First Quarter 2023

SEI forward.

James Smigiel

Chief investment officer

***Tales of the tape (YTD as of 3/31/2023)**: U.S. equity +7.50%, Global ex-U.S. equity +7.00%, Global treasuries +3.08%, U.S. 10-year Treasurys +3.70%, Commodities -5.36%*

***Notables (YTD as of 3/31/2023)**: U.S. banking sector -17.26%, U.S. technology sector +21.82%, Equal-weight S&P +2.93%, Gold +8.11%*

Uncertainties abounded in the first three months of 2023 as markets digested the impacts of an unprecedented global tightening cycle, banks failures, and forced mergers. Somewhat surprisingly, despite this laundry list of market headwinds, investors broadly finished the quarter no worse for wear. Pockets of pain were clearly felt for sure, but the story of the quarter is one of resilience *and divergence*.

Mega-cap technology stocks acted like a new flight to quality asset as banking concerns erupted in March, providing a ballast to both U.S. and global-developed equities while the banking sector as a whole was painted with a broad negative brush. Credit was relatively well behaved despite resurfacing memories of 2008 while U.S. Treasurys and gold played their typical roles as safe ports in the storm.

Outlook

Looking forward, we see opportunities and risks in both the resilient (equities, credit) and the divergent (value, rates). Specifically, we are fading the resilient and leaning into the divergent.

From a top down perspective, we remain cautious on equity markets. The strong rally in growth stocks at the end of the quarter prompted us to modestly raise cash levels relative to U.S. large cap equities. We see the impact of higher rates and tighter policy expanding beyond the highly sensitive (i.e. housing) sectors into the broader economy. We also question the highly reactive central bank moves expected by the market. Investors have become Pavlovian in regard to central bank stimulus—equity markets fall, central banks cut rates. We question whether this reaction function will remain in place in a regime of stubborn inflation rates. In other words, we see headwinds for the equity markets and do not expect central banks to come to the rescue as they have in the past.

Within equities we continue to focus on our core approach; favoring high **quality** companies with positive earnings **momentum** at reasonable **valuations**. Value specifically remains a more focused exposure (although is, in general, slightly down from 2022) due to our view that valuation spreads, or the dispersion between stocks representing high and low measures of value, remains historically wide. Our positioning is also supported indirectly by our top-down views on stubborn inflation and less reactive central banks which also suggests higher interest rates in the near term.

Our sector positioning, as a reminder, is a result of our stock selection and our alpha source approach; we focus our portfolios on value, quality, momentum and at times, low-volatility stocks and avoid other exposures, such as speculative growth names. Broadly, our equity shareholders will currently find our portfolios leaning into financials and materials given our preference for value, industrials given our positioning in momentum, and health care via our quality and low-volatility positioning.

Regarding fixed income, interest rate volatility has been historic in nature during the first quarter which has prompted some caution regarding duration exposure. Our top-down view is for higher rates based on our economic outlook and the recent rally in the space which we see as overdone. Our portfolio positioning, however, remains modest and more mixed—from slightly long to slight short duration.

As previously noted, credit markets have held up relatively well, however, similar to our directional view of equity markets, we see benefits in a more defensive posture. Our investment-grade portfolios continue to shy away from below investment grade and have been favoring more securitized sectors, such as asset- and mortgage-backed securities to attain attractive yields and a better credit profile. Default rates have been running below trend and favorable maturity profiles may enable a more stable environment even in challenging economic times. That said, our high-yield portfolios have also been selectively upgrading exposures as the current yield environment doesn't warrant stretching for extra basis points.

Lastly, while the reopening of China was greeted with much fanfare to close out 2022, investors appear increasingly skeptical thus far in 2023. We remain cautiously optimistic here that the economic impact of from China could outperform current expectations. This near term potential for robust economic growth out of Asia, coupled with our longer term focus on structural under investment in several sectors leads to our continued, favorable view of commodities.

In closing, while the first quarter of the New Year was a challenging one, we believe our portfolios are well positioned going forward.

Summary views

Macro/ Cross-Asset	• *Inflation stubbornly high* • *Monetary policy tighter for longer versus market expectations* • *Intermediate interest rates higher particularly off the recent rally in March* • *Headwinds for equity markets; increase in cash allocation* • *China re-opening impulse may still be a factor; continue to favor commodities*
Equity	• *Strategic holdings in value, quality, momentum, and low volatility* • *Favoring value, although less than from 2022* • *Sector focus broadly includes materials (value), industrials (momentum), and health care (quality)*
Fixed Income	• *Interest rate volatility unusually high; modest duration positioning* • *Active in corporates but favoring securitized sectors for attractive yield and credit profile*

Indexes

U.S. equity=S&P 500 Index, Global ex-U.S. equity=MSCI ACWI ex-U.S. Index, Global treasuries=Bloomberg Global Treasury Index, 10-year Treasurys=ICE BofA Current 10-year U.S. Treasury Index, Commodities=Bloomberg Commodity Index, U.S. banking sector=S&P Banks Select Industry Index, U.S. technology sector=S&P Information Technology Sector Index, Equal-weight S&P=S&P 500 Equal Weighted Index, Gold=S&P Goldman Sachs Commodity Gold Index.

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