GIA PARTNERS

4th Quarter 2022

Highlights

- **While the Fed raised rates another 125 b.p. in 4Q, markets recovered from their October lows. For the year, stocks and bonds performed poorly. Our portfolios had a solid quarter and a mixed 2022.**
- **Elevated inflation and aggressive rate hikes were key factors for the economy in 2022. During 4Q, the economy began to slow and is expected to deteriorate further in 2023.**
- **After years of fiscal and monetary stimulus, governments globally built-up enormous debt. At its current size the debt load for many countries, including the U.S., may be unsustainable.**

Markets

		Returns (%)			
GIA	Average Quality	4Q22 Gross	4Q22 Net	12 Months Gross	12 Months Net
Core Plus Composite	**(A)**	**2.96**	**2.87**	**-12.88**	**-13.19**
Global Investment Grade Composite	**(A-)**	**3.35**	**3.25**	**-14.70**	**-15.04**
Global Credit Plus Composite	**(BBB+)**	**3.79**	**3.66**	**-13.24**	**-13.67**
High Yield Composite	**(BB-)**	**5.43**	**5.29**	**-10.26**	**-10.75**
Emerging Market Corporate Debt Composite	**(BB+)**	**7.11**	**6.95**	**-11.89**	**-12.42**
Benchmark Bonds					
Bloomberg U.S. Agg. Index	(AA+)	1.87		-13.01	
Treasury	(AAA)	0.72		-12.46	
Corporate	(A-)	3.63		-15.76	
Mortgage	(AAA)	2.14		-11.81	
Government/Credit	(AA)	1.80		-13.58	
ICE BofA U.S. Corporate & Yankees	(A-)	3.39		-15.13	
ICE BofA U.S. Corporate	(A-)	3.53		-15.44	
ICE BofA U.S. High Yield	(B+)	3.98		-11.22	
ICE BofA EM Corporate Plus	(BBB)	4.57		-13.84	
ICE BofA Global Gov't ex-US	(AA-)	-1.36		-13.48	
JPM Emerging Markets EMBI GD	(BB+)	8.11		-17.78	
JPM CEMBI Broad Diversified	(BBB-)	4.72		-12.26	
JPM GBI-EM Global Diversified	(BBB+)	8.45		-11.69	
Benchmark Equities					
S&P 500	NA	7.08		-19.44	
Nasdaq Composite	NA	-1.03		-33.10	
Russell 2000	NA	5.80		-21.56	
MSCI EAFE	NA	17.00		-16.79	
MSCI Europe	NA	19.53		-17.08	
MSCI Japan	NA	13.82		-17.91	
MSCI Emerging Markets Equity	NA	9.20		-22.37	

* Please refer to the respective factsheets for the long-term composite and benchmark returns for each strategy.

Markets

Intense focus on the Fed and the likely path of its policy actions dominated financial markets during the fourth quarter. In an unusual battle of wills, after October's lows, stocks and bonds rallied despite repeated admonitions that policy rates would move higher and persist longer than investors expected. This tug-war-war began after inflation readings registered better-than-expected numbers. In addition, economic data and commodity prices suggested inflation's "high print" occurred in the second quarter. In the final weeks of the year, stocks gave back some of the recovery but still improved meaningfully for the quarter. Not including dividends, the S&P 500 returned 7.1% while European stocks gained 19.5% and emerging markets posted a gain of 9.2%. Bonds also recovered from their October lows with a near 40 basis point decline in yields across the curve. The Bloomberg Aggregate Index returned 1.87% with US treasuries adding 0.72%, corporate bonds gaining 3.6% and mortgages posting a 2.1% gain. A casualty of the quarter was the U.S. dollar which declined against most major currencies. The US Dollar Index fell 7.7%.

For all of 2022, financial markets suffered a crushing blow. Inflation, reversals in monetary and fiscal policy, Russia's unprovoked war, and a world trying to move past the Covid-19 pandemic combined to produce one of the worst periods of negative returns across asset classes in history. Stocks and bonds, normally negatively correlated, declined sharply. Some commodities rose due to shortages caused by the war and the dollar improved, but real estate, metals, alternative assets, and crypto currencies fell. For the year, global stocks declined with markets like the Nasdaq down -33%, the S&P 500 down -19%, European stocks down -17% and emerging markets down -22%. Meanwhile, the Bloomberg US Aggregate Bond Index had its worst year ever, down -13% with corporate bonds down nearly -16%, mortgage-backed securities down close to -12%, high yield down -11%, and global, non-US bonds declining -14%.

Investment grade credit posted strong relative returns on the heels of improved sentiment and a rally in longer duration securities. For the quarter, the investment grade corporate bond index, the ICE BofA U.S. Corporate Index (C0A0), was up 3.53% which carved into a painful nine-month loss and left the full year result at -15.44%. By comparison, the U.S. treasury index (G0Q0) returned +0.72% for the quarter and declined -12.86% year-to-date. Corporate option adjusted spreads (OAS) narrowed 29 b.p. to 138 b.p., while the yield to worst of the index declined from 5.71% to 5.50%. Investment grade issuance decelerated as market volatility, wide spreads and higher yields made issuers hesitate. During the quarter, issuance was $222.8 billion compared to $318.7 billion for the fourth quarter of 2021. For the year, issuance totaled $1.40 trillion compared to $1.67 trillion in 2021. Given market conditions, including higher rates and wider spreads, issuance remained reasonably healthy in 2022.

The high yield market had another volatile quarter, although considering poor sentiment related to the Fed and economic growth, the sector performed relatively well. The ICE BofA U.S High Yield Index (H0A0) was up 3.98% for the quarter and down -11.22% for the year. At quarter-end the spread to worst for the sector narrowed by 56 b.p. from 544 b.p. to 488 b.p. By ratings, spreads were: BB +321 b.p., B +530 b.p., and CCC +1,142 b.p. Energy, the largest industry in the index, outperformed again, returning +4.19% for the quarter and -5.51% for the full year. The improvement in spreads pushed the yield-to-worst for the sector down from 9.49% to 8.95%. High yield retail investors reversed a string of outflows, adding $7.3 billion during the quarter. The reversal was not large enough, however, to keep the full year -$47.0 billion outflow from being a record. During the quarter, there were no defaults, although there were distressed exchanges. The default rate including distressed exchanges rose to 1.65% (0.84% not including distressed exchanges), which remained well below the historical average of 3.2%. The new issue market remained dormant after record borrowing last year. For the quarter, issuance was only $16.6 billion, the lowest quarterly issuance since the first quarter of 2009, and $106.5 billion for the full year was $376.5 billion below last year's volume.

Emerging markets bonds also had a relatively strong quarter on a combination of better news, a weakening U.S. dollar and lower interest rates. China's moves to relax Covid restrictions and stimulate the economy helped improve sentiment. The dollar's reversal helped ease the pressure from the Fed's restrictive policy, and broad-based economic recoveries in many countries improved sentiment for the sector. While the Russia/Ukraine conflict showed no signs of abating, the prospect of a widening global conflict appears to have diminished. For the quarter, the JPM Emerging Market Bond Index

– Global Diversified (EMBIGD), a dollar denominated sovereign index, was up 8.11% but down a painful -17.78% year-to-date, the JPM Corporate Emerging Markets Broad Diversified Index (CEMBI BD) also fared well increasing 4.72% for the quarter yet declining -12.26% for the full year, and the JPM Global Bond Index – Emerging Markets Global Diversified (GBI-EM Global Diversified), a local markets index, gained 8.45% for the quarter but declined -11.69% in 2022.

Economy

From an economic perspective, 2022 was about inflation and the Fed. A year that started with promise related to the end of the pandemic was quickly marred by a dramatic shift in monetary policy, an unprovoked war, spiraling energy prices, and draconian Chinese Covid restrictions. The Fed's steepest and swiftest hikes since the 1980s brought the economy's momentum to a screeching halt, driven primarily by abrupt turns in housing and other "high ticket" items. During the last quarter, the Fed raised the Fed Funds rate by 125 b.p., although December's hike was 50 b.p., a 25 b.p. downshift from the prior four moves. The final hike occurred despite evidence that many components driving inflation higher had begun to ease. By year-end, most economists and Wall Street were forecasting a recession in 2023. Two elements that did not show a meaningful adjustment were wages (employment) and corporate profits. Private sector financial health proved to be an important counterweight to the Fed's hawkish moves.

Other helpful developments were a less damaging European winter which brought energy prices down sharply and ameliorated an expected recession for the region. With decisive alternative energy investments underway, 2023 prospects for Euro Area growth look better. Furthermore, China abruptly abandoned its zero Covid policy and instituted growth policies that were missing during much of 2022. With both Europe and Asia looking to rebound next year, the global outlook should be better.

A review of industries confirms companies remain in good financial shape, even though most anticipate slower activity in 2023 and many still complain about labor shortages. Financials, led by banks, continue to enjoy solid balance sheets, modest upticks in delinquencies, and ample liquidity. Autos saw reduced sales volumes, but elevated selling prices, improved inventory management, robust profitability, and unfilled demand aided the industry. Covid-affected industries like airlines and cruise lines experienced strong recoveries and bookings. While not all capacity has been restored, occupancy already matched or exceeded pre-pandemic levels. Away from housing, some industries experienced a correction, like transportation with lower volumes and rates, and retailing with excess inventories and cost pressures. Technology, which enjoyed tremendous growth and attention during Covid, is now facing slower demand. Tech is one of the few industries laying off workers. Altogether, companies remain healthy and prepared for a shallow recession in 2023.

Scenarios

We propose three scenarios for the U.S. economy over the next 6 months:

1. Our most likely case has the U.S. economy growing about 1.0 to 1.5% at an annual rate in 1Q and slower (0.5 to 1.0%) in 2Q 2023. The 3Q and coming 4Q 2022 GDP reports likely exceeded early forecasts due to robust consumption and an improvement in net exports. Despite these solid numbers, the Fed's rate increases are depressing economic activity and a coming slowdown is now widely anticipated. Aside from higher rates, cautious capex plans and slower hiring will likely temper activity early in the year. By the second quarter, we expect the Fed to pause rate increases which by then will affect a larger share of the economy. By mid-year growth will likely be near zero. PROBABILITY 60%

2. A second scenario has the economy slowing to a rate of -0.5% to 0.5% at an annual rate during the next six months. In this scenario, the Fed's rate hikes, including during 1Q 2023, have a quicker and more debilitating

impact on the economy bringing consumption, corporate investment, and overall demand down quickly. In this scenario, the Fed may pause after its February 1 policy decision and the anticipated global boost from activity in Europe and China fails to materialize. PROBABILITY 25%

3. A third scenario has the economy expanding at a faster pace of 2.5% to 3.0% at an annual rate during the next six months. In this scenario, personal consumption remains robust aided by low unemployment and higher income. Lower energy prices and easing housing prices boost consumer confidence and offset the Fed's efforts. In an unusual twist for a higher growth scenario, near-term growth may force the Fed into additional rate hikes likely leading to a more severe growth swoon in the future. PROBABILITY 15%

Market Outlook

With the benefit of additional data and a central bank nearing the end of its tightening cycle, the range of outcomes seems to be narrowing. Specifically, the Fed is succeeding in slowing the economy and this appears to be occurring without widespread damage. We expect near-zero growth by mid-2023 with the Fed Funds rate paused at 5.00% to 5.25%. Since this is a highly anticipated slowdown, companies are prepared, and consumer finances are likely to remain healthy. As inflation moderates, we believe the economy can return to modest growth. During the year, we expect the global economy to be aided by better-than-expected performance in Europe and a resurging Chinese economy. This forecast may be further supported by an acceptable resolution to the Russia/Ukraine conflict.

Despite the economy's path, we believe financial markets will perform better in 2023 than in 2022 because valuations already discount slowing activity and corporate balance sheets remain in good shape. Furthermore, the Fed's pause will be predicated on stable to declining inflation, which has already commenced with declining energy and real estate prices. The strong labor market should keep consumer sentiment acceptably buoyant. Without taking excessive risk in the portfolios, we anticipate retaining our overweight to credit while maintaining a neutral exposure to changes in interest rates.

January 15, 2023

Important Information

GIA Partners, LLC (“GIA”) is an SEC registered investment adviser.

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Management Fees, as well as account minimums and other important information are described in GIA’s Form ADV - Part IIA. Since management fees are deducted quarterly, the compounding effect will be to increase the impact of such fees by an amount directly related to the account’s performance. For example, an account with a 10% gross annual return and a 1% annualized management fee that is deducted quarterly will have a net annual return of about 8.9%.

Index Definitions

Bloomberg U.S. Aggregate Index
The Bloomberg U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Bloomberg U.S. Treasury Index
This index is the U.S. Treasury component of the U.S. Government index. Public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Bloomberg U.S. Government/Credit Index
The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries and agencies. 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 Index
This index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. (Future Ticker: I02765US)

Bloomberg U.S. Mortgage Backed Securities Index
This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

ICE BofA U.S. Corporate & Yankees Index
The ICE BofA U.S. Corporate & Yankees Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market by US and non-US corporations and non-US quasi-governments.

ICE BofA U.S. Corporate Index
The ICE BofA U.S. Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody’s, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody’s, S&P and Fitch foreign currency long term sovereign debt ratings).

ICE BofA U.S. High Yield Index
The ICE BofA U.S. High Yield Index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

ICE BofA US Emerging Markets Corporate Plus Index (EMUB)
The ICE BofA US Emerging Markets Corporate Plus Index is a subset of The ICE BofA Emerging Markets Corporate Plus Index including all securities denominated in US dollars.

ICE BofA Global Government Excluding the U.S. Index (N0G1)
The ICE BofA Global Government Excluding the U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency. N0G1 excludes U.S. government bonds.

Emerging Markets Bond Index Global Diversified (EMBI® Global Diversified):
The EMBI Global Diversified is a uniquely-weighted version of the EMBI Global. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global.

JP Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified)
The CEMBI tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. Two variations are available: CEMBI Broad and CEMBI. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds. The CEMBI Broad Diversified limits the weights of those index countries with larger corporate debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding.

JP Morgan Government Bond Index-Emerging Markets (GBI-EM)
The GBI-EM is the first comprehensive, global local Emerging Markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. Variations of the index are available to allow investors to select the most appropriate benchmark for their objectives.

S&P 500 Index
An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. 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.

Nasdaq Composite Index
An index that tracks the change in the total market value of all companies listed on the Nasdaq Stock Market.

Russell 2000 Index
An index measuring the performance of the 2,000 smallest companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small cap stocks in the United States.

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

MSCI Europe Index
The index is a free-float weighted equity index measuring the performance of Europe Developed Markets.

MSCI Japan Index
The index is a free-float weighted equity JPY index.

MSCI Emerging Markets Equity

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.