Portfolio Commentary

Navigator® Global Tactical

Portfolio Manager

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Senior Portfolio Manager

Top Contributors as of March 31, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
SPDR Portfolio S&P 500 ETF	25.16	2.89
iShares Core S&P Small Cap ETF	11.04	1.92
iShares Core MSCI Total International Stock ETF	11.58	1.49

Top Detractors as of March 31, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
JPMorgan Ultra-Short Income ETF	2.58	0.03
PIMCO Enhanced Short Maturity Active ETF	2.37	0.03
iShares 7-10 Year Treasury Bond ETF	14.28	0.02

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period and the last 12 months, contact: PortfolioAnalytics@ccmg.com.

First Quarter Rally Highlighted By Highest Bond Market Turbulence Since 2008

Market Review

2022 was the first time that S&P 500 and the Bloomberg Aggregate Bond Index both declined by 10% or greater, so it was natural to expect a rebound in 2023. January delivered in that regard, as investors anticipated (overly eagerly, it turns out) that the Fed would soon end its tightening cycle. The S&P 500 was up 6.3%, and small-caps gained 9.5%. However, that optimism proved short-lived as stubborn core inflation numbers drove 2-year Treasury yields to new highs on March 8th. March 8th indeed proved to be a turning point, as the Silicon Valley Bank failure and bailout created market turbulence and a dramatic turn in interest rates.

The 2-year Treasury yield tumbled from 5.1% on March 8th to 3.8% on March 24th, just over two weeks later. From March 8th until the end of the quarter, dramatic divergences took place. While regional banks tumbled over 20% and small-caps declined by over 5%, the NASDAQ 100 gained over 7%, and the S&P 500 itself was up over 2% during that time. The S&P 500 ended the quarter up 7.5%, but the gains were narrow and driven by the NASDAQ 100, which benefited from lower interest rates and gained 20.8%.

Developed international markets outperformed the S&P 500, but emerging markets trailed. The market's distribution was so uneven that Technology, Consumer Discretionary, and Communications Services each gained over 17%, while Financials, Utilities, Healthcare, and Energy produced losses.

First Quarter Portfolio Highlights

- The portfolio entered the quarter invested 100% in equities, which partook in the January rally. When interest rates began to rise in February, our models quickly turned defensive and moved us into cash by mid-February. We remained defensive in cash into March and the Silicon Valley Bank failure drove interest rates down and Treasury relative strength up. As a result, in mid-March the portfolio moved 100% into U.S. Treasuries, where the strategy remains positioned today. While we do favor Treasuries, we so far do not see much credit stress showing up in the financial system. Our models remain cautious, but only modestly so. It would not take too much to turn us back into risk-on.
- Large-caps fared best among equities within both the U.S. and international spheres. The S&P 500 was up 7.5%, and broad international equity was up 7.0%. U.S. small-caps fared worst, and were up only 2.5% after taking on pain during the banking and lending crisis. International small-caps gained an impressive 6.3%. U.S. Treasuries rebounded with a 3.3% gain, and while cash equivalents only earned 1.1%, that was its highest quarterly return in 16 years.
- When positive on equities, the portfolio contains a 70-30 mix between U.S. large-cap and small-cap stocks. The portfolio also employs a 70-30 mix

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between U.S. and international equities, though we can deviate this mix by 10% on either side. After a long multi-year run favoring U.S. equities and dollar, we can envision a time when we increase the international equities in the portfolio, but we would need to see more dollar weakness and international relative strength to do so.

Positioning and Outlook

Let's revisit the four market segments important to the Global Tactical portfolio and their relative yields (as seen in the table below):

Market Segment and Yield	03/31/23
3-Month U.S. Treasury Bill Yield	4.7%
10-Year U.S. Treasury Yield	3.5%
Bloomberg High Yield Corporate Bond Index Yield	8.5%
S&P 500 Forward Earnings Yield	5.6%

Source: Ned Davis Research, Bloomberg. For illustrative purposes only. Past performance is not indicative of future results.

The first quarter of 2023 saw the yield curve fully invert, with the 3-Month T-Bill now yielding 1.2% more than the 10-Year Treasury. For Global Tactical investors, this statistic is very relevant, since the portfolio currently owns U.S. Treasuries exclusively. Since we purchased U.S. Treasuries on March 14th, the 10-Year yield has fallen from 3.64% to 3.29% as of April 5th. That has helped the portfolio enjoy modest gains during the holding period. Nevertheless, it's a fair question to ask why we don't own T-Bills when they deliver a higher yield and do not present duration risk.

To answer that question, we should first note that we did own cash equivalents from February until mid-March, as our models tagged them as having stronger relative strength. However, Treasuries surged in March as the U.S. experienced two of the three largest bank failures in its history. The March slide in Treasury yields turned our models positive on U.S. Treasuries. Our models pursue relative strength and investments that we believe are performing well and benefiting from investor flows. Thus, even though they yielded less than less volatile T-Bills, we purchased and own Treasuries because they are backed by recent trends and present greater upside opportunity.

Normally investors and finance media focus on broad economic data, with modest attention to inflation. However, when the Fed's tightening cycle began in early 2022, all of that changed and fixed income endured its largest losses since the early 1980s. The magnitude of the price and yield moves in Treasury and broad fixed income has been staggering.

The MOVE Index, an index of U.S. Treasury option volatility, reached 198.7 on March 15th during the banking stresses. Only during the meltdown of 2008 have markets experienced more interest rate turbulence. These volatility spikes have made our Global Tactical models more active than in the past, as we attempt to pursue market movements in the belief that trends will persist. During 2022 and early 2023, those trends have been more choppy than long and lasting.

Despite the bond market rockiness, stocks truly have not undergone a moment of capitulation by many measures that we follow. We believe that during the next 24 months, markets are likelier than not to endure at least a modest recession and some associated headline-making turbulence. However, we would still give greater odds to markets ending 2023 higher. In the 11 times that the S&P 500 has had a down year followed by a first quarter rally, in all 11 cases, stocks ended the year higher by an average of 11%. Many objective measures of market sentiment show excessive pessimism that could well fuel such a rally. Nevertheless, the strategy is driven by credit-based indicators. Right now, we maintain our defensive stance, and believe that sometime over the intermediate to long-term, playing defense will become important.

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The Bloomberg Aggregate Bond Index or "the Agg" is a broad-based fixed-income index used by bond traders and the managers of mutual funds and exchange-traded funds (ETFs) as a benchmark to measure their relative performance.

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 80% of U.S. equities.

The Nasdaq-100 is a stock market index made up of 101 equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange. It is a modified capitalization-weighted index.

The MOVE Index measures Treasury rate volatility through options pricing.

The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

A Treasury Bill (T-Bill) is a short-term U.S. government debt obligation backed by the Treasury Department with a maturity of one year or less. Treasury bills are usually sold in denominations of $1,000.

The 2 Year Treasury Rate is the yield received for investing in a US government issued treasury security that has a maturity of 2 years. The 2 year treasury yield is included on the shorter end of the yield curve and is important when looking at the overall US economy.

The 10-year Treasury yield is the yield that the government pays investors that purchase the specific security. Purchase of the 10-year note is essentially a loan made to the U.S. government.

The Bloomberg High Yield Index covers the universe of fixed rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, and 144-As are also included.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices. Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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