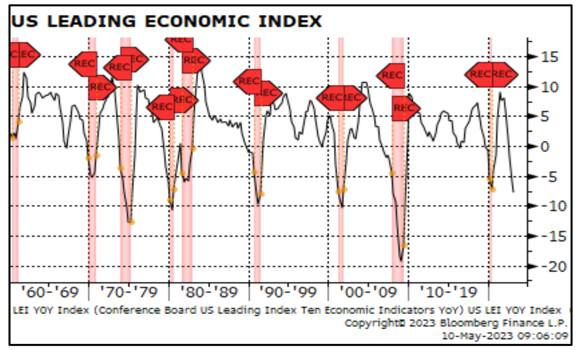
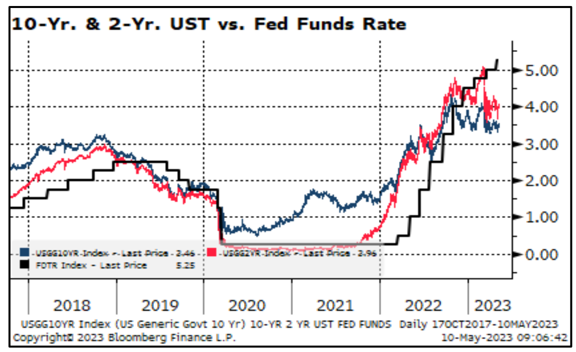
Executive Summary:

- Expect Washington to reach an agreement on the debt ceiling. No plans for extension.
- Fed likely done hiking short-term rates, but tight monetary conditions problematic for equities.
- Recommend a neutral duration and favor quality investment-grade corporate bonds and government debt.

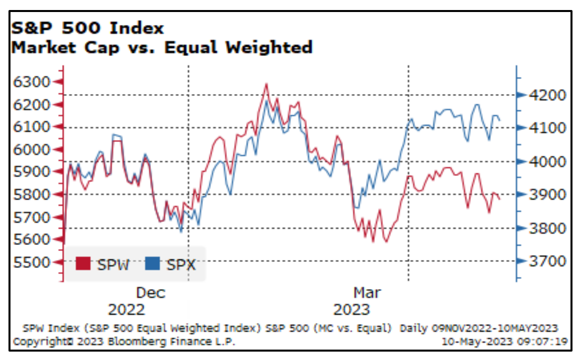
President Biden and House Speaker McCarthy are meeting for an agreement to raise the $31.4 trillion U.S. debt ceiling. This would allow the government to pay its bills and avoid the first-ever default on its debt obligations. Although unlikely, if the two sides cannot find a compromise, Congress may decide to extend the matter until its fiscal year end in September. Either way, despite the political posturing, both sides want to avert a global financial crisis that could cause unprecedented ramifications.



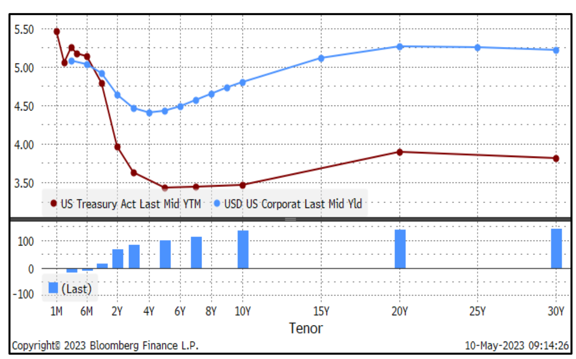
While the immediate concern has been the debt ceiling, investors' primary focus is determining the health of the U.S. economy. The odds of a recession remain elevated given the Fed's tight monetary policy. The Fed seems ready to pause after increasing its federal funds target rate ten consecutive meetings to 5.25%. "We're getting close or maybe even there," remarked Chairman Powell. We take them at their word when they say rates are going to stay higher for longer. Equity investors may be disappointed if the possibility of a rate cut in 2H 2023 or early 2024 gets diminished. But the rate of inflation is a long way from the Fed's 2% target.



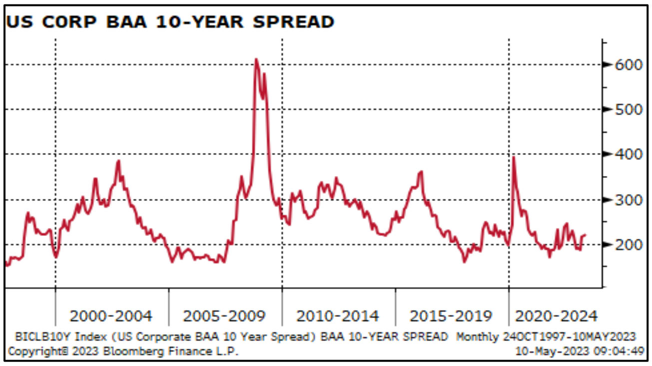
The S&P 500 Index is up more than 16 percent from its lows in October 2022, rewarding patient investors who were willing to tolerate the risk. We continue to be slightly cautious on stocks and believe they are vulnerable for a pullback as tight monetary conditions could be problematic. We would like to see the breadth of market participation in the current rally improve. The YTD total return for the S&P 500 Index is only 1.2% when calculated on an equal-weighted basis compared to 7.9% on a market-cap weighted basis. In addition, more than half of the constituents within the S&P 500 benchmark are below their 200-day moving averages.



We recommend a neutral duration relative to intermediate and longer-term benchmarks and continue to favor quality investment-grade corporate bonds and government debt. Corporate spreads have been widening given the mounting concerns for a recession.



But these spreads still do not reflect an economic downturn much worse than a mild recession. Alternatively, longer-term municipal bonds have become increasingly attractive for clients subject to higher tax rates.



SECTORS	2022	YTD	EQUITY INDICES	2022	YTD	COMM. & CURRENCIES	LAST CLOSE	YTD
S&P 500 COMM SVC	-39.89%	23.10%	S&P 500 INDEX	-18.13%	7.88%	WTI CRUDE FUTURE Jun23	73.71	-8.03%
S&P 500 CONS DISCRET IDX	-37.03%	14.94%	DOW JONES INDUS. AVG	-6.86%	1.94%	BRENT CRUDE FUTR Jul23	77.44	-7.99%
S&P 500 CONS STAPLES IDX	-0.62%	3.51%	NASDAQ COMPOSITE	-32.51%	16.70%	NATURAL GAS FUTR Jun23	2.27	-45.14%
S&P 500 ENERGY INDEX	65.43%	-7.16%	S&P 400 MIDCAP INDEX	-13.10%	1.12%	LME COPPER 3MO ($)	8,591.50	2.62%
S&P 500 FINANCIALS INDEX	-10.57%	-5.25%	RUSSELL 1000 GROWTH INDX	-29.14%	15.29%	Gold Spot $/Oz	2,031.32	12.03%
S&P 500 HEALTH CARE IDX	-1.95%	-2.17%	RUSSELL 1000 VALUE INDEX	-7.56%	0.37%	Silver Spot $/Oz	25.57	7.81%
S&P 500 INDUSTRIALS IDX	-5.51%	1.59%	RUSSELL MIDCAP RT INDEX	-17.33%	1.92%	Euro Spot	1.10	2.77%
S&P 500 INFO TECH INDEX	-28.19%	22.08%	RUSSELL 2000 INDEX	-20.46%	-0.18%	British Pound Spot	1.26	4.87%
S&P 500 MATERIALS INDEX	-12.28%	1.76%	MSCI ACWI ex US	-16.00%	9.10%	Japanese Yen Spot	135.20	-2.41%
S&P 500 REAL ESTATE IDX	-26.21%	0.94%	MSCI EAFE	-13.91%	12.08%	DOLLAR INDEX SPOT	101.61	-2.18%
S&P 500 UTILITIES INDEX	1.56%	-1.80%	MSCI EM	-19.81%	3.47%			

Source: Bloomberg As of: 5/10/2023

Bloomberg Barclays Bond Indices	2021 (Total Return)	2022 (Total Return)	YTD (Total Return)	Effective Duration	Avg. Maturity	Yield-to-Worst	Key Rates	
U.S. Aggregate	-1.54%	-13.01%	2.89%	6.54	8.63	4.42%	Effective Fed Funds	5.08%
Intermediate	-1.44%	-8.23%	2.78%	4.01	4.36	4.23%	2-yr Treasury	3.95%
Global Agg ex USD	-7.05%	-18.70%	3.26%	7.31	8.77	2.79%	10-yr Treasury	3.46%
Inv Grade Corporate	-1.04%	-15.76%	2.98%	7.39	11.02	5.26%	10-yr German Bund	2.30%
U.S. Corporate High Yield	5.28%	-11.19%	4.01%	4.22	5.29	8.61%	Prime Rate	8.25%
Tax Exempt								
Muni 1-10 Yr Blend (1-12)	0.54%	-4.84%	1.91%	3.64	5.93	2.87%		

Source: Bloomberg As of: 5/10/2023