Second Quarter 2023

SEI *Forward*.

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Chief investment officer

Tales of the tape (second quarter): *U.S. equity +8.74%, Global ex-U.S. equity +2.44%, Global treasuries -2.44%, U.S. 10-year U.S. Treasury yield 3.82%, Commodities -2.56%*

Notables (second quarter): *U.S. technology sector +17.20%, Equal-weight S&P +3.99%, China Equity -9.79%, Bitcoin +7.01%, Japanese yen/U.S. Dollar -7.9%*

Despite a mixed bag of surprises, disappointments and capitulations, risk assets managed to rally further during the quarter as ChatGPT and the potential of an artificial intelligence (AI) revolution took hold of investors' imaginations. This rising tide did not lift all boats equally—the newly minted "Magnificent 7" (Apple, Microsoft, Amazon, Nividia, Google, Tesla, and Meta) dominated market performance once again. The rest of the capital markets faced some headwinds, including yet another significant bank failure in the U.S., sticky global inflation, stubbornly hawkish Central Banks, further disappointment in the China rebound, and the complete and total capitulation on U.S. rate cut expectations this year. This laundry list left broader equity market returns more modest, boosted yields, and kept commodities under pressure.

Outlook

As we move forward into the second half of 2023 we remain broadly cautious. We see risks in elevated and concentrated equity market valuations, resolute central banks and the yet-to-be-fully-felt effects of interest rate normalization on economies, markets, corporations, and consumers. The AI boom for mega-cap technology stocks in the quarter certainly feels frothy as the forward price-to-earnings bar has now been set extremely high. We also expect yields to grind higher and eventually put additional pressure on growth stocks despite the second quarter rally coinciding with several central banks outside of the U.S. unexpectedly pivoting back to further rate hikes.

In addition, while we expect inflation to continue to moderate, we believe the path to normalization will still take longer than the market expects prompting central banks to maintain tighter policy for a longer period than is currently priced in. From a top down perspective, we maintain elevated cash levels relative to U.S. equities as we believe the second half of the year will be particularly challenging given current valuations and perhaps still too optimistic earnings expectations given our view of the macroeconomic backdrop.

Within equities, a diversified posture focused on Quality, Momentum, and Value remains our core approach. We see the significantly narrow leadership thus far in the equity markets as unsustainable and caution against performance chasing at these levels. Valuation spreads, representing the dispersion between "cheap" and "expensive" stocks, have given back some ground taken during 2022 yet our positioning remains broadly unchanged. From a sector perspective, we find value in financials and materials, remain focused on earnings momentum within industrials and continue to seek out quality exposure in health care.

Regarding fixed income, interest rate volatility remains historically high; therefore, our directional interest rate positioning remains modest with a slight bias for lower rates into year-end. Securitized sectors such as mortgage-backed securities remain a favorite in our investment-grade portfolios given attractive yields and high-quality credit profiles. Credit markets have participated in the recent risk rallies with investment-grade and high-yield spreads at the tightest levels of the year, thus we continue to take a more defensive posture. Broadly, the rise in absolute yields provides little incentive to stretch for extra basis points in credit spreads.

Commodities remain a focus given shorter term catalysts such as potential China stimulus (despite significant disappointment this far), aggressive oil supply cuts from OPEC+ (the Organization of the Petroleum Exporting Countries and a group of other oil

producers that includes Russia), and U.S. strategic petroleum reserve levels that have reached 40-year lows. Longer-term chronic underinvestment also remains a tailwind in this space. Lastly, we are biased for shorter term weakness in the U.S. dollar as global central bank hiking cycles begin to deviate. The Japanese yen (and Japanese short-term interest rates) look particularly interesting as the Bank of Japan (BOJ) has remained on the sidelines despite sharply higher inflation levels. We expect to see the beginning of the end of Japan's extraordinarily easy monetary policy toward the end of 2023.

In closing, while 2023 has been a challenging year for our portfolios thus far, we believe our portfolios are well positioned going forward.

Summary Views

Macro/ Cross-Asset	• *Inflation remains stubbornly high globally. Core inflation is particularly sticky in the U.S.* • *Central Banks have retained an interest-rate tightening bias. The only pivot has been from market expectations* • *U.S. equity market looks vulnerable on lofty expectations. We are maintaining a **higher cash allocation** in order to pursue future opportunities.* • *Despite China re-opening disappointments, **commodities** remain a focus on supply cuts, the U.S. strategic reserve draw and central bank demand for gold.* • *The U.S. dollar appears vulnerable in the short term as the Federal Reserve gets closer to the end of its rate-hiking cycle, while the BOJ has yet to lift off.* • ***The Japanese yen** looks attractive here as do **select currencies in emerging markets**.*
Equity	• *We maintain strategic positions in Value, Quality, Momentum, and low volatility holdings.* • *We instituted no major changes during the quarter, although Value, particularly in the U.S., is drawing our attention given the highly concentrated year-to-date rally and now lofty forward earnings expectations.* • *Sector positioning broadly includes overweights to **financials, materials, and industrials with an underweight in technology**.*
Fixed Income	• *Interest rate volatility remains unusually high, which has kept our duration positioning modest but biased to lower rates.* • *We remain active in corporates but still favor **securitized sectors including U.S. mortgage-backed securities** 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. technology sector=S&P Information Technology Sector Index, Equal-weight S&P=S&P 500 Equal Weighted Index, China equity=MSCI China Index, Bitcoin and Japanese yet/U.S. dollar sourced from Bloomberg.

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