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Meet the Experts: Market & Economy Update with Schwab

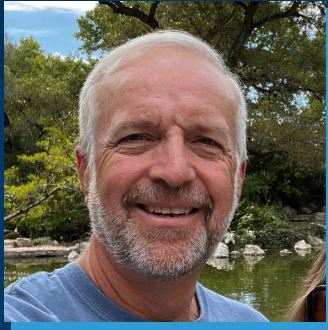
May 10, 2023



Speakers



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Investment Committee
Lead, Consultant
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Jeff Skubic
Director, Investment
Services
Charles Schwab

Agenda

- 01** Markets Overview
- 02** Banking Impact
- 03** Bond Market Dynamics
- 04** Economic Growth & Inflation

Capital Markets Summary

March 31, 2023

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Most asset classes saw positive returns in the quarter despite all the headline news around the Silicon Valley Bank collapse

U.S. Equity

Bank collapses overshadow positive returns

- The sudden collapse of Silicon Valley Bank and Signature Bank in early March sent shockwaves through the market. Despite the news, most equity markets showed resilience. The S&P 500 dropped 3.4% in the 3 trading days following the SVB news but returned 6.7% the remainder of March.
- Concern about systemic bank risk pushed the industry and Financial sector lower. 16 of 18 banks within the S&P 500 lost 12% or more after the SVB news.
- Investors turned to mega cap stocks as a response to the uncertainty, hoping for more stability from larger businesses with strong cash flows.

	March	Q1 2023
S&P 500	3.7%	7.5%
S&P Top 50	7.2%	12.9%
S&P Financials Sector	-11.6%	-5.6%
S&P 500 Banks	-18.8%	-12.3%

Non-U.S. Equity

International outperforms U.S. in Q1

- Fears that the U.S. banking crisis might quickly spread into a global banking crisis have been halted as European Banks outperformed U.S banks by about 10% in Q1. Regulators globally have enforced higher capital and liquidity ratios, and stricter lending standards, which have given global banks a more modest fallout from the turmoil.
- EM struggled to keep up with developed nations, as China's post-recovery data has shown mixed results. China lowered growth targets for 2023, but a low bar could leave room to exceed the target.

	March	Q1 2023
MSCI EAFE	2.5%	8.5%
MSCI Europe	2.4%	10.6%
MSCI EM	3.0%	4.0%
MSCI China	4.5%	4.7%

Treasury Yields

The unprecedented yield environment continued in March

- The Fed hiked 25 bps in late March as expected. The dot plot indicated an unchanged peak fed funds rate at 5.1%. The Fed will continue its quantitative tightening program, reducing its balance sheet by up to \$95 billion per month.
- Shortly after topping 5% for the first time since 2007, the 2-year Treasury Yield decreased 85 basis points in the following three trading sessions (3/08-3/10). The only previous move of this magnitude preceded the 1987 market crash.
- No companies with investment-grade credit ratings sold new bonds in the week of 3/13-3/17 for the first time since 2013.

	March	Q1 2023
Bloomberg Agg	2.5%	3.0%
Bloomberg Treasury	2.9%	3.0%
Bloomberg Corporate	2.8%	3.5%
Bloomberg High Yield	1.1%	3.6%

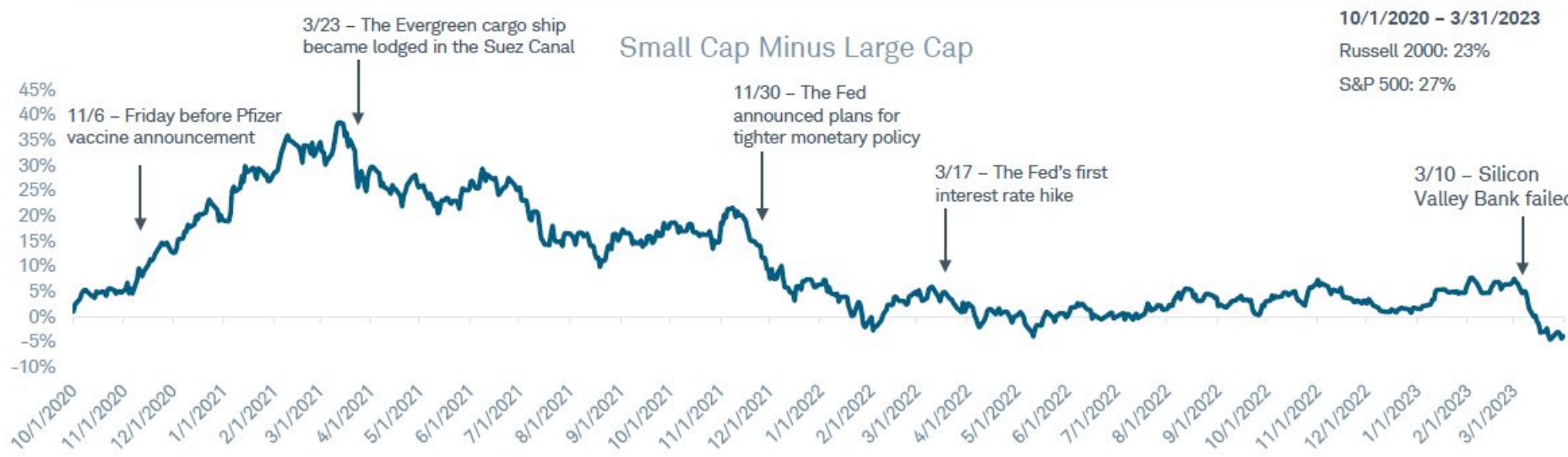
Performance and yields as of market close 3/31/23

*China represents ~32% of the MSCI EM Index

Source: Morningstar Direct and the U.S. Department of the Treasury

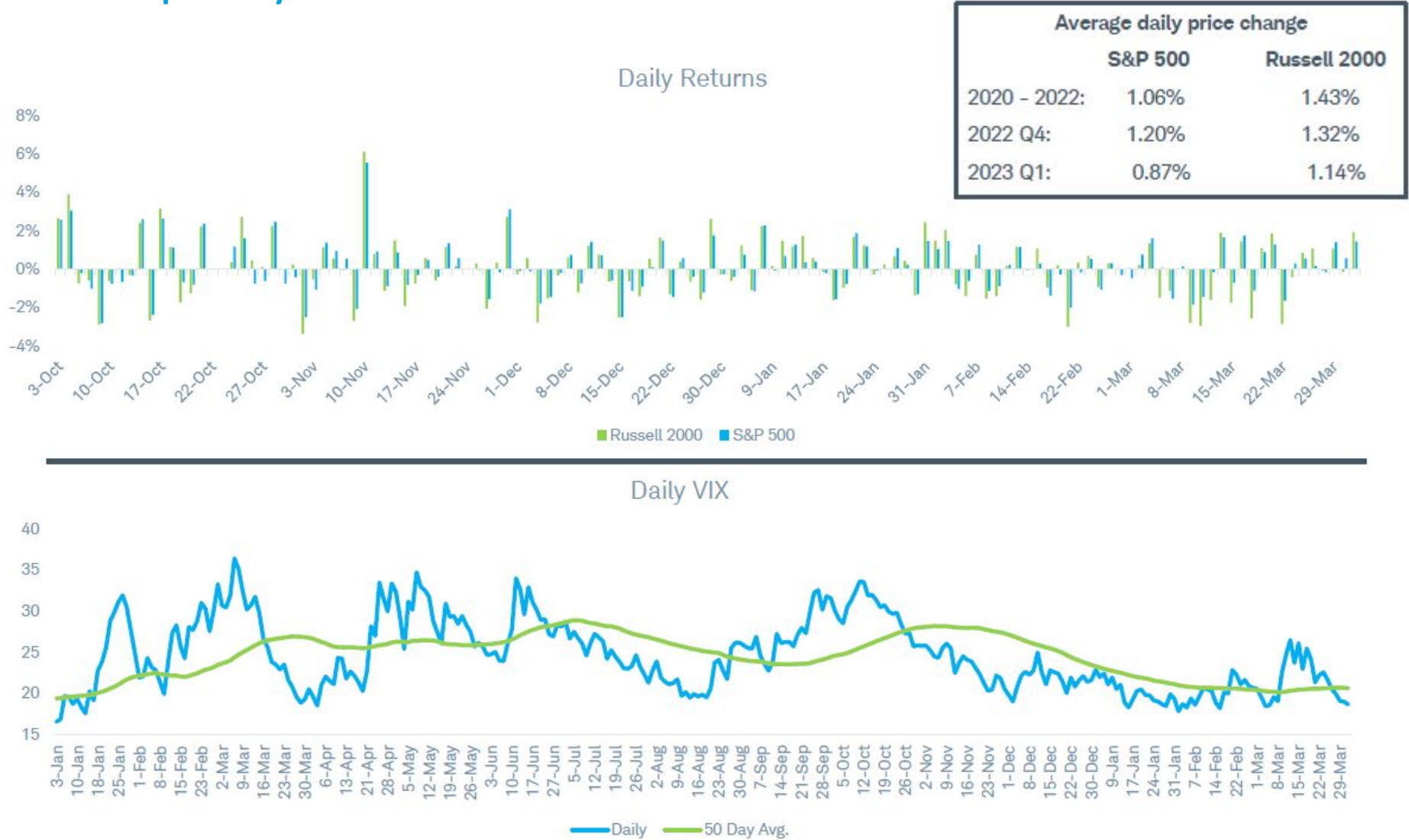
Past performance is no guarantee of future results

Following the constraints in the Financials sector in March, the outperformance of value over growth was stifled and large cap surpassed small cap



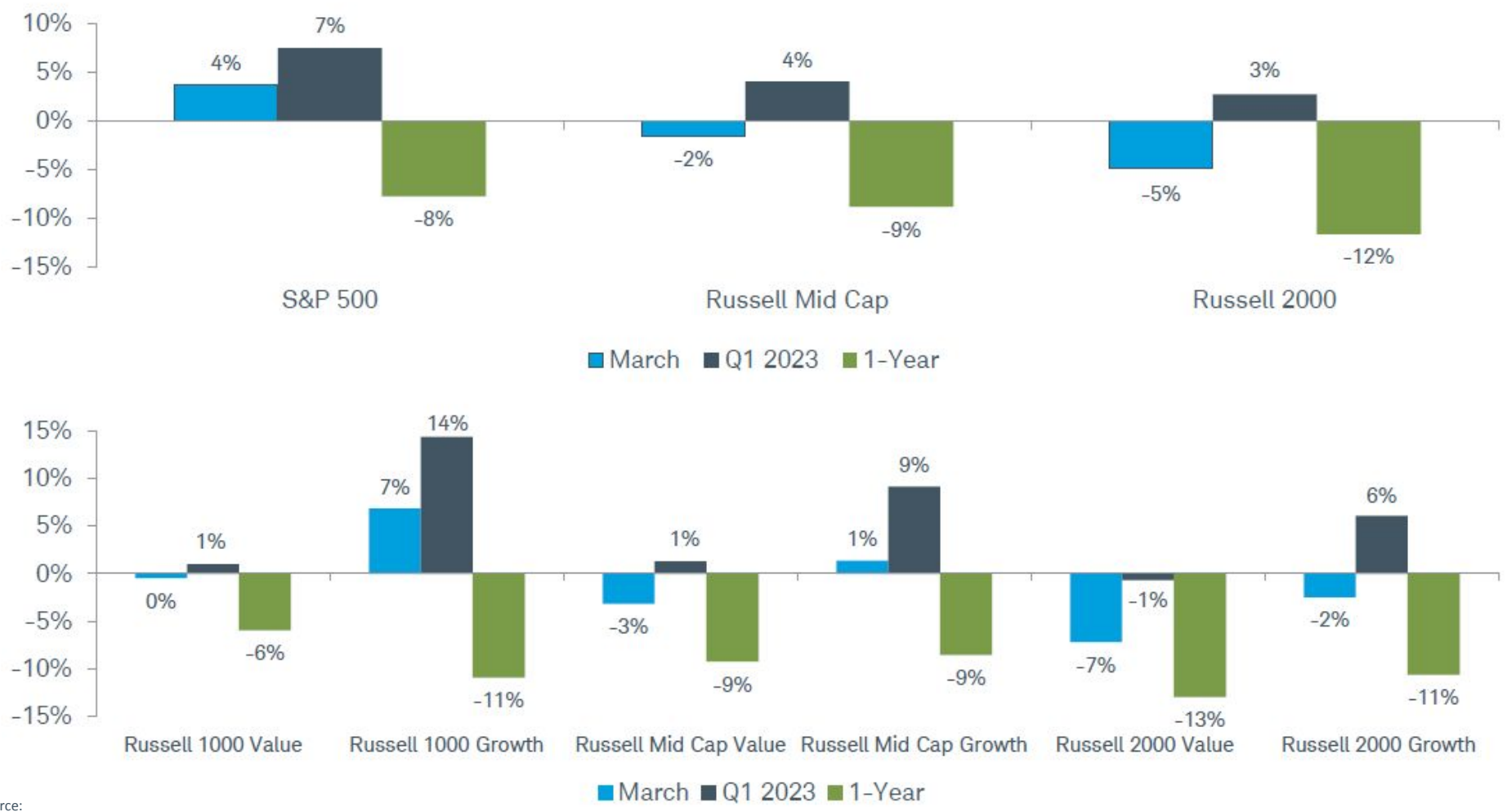
Performance as of market close 03/31/23 Source:
Morningstar Direct
Past performance is no guarantee of future results

Volatility escalated in the equity markets as the Financial sector faced liquidity concerns



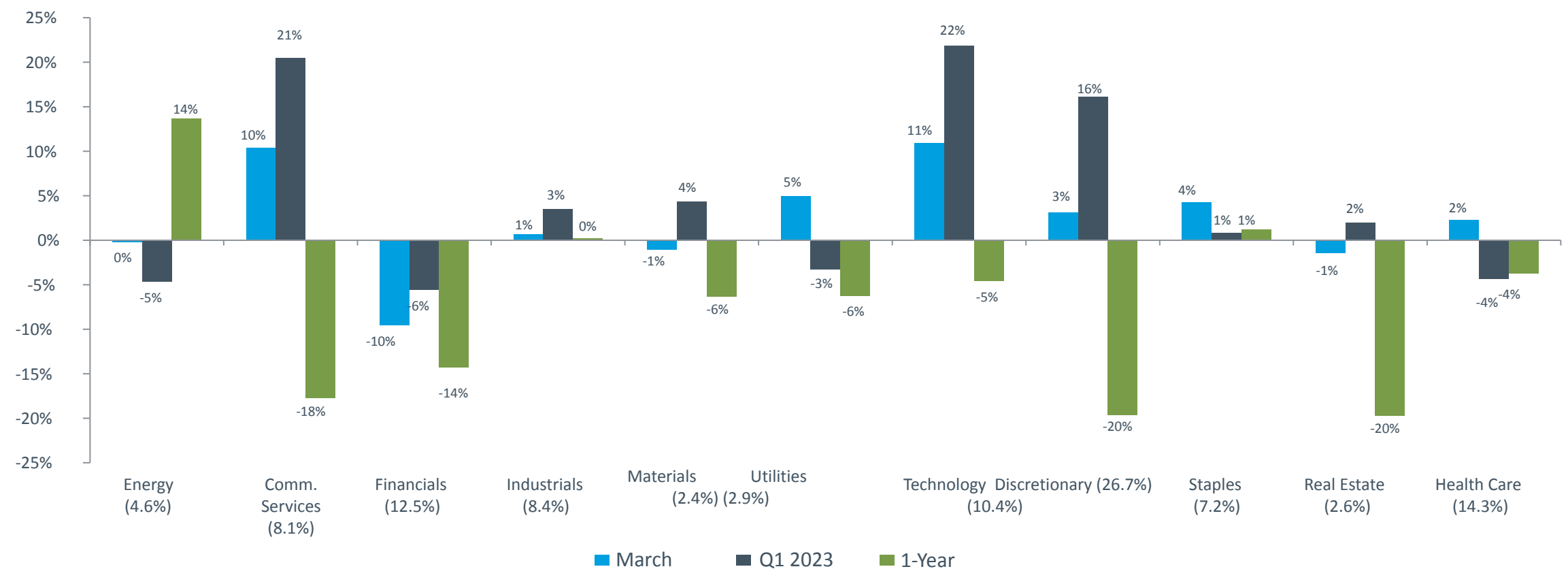
Performance as of market close 03/31/23
The CBOE Volatility Index (VIX) is a popular index that represents a measure of the stock market's expectation of volatility Source: Morningstar Direct and the Wall Street Journal
Past performance is no guarantee of future results

US equities were mostly positive in Q1 despite concerns around the banking industry. Larger weights in Financials and banks have led value indexes to lag their growth counterparts



Performance as of market close 3/31/23 Source: Morningstar Direct
Past performance is no guarantee of future results

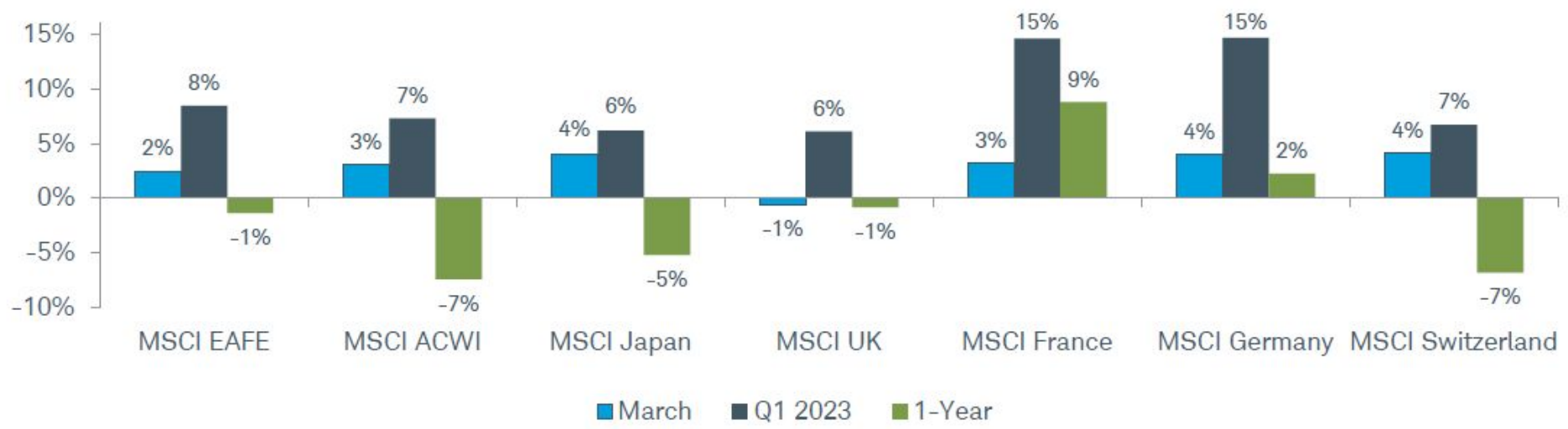
Financials was the worst performing sector in Q1 following the collapse of Silicon Valley Bank and Signature Bank. Sentiment shifted towards mega-caps concentrated in Technology (Apple, Microsoft) and Comm. Services (Google, Meta)



Energy: S&P 500 Sec/Energy, Commun Services: S&P 500 Sec/Commun Services, Financials: S&P 500 Sec/Financials, Industrials: S&P 500 Sec/Industrials, Materials: S&P 500 Sec/Materials, Utilities: S&P 500 Sec/Utilities, Technology: S&P 500 Sec/Information Technology, Cons Disc: S&P 500 Sec/Cons Disc, Cons Staples: S&P 500 Sec/Cons Staples, Real Estate: S&P 500 Sec/Real Estate, Health Care: S&P 500 Sec/Health Care

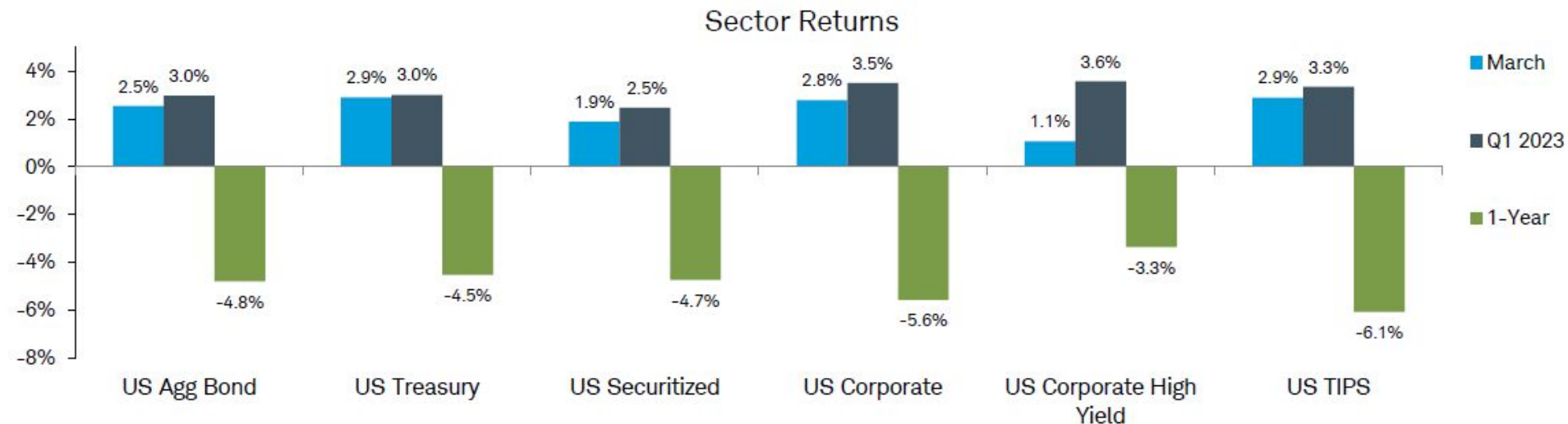
Performance as of market close 3/31/23
Sector weight data from iShares Core S&P 500 ETF Source:
Morningstar Direct
Past performance is no guarantee of future results

Slowing inflation, resilient growth in Europe, and a more modest fallout from the U.S. banking turmoil pushed international stocks to outperform U.S. stocks in Q1.



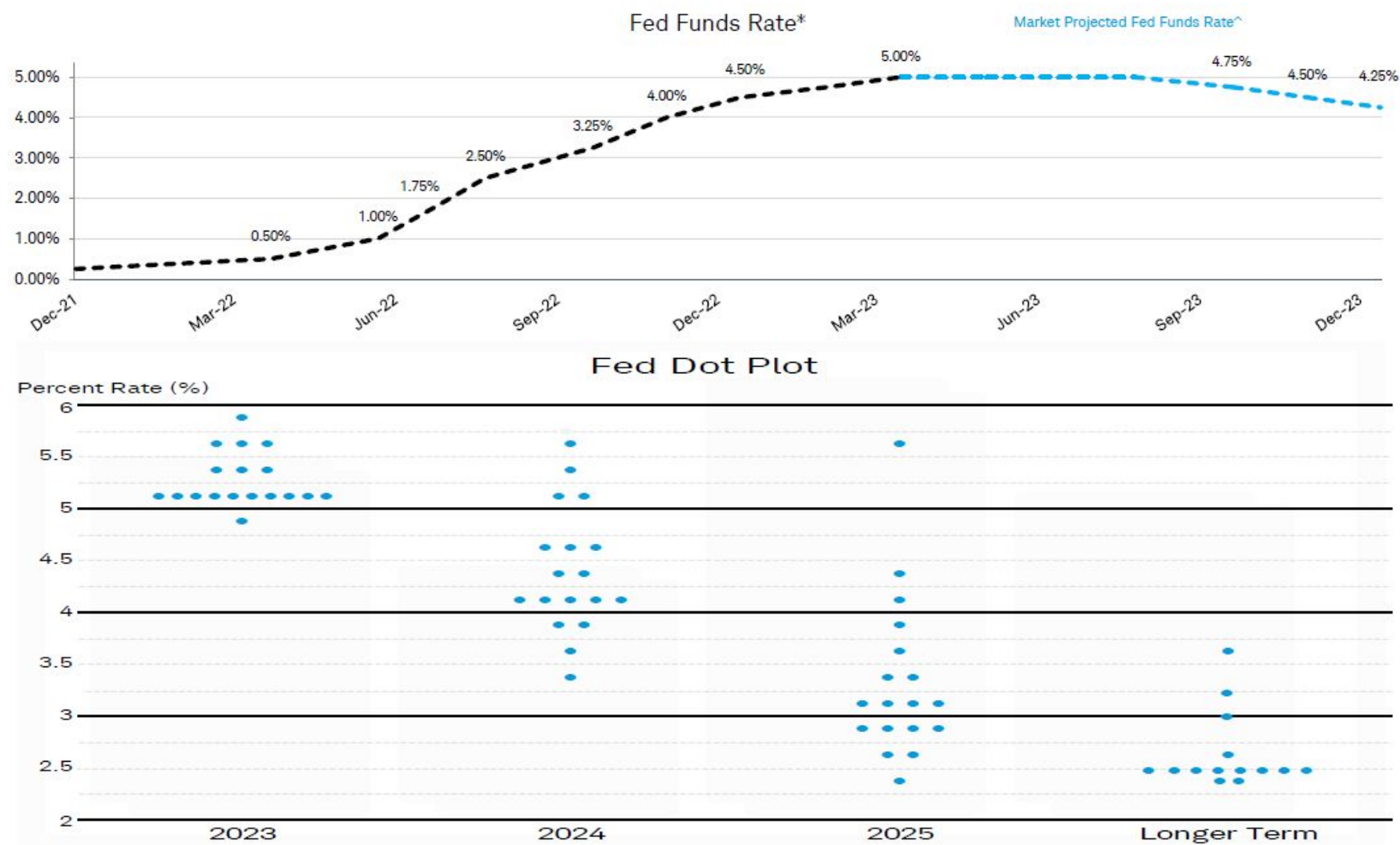
Performance as of market close 3/31/23
Country weight data from iShares MSCI Emerging Markets ETF Source: Morningstar Direct
Past performance is no guarantee of future results

2023 has been a bumpy ride for fixed income. After nearing cyclical highs in early March, Treasury Yields declined sharply driving positive returns for almost all sectors



Performance as of market close 3/31/23 Source:
Morningstar Direct
Past performance is no guarantee of future results

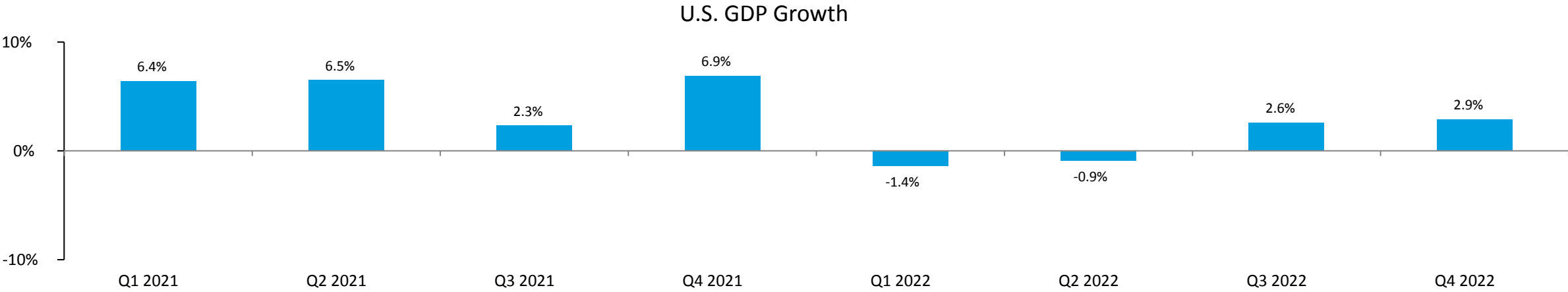
After a year of consistent increases, it's anticipated the Fed Funds Rate will level off around 5.00-5.25% in 2023 then decrease over the following couple of years



Source: Federal Reserve and CME FedWatch Tool
* The fed funds rate represents the upper end of the Fed's target range
^Projected Fed Funds Rate is the highest probability for each quarter end based on CME FedWatch Tool
Fed Dot Plot summarizes the Fed Funds Rate projections for each member of the Federal Open Market Committee

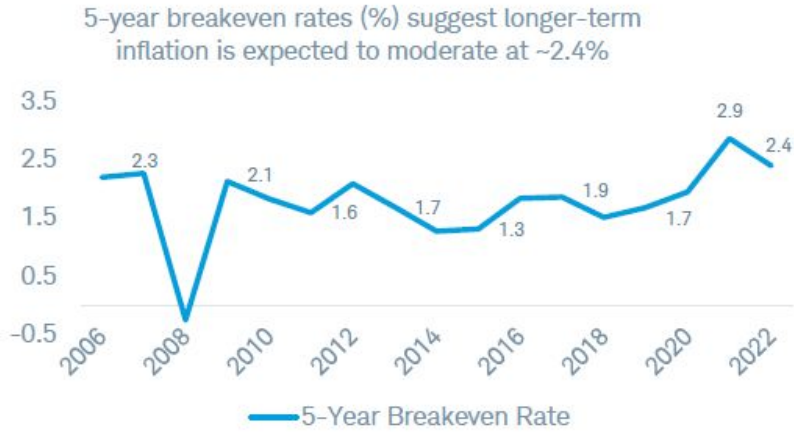
Widely followed U.S. economic data

Widely Followed U.S. Economic Data	Leading Economic Index	Consumer Price Index	*Retail Sales	Unemployment Rate	^Weekly Initial Jobless Claims	WTI Crude Oil Price (\$)
2/28/2020	112.1	2.3%	-0.5%	3.5%	217,000	44.8
9/30/2022	115.9	8.2%	0.0%	3.5%	219,000	83.6
10/31/2022	114.9	7.7%	1.3%	3.7%	218,000	86.5
11/30/2022	113.5	7.1%	-0.6%	3.7%	226,000	80.6
12/31/2022	109.6	6.5%	-1.1%	3.5%	206,000	80.3
1/31/2023	109.5	6.4%	3.0%	3.4%	183,000	78.9
2/28/2023	110.0	6.0%	-0.4%	3.6%	190,000	77.1

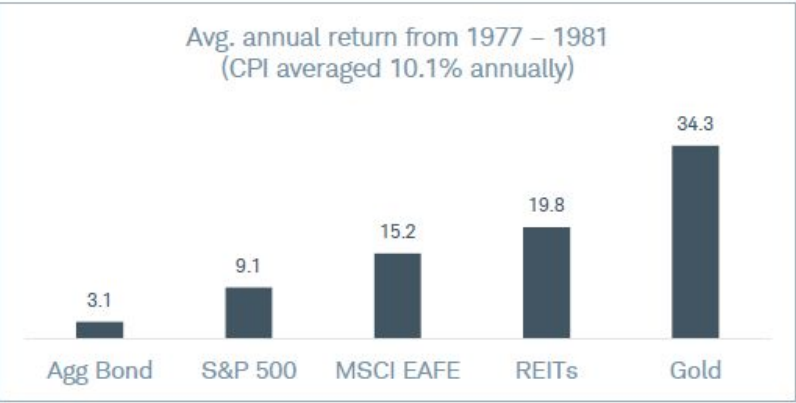


The Leading Economic Index uses values from 10 variables to forecast future economic activity
 CPI: Measure of individuals' cost of living changes and provides a gauge of the inflation rate related to purchasing those goods and services
 *Retail Sales: Represents a month over month percentage change
 ^Weekly Initial Claims represents last Saturday of the month
 Source: Federal Reserve Bank of St. Louis, The Conference Board, and Census.gov
 Past Performance is no guarantee of future results

Inflation remained elevated, but 5-year breakeven rates suggest inflation could moderate



Asset class returns represented below were positive during different periods when inflation was greater than 4%



Graph top right: FRED's 5-year breakeven inflation rate displays the difference between 5-year Treasury Bond and a 5-year TIPS Bottom charts: REITs: FTSE Nareit All Equity REITs TR USD, Gold: LBMA Gold Price PM USD

*Graph bottom right: There are 6 calendar years that exceeded 4% inflation: 1987 – 1990, 2007, and 2021 (inflation averaged 5.1% for these 6 years)
Source: Morningstar Direct, Federal Reserve Bank of St. Louis, The Conference Board, and Census.gov; CPI and breakeven rates through 03/31/2023

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