Capital Creek Partners

Monthly Market Update

July 2023

Market Dashboard – as of June 30, 2023

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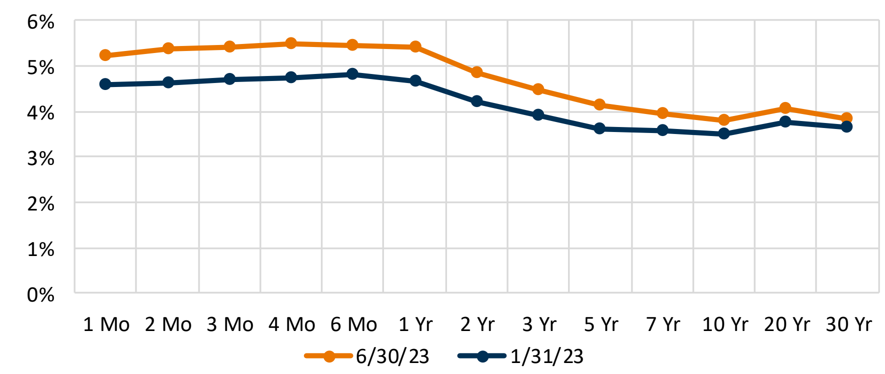
U.S. Equities	Current	MTD	YTD	LTM
Dow Jones Industrials (DJIA)	34407.60	4.7%	4.9%	14.2%
S&P 500	4450.38	6.6%	16.9%	19.6%
Nasdaq 100 (NDX)	15179.21	6.6%	39.4%	33.1%
S&P Mid Cap 400 (MID)	2622.34	9.2%	8.8%	17.5%
S&P Small Cap 600 (SML)	1216.35	8.2%	6.0%	9.7%
Volatility Index (VIX)	13.59	-24.3%	-37.3%	-52.7%

International Equities	Current	MTD	YTD	LTM
Developed Markets (EFA)	72.50	4.5%	12.5%	18.6%
Emerging Markets (VWO)	40.68	4.8%	5.0%	1.2%
Japan (EWJ)	61.90	5.1%	14.5%	18.3%

U.S. Industry Sectors	Current	MTD	YTD	LTM
Communications (XLC)	65.08	4.7%	36.2%	21.0%
Consumer Discretionary (XLY)	169.81	12.2%	32.1%	24.7%
Consumer Staples (XLP)	74.17	2.8%	0.7%	5.4%
Energy (XLE)	81.17	6.9%	-5.4%	18.2%
Financials (XLF)	33.71	6.6%	-0.5%	9.4%
Health Care (XLV)	132.73	4.3%	-1.5%	5.2%
Industrials (XLI)	107.32	11.3%	10.2%	25.1%
Materials (XLB)	82.87	11.0%	7.7%	15.0%
Real Estate (XLRE)	37.69	5.6%	3.8%	-4.3%
Technology (XLK)	173.86	6.1%	40.3%	38.1%
Utilities (XLU)	65.44	1.6%	-5.7%	-3.8%

Fixed Income	Current	MTD	YTD	LTM
Bloomberg Dollar Index (BBDXY)	1233.00	-1.1%	-1.1%	-2.2%
7-10 Year Treasury Bonds (IEF)	96.60	-1.3%	2.0%	-3.3%
U.S. Inflation-Linked Bonds (TIP)	107.62	-0.3%	2.1%	-1.6%
Municipal Bonds (MUB)	106.73	0.6%	2.3%	2.8%
Corporate Bonds (LQD)	108.14	0.8%	4.3%	2.0%
High Yield Bonds (HYG)	75.07	1.8%	4.5%	7.8%

U.S. Treasury Yield Curve



Commodities	Current	MTD	YTD	LTM
BBG Commodity Index (BCOMTR)	226.74	4.0%	-7.8%	-9.6%
Crude Oil (Brent)	74.90	3.2%	-12.8%	-31.3%
Natural Gas	2.80	23.5%	-37.5%	-48.4%
Gold (CMX)	1929.40	-2.2%	5.6%	6.5%
Copper (LME)	8315.50	2.8%	-0.7%	0.7%
Bitcoin	30390.91	12.1%	83.7%	62.2%

Note: All numbers are estimates. The data reflect total returns. Data reflect adjusted share price including dividends, splits, and fees. Please use statements as final value.
Source: Capital Creek Partners Research, Bloomberg

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July Highlights

- ***US Economic Data Continues to Surprise to the Upside:*** In June and early July, the data flow has persistently printed to the high side of expectations. This reality has confounded a consensus highly focused on the next recession. The Citi US Economic Surprise Index has hit the highest level in years (see chart on page 6).
- ***The Fed Renews Hawkish Posture:*** Stronger data combined with inflation well above the 2% target has given the Fed cover to raise rates yet again. Fed Funds futures are now pricing an 88% probability of a 25 basis point increase at the FOMC meeting on July 26th. The real question now is what will happen at the meeting in September. We think the data are in the process of peaking relative to expectations and that the odds favor no increase at the September 20th meeting.
- ***Treasury Yields Surge:*** The most important market development in early July is the breakout in 10 year US Treasury yields to the highest levels since March of this year. 10 year yields are now within striking distance of the cycle highs made in late October 2022, when equities were under severe pressure. In our view, 2 year yields close to 5% and 10 year yields above 4% represent serious competition for equities. Higher interest rates are now becoming a headwind for future equity performance in our view.
- ***Equities To Enter Consolidation Phase:*** We have been bullish on equities this year and called for prices to rise 10% to 15% in 2023 on the back of persistently falling inflation. Our upside target of 4400-to-4500 on SPX has been realized. We are unwilling to raise our SPX target further at this time. Tactically, we are becoming more cautious as we move closer to the negative late summer seasonality combined with extremely bullish sentiment and longer positioning. In addition, our tactical models are neutral-to-negative and we expect better buying opportunities to arise in Q3 as markets give back some of their surprisingly strong gains of 1H23.

Market Indicators

- ***Models:*** Our most trusted equity model (TES) is neutral. Our Tactical Asset Allocation (TAA) model is very negative on stocks and modestly negative on bonds, commodities, and credit. Cash is a clear overweight in our TAA model.
- ***Leading Indicators:*** Our best leading economic indicators are pointing to the high probability of a recession over the next four quarters. This has been the case for all of 2023. The unusual nature of this post pandemic economy may be altering the effectiveness of our indicators in this cycle.
- ***Cycle Monitor:*** Most of our cyclical indicators are trending toward or already in recession territory. In recent months, several of our cyclical indicators have moved away from recession and back to mid-cycle.
- ***Inflation:*** Inflation remains above the Fed's 2% target. However, inflation is now in a clear downtrend after peaking June of last year. We expect inflation to continue to trend lower for the balance of 2023.
- ***Volatility:*** Treasury market implied volatility fell in June but ripped higher in July and remains very high relative to history. US Equity implied volatility fell further in June and is at the lowest levels since the equity bear market began in 1Q22. This is an unusual and perhaps unsustainable pattern for volatility.
- ***Policy:*** The Fed appears poised to hike rates by 25 basis points at the July meeting. The more important question is will they go again in late September. We don't have a strong view on this yet. Fiscal policy remains robust in our estimation despite the recent budget deal.
- ***Liquidity:*** Liquidity remains constrained by rate hikes and QT. The recent Fed balance sheet growth in the wake of the banking crisis has been fully reversed. However, our favorite liquidity indicator from Ned Davis Research bottomed last October and continues to improve as it has all year (see page 9).
- ***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:*** The US dollar remains in a modest downtrend, unable to make upside progress despite rising rates and a hawkish Fed. We remain bearish toward the buck.

Cycle Monitor – Trending Towards Recession

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Economic Metrics

Metric	Early Cycle	Middle Cycle	Late Cycle	Recession
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**

Asset Mkt. Metrics

Metric	Early Cycle	Middle Cycle	Late Cycle	Recession
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

CCP Capital Markets Framework

2023E Economic Assumptions

Cycle Scoring	Late-Cycle	Fed Policy:	Trending Hawkish
Headwinds / Tailwinds	Trending to Headwinds	Fed Funds Rate[1]:	5.0% to 5.5%
Real GDP:	1% to 2%	Debt Levels / Spreads:	High / Stable
Inflation:	3% to 5% (2023) / 2% to 4% (Long-Term)	Volatility:	Moderating
Unemployment:	3% to 4%	Earnings:	\$225 - 2023 / \$245 - 2024

Directional Views

Strategic (2-5 years) and Tactical (6-12 month) Views on Broad Asset Classes

Asset	Strategic View	Tactical View	Commentary
Cash Strategies	Neutral	+2	On a nominal basis, cash is very compelling at the highest yields in many years. Cash has the added benefit of providing ballast to a portfolio along with valuable optionality. Real cash yields are also rising as the Fed continues to raise rates and inflation falls.
Fixed Income	-1	-1	We are strategically neutral and tactically underweight fixed income given bearish price trends combined with strong data and renewed Fed hawkishness. However, we acknowledge that the US and global economies continue to slow and that the lagged impact tighter monetary policy should hit in the second half of this year.
Private Credit	+1	-1	We are strategically overweight private credit as bank lending is constrained and recession induced opportunities may arise at any time. Tactically, we are cautious and do not see much near-term opportunity with spreads remaining tight.
Equities	Neutral	-1	We are strategically neutral weight and tactically underweight equites. Our tactical models remain neutral to cautious. We see better buying opportunities in 3Q within the context of a new bull market. We see SPX as vulnerable down to the 4100-4200 range in 3Q.
Commodities	+1	Neutral	We believe we are in the early stages of a commodity super cycle driven by underinvestment over the last decade alongside the energy transition. Secularly strong fiscal spending globally is also a long-term tailwind for commodities. Our tactical asset allocation is currently bearish on commodities due to the lagged effects of monetary tightening in this cycle.
Private Markets	+1	Neutral	We believe non-traditional return streams offer substantial return opportunities along with diversification benefits. We are still able to find great opportunities in lower middle market private investments.

1. FOMC assumptions as of July 2023

Underweight | Neutral | Overweight

The Citi Economic Surprise Index Hits Cycle Highs in Early July

U.S. Treasury Bond Yields Breakout to the Upside

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SPX Could Trade Back to the Bottom of the Channel Around 4100-4200

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Financial Liquidity has Been Improving all Year—A Major Bullish Underpinning for Stocks

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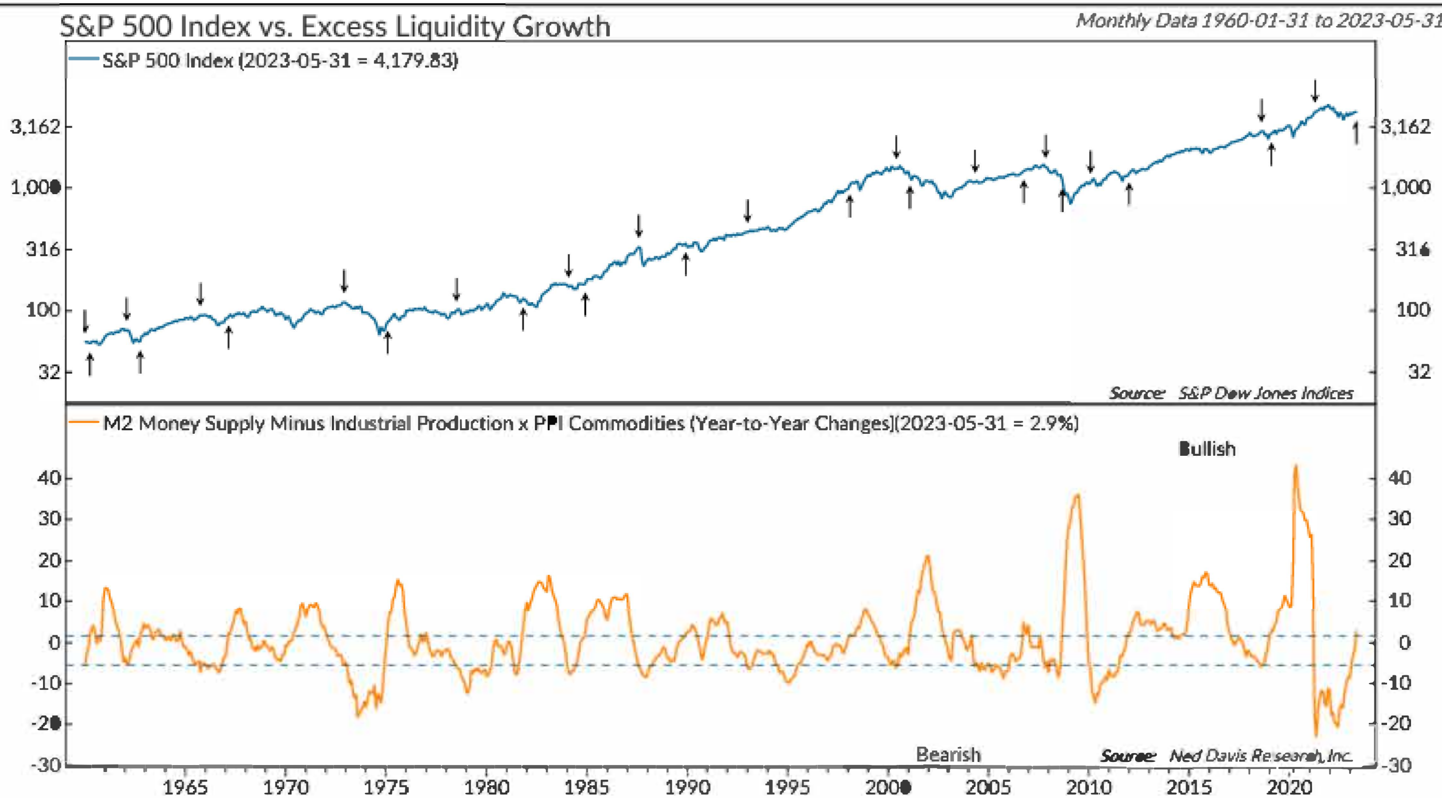

Bullish = Excess Liquidity

Buy signal (100% long S&P 500) when liquidity growth rises above 1.5%.

Bearish = Economic Growth Exceeds Liquidity Growth

Neutral signal (100% long commercial paper) when model falls below -5.5%.

S&P 500 Index Performance Chart View: 1960-01-31 to 2023-05-31		
Excess Liquidity Growth is	% Gain/ Annum	% of Time
Above 1.5	12.74	39.47
-5.5 - 1.5	8.04	40.25
Below -5.5	-4.95	20.28
Buy/Hold = 7.05% Gain/Annum		

Strategy Performance Long Only: 1960-01-31 to 2023-05-31					
Signals	% Gain/ Annum	% Profitable	% Gain/ Trade	Trades/ Annum	% of Time
All	8.6	92.6	23.6	0.4	100.0
Buy	10.2	84.6	35.3	0.2	61.3
Neutral	6.2	100.0	11.8	0.2	38.7
Buy/Hold	7.1	--	--	--	--
Last Signal: Buy (2023-05-31 = 4179.83)					

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