CAPITAL CREEK PARTNERS

Capital Creek Partners

Market Update

May 2023

HIGHLY CONFIDENTIAL

Market Dashboard – as of April 30, 2023

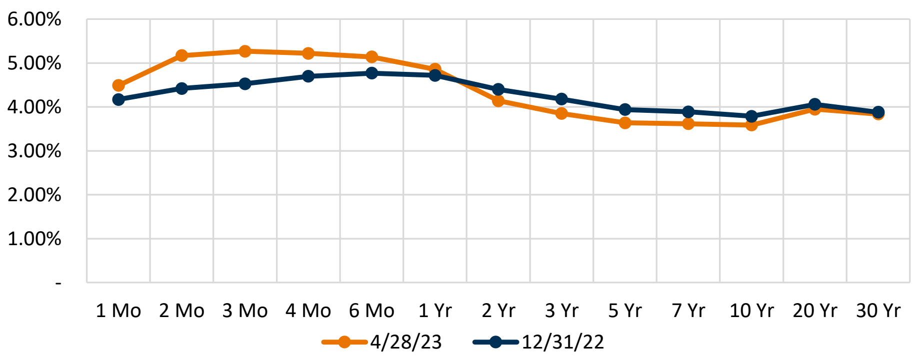
U.S. Equities	Current	MTD	QTD	YTD	LTM
Large Cap (DJIA)	34,098.16	2.5%	2.5%	2.9%	3.4%
Large Cap Core (S&P 500)	4,169.48	1.5%	1.5%	8.6%	0.9%
Large Cap Tech (NASDAQ)	12,226.58	0.0%	0.0%	16.8%	(0.9%)
Large Cap Value (IWD)	154.63	1.6%	1.6%	2.5%	1.1%
Large Cap Growth (IVW)	64.84	1.5%	1.5%	11.2%	(2.0%)
Small Cap (Russell 2000)	1,768.99	(1.9%)	(1.9%)	0.4%	(5.1%)
Volatility Index (VIX)	15.78	(15.6%)	(15.6%)	(27.2%)	(52.8%)

International Equities	Current	MTD	QTD	YTD	LTM
Developed Markets (EFA)	73.62	2.9%	2.9%	12.2%	10.1%
Emerging Markets (VWO)	40.24	(0.4%)	(0.4%)	3.3%	(3.8%)
Japan (EWJ)	58.84	0.3%	0.3%	8.1%	5.2%

U.S. Industry Sectors	Current	MTD	QTD	YTD	LTM
Communications (XLC)	59.90	3.3%	3.3%	25.2%	2.4%
Consumer Discretionary (XLY)	147.86	(1.1%)	(1.1%)	14.8%	(8.3%)
Consumer Staples (XLP)	77.44	3.7%	3.7%	4.4%	2.4%
Energy (XLE)	85.13	2.8%	2.8%	(1.7%)	18.2%
Financials (XLF)	33.17	3.2%	3.2%	(2.5%)	(1.8%)
Health Care (XLV)	133.53	3.1%	3.1%	(1.3%)	4.2%
Industrials (XLI)	100.00	(1.2%)	(1.2%)	2.2%	7.0%
Materials (XLB)	80.55	(0.1%)	(0.1%)	4.1%	(3.0%)
Real Estate (XLRE)	37.75	1.0%	1.0%	2.9%	(16.1%)
Technology (XLK)	150.83	(0.1%)	(0.1%)	21.5%	7.7%
Utilities (XLU)	68.98	1.9%	1.9%	(1.4%)	(0.2%)

Fixed Income	Current	MTD	QTD	YTD	LTM
US Treasuries (IEF)	99.49	0.8%	0.8%	4.8%	(0.9%)
US TIPS (TIP)	109.61	0.1%	0.1%	3.6%	(4.1%)
Municipal Bonds (MUB)	107.06	(0.2%)	(0.2%)	2.3%	2.9%
Corporate Bonds (LQD)	109.56	0.6%	0.6%	5.3%	1.1%
High Yield (HYG)	75.03	0.2%	0.2%	3.9%	1.4%
Preferred Stock (PFF)	31.20	1.1%	1.1%	4.5%	(2.4%)
Convertible Bonds (CWB)	65.98	(1.4%)	(1.4%)	3.1%	(4.8%)

U.S. Treasury Yield Curve



Commodities	Current	MTD	QTD	YTD	LTM
GSCI Index ETF (GSG)	19.91	(1.0%)	(1.0%)	(6.2%)	(15.9%)
Crude Oil	76.78	1.5%	1.5%	(4.3%)	(26.7%)
Natural Gas	2.41	8.8%	8.8%	(46.1%)	(66.7%)
Gold	1,990.10	1.1%	1.1%	9.4%	4.2%
Copper	3.87	(5.7%)	(5.7%)	1.7%	(11.9%)
Bitcoin	29,340.26	3.0%	3.0%	76.7%	(24.0%)

Note: All numbers are estimates. Reflects adjusted share price including dividends, splits, and fees. Please use statements as final value.
Source: Capital Creek Partners Research, Yahoo Finance

Market Overview

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Market Update

Investors and policy makers face the most complex macro backdrop since the Global Financial Crisis. The cocktail of high inflation, hawkish Fed, banking crisis, major European land war, US/China Cold War, record public debt, and slowing growth present great challenges and opportunities for investors to navigate.

- ***Models:*** Our most trusted equity model (TES) is neutral. Our Tactical Asset Allocation model is negative on stocks, bonds, commodities, and is neutral on credit. Cash is a clear overweight in our TAA model.
- ***Leading Indicators:*** The leading economic indicators we follow are pointing to the high probability of recession over the next four quarters. See page 6.
- ***Cycle Monitor:*** Nearly all our key cyclical indicators are trending toward or already in recession territory. See page 4.
- ***Inflation:*** Inflation remains well above the Fed's 2% target. However, inflation is now in a clear downtrend and is beginning to respond to much tighter Fed policy. The housing component of CPI and PCE could come down sharply in 2H23. We expect inflation to continue to trend lower for the balance of 2023.
- ***Volatility:*** Treasury market implied volatility fell in April but remains very high relative to history. US Equity implied volatility fell persistently in April and is close to the lowest levels since the bear market began in 1Q22. See page 7.
- ***Policy:*** Monetary policy remains hawkish as the Fed raised policy rates by another 25 basis points on May 3rd to 5.25% (upper bound). Fiscal policy is now constrained by high inflation, divided government, and the debt ceiling.
- ***Liquidity:*** Liquidity deteriorated in April as M2%YOY declined at a record -4% annual rate. The Fed's balance sheet contracted in April after growing in March due to bank bailouts. Nominal GDP grew 7% in 1Q, much faster than M2.
- ***Credit:*** Credit availability is tight as lenders become conservative in the wake of recent bank failures. The Fed Senior Loan Officer Opinion Survey for April reflected tighter lending standards and weaker demand for credit across the board. In contrast, credit spreads remain remarkably well behaved.
- ***US Dollar:*** In April, the EUR touched its strongest level against the dollar in over a year. The Dollar Index continues to trend lower and remains in a bear market. With inflation coming lower and the Fed now potentially on hold, a weaker dollar remains one of our highest conviction views.

April/Early May Highlights

- ***Smoldering Banking Crisis:*** April produced more regional banking turmoil as First Republic, PacWest among others came under renewed pressure. The Fed's very aggressive tightening campaign has reduced the value of bank bond portfolios, real estate loan books, and demand for credit. Depositors are exiting banks for higher interest rates elsewhere. We think the result will be tighter lending standards and less availability of credit for commercial, consumer, mortgage, and CRE loans. Tighter credit equals slower economic growth and higher probability of recession in 2H2023.
- ***Economic Slowdown:*** Economic data in the US trended softer relative to expectations in April and early May. ISMs, GDP, Unemployment Claims, and Retail Sales were disappointing. Weaker data combined with the banking crisis have caused money markets to price in several Fed policy cuts in the second half of 2023. The divergence between the Fed "dots" and the market has become extremely wide. Chair Powell wants to maintain rates in restrictive territory for the foreseeable future. The fixed income market is calling his bluff with US 2 Year Treasury notes now yielding 3.84% or a full 141 basis points below the Fed Funds rate.
- ***Debt Ceiling Watch:*** Treasury Secretary Yellen has marked early June as the approximate time the Treasury will run out of funds. This brought forward the debt ceiling crisis sooner than most anticipated only a few weeks ago. Consequently, financial markets are much more focused on this issue. The House passed a bill in April that would raise the debt ceiling, but it includes fiscal austerity measures the Administration finds unpalatable. Equity markets may need to decline in order to stimulate progress toward a deal that avoids default. Based upon history, we expect brinksmanship up until the last moment when a compromise will likely be struck. The cost of insuring a US Treasury portfolio against the possibility of default has reached an all-time-high indicating rising market anxiety. See page 5.

Cycle Monitor – Trending Towards Recession

	Metric	Early Cycle	Middle Cycle	Late Cycle	Recession
Economic Metrics	**Overall Economic Output**	Below potential, rising	Near potential, rising	Above potential, rising	**Contracting**
	Consumption	Low, lagging income	Recovering	**High, ahead of income**	Falling
	Capital Investment	Low as % of GDP	Rising moderate as % of GDP	**High as % of GDP**	Falling
	Residential Investment	Low as % of GDP	Rising moderate as % of GDP	High as % of GDP	**Contracting**
	Vehicle Sales	Low	**Moderate, rising**	Peaking, high	Past peak, falling
	Price Inflation	Below central bank target, stable	Below CB target, rising	At/Above CB target	**Falling**
	Wage Inflation	Low, stable	Moderate, rising	High	**Falling**
	Private Credit Formation	Low, starting to rise	Rising in line with output	Rising faster than output	**Falling**
	ISM New Orders	Improving	Mid 50s / Moderate	Past peak, falling	**Below 50, falling**
	Personal Savings Rates	High relative to income	Starting to decline	**Low relative to income**	Rising vs. income
	Unemployment Rate	Well above NAIRU	Above NAIRU	**Above or below NAIRU**	Rising sharply
	Unemployment Claims	Past peak	Falling Sharply	Trending lower	**Rising**
	Consumer Confidence	Low	Moderate	Exuberent	**Falling**

	Metric	Early Cycle	Middle Cycle	Late Cycle	Recession
Asset Mkt. Metrics	**EPS Revision Ratios**	Downgrade cycle, improving trend	Upgrade cycle, improving trend	Second derivative falling	**Downgrade cycle, falling trend**
	Corporate Margins	High	High/Peaking	**Declining**	Low
	Credit Spreads	Wide, contracting	Tight, stable	**Past cyclical trough**	Wide, unstable
	Aggressive Issuance	Low as share of total	Moderate as share of total	High as share of total	**Nonexistent**
	M&A Activity	Low	Moderate	High as share of total	**Nonexistent**
	Yield Curve	Rates low, curve steep	Rates rising, curve flattening	Rates high, curve flat	**Rates falling, curve steepening**
	Volatility	Vol high, skew falling	Vol low, skew low	Vol starting to rise, skew rising	**Vol high, skew high**

Implied Cycle	**Current macro indicators suggest the market is trending towards recession**

Source: Capital Creek Partners Research

USA 1 Year CDS Hit All-Time Highs as Debt Ceiling Issue Looms

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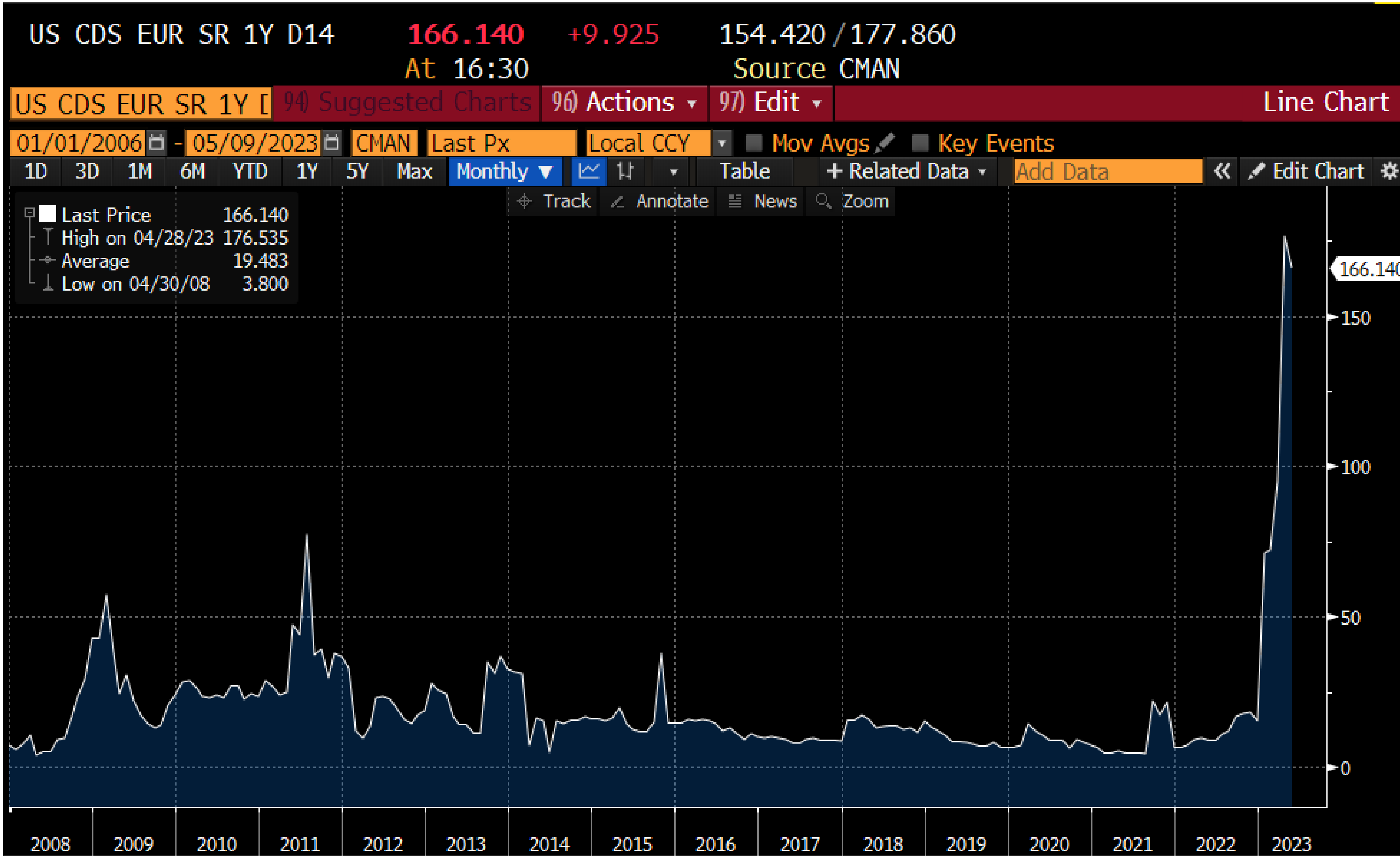

Source: Capital Creek Partners Research; Bloomberg

Conference Board US Leading Index Overlayed with US Recessions Since 1959

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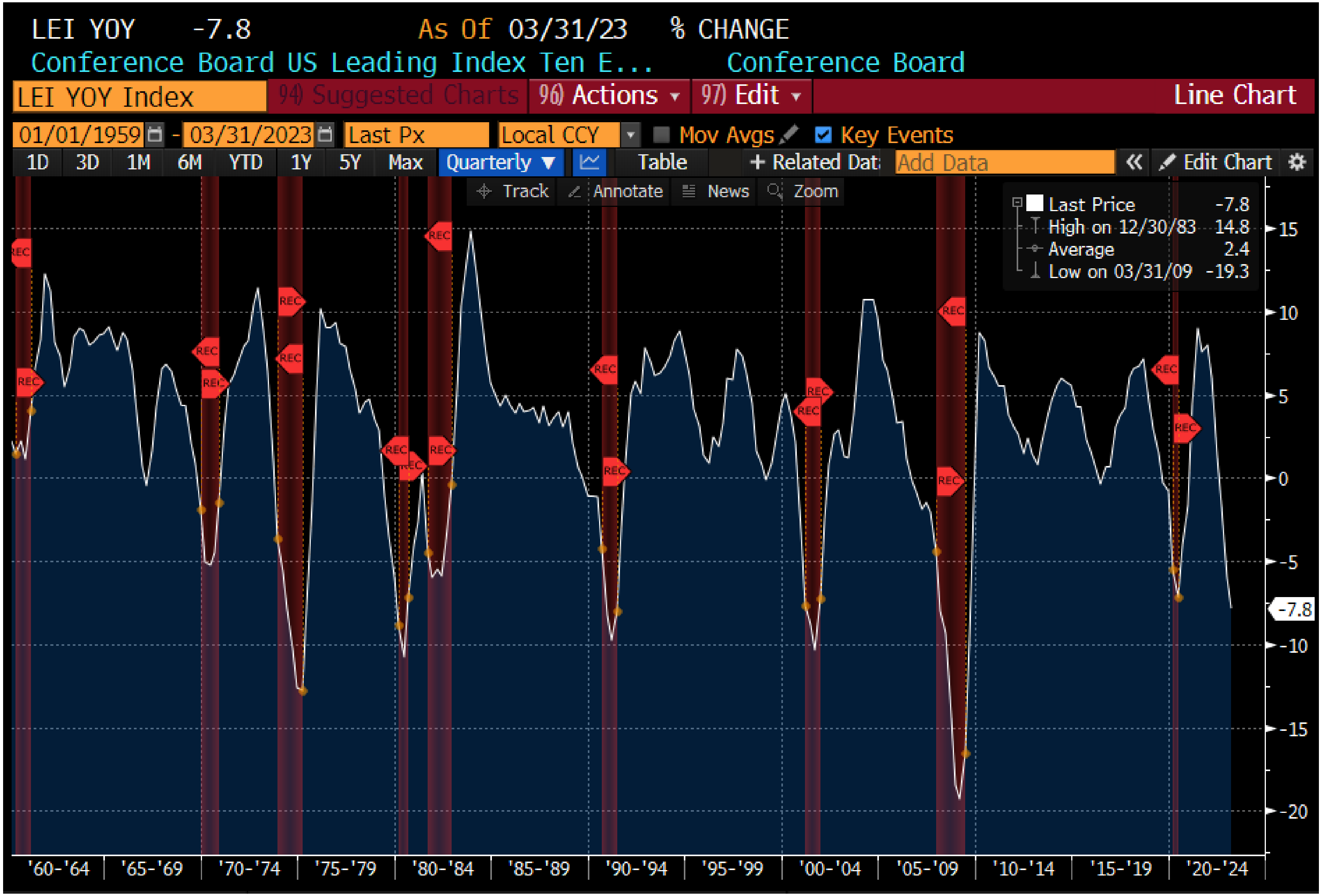
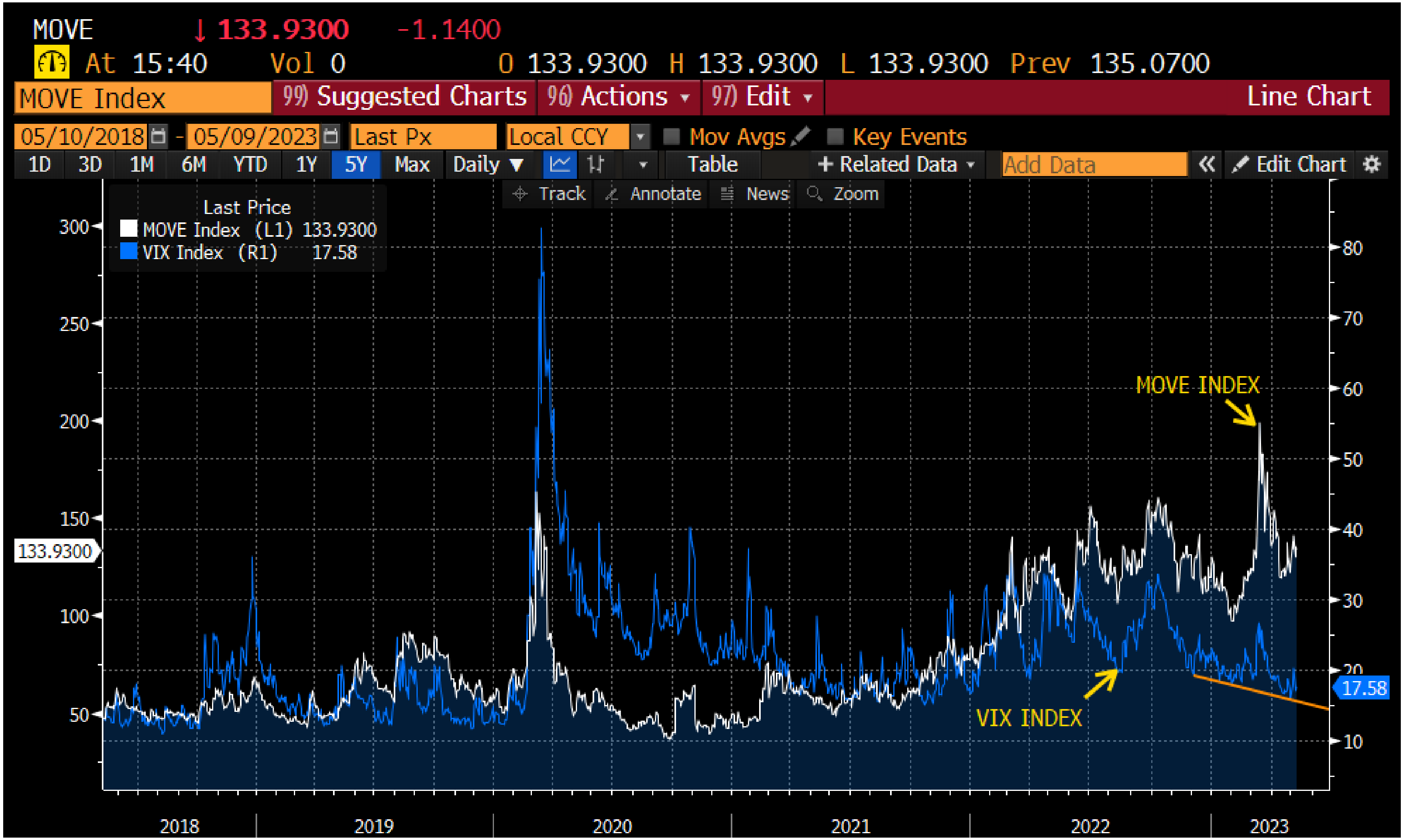


Source: Capital Creek Partners Research; Bloomberg

Both Treasury and Equity Implied Volatility Fell in April



Capital Creek Partners Research; Bloomberg

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