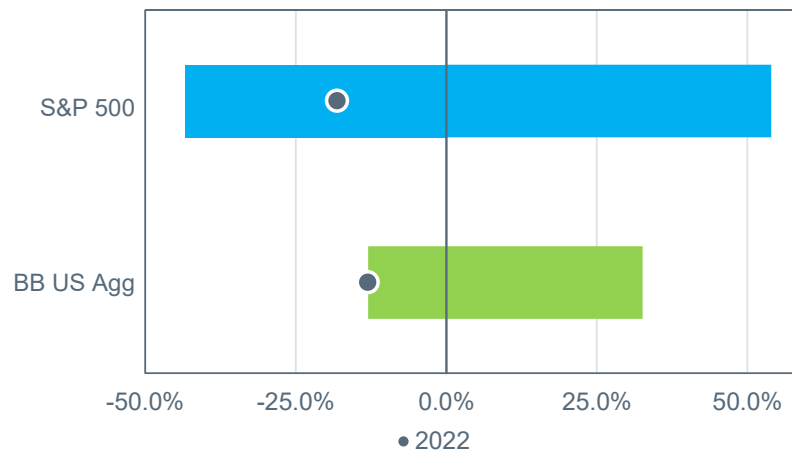


Short-Term Uncertainties, Long-Term Focus

With the yield curve still inverted, we are often asked about the potential for a recession and the magnitude of its impact on capital markets. While there is significant uncertainty about the path of capital markets over the short term, we continue to believe the best approach for strategic investors is to focus on long-term outcomes. However, having a better understanding of short-term considerations can help investors maintain a long-term perspective.

2022 was a terrible year for most assets, and in the case of bonds, the worst year since 1788.¹ This was largely due to inflation, which tends to negatively impact stocks and bonds at the same time. The last time we saw inflation at these levels (over 40 years ago), stocks and bonds had similarly poor outcomes.

**Figure 1: Historical US Stock and Bond Market Index
Calendar Year Returns**



Source: S&P and Bloomberg.

As of the end of May 2023, financial assets in general and equities specifically have rallied. The S&P 500 is up 9.6% and the NASDAQ is up 24.1%, calendar year-to-date. This rebound has caused some to wonder if perhaps the volatility of 2022 is behind us, and a recession will be avoided altogether. While avoiding a recession is possible, with labor markets continuing to perform incredibly well, the leading economic indicators index and inverted yield curve continue to suggest otherwise (**Figures 2 & 3**).

¹Bloomberg. *Deutsche Bank Looks Back to 1780s for Parallel to US Bond Rout*. <https://www.bloomberg.com/news/articles/2022-06-22/deutsche-bank-looks-back-three-centuries-for-parallel-to-us-rout#xj4y7vzkg>

Figure 2: 10 Year-3 Month Treasury Yield Spread

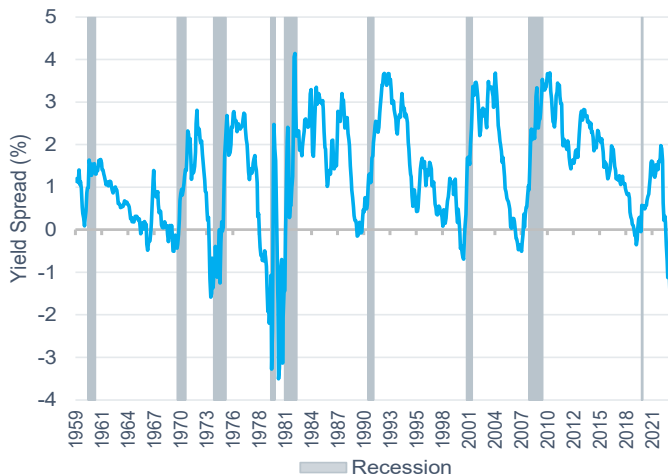
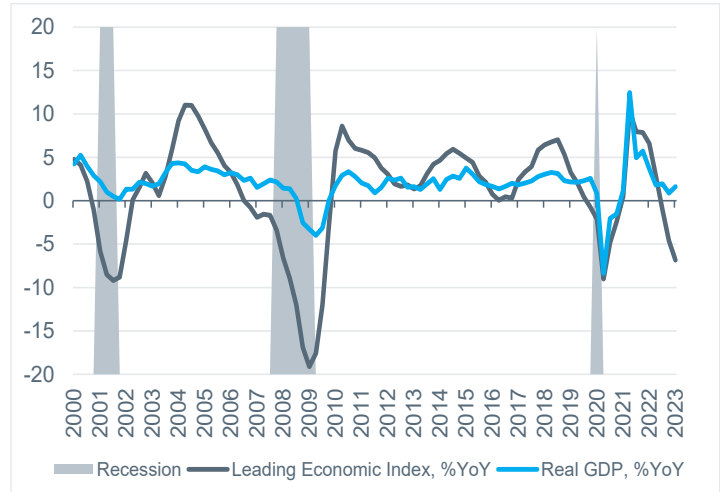


Figure 3: Leading Economic Index and Real GDP



Source: Federal Reserve Bank of New York (Figure 2), FactSet (Figure 3), National Bureau of Economic Research (Figures 2 & 3).

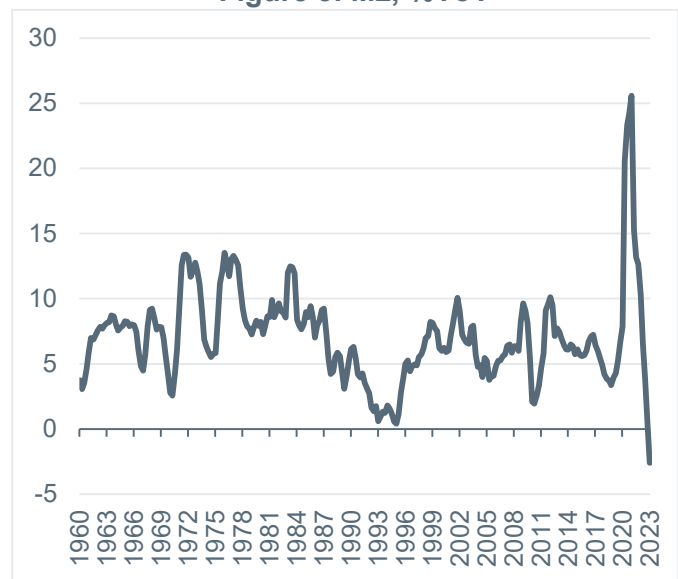
Additional headwinds for the economy include significant reductions in monetary stimulus from the Federal Reserve (**Figures 4 & 5**).

Figure 4: Federal Reserve Balance Sheet



Source: FactSet (Figure 4), Federal Reserve Bank of St. Louis (Figure 5).

Figure 5: M2, %YoY



As a long-term strategic investor, we focus on the trajectory of markets over multiple cycles, meaning near-term events become less important but are certainly not unimportant. Therefore, we think a review of where capital market forecasts stand in 2023 from a long-term perspective is helpful and essential context.

After a volatile and poorly performing year such as 2022, forecasting models tend to look better as the downturn sows the seeds of the “recovery”—increased yields for bonds and better valuations for stocks. As you can see below, RVK’s capital market assumptions (“CMAs”) improved significantly from 2022 to 2023, especially when you consider that these are strategic long-term forecasts with a 20-year time horizon.²

In addition to absolute improvements in return forecasts almost across the board, there were some relative improvements worth noting, such as the improvement of bonds on a relative basis to stocks. This relative improvement suggests investors may want to re-examine allocations to capital preservation assets within the context of their long-term investment objectives and constraints.

Figure 6: 2022 vs. 2023 Capital Market Assumptions

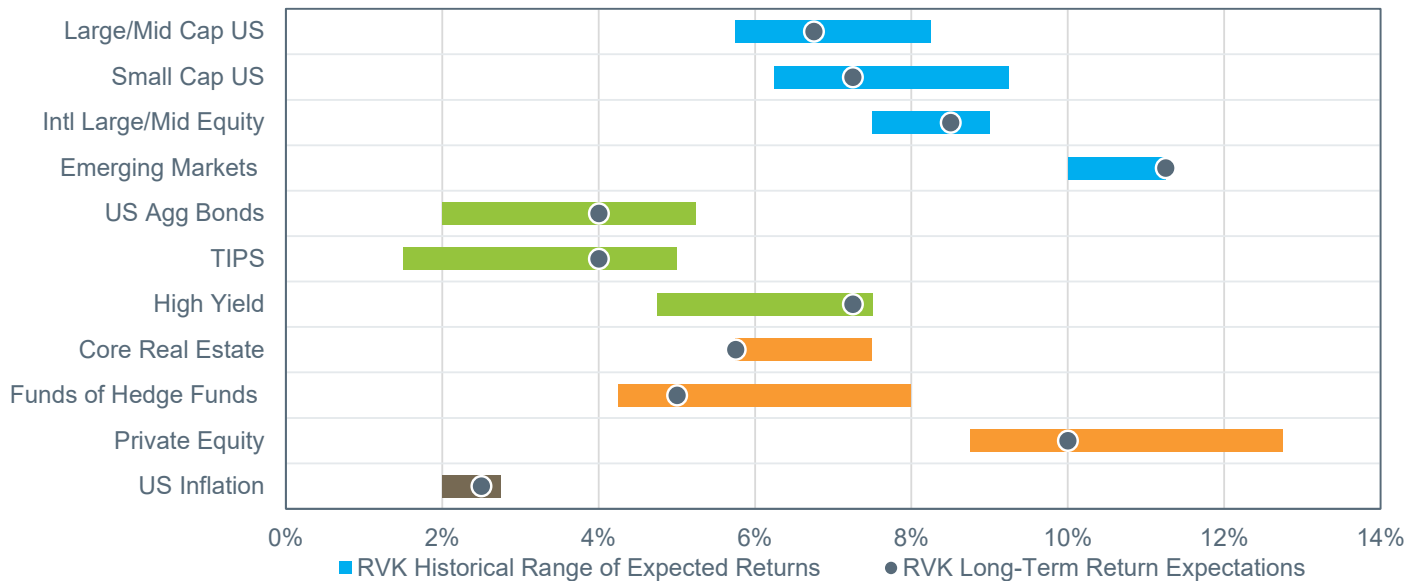
Asset Class	2022		2023		Change (2023 - 2022)	
	Nominal Return	Risk (St. Dev.)	Nominal Return	Risk (St. Dev.)	Nominal Return	Risk (St. Dev.)
Large/Mid Cap US	5.75%	16.00%	6.75%	16.00%	1.00%	0.00%
Small Cap US	6.25%	19.00%	7.25%	19.00%	1.00%	0.00%
Intl Large/Mid Equity	7.50%	17.00%	8.50%	17.00%	1.00%	0.00%
Intl Dev'd Small Cap	8.00%	20.00%	9.25%	20.00%	1.25%	0.00%
Emerging Markets	10.25%	25.00%	11.25%	25.00%	1.00%	0.00%
US Agg Bonds	2.50%	5.00%	4.00%	5.00%	1.50%	0.00%
Emerging Debt-Hard	6.00%	10.00%	7.50%	10.00%	1.50%	0.00%
Emerging Debt-Local	5.75%	11.50%	6.50%	11.50%	0.75%	0.00%
TIPS	2.00%	5.50%	4.00%	5.50%	2.00%	0.00%
High Yield	5.50%	10.00%	7.25%	10.50%	1.75%	0.50%
Bank Loans	5.00%	8.00%	6.50%	8.50%	1.50%	0.50%
Core Real Estate	6.00%	12.50%	5.75%	12.50%	-0.25%	0.00%
Global REITs	6.50%	21.00%	7.75%	21.00%	1.25%	0.00%
Funds of Hedge Funds	4.25%	9.50%	5.00%	9.50%	0.75%	0.00%
GTAA	5.00%	9.00%	6.00%	9.00%	1.00%	0.00%
Private Credit	7.25%	13.00%	8.00%	13.00%	0.75%	0.00%
Private Equity	9.00%	22.00%	10.00%	22.00%	1.00%	0.00%
Commodities	5.50%	17.50%	6.00%	17.50%	0.50%	0.00%
US Inflation	2.50%	2.50%	2.50%	2.50%	0.00%	0.00%

Increased CMAs do not necessarily indicate short-term gains are forthcoming, but rather that the long-term picture has improved. It is also worth noting that while CMAs significantly improved year-over-year (as shown above), RVK CMAs remain well below historical averages (as shown on the following page).

²Data not intended to convey any guarantees as to the future performance of investment products, asset classes, or capital markets.

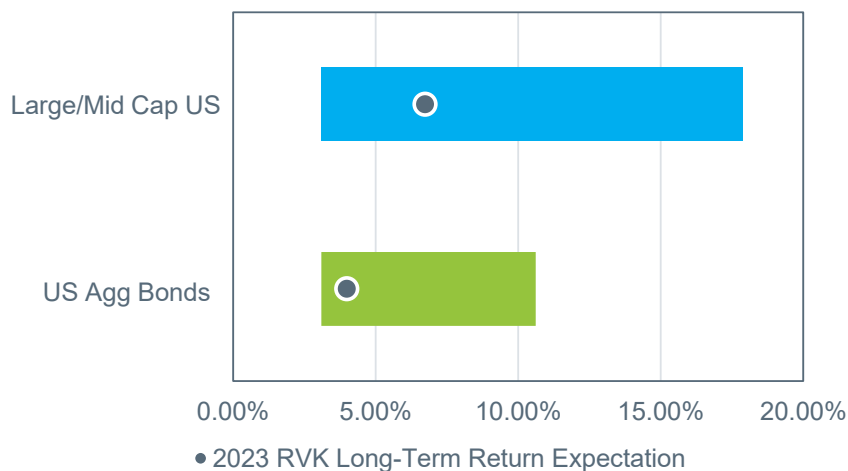
Is a recession coming? Nobody knows, but a variety of economic indicators do suggest headwinds for economic growth. With this as our current backdrop, we continue to recommend strategic investors maintain their long-term perspective and adhere to the strategic asset allocation and rebalancing guidelines within their investment policies.

Figure 7: RVK Historical Range of Expected Returns



Historical range of expected returns include 2006 through 2023 Capital Market Assumptions for selected asset classes.

Figure 8: Historical Range of 20-Year Return Outcomes



Source: S&P and Bloomberg. Large/Mid Cap US is represented by the S&P 500 Index. US Agg Bonds is represented by the Bloomberg US Aggregate Index. 20-year return outcomes are measured every December 31.

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