 6 (3.13%) and again from August 1 (2.57%) through October 24 (4.24%).

In January, yields on the 2-year U.S. Treasury note fell 23 basis points to 4.20%, while yields on the 10-year U.S. Treasury bond declined 36 basis points to 3.51%. The 10-year yield has been in a range between 3.40% and 3.90% since early November.

FED POLICY RATE AND HIGH YIELD SPREADS
JANUARY 2010 THROUGH JANUARY 2023



Source: Bloomberg. Data as of 1/31/23. Past performance does not guarantee future results.

On February 1, the U.S. Federal Reserve's policy-setting committee raised its policy rate by 25 basis points to a range of 4.50% to 4.75% and signaled ongoing increases will likely be appropriate.

In recent weeks, many Fed officials have indicated the U.S. economy will likely require higher rates for longer to bring inflation back down to the central bank's average target of 2.0%. Market participants have begun to price in a higher peak rate in the Fed's current hike cycle and a longer period during which that peak rate remains in place.

High yield credit spreads, a key indicator of stress in the financial system, have narrowed more than 100 basis points from early October through the end of January as investors assigned higher odds of a "soft landing."

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