PORTFOLIO REVIEW

Q1 2023

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EXECUTIVE SUMMARY

We continue to anticipate that the ongoing Fed tightening, albeit at a slower pace during 2023 versus last year, will result in a slowing of the economy, inflation, and corporate profits. While the Fed's efforts are slowly bringing inflation down, they will also slow the economy, perhaps more so than expected, possibly leading to a recession. As such our overall defensive market posture remains a key part of our portfolio strategy, at least for now.

ECONOMIC AND MARKET OUTLOOK

Last year, we mentioned that the Fed policy of rapid tightening also increased the risk of something breaking in our economy. The outlook for 2023, we argued, is like seeing through a dense fog. Although we didn't predict bank runs specifically, something did indeed break — the sudden failure of two US banks (Silicon Valley Bank and Signature Bank) during March. The banks have subsequently been shored up quelling contagion for now. Ample liquidity and reassurances have been provided by the Fed and US Treasury which has, in turn, prevented additional bank runs. Market volatility has also settled down.

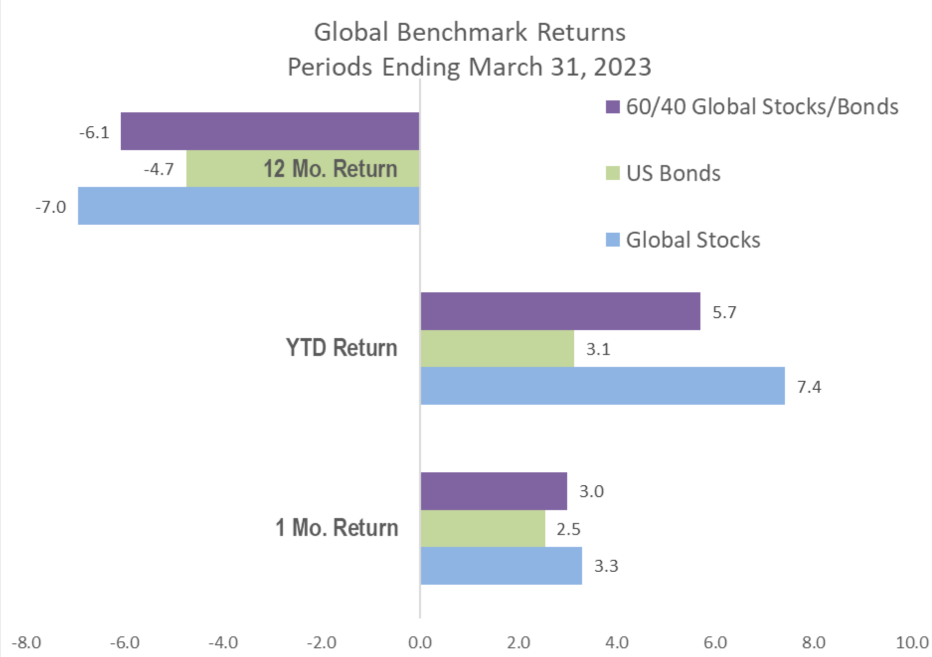
With this backdrop, our view remains that the Fed tightening over the past year (both higher rates and a reversing of quantitative easing) will continue to weigh on global economic activity, prompting global growth and inflation to continue to cool down. Perhaps the Fed will accomplish their goal of an economic "soft landing." However, as we argued in our prior letter, overall risks remain to the downside. As such, Vesteer portfolios remain defensively positioned overall, meaning less exposure to risky assets versus our typical 60/40 portfolio benchmark.

VESTEER PORTFOLIOS

As readers are aware, we defensively positioned Vesteer portfolios over the past year by tilting towards lower risk, higher quality stocks and bonds, and adding gold, inflation protected Treasuries, and commodities to protect against rising inflation.

We discussed in our year-end 2022 report how this strategy worked well during the market downturn of 2022. However, it has not worked as well so far this year as risk assets have rallied, with global stocks rising 7.3% during Q1 as measured by the MSCI ACWI (All Countries World Index). The Bloomberg Barclays Bond Index also gained 3.0%. The combined stock/bond portfolio as measured by the usual 60/40 stock/bond benchmark portfolio rose 5.6% during Q1 2023 and the 50/50 portfolio gaining a similar 5.1%.

Figure 2: Global Benchmark Returns



Source: Vesteer Wealth Mgt analysis using data from Morningstar. Returns beyond one year annualized.

The portfolios shown are hypothetical portfolios and do not necessarily represent any actual Vesteer portfolio or strategy. The results are hypothetical and are not an indicator of future results and do not represent returns that any investor might actually achieve. Indexes are unmanaged, do not reflect management or trading fees, and one cannot invest directly in an index. Purchases are subject to suitability. This requires a review of an investor's objective, risk tolerance, and time horizons. Investing always involves risk, whenever you invest you are at risk of loss of principal as the market fluctuates. Past performance is not indicative of future results.

Vesteer client portfolios also increased during 2023 Q1, but less so than the 60/40 stock/bond benchmark. Vesteer client portfolios rose between 3.0% and 3.5% during Q1, resulting in underperformance about 2.0% versus the 60/40 benchmark after subtracting advisory fees and fund expenses. The lower relative return for the quarter comes from our defensive posturing versus the benchmark.

As we've discussed before, our portfolio approach adjusts our long-term strategic global diversified portfolio by tilting over the medium to long-term towards areas of the market we view as potentially offering the best return for the risk taken. Our goal over the long term is to grow and preserve your wealth.

For now, we are maintaining our defensive posture in the face of continued heightened economic uncertainty. Our approach will hopefully continue to provide some upside while offering downside protection should a recession unfold in the coming months. We take seriously our responsibility to help our clients grow and preserve their wealth over the long term and will adjust accordingly should our outlook change.

Though we spend a majority of our quarterly updates on a market review and outlook, it is important to note that we also seek to add value by going beyond managing your investment portfolio to fully support all of your financial planning needs. Please reach out to us if we can ever be of service to your long-term financial success.

As always, thank you for your trust. We wish everyone a happy and prosperous 2023!

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