INVESTMENT COMMENTARY

Positive market momentum from the prior two quarters accelerated in the second quarter of 2023, albeit with historically narrow breadth. Investor sentiment improved and recession concerns dissipated, as the Fed introduced a "skip" into their monetary vernacular, as Chairman Powell explained the Fed's decision to seemingly postpone an eleventh rate hike in as many FOMC meetings, while anticipating another one or two additional rate hikes in 2023. Near term fiscal uncertainty was alleviated, as Congress passed and President Biden signed the Fiscal Responsibility Act, an agreement to lift the federal debt ceiling until 2025. Banking pressures also eased with no new U.S. regional bank failures during the quarter that weren't already on the radar from the previous quarter. The FOMC met twice during the second quarter and raised the Fed Funds rate by 25 basis points during the May meeting, increasing the target funds rate to 5.00 to 5.25%. The June FOMC statement highlighted; "Recent indicators suggest that economic activity has continued to expand at a modest pace. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated. The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks." U.S. Real Gross Domestic Product (GDP) while on the decline, increased at an annual rate of +2.0% during the first quarter of 2023. Inflation, as measured by the U.S. Consumer Price Index (CPI), rose by 4.0% for the twelve-month period ending May 2023. This is down sharply from 6.0% for the twelve-month period ending February 2023 but still well above the Fed's 2% long run inflation target. The Bureau of Labor Statistics (BLS) reported the unemployment rate continued to increase slightly in May to 3.7%, while the U6 measure of total unemployed declined to 6.7%, well below its 10.3% historical average. The Conference Board Consumer Confidence Index ended June at 109.7, up sharply from 104.2 in March, but back to where it finished the year in 2022.

The S&P 500 officially entered bull market territory on June 8th, having risen by over 20% since its October 2022 lows and returning +8.74% in the 2nd quarter. The tech-heavy NASDAQ 100 generated even higher returns with a +15.39% second quarter return. The Bloomberg U.S. Aggregate Index delivered a negative return for the quarter of -0.84%, given an increase in interest rates across the curve. The yield inversion between 2- and 10-year Treasuries nearly doubled and ended the quarter at 106 bps. The 2-year Treasury yield increased 87 bps to 4.90%, while the 10-year Treasury yield climbed 37 bps to finish the quarter at 3.84%. For the quarter, Treasuries returned (-1.38%). Investment grade (IG) corporate bonds were one of the top performing investment grade sectors, on a relative basis, returning (-0.29%), as credit spreads tightened. All other major investment grade bond sectors generated negative quarterly returns, including U.S. Agency Securities (-0.60%), Government-Related Credit (-0.47%), Mortgage-backed Securities (-0.64%), Commercial MBS (-0.60%) and Asset-backed Securities (-0.12%). U.S. High Yield Corporate Bonds outperformed all IG bond sectors and returned (+1.75%).

PIA remains confident the U.S. is heading for an economic slowdown. However, the PIA Investment Strategy Group (ISG) remains split regarding the magnitude and timing of a recession. We believe inflationary pressures, rather than cyclical U.S. economic weakness, will be the primary driver of our expected outcomes of either a shallow recession or a "growth recession". In addition to virtually every economic indicator pointing to an inevitable recession, we also need to calibrate the domestic economic impact of the ongoing war in Ukraine and the inflationary costs of alternative energy, global "re-shoring", and the impact of global diversification away from China. The Conference Board Index of Leading Economic Indicators has declined fourteen consecutive months and roughly 8% year over year, which is the largest pre-recession decline since the late 1960's. The inversion of the 3-month to 10-year Treasury yield curve has flawlessly predicted future recessions with a 100% historical correlation, and this yield curve has been inverted since late October 2022. The ISM Purchasing Managers Index (PMI), a key measure of strength in the manufacturing sector, contracted for the seventh consecutive month in May and remains below the key 50% level. Anecdotally, ten of the last thirteen rate hike cycles have resulted in recession. Yet, arguably the greatest economic challenge may prove to be global monetary policy, as several G7 central banks have

continued to hike rates to definitively quash inflation.

Interestingly, despite ten consecutive Fed rate hikes and rates 5.25% higher over the past year, roughly $90 billion in monthly quantitative tightening (QT) resulting in the greatest contraction in money supply in several decades, and a recent banking scare and seemingly imminent additional bank capital requirements, the economy continues to perform above expectations. However, we anticipate this economic trajectory changing as these policies work their way into the system along with additional factors, such as BEA analysis indicating that the pending end to the student loan forbearance program will reduce consumer spending by approximately $38 billion annually, near-negative population growth and a broken immigration policy, increasing credit and liquidity concerns in segments of commercial real estate (CRE), and rising personal debt levels and depleted household savings. We believe tighter lending standards and reduced availability of capital are the natural outcome of increased banking regulation and capital requirements, a key tenet supporting our economic outlook characterized by a return to single-digit corporate profits, reduced inflation below wage growth levels, a modest increase in unemployment, and moderation in consumer consumption. We anticipate the recent and long overdue service-sector wage improvements will remain sticky and supported by leisure industry productivity gains. Conversely, we anticipate asset values gradually returning to normal levels, i.e., historically normalized P/E multiples and a return to net positive real bond yields. When the Fed has done everything it can to normalize inflation, we expect structural inflation to remain in the 2.5-3% range due to additional producer cost layers associated with food and energy issues, on-going transition to alternative energy, and trending away from globalization to re-shoring. We believe the Fed will need to hold the funds terminal rate near 5% for an extended period to get inflation sufficiently down to/below the 3% level. This level implies a paradigm shift for businesses that have been operating on 1-2% capital, and households that have operated as net spenders. Lastly, we believe our outlook is reasonably optimistic but could quickly turn more negative due to geo-political events including, but not limited to, political inefficacy or conditions in the Ukraine-Russia region. Historically, event risks have created flights to quality leading to bond market rallies. However, either of these scenarios could lead to global destabilization coupled with higher interest rates.

In the second quarter, PIA portfolio duration remained short relative to our respective benchmarks, given relative value. We reduced our IG corporate weighting during the second quarter; however, we continue to overweight corporate debt with a focus on high quality credits with strong balance sheets. Our Industrial credits provide incremental risk-adjusted yield and our Financials are senior domestic debt we believe offer attractive compensation for their sector volatility. We increased our weighting in Agency MBS to a modest overweight during the quarter. In our Plus strategies, we modestly reduced our high yield credit exposure.

PIA Investment Strategy Group

KEY RATES

	6/30/23	12/31/22	12/31/21
Fed Funds Target Rate	5.0-5.25%	4.25-4.5%	0.0-0.25%
3 Month LIBOR	5.55	4.77	0.21
On-the-run Treasuries:			
3 Months	5.28	4.34	0.03
6 Months	5.41	4.75	0.18
2 Years	4.90	4.43	0.73
5 Years	4.16	4.00	1.26
10 Years	3.84	3.88	1.51
30 Years	3.86	3.96	1.90

Source: Bloomberg

KEY ECONOMIC INDICATORS

as of	6/30/23	12/31/22
U.S. $ (DXY)	102.9	103.5
Oil	70.6	80.3
Gold	1,919.4	1,824.0
CRB	262.0	277.7
GDP	2.0	2.6
CPI	4.0	6.5
Core (Ex - Food & Energy)	4.6	4.6
Unemployment Rate	3.7	3.5
Consumer Confidence	109.7	109.0
S&P/Case-Shiller – Comp-20	-1.7	4.6

Source: Bloomberg

INDEX RETURNS

	2Q'23	YTD	1-Year
Bloomberg –			
Universal	-0.59%	2.32%	-0.04%
Aggregate	-0.84	2.09	-0.94
Gov-Credit	-0.93	2.21	-0.70
Int. Gov-Credit	-0.81	1.50	-0.10
Corporate	-0.29	3.21	1.55
Treasury only	-1.38	1.59	-2.13
1-3 year Gov	-0.58	1.00	0.17
ICE BofA – 1-yr T-Note	0.42	1.67	1.93
High Yield	1.75	5.38	9.06
Global Aggregate	-1.53	1.43	-1.32
Emerging Markets Debt	1.12	3.30	5.64
S&P 500	8.74	16.88	19.56
DJIA	3.97	4.94	14.23
NASDAQ 100	15.39	39.35	33.13
MSCI EAFE	3.19	12.16	19.53

Source: Bloomberg

SECTOR RETURNS

2Q'23	Total Return	Excess Return
U.S. Treasuries	-1.38%	0.00%
Government-related U.S. Agency	-0.47	0.83
Government-related Credit	-0.47	0.98
Corporate	-0.29	1.31
Corporate Financials	0.21	1.59
Corporate Industrials	-0.44	1.25
Corporate Utilities	-1.19	0.63
Corporate AAA-rated	-0.99	1.03
Corporate AA-rated	-0.69	1.04
Corporate A-rated	-0.40	1.17
Corporate BBB-rated	-0.10	1.49
Corporate High-Yield	1.75	2.79
Mortgage-backed Securities-FR	-0.64	0.76
CMBS	-0.60	0.81
ABS	-0.12	0.58

Source: Bloomberg

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INDEX DESCRIPTION

Bloomberg U.S. Universal Index represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment-Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment-grade or below investment-grade. Some U.S. Universal Index constituents may be eligible for one or more of its contributing subcomponents that are not mutually exclusive. These securities are not double-counted in the index.

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The issues must be rated investment grade, be publicly traded, and meet certain maturity and issue size requirements.

Bloomberg U.S. Government/Credit Bond Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Intermediate Government/Credit Bond Index is the Intermediate component of the U.S. Government/Credit index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Corporate Bond Index covers USD-denominated, investment-grade, fixed-rate, taxable securities sold by industrial, utility, and financial issuers. It includes publicly issued U.S. corporate debentures and secured notes that meet specific maturity, liquidity, and quality requirements. Securities in the index roll up to the U.S. Credit and U.S. Aggregate indices. The U.S. Corporate Index was launched on January 1, 1973.

Bloomberg U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices.

Bloomberg U.S. 1-3 Year Government Bond Index consist of securities in the U.S. Government Index with a maturity from 1 up to (but not including) 3 years. Securities issued by the U.S. Government (i.e., securities in the Treasury and Agency Indices). Inclusions: Public obligations of the U.S. Treasury with a remaining maturity of one year or more. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government.

ICE BofA 1-Year US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury note that matures closest to, but not beyond, one year from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date.

Bloomberg Corporate U.S. High Yield Index - covers the universe of fixed rate, non-investment grade debt. 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, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The Yankee sector has been discontinued as of 7/1/00. The bonds in the former Yankee sector have not been removed from the index, but have been reclassified into other sectors.

Bloomberg Global Aggregate Index provides a broad-based measure of the global investment-grade fixed-rate debt markets. The Global Aggregate Index contains three major components: the U.S. Aggregate Index (USD 300 million), the Pan-European Aggregate Index (EUR 300 million), and the Asian-Pacific Aggregate Index (JPY 35 billion). In addition to securities from these three benchmarks (94.4% of the overall Global Aggregate market value), the Global Aggregate Index includes Global Treasury, Eurodollar (USD 300 million), Euro-Yen (JPY 35 billion), Canadian (CAD 300 million), and Investment-Grade 144A (USD 300 million) index-eligible securities not already in the three regional aggregate indices. The Global Aggregate Index family includes a wide range of standard and customized subindices by liquidity constraint, sector, quality, and maturity. The Global Aggregate Index is a component of the Multiverse Index.

The Bloomberg EM USD Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. The index is broad-based in its coverage by sector and by country, and reflects the evolution of EM benchmarking from traditional sovereign bond indices to Aggregate-style benchmarks that are more representative of the EM investment choice set. Country eligibility and classification as an Emerging Market is rules-based and reviewed on an annual basis using World Bank income group and International Monetary Fund (IMF) country classifications. This index was previously called the Barclays US EM Index and history is available back to 1993.

S&P 500 Index – The S&P 500 index includes 500 leading companies in leading industries of the U.S. economy. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The Dow Jones Industrial Average (DJIA) is an index used to measure the performance of the U.S. financial markets. Introduced on May 26, 1896 by Charles H. Dow, it is the oldest stock price measure in continuous use. Over the past century "the Dow" has become the most widely recognized stock market indication in the U.S. and probably in the entire world. Most of the stocks included in the index are listed on the New York Stock Exchange, and are all large blue-chip companies that reflect the health of the U.S. economy. All but a handful of these have major business operations throughout the world, thus providing some insight into the economic well-being of the global economy.

The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No security can have more than a 24% weighting. The index was developed with a base value of 125 as of February1, 1985. Prior to December 21, 1998 the Nasdaq 100 was a cap-weighted index.

MSCI EAFE Index is a capitalization weighted index that monitors the performance of stocks from Europe, Australiasia, and the Far East.

Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly.

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