Capital Creek Partners

Monthly Market Update

August 2023

Market Dashboard – as of July 31, 2023

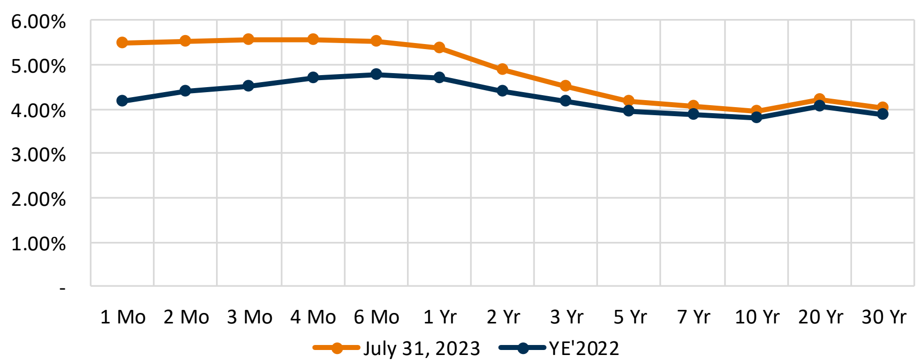
CAPITAL CREEK PARTNERS

U.S. Equities	Current	MTD	QTD	YTD	LTM
Dow Jones Industrials (DJIA)	35,559.53	3.3%	3.3%	7.3%	8.3%
S&P 500 (SPX)	4,588.96	3.1%	3.1%	19.5%	11.1%
NASDAQ 100 (NDX)	15,857.50	3.4%	3.4%	43.9%	22.2%
S&P Mid-Cap 400 (MID)	2,728.44	4.0%	4.0%	12.3%	8.6%
S&P Small-Cap 600 (SML)	1,282.43	5.4%	5.4%	10.8%	4.0%
Volatility Index (VIX)	13.63	0.3%	0.3%	(37.1%)	(36.1%)

Fixed Income	Current	MTD	QTD	YTD	LTM
Bloomberg Dollar Index (BBDXY)	1,218.08	(1.2%)	(1.2%)	(2.3%)	(3.9%)
7-10 Year Treasury Bonds (IEF)	95.50	(0.7%)	(0.7%)	1.3%	(6.7%)
US Inflation Linked Bonds (TIP)	106.94	0.0%	0.0%	2.1%	(5.6%)
Municipal Bonds (MUB)	106.28	0.0%	0.0%	2.3%	0.6%
Corporate Bonds (LQD)	107.48	0.1%	0.1%	4.3%	(2.3%)
High-Yield Bonds (HYG)	75.14	1.1%	1.1%	5.7%	2.2%

International Equities	Current	MTD	QTD	YTD	LTM
Developed Markets (EFA)	74.46	2.7%	2.7%	15.5%	15.8%
Emerging Markets (VWO)	43.07	5.9%	5.9%	11.2%	8.0%
Japan (EWJ)	63.42	2.5%	2.5%	17.3%	14.0%

U.S. Treasury Yield Curve



U.S. Industry Sectors	Current	MTD	QTD	YTD	LTM
Communications (XLC)	68.79	5.7%	5.7%	44.0%	23.1%
Consumer Discretionary (XLY)	173.74	2.3%	2.3%	35.2%	7.8%
Consumer Staples (XLP)	75.75	2.1%	2.1%	2.8%	4.3%
Energy (XLE)	87.48	7.8%	7.8%	1.9%	16.1%
Financials (XLF)	35.33	4.8%	4.8%	4.3%	7.0%
Health Care (XLV)	134.15	1.1%	1.1%	(0.5%)	3.0%
Industrials (XLI)	110.42	2.9%	2.9%	13.3%	17.5%
Materials (XLB)	85.72	3.4%	3.4%	11.4%	12.1%
Real Estate (XLRE)	38.19	1.3%	1.3%	5.1%	(10.6%)
Technology (XLK)	178.35	2.6%	2.6%	43.9%	24.9%
Utilities (XLU)	67.07	2.5%	2.5%	(3.4%)	(6.5%)

Commodities	Current	MTD	QTD	YTD	LTM
BBG Commodity Index (BCOMTR)	240.93	6.3%	6.3%	(2.0%)	(7.9%)
Crude Oil (Brent)	85.56	14.2%	14.2%	(0.4%)	(22.2%)
Natural Gas (Henry Hub)	2.63	(5.9%)	(5.9%)	(41.1%)	(68.0%)
Gold (CMX)	1,970.50	2.6%	2.6%	8.3%	11.8%
Copper (LME)	3.99	6.8%	6.8%	5.0%	11.5%
Bitcoin	29,230.11	(4.1%)	(4.1%)	76.1%	22.8%

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

Market Overview

CAPITAL CREEK PARTNERS

August Highlights

- ***US Fiscal Dominates:*** This month market participants became more focused on the impact of highly expansionary fiscal policy. The 12-month sum of Federal Outlays is running north of $6.7 trillion and well above the historical trend (see page 5). Interest expense is exploding higher as the Fed has raised rates sharply to contain inflation. Prodigious fiscal spending may have kept the US out of recession this year. Strong fiscal spending may also have supported inflation and forced the Fed to raise rates to the highest levels in over 20 years.

- ***Fitch Downgrades US Treasury Bond Rating:*** On August 1st, Fitch downgraded the rating on US Treasury bonds one notch from AAA to AA+. The downgrade was based upon the very large US outstanding Treasury debt, forecasted deficits for many years into the future, and lack of political will to change the trajectory of government spending. Treasury Secretary Janet Yellen dismissed the downgrade as "arbitrary." We see it more as a warning sign with fiscal conditions far worse today than when Moody's downgraded the US back in 2011.

- ***Treasury Bond Yields on the Precipice:*** On a technical basis, US 10-year Treasury bond yields have broken out and are trending higher (see page 6). This price action is confounding some as inflation is falling and there are scattered signs of economic slowdown in the Employment data, ISMs, and Jobless Claims. Treasury supply concerns continue to overhang the market with approximately $2 trillion in government debt funding on the way.

- ***Equities Struggle in August:*** Since making post bear market highs on the last day of July, equities have struggled to regain their upward momentum. The S&P 500 has now corrected 3% so far in August. Historically, August is a dangerous month for equity investors. We turned tactically cautious on equities last month based upon negative readings from our models, excessive optimism, more crowded long positioning, rising interest rates, tepid earnings, and negative seasonality from August through October. This week, we cut our S&P 500 earnings estimates for 2023 from $225 to $215. We also lowered our 2024 estimate from $250 to $235. We cut our numbers in anticipation of weaker nominal growth, lower margins, higher interest costs, and weaker fiscal spending. Our numbers are now below the Street consensus. We continue to see the S&P 500 as vulnerable into the 4100-4200 range (see page 7).

Market Indicators

- ***Models:*** Our most trusted equity model (TES) remains bearish. 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:*** Leading economic indicators are now mixed with the Conference Board Leading Indicator pointing to the high probability of recession over the next four quarters. However, the Philadelphia Fed State Leading Indicator is back to a low probability of recession.

- ***Cycle Monitor:*** Our Cycle Monitor has also become more mixed and has shifted from a clear trend toward recession to a mix of recessionary, late cycle, mid-cycle, and even early cycle readings. The monitor is no longer sending a clear signal.

- ***Inflation:*** Inflation is now in a clear downtrend after peaking in June of last year. We expect inflation to continue to trend lower for the balance of 2023. The recent rate of decline in Owners Equivalent Rent (OER) is finally showing up and should help depress CPI and Core PCE readings in coming months. Chinese PPI deflation is also helping to lower inflation in the US.

- ***Volatility:*** Treasury market implied volatility continued to trend lower from very high readings back in March, despite rising rates across the curve. US equity implied volatility has risen modestly in August as equities have started to correct.

- ***Policy:*** The Fed is potentially done with its hiking cycle after raising rates by another 25 basis points to 5.5% on July 26th. The September meeting is still in play, but money markets are only pricing around a 10% probability of another hike. Fiscal policy continues to be exceptionally robust with Federal Outlays running way above trend.

- ***Liquidity:*** Liquidity remains constrained by rate hikes and QT. The recent Fed balance sheet growth in the wake of the spring banking crisis has been fully reversed. Liquidity growth is weak and remains a headwind for risk assets.

- ***Credit:*** Credit availability is tightening as banks pull back in anticipation of a credit cycle downturn. The Fed Senior Loan Officer Opinion Survey (SLOOS) for July reflected tighter lending standards and weaker demand for credit across the board. In contrast, corporate credit spreads remain tight and remarkably well behaved.

- ***US Dollar:*** The US dollar rallied off the cycle lows of mid-July but remains in a downtrend. Rising real rates are supporting the dollar near-term.

CCP Capital Markets Framework

2023E Economic Assumptions

Cycle Scoring	Late-Cycle	Fed Policy:	Likely on Hold
Headwinds / Tailwinds	Trending to Headwinds	Fed Funds Rate[1]:	5.5%
Real GDP:	1% to 2%	Debt Levels / Spreads:	High / Tight
Inflation:	3% to 5% (2023) / 2% to 5% (Long-Term)	Volatility:	Moderating
Unemployment:	3% to 4%	Earnings:	\$215 - 2023 / \$235 - 2024
Consumer Spending & Confidence:	Neutral	Equity Valuations:	Expensive relative to history

Directional Views

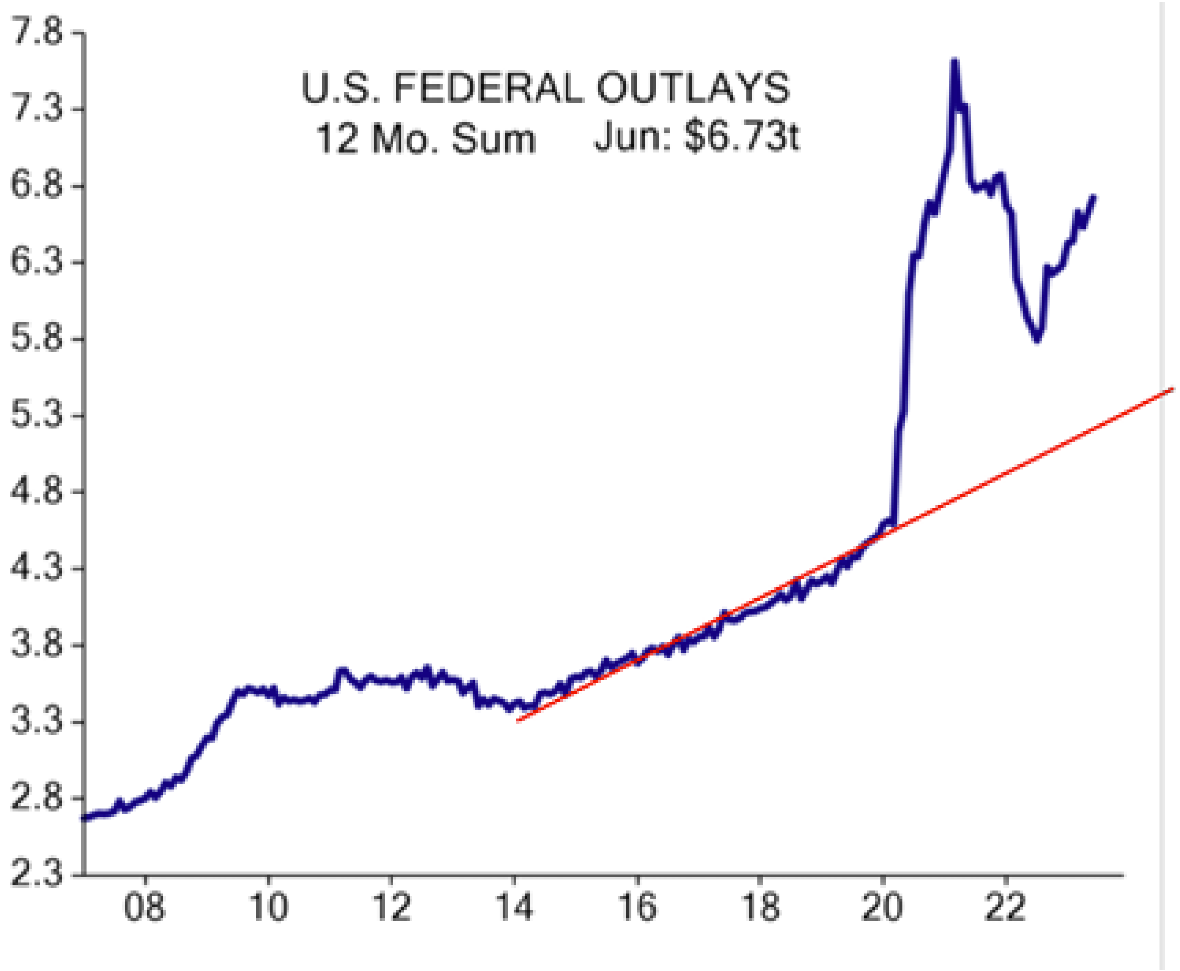
Strategic (Long-Term) and Tactical (6-12 month) Views on Broad Asset Classes

Asset	Strategic View	Tactical View	Commentary
Cash Strategies	+1	+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 and tactically underweight fixed income given bearish price trends combined with massive fiscal spending and heavy supply overhangs. However, we acknowledge that the lagged impact tighter monetary policy could hit in the second half of this year or in 2024.
Credit	-1	-1	We are strategically underweight public credit as spreads are tight and a credit downcycle is underway. Tactically, we are underweight as we see little value and potential vulnerability as the credit cycle downturn matures. Private credit is much more attractive than public credit in our view.
Equities	Neutral	-1	We are strategically neutral weight and tactically underweight equites. Our tactical models remain cautious. We envision better buying opportunities in 3Q within the context of a new bull market. We see the S&P 500 as vulnerable down to the 4100-4200 range in 3Q23.
Private Markets	+1	+1	We believe non-traditional return streams offer substantial upside opportunities along with diversification benefits.

1. FOMC assumptions as of March 2022

Underweight | Neutral | Overweight

US Federal Outlays Still Running Well Above Trend



Source: EvercoreISI

U.S. 10 Year Treasury Bond Yields Breakout to the Upside

Source: Capital Creek Research, Bloomberg

SPX Could be Headed to the Bottom of the Trading Channel

Source: Capital Creek Research, Bloomberg

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