



# Market Review & Outlook

## Second Quarter 2023

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# Summary

**1** Economic growth remains resilient in the face of significant tightening from the Federal Reserve.

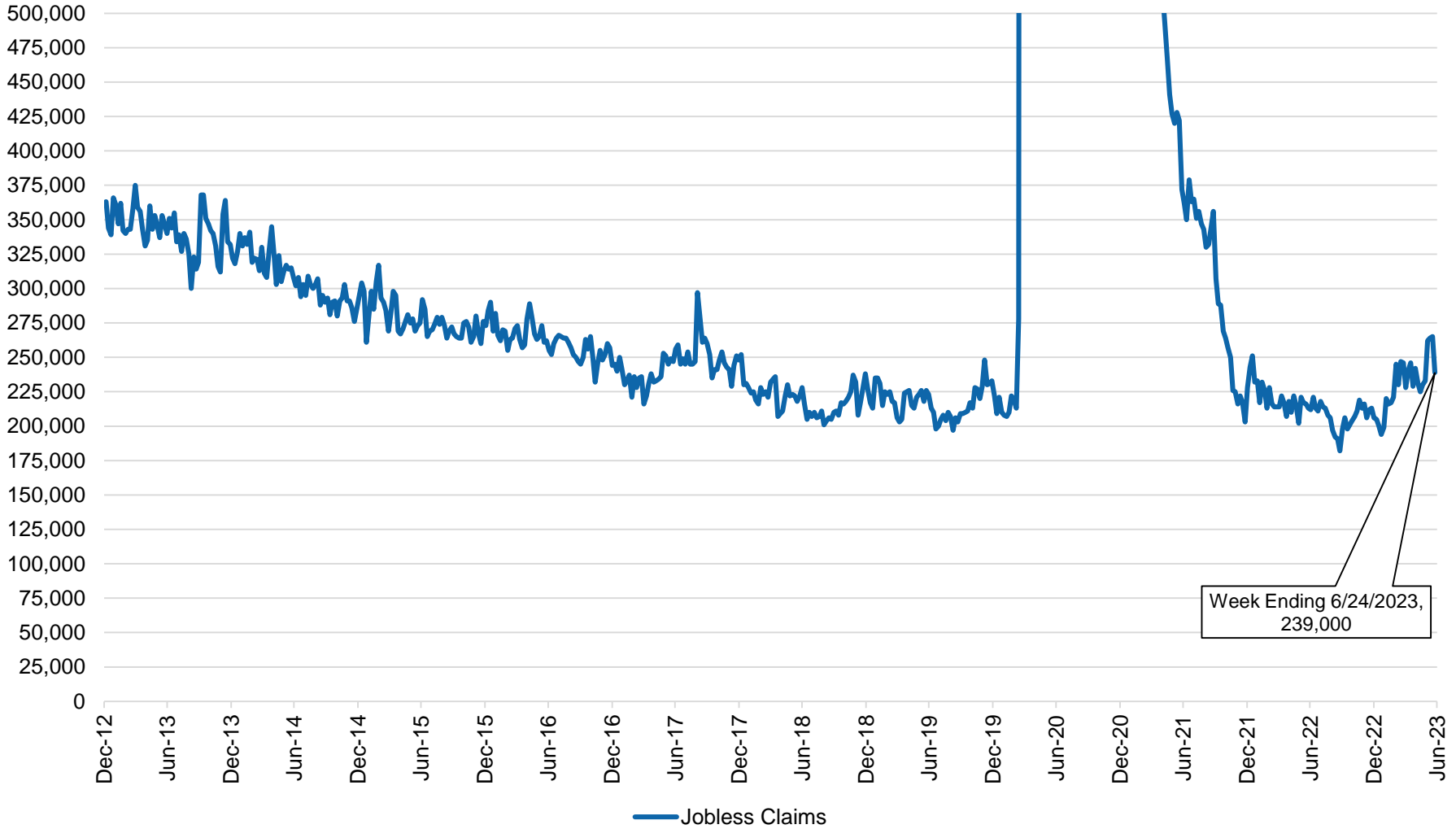
**2** The U.S. consumer continues to support the economy. Wages and employment remain strong as headline inflation has slowly decelerated.

**3** Financial markets have consistently underestimated the stickiness of core inflation. The Federal Reserve will likely hold financial conditions tight to ensure inflation slows.

**4** Equity markets appear to be pricing in a soft landing or perhaps no landing at all, despite growing signs of broad economic weakness and a continued firm Fed hand.

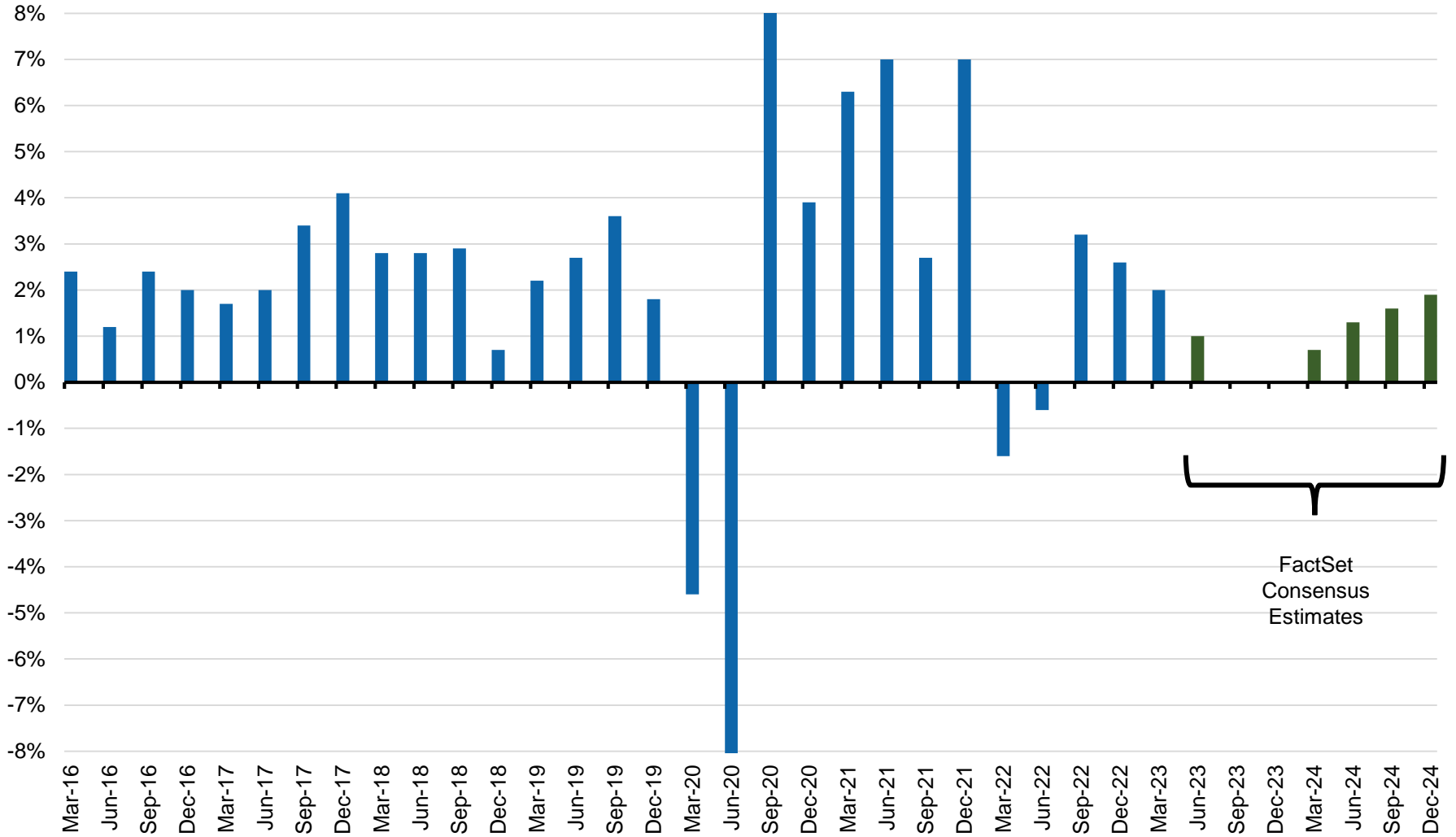
**5** Given that a recession is not priced into financial markets and stock valuations have limited upside from here, we remain cautious on equities. High quality fixed-income markets seem to provide better risk-adjusted return opportunities at the moment.

# U.S. Employment : Jobless Claims



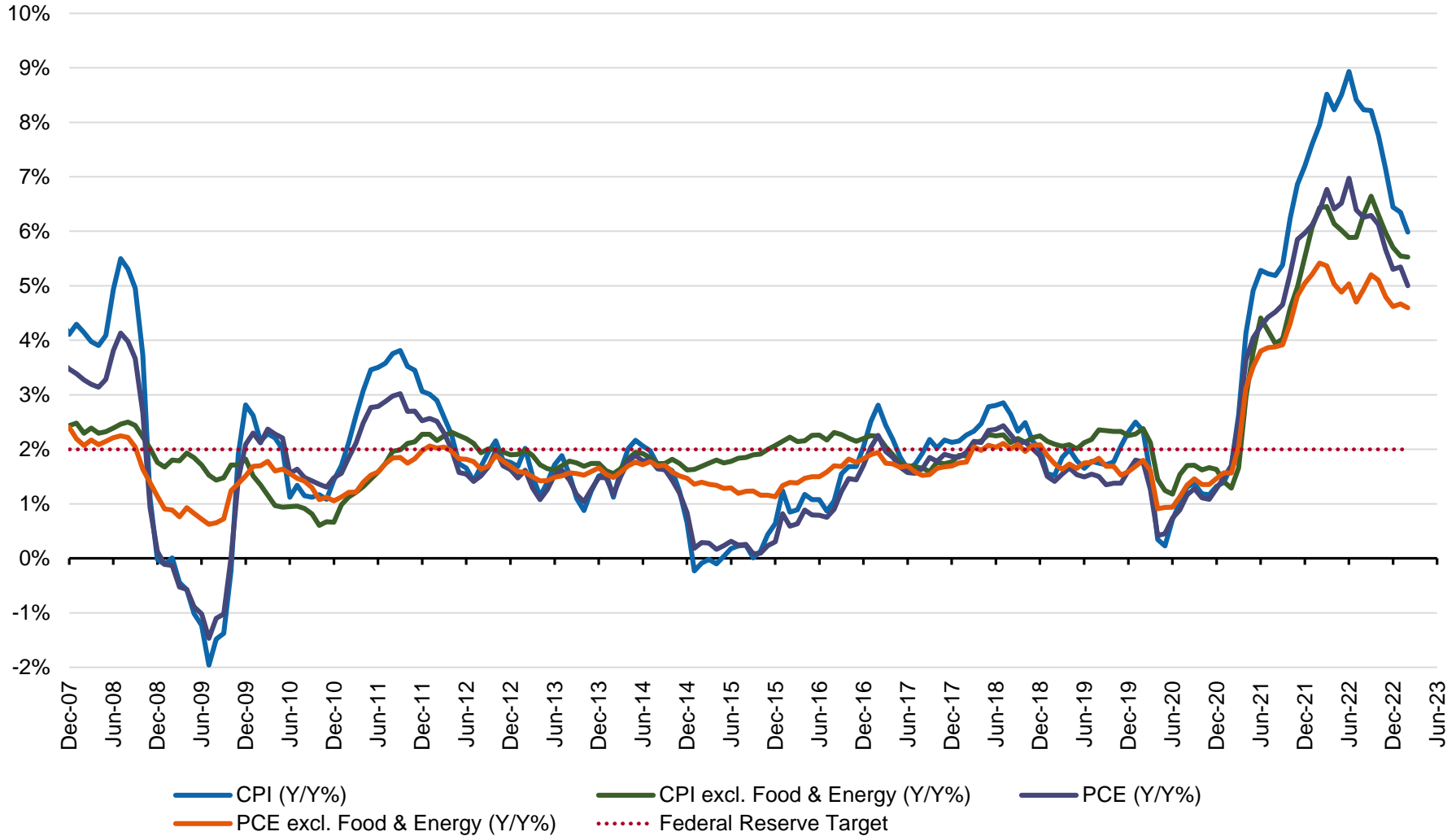
Source: U.S. Employment and Training Administration, FRED. As of 6/24/2022.

# U.S. Real GDP Growth (Q/Q Annualized % Change)



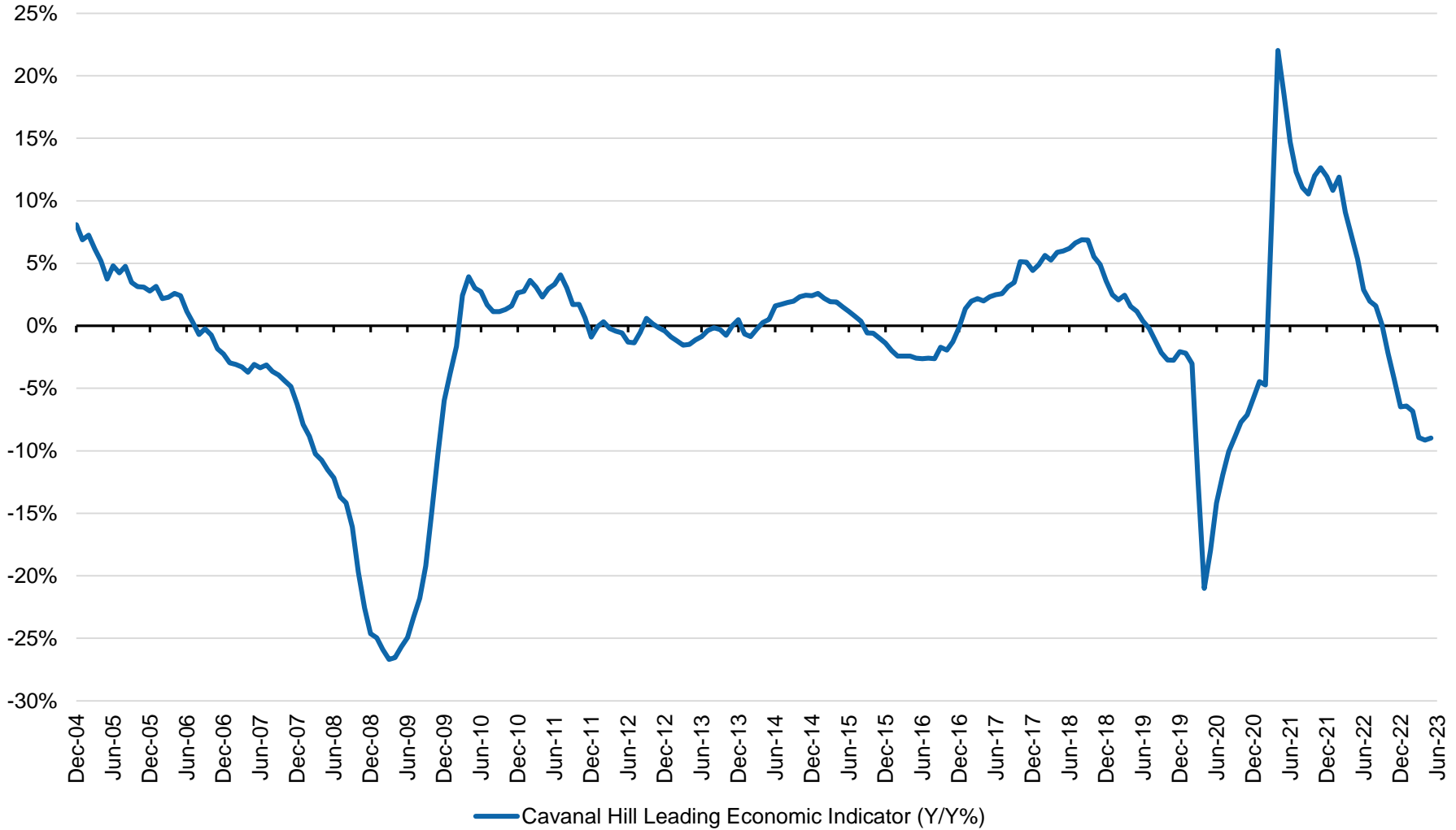
Source: U.S. Bureau of Economic Analysis, FRED, FactSet. As of 6/30/2023

# U.S. Headline and Core Inflation



Source : US Bureau of Economic Analysis, US Dept. of Labor, FactSet. As of 5/31/2023.

# Caval Hill Leading Economic Indicator



Source : Caval Hill, Bloomberg. As of 5/31/2023. <sup>2</sup>See appendix for indicator description.

# Broad Asset Classes

# Market Performance

	2Q2023	Last 12 Months
<b>Headline Index Returns</b>		
NASDAQ Composite	13.05%	26.14%
Russell 1000 Growth	12.81%	27.11%
S&P 500	8.74%	19.59%
Russell 1000	8.58%	19.36%
Russell 2000	5.21%	12.31%
Russell 800 MidCap	4.76%	14.92%
Russell 1000 Value	4.08%	11.54%
Dow Jones Industrial Average	3.97%	14.23%
MSCI EAFE	3.22%	19.41%
Barclays Global High Yield Fixed Income	2.02%	10.50%
MSCI Emerging Markets	1.04%	2.22%
Barclays U.S. Aggregate Fixed Income	-0.84%	-0.94%
Barclays Global Aggregate Fixed Income	-1.53%	-1.32%

\*Sorted by Quarterly Returns

Source : S&P Dow Jones Indices, FTSE Russell, MSCI, NASDAQ, FactSet. As of 6/30/2023.

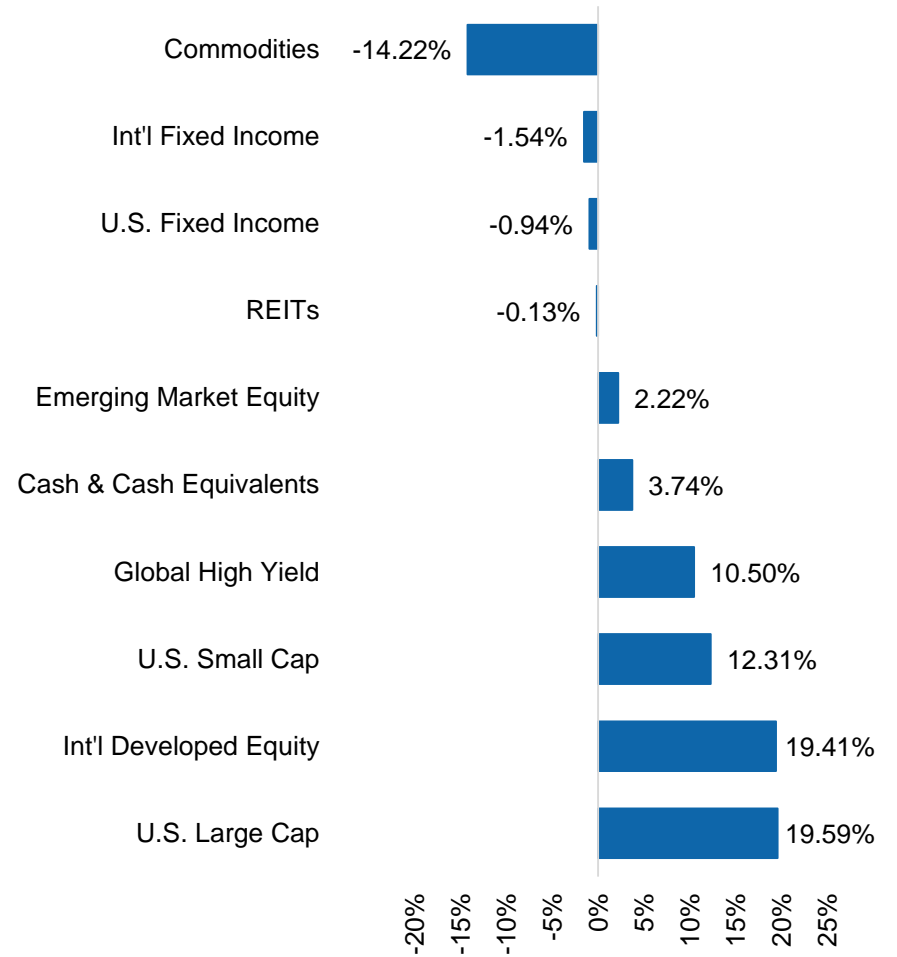


# Asset Class Returns

## Quarterly Returns

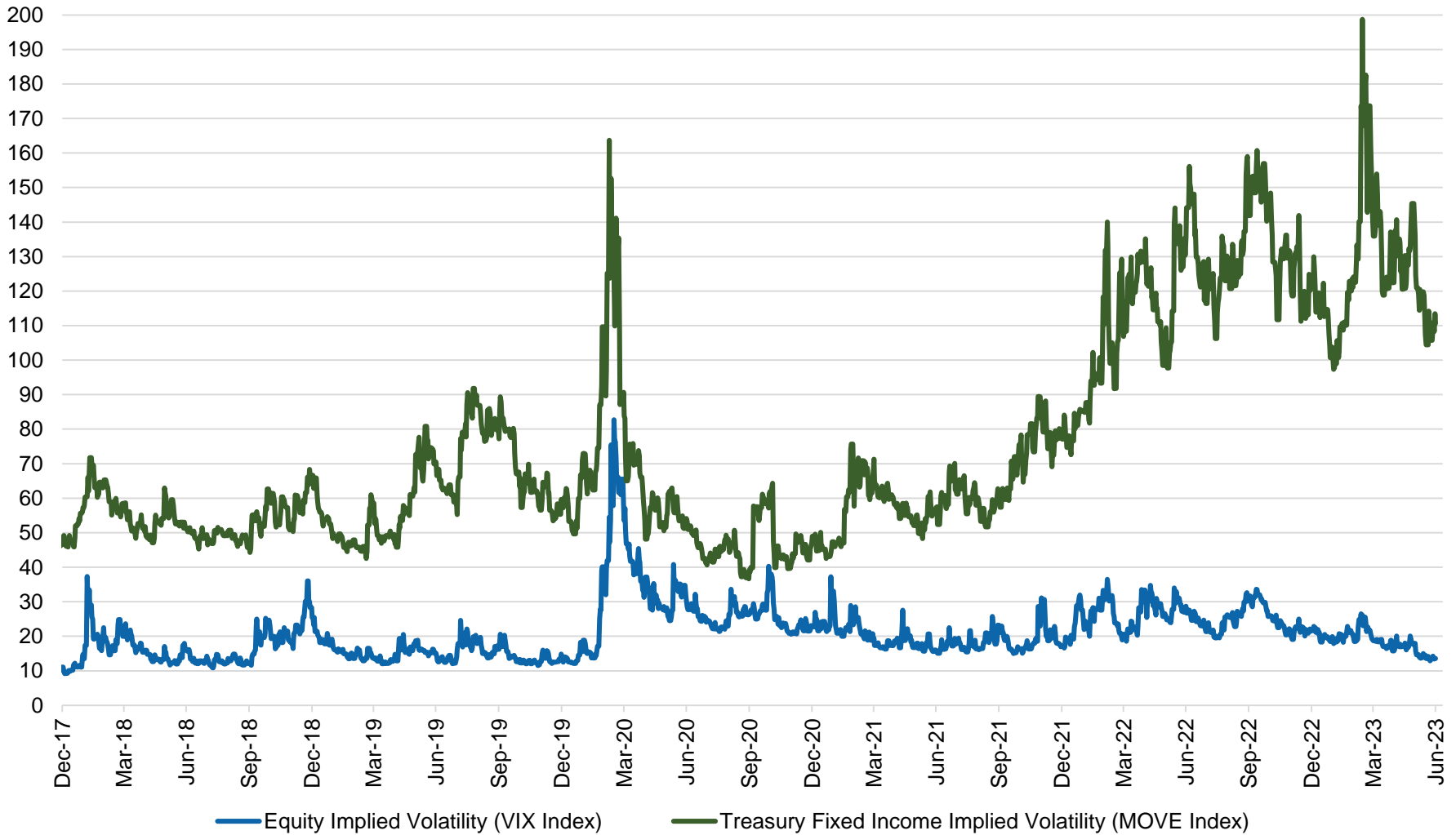


## Last 12 Months



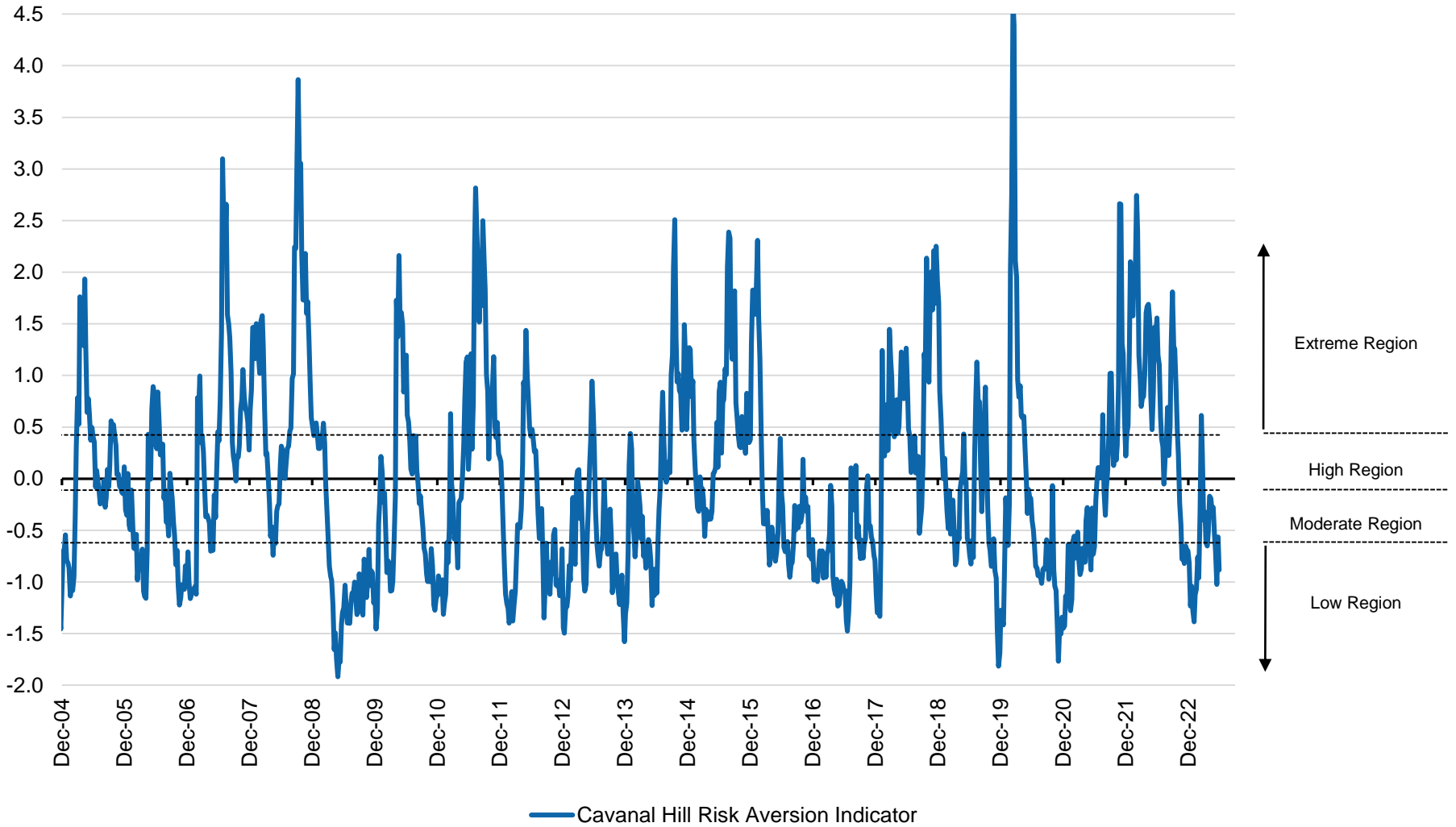
Source : S&P Dow Jones Indices, FTSE Russell, MSCI, NASDAQ, FactSet. As of 6/30/2023. <sup>1</sup>See appendix for index descriptions.

# Implied Volatility : Equity vs. Treasury Fixed Income



Source : ICE BofA, Bloomberg, CBOE, FactSet. As of 6/30/2023.

# Cavalan Hill Risk Aversion Indicator



Source : Cavalan Hill, Bloomberg. As of 6/30/2023. <sup>3</sup>See appendix for indicator description.

# U.S. Equity Market

# U.S. Equity Market Outlook

1

Equity market returns year-to-date have been strong; however, index returns have primarily been driven by a small number of stocks. As a result, we remain skeptical that index performance is signaling the beginning of a new bull market.

2

Equity valuations increased in Q2, especially in the growth and technology segments of the market. Given the lagged impacts of restrictive monetary policy on the economy, earnings estimates remain elevated in our view. Multiples and earnings could both be challenged going forward.

3

Our preference for large-cap and mid-cap stocks relative to mega-cap remains in place. As well, we continue to prefer more profitable companies with stronger balance sheets as well as value over core and growth among domestic equities.

4

Inflation has decelerated, but at a pace that the Federal Reserve may find too slow. Investor expectations for a return to more accommodative monetary policies may be premature.

# Equity Style Returns

## 2Q2023

	Value	Core	Growth
Large	4.08%	8.58%	12.81%
Mid	3.86%	4.76%	6.23%
Small	3.18%	5.21%	7.05%

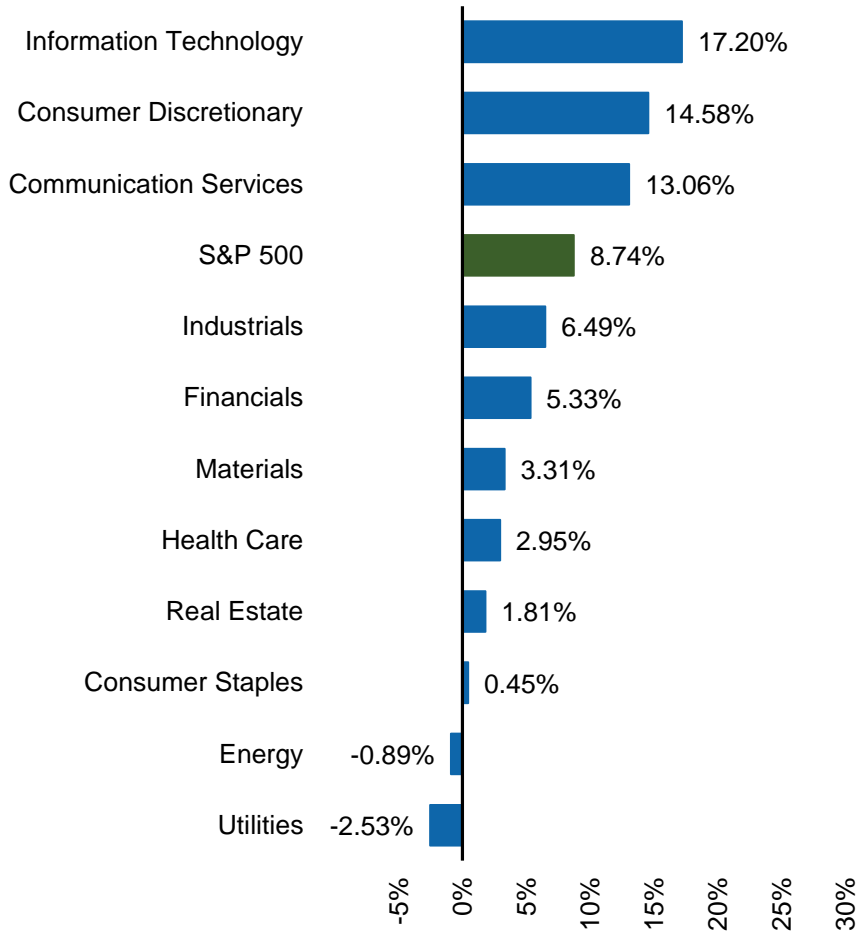
## Last 12 Months

	Value	Core	Growth
Large	11.54%	19.36%	27.11%
Mid	10.50%	14.92%	23.13%
Small	6.01%	12.31%	18.53%

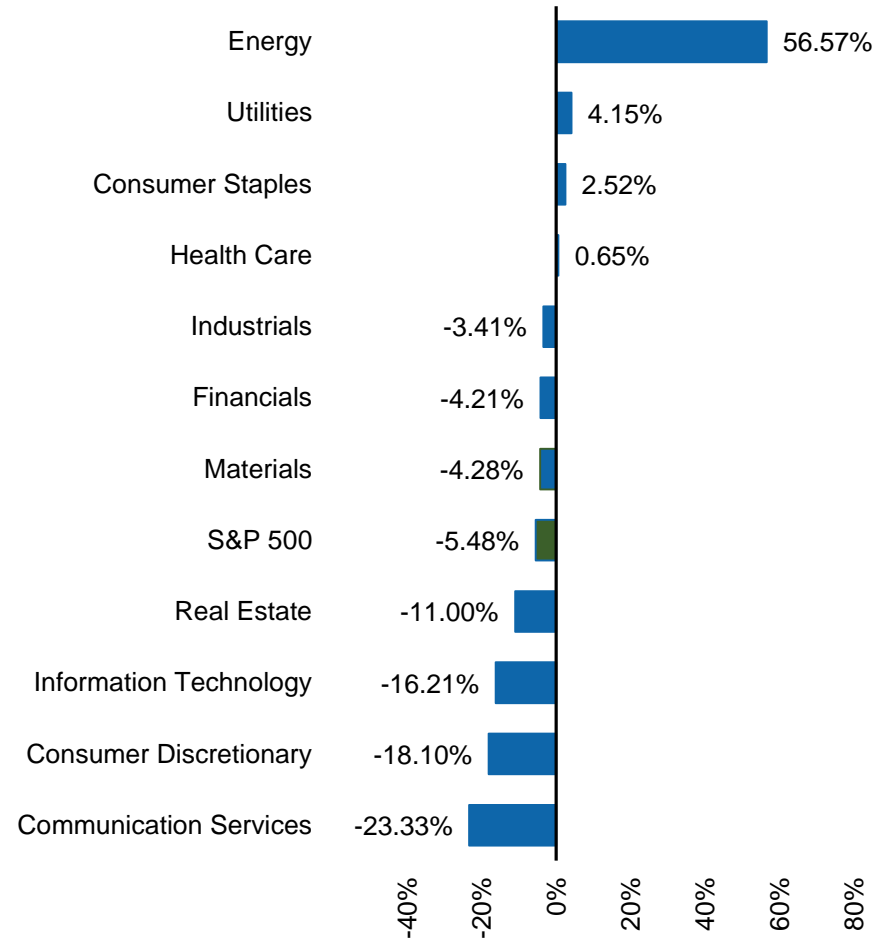
Source : S&P Dow Jones Indices, FTSE Russell, MSCI, Bloomberg Barclays, FactSet. As of 6/30/2023. <sup>1</sup>See appendix for index descriptions.

# S&P 500 Sector Returns

## Quarterly Returns



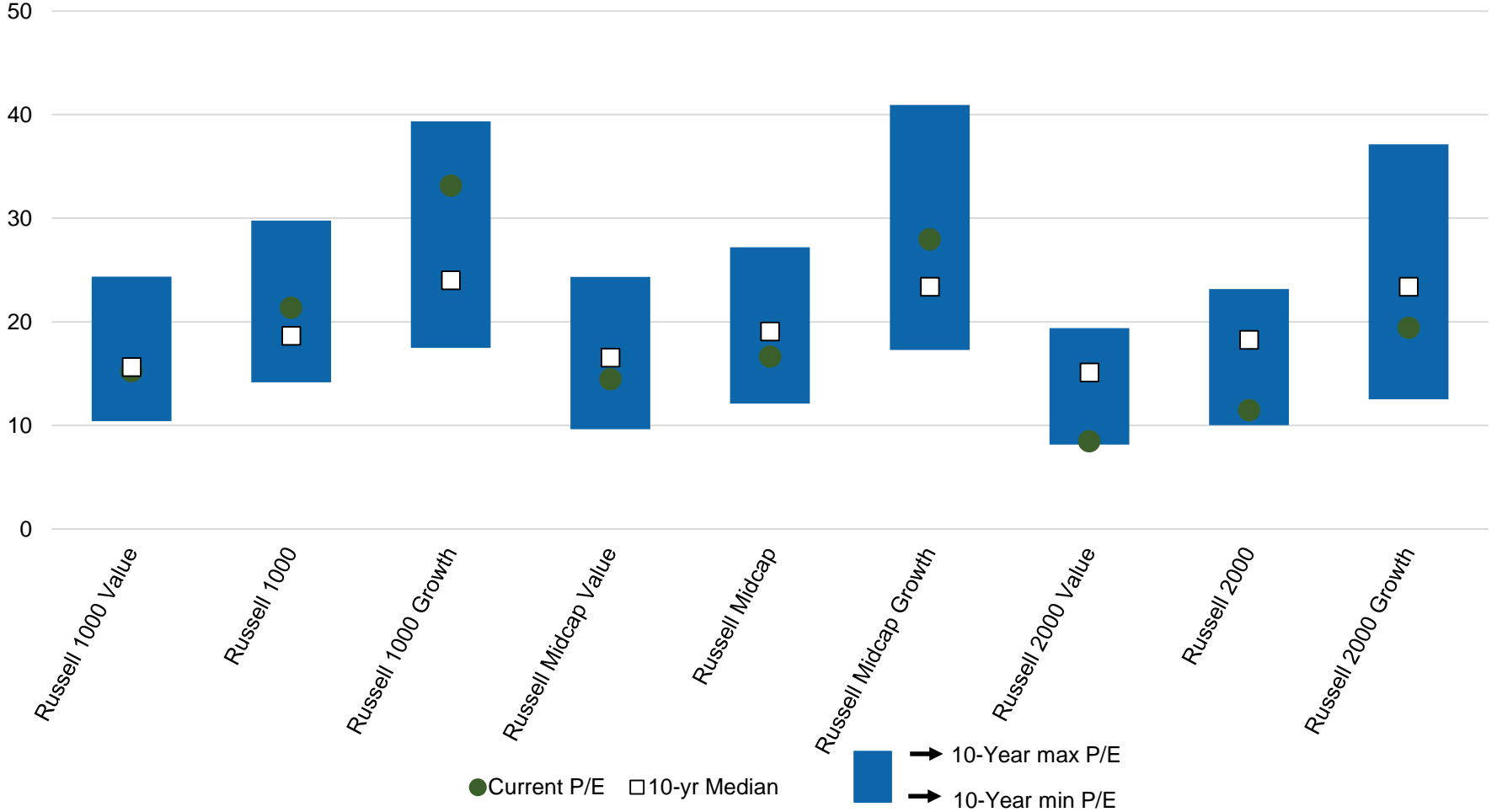
## Last 12 Months



Source : S&P Dow Jones Indices, FactSet. As of 6/30/2023.

# Equity Style Valuation

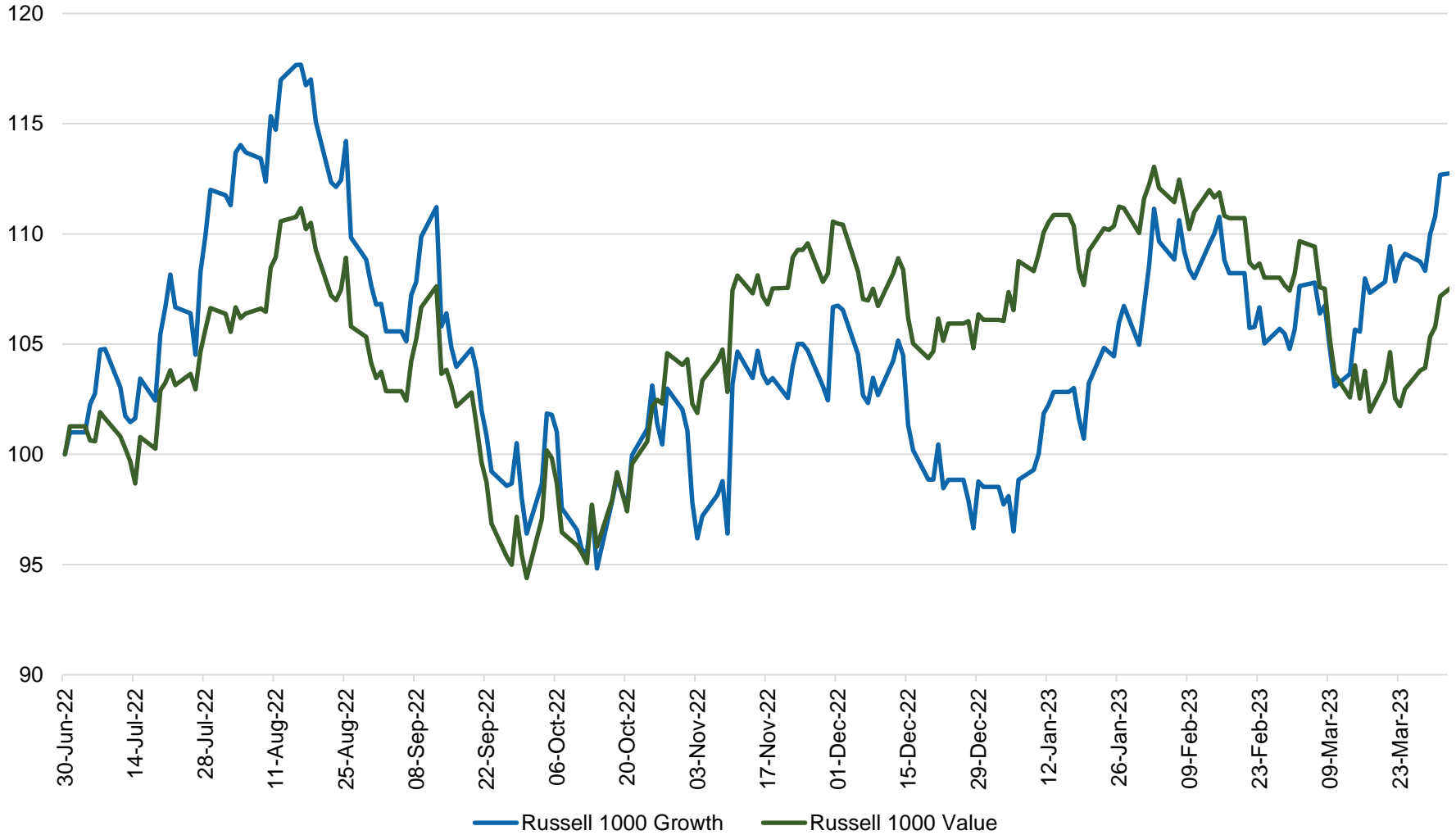
Last 12 Months P/E Ratios 10-Year High/Low (excludes negatives)



Source : FTSE Russell, FactSet. As of 6/30/2023.



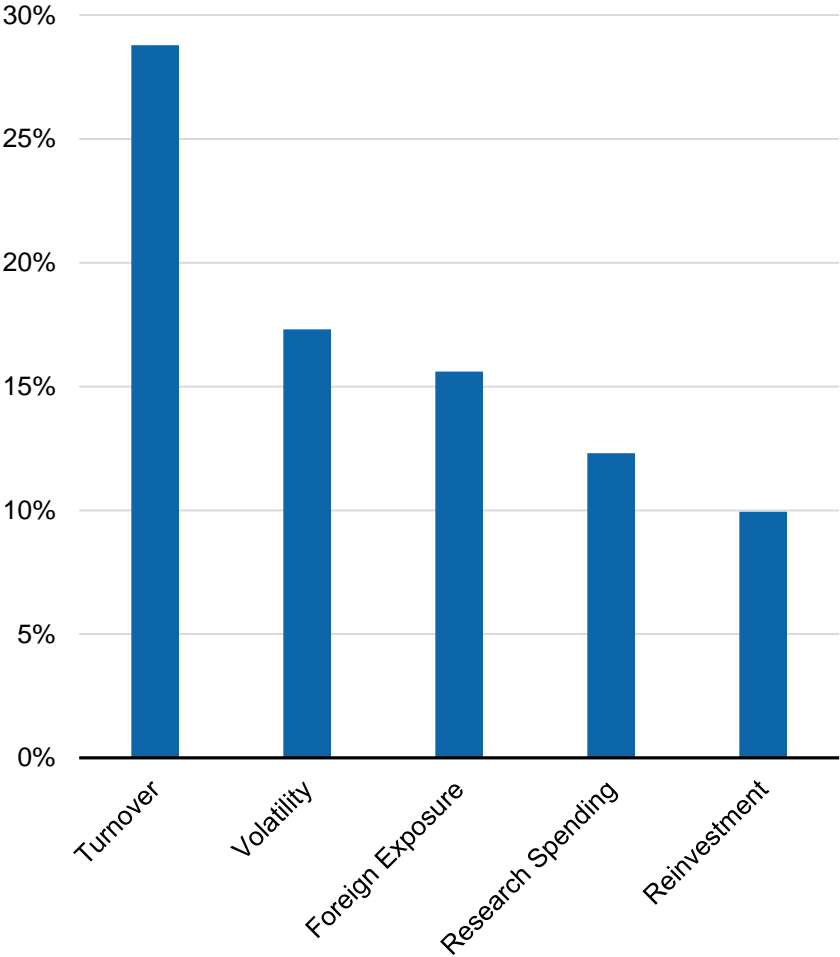
# Equity Style : Large Cap Growth vs Value



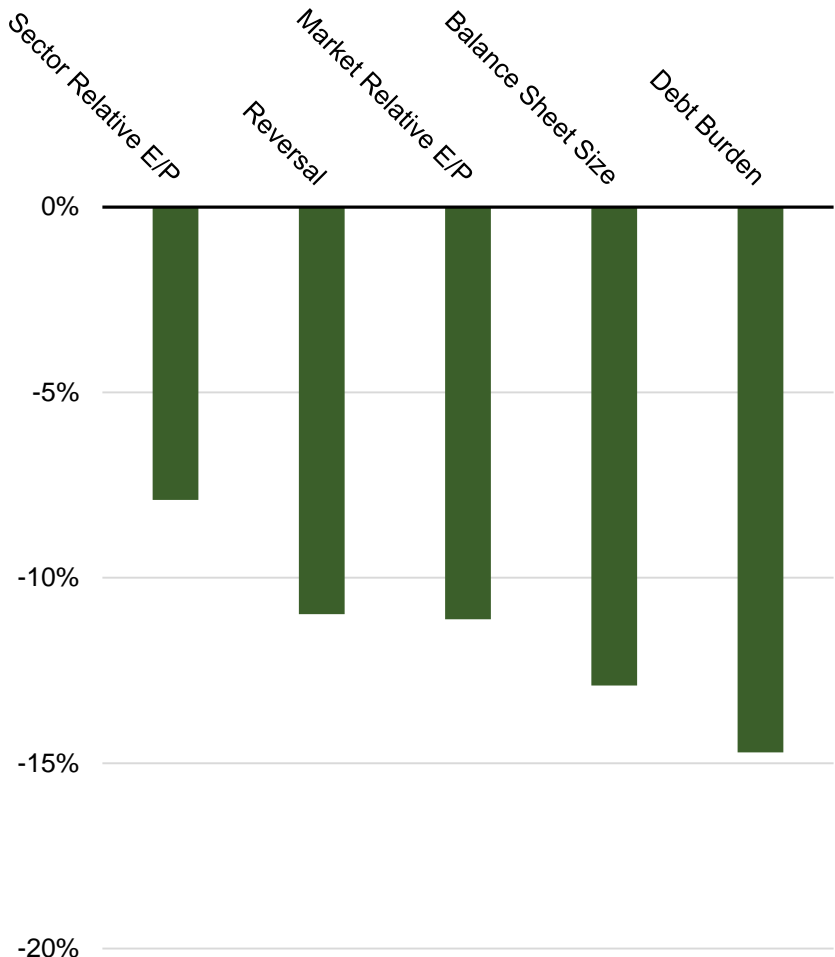
Source : FTSE Russell, FactSet. As of 6/30/2023.

# Trailing 12 Month Russell 1000<sup>®</sup> Factor Returns

Top 5 Factor Returns



Bottom 5 Factor Returns



Source : Cavanal Hill, FTSE Russell, FactSet. For the period 6/24/2022 to 6/23/2023. <sup>4</sup>See appendix for factor descriptions.

# Fixed Income

# U.S. Fixed Income Outlook

1

With inflation staying well above the Federal Reserve's target, interest rates have moved higher as investors have priced in higher short term rates. As a result, investor expectations for rate cuts have been pushed farther out into the future.

2

The Fed hiked its policy rate by 25bps during its May meeting resulting in a target Fed Funds rate of 5.0-5.25%. This was followed by a pause at the June meeting. Markets currently expect at least one more 25bps hike to occur in the 3<sup>rd</sup> quarter.

3

History has shown when the yield curve is flat or inverted, longer duration assets typically outperform over the intermediate term. With the level of yield curve inversion approaching multi-decade lows, we remain constructive on longer duration securities.

4

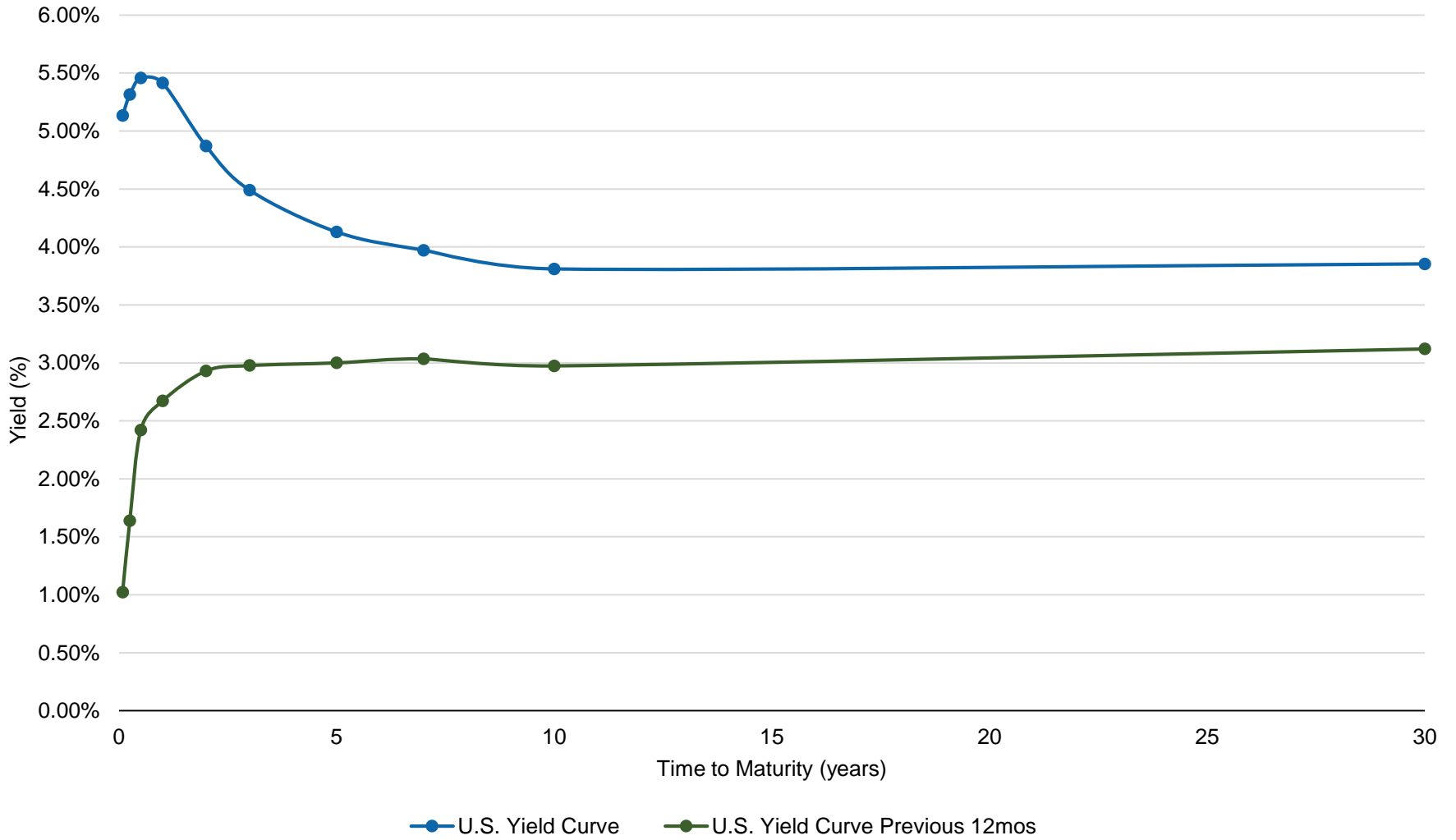
Investors should take advantage of rallies and liquid market conditions to reduce exposure to lower quality credits.

## Fixed Income Returns as of 6/30/2023

	2Q2023	1 Year	3 Year (Ann.)
<b>Fixed Income Index Returns</b>			
BB Aggregate Index	-0.84%	-0.94%	-3.96%
BB Intermediate Aggregate Index	-0.75%	-0.60%	-2.89%
BB Municipal Index	0.72%	4.10%	1.09%
BB Treasury Index	-1.38%	-2.13%	-4.80%
BB Agency Index	-0.44%	-0.40%	-2.47%
BB Corporate Index	-0.29%	1.55%	-3.44%
BB Agency MBS Index	-0.64%	-1.52%	-3.73%
BB High Yield Index	1.75%	9.06%	3.13%

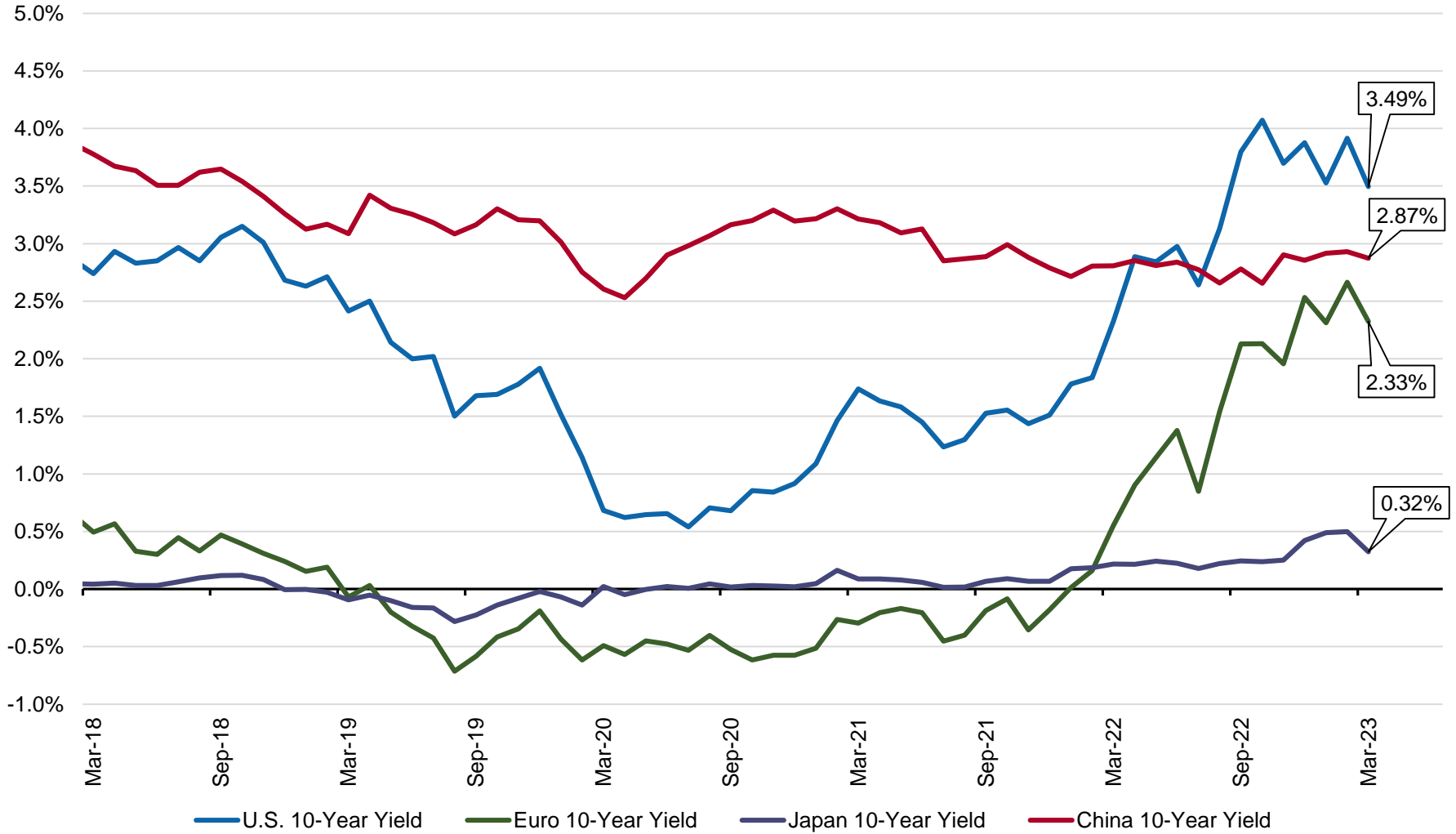
Source : Cavanal Hill, Bloomberg. As of 6/30/2023.

# The U.S. Treasury Yield Curve



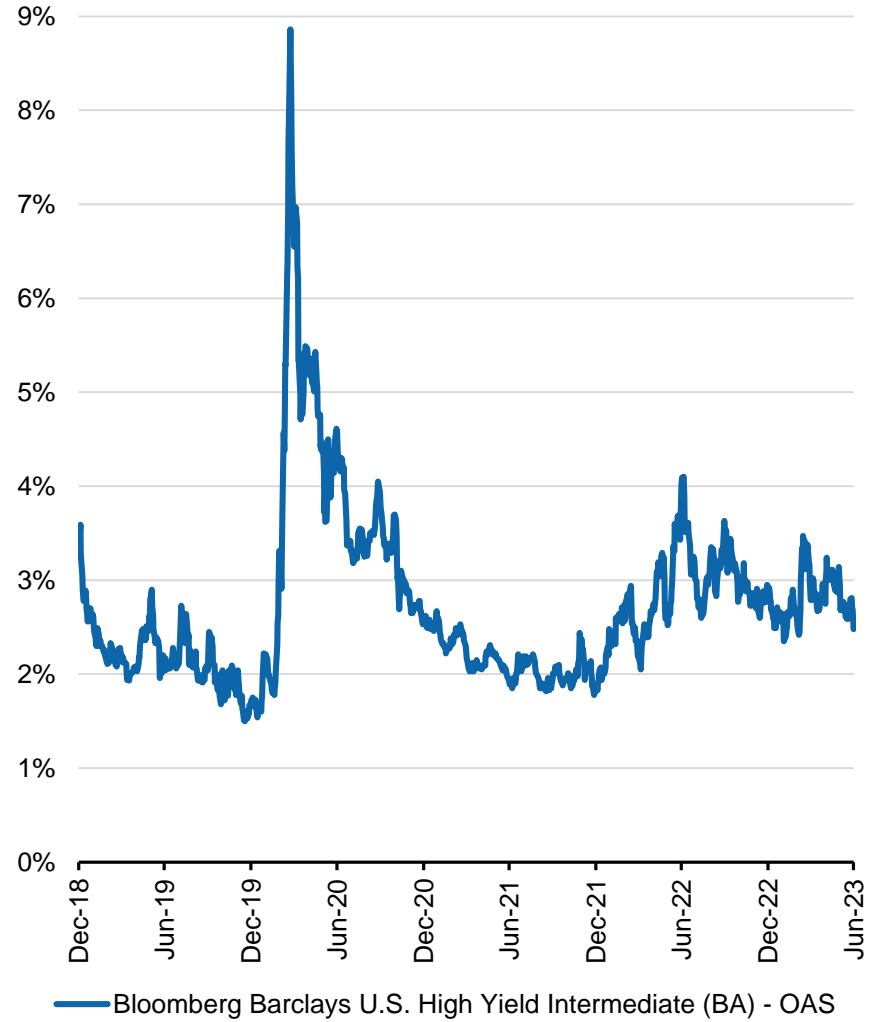
Source : Tullett Prebon Information, FactSet. As of 6/30/2023.

# Global 10 Year Yields



Source : Tullett Prebon Information, JP Morgan Chase, FactSet. As of 6/30/2023.

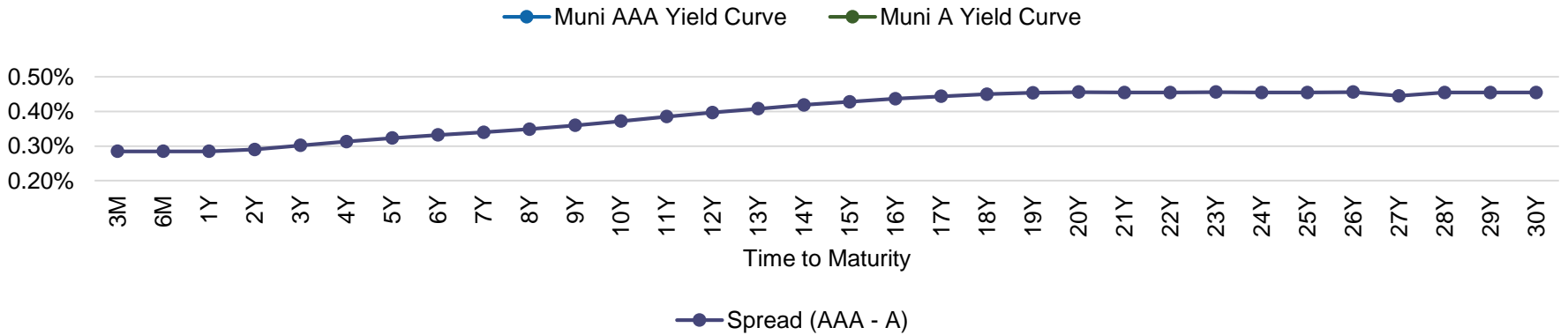
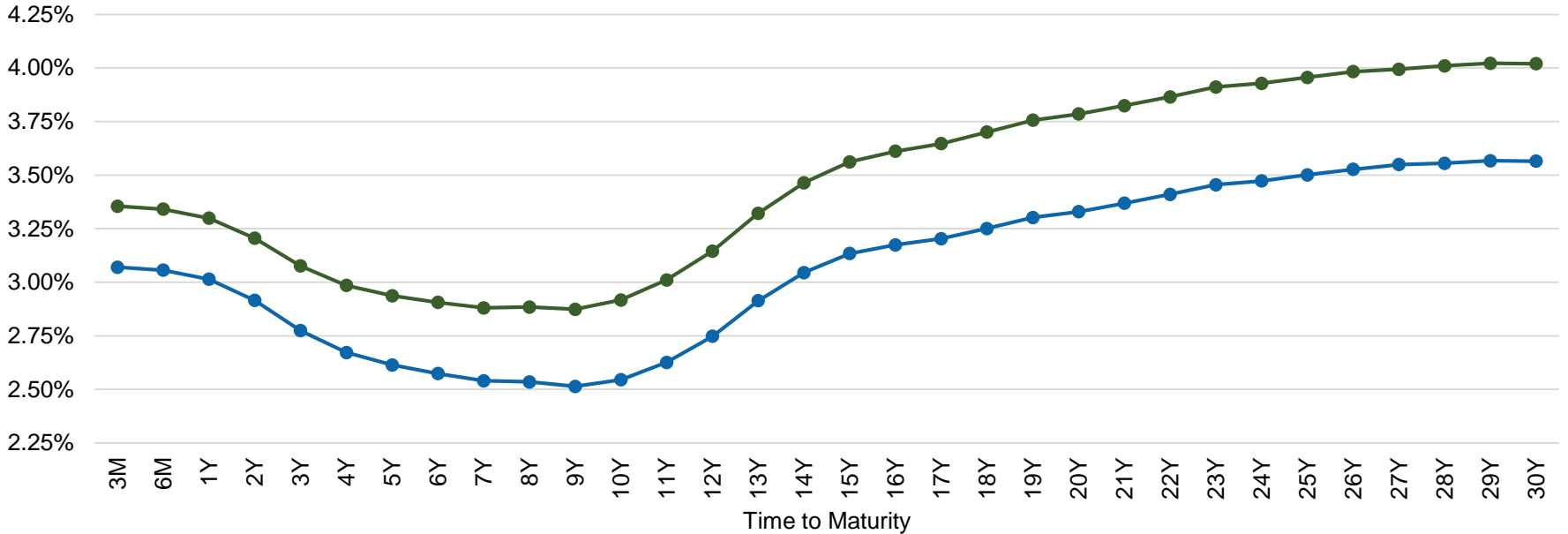
# U.S. Fixed Income Spreads



Source : Tullett Prebon Information, JP Morgan Chase, FactSet. As of 6/30/2023.



# Muni Yield Curve & Spread



Source : Cavanal Hill, Bloomberg. As of 6/30/2023.

# 1 Appendix : Asset Class & Equity Style Benchmarks

Asset Class & Equity Style	Benchmark
U.S. Large Cap	S&P 500
U.S. Small Cap	Russell 2000
Int'l Developed Equity	MSCI EAFE
Int'l Emerging Markets	MSCI EM
Commodities	S&P GSCI
U.S. Fixed Income	Barclays U.S. Aggregate
Global Fixed Income	Barclays Global Aggregate
Global Fixed Income ex. U.S.	Barclays Global Aggregate ex. U.S.
Global High Yield	Barclays Global High Yield
U.S. REITs	FTSE NAREIT All Equity REITs
Cash & Cash Equivalents	Barclays 3-Month T-Bill
Large Value	Russell 1000 Value
Large Core	Russell 1000
Large Growth	Russell 1000 Growth
Mid Value	Russell Midcap Value
Mid Core	Russell MidCap
Mid Growth	Russell Midcap Growth
Small Value	Russell 2000 Value
Small Core	Russell 2000
Small Growth	Russell 2000 Growth

## 2Appendix : Cavanal Hill Leading Economic Indicator

The **Cavanal Hill Leading Economic Indicator** is a proprietary model that the Cavanal Hill Quantitative Group uses in making macroeconomic assessments and forecasts. It is a dynamically weighted combination of the following data items:

Data Item	Source
10 Year Breakeven	Bloomberg
Capacity Utilization	US Federal Reserve
Conference Board LEI	Conference Board
Consumer Sentiment	Conference Board
ECRI LEI	Economic Cycle Research Institute
Existing Home Sales	National Association of Realtors
Industrial Production	US Federal Reserve
ISM Manufacturing	Institute for Supply Management
ISM Manufacturing New Orders	Institute for Supply Management
ISM Services	Institute for Supply Management
ISM Services New Orders	Institute for Supply Management
Jobless Claims	US Dept. of Labor
Multi Housing Permits	US Census Bureau
Real Retail Sales	US Census Bureau
Retail Sales ex Autos	US Census Bureau
Single Housing Permits	US Census Bureau
Small Business Optimism	NFIB
Temp Payrolls	US Dept. of Labor

### 3 Appendix : Cavanal Hill Risk Aversion Indicator

The **Cavanal Hill Risk Aversion Indicator** is a proprietary model that the Cavanal Hill Quantitative Group uses to assess how markets are pricing risk and the potential impacts of shifts in risk aversion. It is a dynamically weighted combination of the following data items:

Data Item	Source
AA/AAA Yield Spread Over Treasuries	Moody's, Bloomberg
Ba/B Yield Spread Over Treasuries	Bloomberg
Baa Yield Spread Over Treasuries	Bloomberg
BBB Yield Spread Over Treasuries	Bloomberg
St. Louis Federal Reserve Bank Financial Stress Index	US Federal Reserve, Bloomberg
Euro Area Systematic Stress Indicator Composite Index	ECB, Bloomberg
Euro Stoxx 50 Volatility Index	Deutsche Borse, Goldman Sachs, Bloomberg
Euro/US Dollar Exchange Rate	Bloomberg
Europe 5Y Generic Corporate CDS Spread	Markit, Bloomberg
Global Financial Stress Index	BOA Merrill Lynch, Bloomberg
Japan 5Y Generic Corporate CDS Spread	Markit, Bloomberg
Japanese Yen/US Dollar Exchange Rate	Bloomberg
KOSPI 200 Volatility Index	Bloomberg
S&P 500 Index P/E	Bloomberg
South Korean Won/US Dollar Exchange Rate	Bloomberg
SPX Volatility Index (VIX)	CBOE, Bloomberg
Swiss Franc/US Dollar Exchange Rate	Bloomberg
US 5Y Generic Corporate CDS Spread	Markit, Bloomberg
US Dollar Index	Bloomberg
Volatility Index Japan	CSFI-Osaka Univ., Bloomberg
Westpac Japan Financial Stress Index	Westpac Strategy Group, Bloomberg

## 4 Appendix : Cavanal Hill Factor Returns

**Cavanal Hill Factor Returns** are built using the proprietary factor definitions that the Cavanal Hill Quantitative Group uses to assess market trends and construct portfolios. Raw data is provided by FactSet and the factors are constructed and tested using the FactSet Alpha Testing tool. Currently, there are 20 factors. The factor names and a short description of each are listed below.

Factor	Description
Accruals	Ranks according to how heavily a company relies on the use of accruals.
Debt Burden	Ranks according to leverage and/or interest burdens relative to income.
Earnings Growth	Ranks according to historical growth in earnings.
Market Relative E/P	Ranks according to the stock's E/P relative to the entire market.
Sector Relative E/P	Ranks according to the stock's E/P relative to its' sector peers.
Foreign Exposure	Ranks according to how much of a company's business is foreign or domestic.
Margin Expansion	Ranks according to historical growth in profit margins.
Momentum	Ranks according to stock performance over the prior 12 month period (excluding the most recent month).
Profitability	Ranks according to profit margins.
Reinvestment	Ranks according to capex spending relative to revenues.
Research Spending	Ranks according to R&D spending relative to revenues.
Reversal	Ranks according to stock performance over the prior 1 month.
Sales Growth	Ranks according to historical growth in sales/revenues.
Balance Sheet Size	Ranks according to total balance sheet assets.
Market Capitalization	Ranks according to total market capitalization.
Turnover	Ranks according to sales relative to total assests.
Utilization	Ranks according to margin growth relative to growth in other balance sheet items (e.g. debt, expenses, etc.)
Market Relative B/P	Ranks according to the stock's B/P relative to the entire market.
Sector Relative B/P	Ranks according to the stock's B/P relative to its' sector peers.
Volatility	Ranks according to stock price volatility.

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