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SUMMARY

February 2023 Market Commentary

Hyped Up Over AI

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February 2023 Highlights:

- After initially rallying on January's strong start to the year, global equity markets pulled back reflecting increased uncertainty over the macroeconomic, geopolitical, and corporate profitability outlook, despite signs that the global economy was not facing imminent recession. Ongoing favorable winter and net energy demand reductions continue to help the European outlook as European equity markets have led global markets this year while emerging markets and pan-Asian markets pulled back as investor sentiment soured on China over renewed regulatory crackdowns and potential sanction risk if reports of China's arms sales to Russia come to fruition. In February, the MSCI All-Country World Index (ACWI) dropped -2.9%.

Key Benchmarks: Performance and Characteristics as of 2/28/2023

Equities	MTD	QTD	YTD	1-Yr Fwd P/E: Current vs 10-Yr Range		
S&P 500	-2.4%	3.7%	3.7%	*17.7x*	*13.7x*	*22.9x*
MSCI EAFE	-2.1%	5.8%	5.8%	*13.1x*	*11.2x*	*18.2x*
MSCI Emerging	-6.5%	0.9%	0.9%	*11.0x*	*8.4x*	*14.1x*

Fixed Income	MTD	QTD	YTD	Real Assets	MTD	QTD	YTD
Bloomberg Barc U.S. Aggregate	-2.6%	0.4%	0.4%	US REITs	-5.9%	3.6%	3.6%
Bloomberg Barc US High Yield	-1.3%	2.5%	2.5%	GSCI Commodities	-3.8%	-3.9%	-3.9%
Bloomberg Barc Global Agg ex U.S.	-4.0%	-0.6%	-0.6%	GSCI Prec Metals	-5.9%	-0.8%	-0.8%

Data Source: Bloomberg

- Across major regions, Europe and U.S. markets outperformed Pan-Asia. In February, MSCI Europe and the S&P 500 returned -0.6% and -2.4%, respectively, while MSCI Japan dropped 6.5% followed by MSCI Emerging Markets (-6.5%) and MSCI Pacific ex-Japan (-6.8%). The U.S. dollar recovered from January's depreciation in response to higher inflation readings that would likely prompt a more hawkish policy response from the Federal Reserve.
- Within the U.S., U.S. smalls caps continued to benefit from a high beta rally outperforming large caps, while value stocks underperformed growth stocks, dragged down by late cyclicals such as Energy; however both Pure Style Indices underperformed the S&P 500. The S&P 600 Index returned -1.2% versus -2.4% for the S&P 500. S&P Pure Value underperformed Pure Growth, returning -5.9% versus -3.2%, respectively.
- Across sectors, large cap growth stocks that comprise the majority of sector weightings across Technology and Consumer Discretionary along with Industrials contributed to the sector outperformance while defensive sectors such as Healthcare, and Utilities along with Real Estate and Energy lagged; the Energy sector was hurt by lower commodity prices, particularly natural gas.
- February was another challenging month for Risk Factor performance as all major risk factors, except High Quality, underperformed the broader market. Among Risk Factors, High Quality outperformed Value, High Dividend, Minimum Volatility, and Momentum all clustered together.
- Fixed Income market returns also declined in February with the rise in interest rates, a reversal from the drop seen in January. The Bloomberg U.S. Aggregate Bond Index declined 2.6% for the month while the Global ex-U.S. Aggregate dropped 4.0%, pressured by a strengthening dollar against local currencies. The 10-Year U.S. Treasury yield ended the month at 3.9%, up from 3.5% at the beginning of the month.
- Non-U.S. bonds and emerging market local currency bonds underperformed U.S. bonds hurt by U.S. dollar strength. U.S. high yield outperformed investment grade corporates due to a combination of lower interest rate sensitivity (lower duration) and stable credit spreads versus widening investment grade spreads that hurt the former. The Bloomberg US High Yield Index dropped 1.3%, while Bloomberg/Barclays Emerging Market Debt LC dropped 4.0%.
- Within equity alternatives, Commodities outperformed Real Estate and Precious Metals although all three were down in February. The S&P GSCI Commodities Index returned -3.8% for the month while both the Dow Jones REIT Index and the S&P GSCI Precious Metals Index dropped 5.9%. Industrial metals dropped over diminishing industrial-driven demand coming out of China while oil prices remain range-bound between $70-$80/barrel. Commodity market weakness was broad-based across agriculture and industrials with only Cocoa, Coffee, and Live Cattle up for the month.

Hyped Up Over AI

Source: istockphoto.com

"ChatGPT and other Generative AI platforms will have huge implications for business productivity…In a world where ChatGPT and other AI apps can do many things humans once needed to do themselves or needed to hire other humans to do, the question of 'how will I add value?' becomes more relevant than ever."

– Hendrith Vanlon Smith Jr, CEO of Mayflower-Plymouth, Business Essentials

"Part of the inhumanity of the computer is that, once it is competently programmed and working smoothly, it is completely honest."

– Isaac Asimov, "Change! 71 Glimpses of the Future"

The launch of ChatGPT in November 2022 has kicked off a new gold rush in futuretech, namely the buildout of artificial intelligence capabilities to enhance industrial productivity and competitiveness (not to mention writing term papers). Growth-minded investors have shifted their focus from digital assets/crypotocurrencies to the metaverse and now to artificial intelligence as ChatGPT, which has helped bridge the practical to the theoretical based on "artificial general intelligence [built on deep learning and leveraging large amounts of data]…that can solve human-level problems (OpenAI)." Beyond ChatGPT, the potential for promising applications from AI-driven solutions and assistance seem endless. Some examples:

- Enhanced web searches and targeted advertising (i.e. more direct engagement),
- Medical treatments/diagnoses,
- Business productivity covering investment management and cybersecurity, and
- Enhanced customer service and social engagement.

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