Wespath
INSTITUTIONAL INVESTMENTS

March 2023 Investment Report

Highlights

- The Federal Reserve (Fed) raised the federal funds rate 0.25% to a range of 4.75-5.00% at the March Federal Open Market Committee meeting.
- The S&P 500 Index of U.S. stocks increased 3.7% in March, while non-U.S. stocks, represented by the MSCI ACWI ex-U.S. IMI Index, increased 2.1%. The Bloomberg U.S. Aggregate Bond Index increased 2.5%.
- Silicon Valley Bank (SVB) collapsed, marking the second-largest bank failure in U.S. history.
- The U.S. economy added 236,000 non-farm jobs in March, and the unemployment rate decreased to 3.5%.
- IEF-I outperformed its benchmark in March, while USEF-I, FIF-I, IPF-I and MAF-I underperformed their respective benchmarks.

Monthly Overview

Markets Rally Amid Banking Turmoil and Increased Rates from the Fed

The stock market rallied in March despite banking sector turmoil stemming from the two largest bank failures since the 2008 Great Financial Crisis. The Fed continued its battle against inflation by increasing rates by 0.25% but softened its outlook for further rate hikes from “ongoing increases” to “some additional policy firming may be appropriate.” The S&P 500 gained 3.7%, aided by strong performance from the technology and communications sectors. The Russell 3000 gained 2.7%, overcoming poor performance from the financial sector. International equities, measured by the MSCI ACWI ex-U.S. IMI, increased 2.1% as the U.S. Dollar Index declined 2.3%.

Fixed income markets rallied on expectations that the Fed is nearing the end of its most rapid rate hiking cycle in decades. The Bloomberg U.S. Aggregate Index and U.S. High Yield Index returned 2.5% and 1.1%, respectively. The yield on the 10-year U.S. Treasury Note declined 0.42% in March to finish the month at 3.49%.

Bank Failures

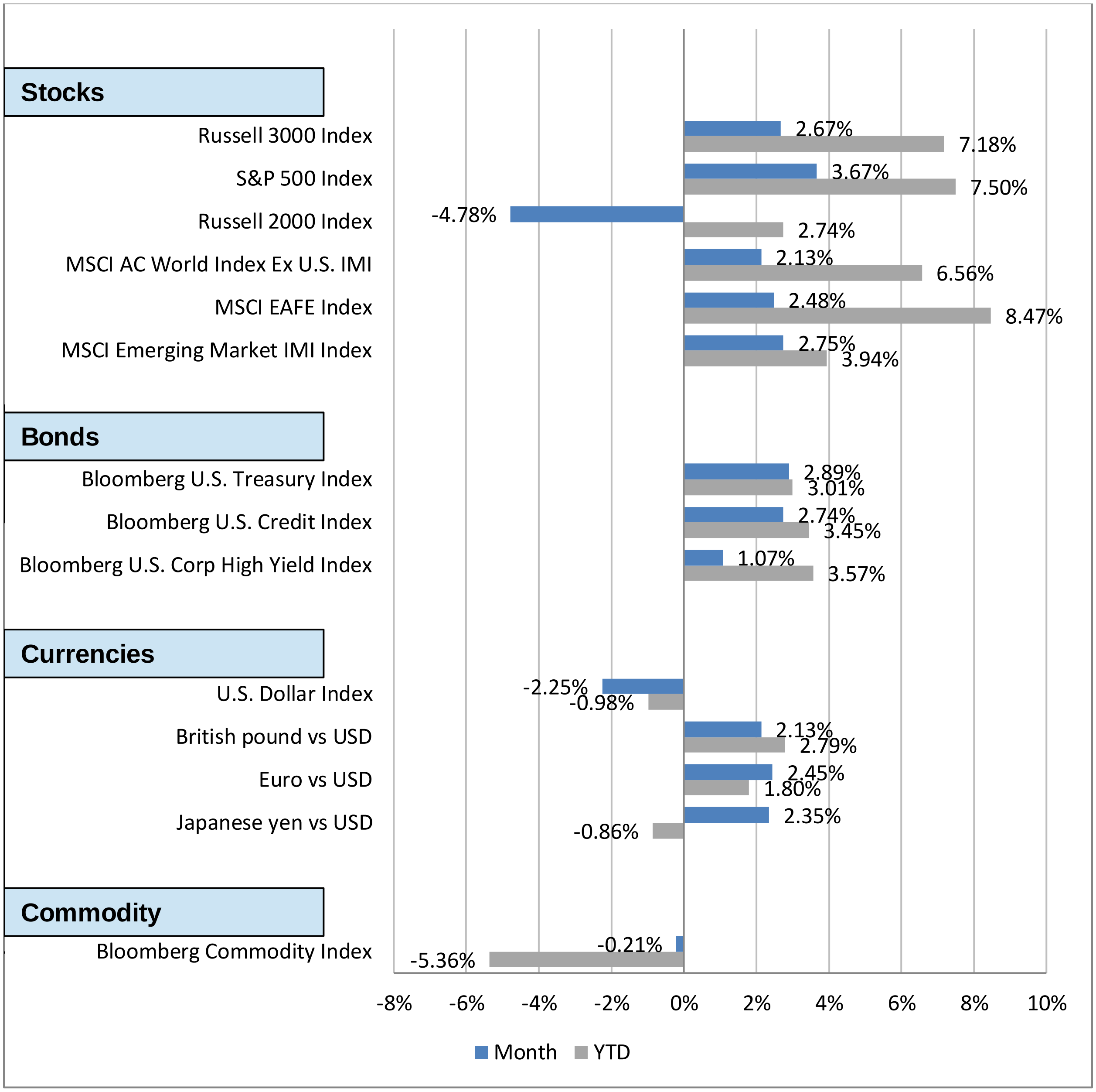
During March, SVB was unable to fulfill large-scale withdrawals of customer deposits and became the second largest bank failure in U.S. history. Prior to its demise, SVB announced the need to raise capital to shore up its balance sheet in response to significant market losses on its Treasury bond holdings. Word of SVB’s potential liquidity issues rapidly spread via Twitter, leading to a “run” on the bank when many customers rushed to withdraw deposits. Signature Bank subsequently also collapsed, becoming the third-largest bank failure in U.S. history. The U.S. Treasury, the Federal Reserve and the Federal Deposit Insurance Corporation worked to quell fears of possible contagion by guaranteeing all deposits at the two failed U.S. institutions. In Switzerland, authorities orchestrated the acquisition of Credit Suisse by rival bank UBS to prevent contagion in the global banking system.

Home Prices Decline, Layoff Announcements Continue

The National Association of Realtors reported the median existing home sale price declined year-over-year by 0.2% to $363,000 in February, ending a record streak of 131 months of annualized price increases. Citigroup, Tyson Foods, Meta, Amazon and Disney announced significant layoffs in March. Despite notable layoff announcements throughout the first three months of 2023, the unemployment rate remained at a low 3.5%. However, the Labor Department reported that job openings decreased in February to the lowest level since May 2021.

Sources: Bureau of Economic Analysis, New York Times, Seeking Alpha, Wall Street Journal, Reuters, and FactSet.

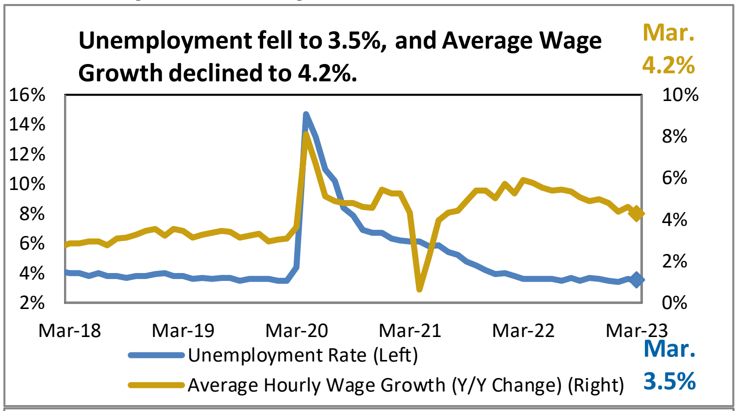
Market Performance



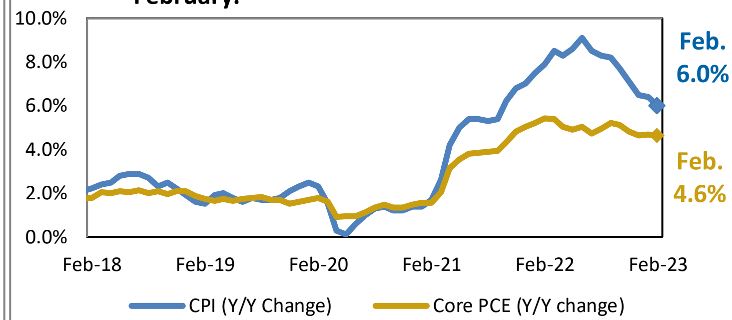
Source: FactSet, as of March 31, 2023.

Key Monthly Economic Statistics

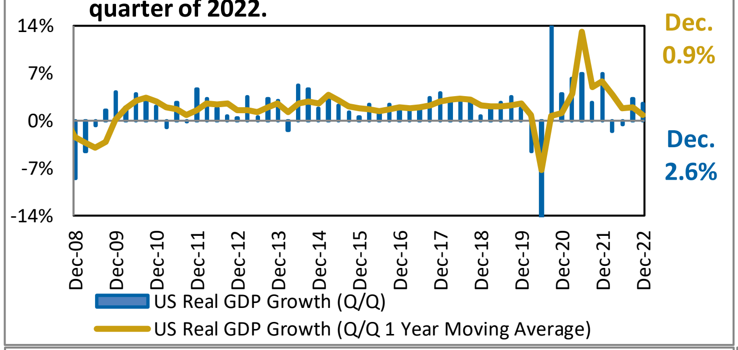
Unemployment fell to 3.5%, and Average Wage Growth declined to 4.2%.



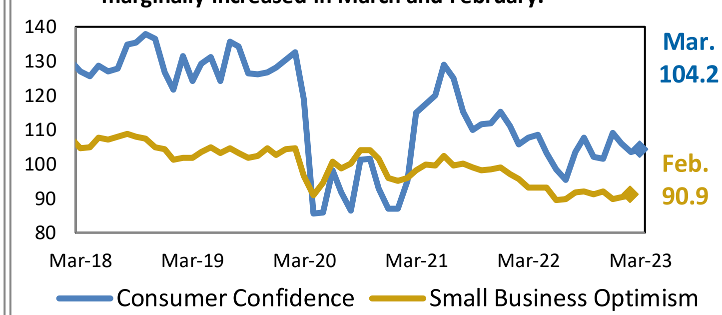
CPI inflation and Core PCE growth slowed in February.



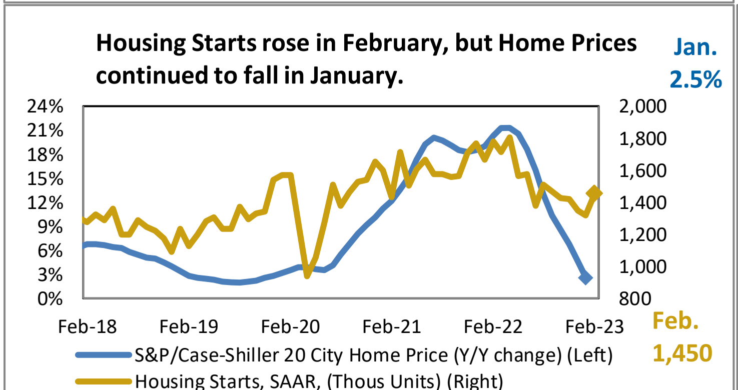
Real GDP was revised to 2.6% for the fourth quarter of 2022.



Consumer Confidence and Small Business Optimism marginally increased in March and February.



Housing Starts rose in February, but Home Prices continued to fall in January.



In March, the Fed Funds Rate increased to 4.8%, while the U.S. Dollar Index fell to 102.5.

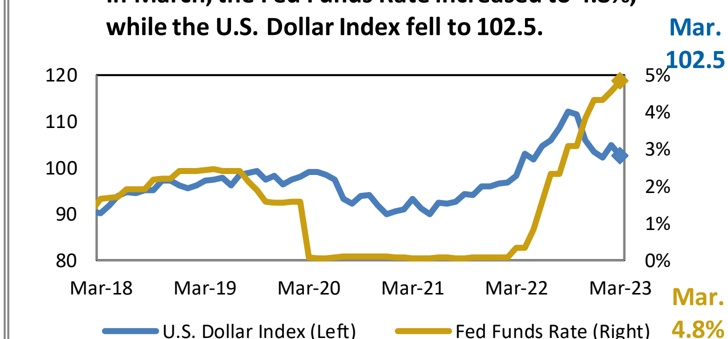
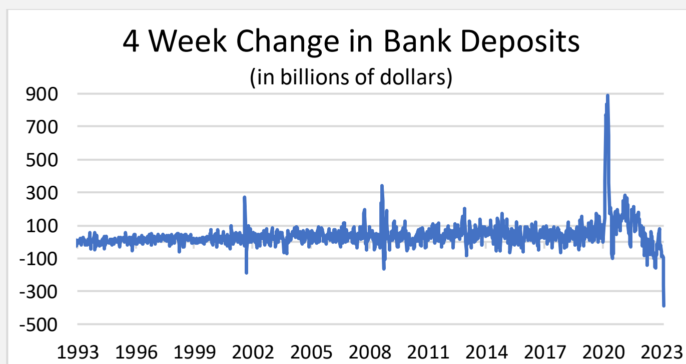


Chart of the Month

- After rising dramatically during pandemic-era stimulus, bank deposits began declining in the second quarter of 2022.
- Rising yields on money market funds have increasingly offered savers an attractive alternative to bank deposits.
- Banks are beginning to offer higher yielding certificates of deposit and savings accounts in an effort to retain deposits.
- Bank deposits declined significantly in March amid turmoil in the banking industry and the failures of SVB and Signature Bank.



Source: FactSet, U.S. Bureau of Labor Statistics, The Conference Board, Federal Reserve Bank of St. Louis, Bureau of Economic Analysis, National Association of Realtors, U.S. Census Bureau, S&P Global.

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Investment Fund Review (Net-of-Fees Performance)[i]

Equity Funds

U.S. Equity Fund – I Series

Fund	March	YTD
U.S. Equity Fund – I Series	1.23%	6.97%
Russell 3000 Index	2.67%	7.18%
Difference (percentage points)	-1.44	-0.21

- During the month and year to date, the fund underperformed its benchmark largely due to its strategic underweight to mega-cap tech companies, an overweight to small- and mid-cap value-oriented companies, and investments in private equity and private real estate. During both periods, the fund benefited from the majority of active managers outperforming their respective benchmarks.

International Equity Fund – I Series

Fund	March	YTD
International Equity Fund – I Series	2.48%	7.50%
MSCI ACWI ex U.S. Investable Market Index (Net)	2.13%	6.56%
Difference (percentage points)	+0.35	+0.94

- During the month and year to date, the fund outperformed its benchmark due to strong performance by a number of active growth-oriented managers and the fund's fair market valuation policy (described here). To a lesser extent, the fund was negatively impacted by investments in private equity and excluding certain stocks in accordance with WII's Investment Exclusions policies (described here).

U.S. Equity Index Fund – I Series

Fund	March	YTD
U.S. Equity Index Fund – I Series	2.61%	7.28%
Russell 3000 Index	2.67%	7.18%
Difference (percentage points)	-0.06	+0.10

- The U.S. Equity Index Fund – I Series is a passively managed fund designed so that it closely matches the fund benchmark, less fees and expenses. Year to date, certain stocks excluded in accordance with WII's Investment Exclusions policies (described here) contributed to relative performance.

Fixed Income Funds

Fixed Income Fund – I Series

Fund	March	YTD
Fixed Income Fund – I Series	2.03%	3.09%
Bloomberg U.S. Universal (ex MBS) Index	2.47%	3.05%
Difference (percentage points)	-0.44	+0.04

- During March, the fund's overweight allocation to high-yield rated corporate bonds, as well as core plus manager security selections, detracted from benchmark-relative performance.
- Year to date, the fund's overweight allocation to emerging market debt positively contributed to benchmark-relative performance, but the overweight allocation to Agency CMBS and high-yield rated corporate bonds detracted.

Inflation Protection Fund – I Series

Fund	March	YTD
Inflation Protection Fund – I Series (IPF-I)	2.18%	2.75%
IPF-I Benchmark[ii]	2.58%	3.00%
Difference (percentage points)	-0.40	-0.25

- The fund's allocation to emerging market inflation-linked bonds contributed positively to benchmark-relative performance during the month and year to date.
- The allocation to floating rate senior banks loans detracted from benchmark-relative performance in March, and the commodities manager's issue selection decisions detracted from benchmark-relative performance for both periods.

U.S. Treasury Inflation Protection Fund – I Series

Fund	March	YTD
U.S. Treasury Inflation Protection Fund – I Series	2.83%	3.43%
Bloomberg U.S. Inflation Linked Bond Index	2.92%	3.45%
Difference (percentage points)	-0.09	-0.02

- The U.S. Treasury Inflation Protection Fund – I Series is a passively managed fund designed to closely match the performance of the fund's benchmark, less fees and expenses.

Balanced Fund

Multiple Asset Fund – I Series

Fund	March	YTD
Multiple Asset Fund – I Series (MAF-I)	1.89%	5.70%
MAF-I Benchmark[iii]	2.45%	5.55%
Difference (percentage points)	-0.56	+0.15

- During the month, the International Equity Fund – I Series contributed positively to benchmark-relative performance, while the U.S. Equity Fund – I Series, Fixed Income Fund – I Series and Inflation Protection Fund – I Series while detracted.
- Year to date, the International Equity Fund – I Series and Fixed Income Fund – I Series contributed positively to benchmark-relative performance, while the U.S. Equity Fund – I Series and Inflation Protection Fund – I Series while detracted.

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[i] Historical returns are not indicative of future performance. Fund returns are net of fees. Please refer to the ***Investment Funds Description – I Series*** for more information about the funds. This is not an offer to purchase securities.

[ii] The benchmark for the Inflation Protection Fund – I Series was comprised of 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index through January 31, 2023. Effective February 1, 2023, the benchmark for the Inflation Protection Fund – I Series is 90% Bloomberg U.S. Treasury Inflation-Linked Bond Index and 10% Bloomberg Commodity Index.

[iii] The benchmark for the Multiple Asset Fund – I Series is comprised of 35% Russell 3000 Index, 30% MSCI All Country World Index (ACWI) excluding USA Investable Market Index (IMI), 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities, and 10% IPF Benchmark.