CAPSTONE

FINANCIAL ADVISORS

Annual Market Review

2022

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- This report features Capstone market commentary, world capital market performance data, and a timeline of events for the past year.
- It starts with our commentary about what's been happening lately in the markets.
- It contains returns data for major public market asset classes including equities (stocks), fixed income (bonds), real estate (REITs), and commodities.
- It concludes with our updated market outlook.

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Market Review

CAPSTONE COMMENTARY

SHARPLY RISING INTEREST RATES AND EXPECATIONS OF A FORTHCOMING SLOWDOWN TOOK A SIGNIFICANT TOLL ON STOCK VALUES IN 2022

- Global stock markets declined materially in 2022, experiencing their first down year since 2018 and their worst year since 2008.
- After three consecutive years of strong positive returns, global stock markets reversed course in 2022 as major central banks (led by the U.S. Federal Reserve) swiftly began raising interest rates to combat high inflation.
- As a result, stocks struggled throughout the year primarily due to higher rates compressing valuations and a weakening outlook for corporate earnings amid recessionary fears.
- Despite material U.S. dollar appreciation, international stocks (in aggregate), outperformed U.S. stocks for the first time since 2017.
- The international stock outperformance resulted from relatively less exposure to technology and other growth sectors that suffered the most significant declines last year.

SIMILARLY, BOND MARKETS DECLINED MATERIALLY AMID THE PRESSURE OF HIGHER INTEREST RATES

- The bond market fell considerably in 2022, experiencing its worst calendar year on record in the U.S.
- This historic decline in bonds occurred because of the surprising speed and magnitude that the Federal Reserve (the Fed) raised interest rates throughout 2022.
- In addition, because interest rates were nearly zero at the start of the year, there was minimal yield cushion to help offset the uncharacteristically large bond price declines.
- Moreover, despite the Fed holding steady with its hawkish policy stance, bond markets stabilized in the last quarter of the year.
- Although bond markets declined materially in 2022, they outperformed stocks by falling less.
- International bonds (dollar-hedged) outperformed U.S. bonds because most foreign central banks did not raise rates as aggressively as the Fed.

Market Summary (2022)

INDEX RETURNS

2022	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	-19.21%	-14.29%	-20.09%	-24.36%	-13.01%	-9.76%

Since Jan. 2001	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Average Yearly Return	8.9%	6.1%	11.4%	9.2%	3.8%	3.6%
Best Year	33.6%	39.4%	78.5%	37.4%	10.3%	8.8%
	2013	2003	2009	2006	2002	2014
Worst Year	-37.3%	-43.6%	-53.3%	-45.7%	-13.0%	-9.8%
	2008	2008	2008	2008	2022	2022

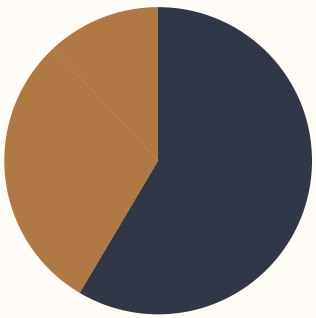
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

US Stocks

2022 INDEX RETURNS

- The US equity market posted negative returns for the year and underperformed non-US developed markets, but outperformed emerging markets.
- Value outperformed growth.
- Small caps underperformed large caps.

WORLD MARKET CAPITALIZATION—US

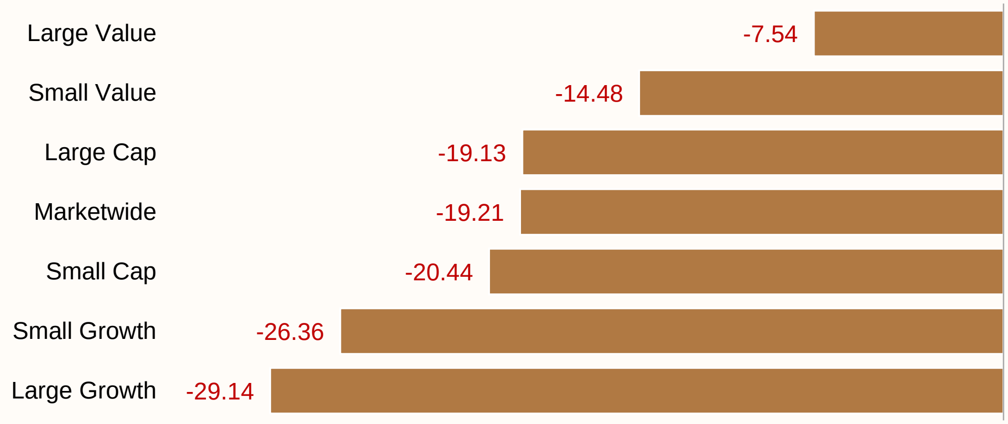


69%

US Market

$37.7 trillion

RANKED RETURNS (%)



PERIOD RETURNS (%)

		Annualized		
Asset Class	1 Year	3 Years	5 Years	10 Years
Large Value	-7.54	5.96	6.67	10.29
Small Value	-14.48	4.70	4.13	8.48
Large Cap	-19.13	7.35	9.13	12.37
Marketwide	-19.21	7.07	8.79	12.13
Small Cap	-20.44	3.10	4.13	9.01
Small Growth	-26.36	0.65	3.51	9.20
Large Growth	-29.14	7.79	10.96	14.10

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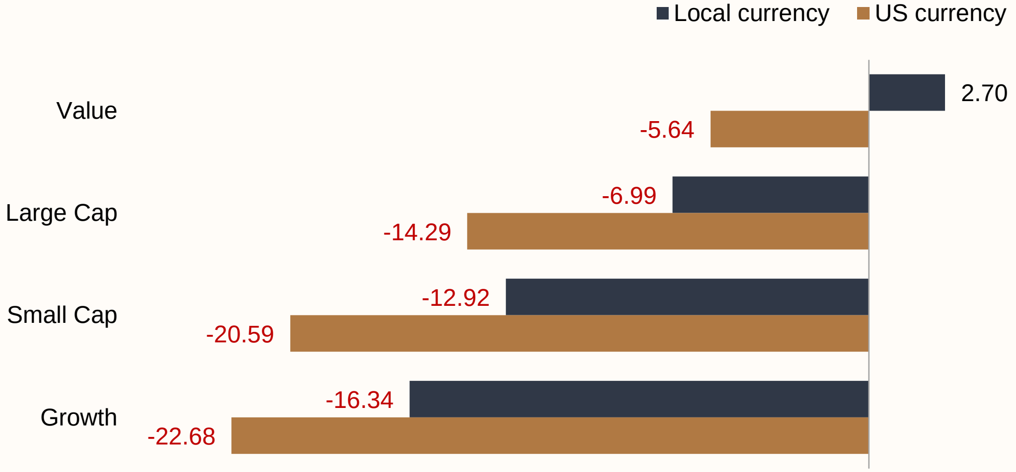
International Developed Stocks

2022 INDEX RETURNS

- Developed markets outside of the US posted negative returns for the year and outperformed both US and emerging markets.
- Value outperformed growth.
- Small caps underperformed large caps.
- Significant U.S. dollar appreciation negatively impacted developed market returns measured in U.S. currency.

RANKED RETURNS (%)

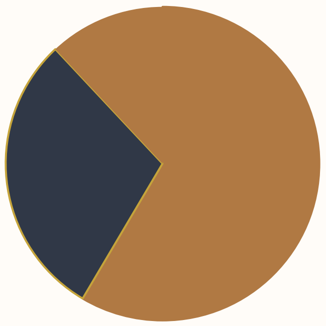


WORLD MARKET CAPITALIZATION—INTERNATIONAL DEVELOPED

29%

International Developed Market

$18.6 trillion



PERIOD RETURNS (%)

		Annualized		
Asset Class	1 Year	3 Years	5 Years	10 Years
Value	-5.64	1.13	0.56	3.55
Large Cap	-14.29	1.27	1.79	4.59
Small Cap	-20.59	-0.15	0.45	5.77
Growth	-22.68	0.71	2.56	5.35

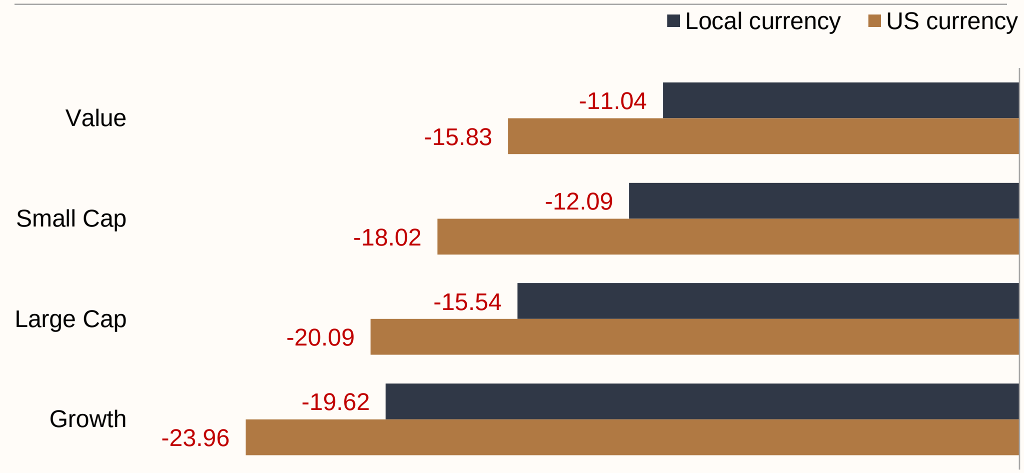
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI World ex USA IMI Index is used as the proxy for the International Developed market.

Emerging Markets Stocks

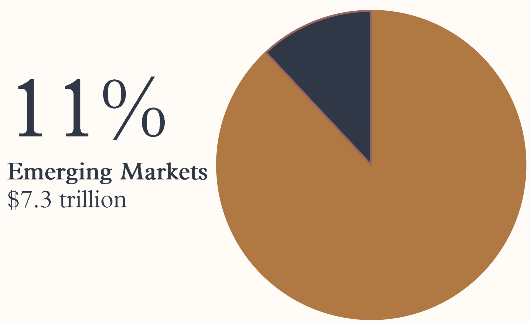
2022 INDEX RETURNS

- Emerging markets posted negative returns for the year and underperformed both US and non-US developed markets.
- Value outperformed growth.
- Small caps outperformed large caps.
- Significant U.S. dollar appreciation negatively impacted emerging market returns measured in U.S. currency.

RANKED RETURNS (%)



WORLD MARKET CAPITALIZATION—EMERGING MARKETS



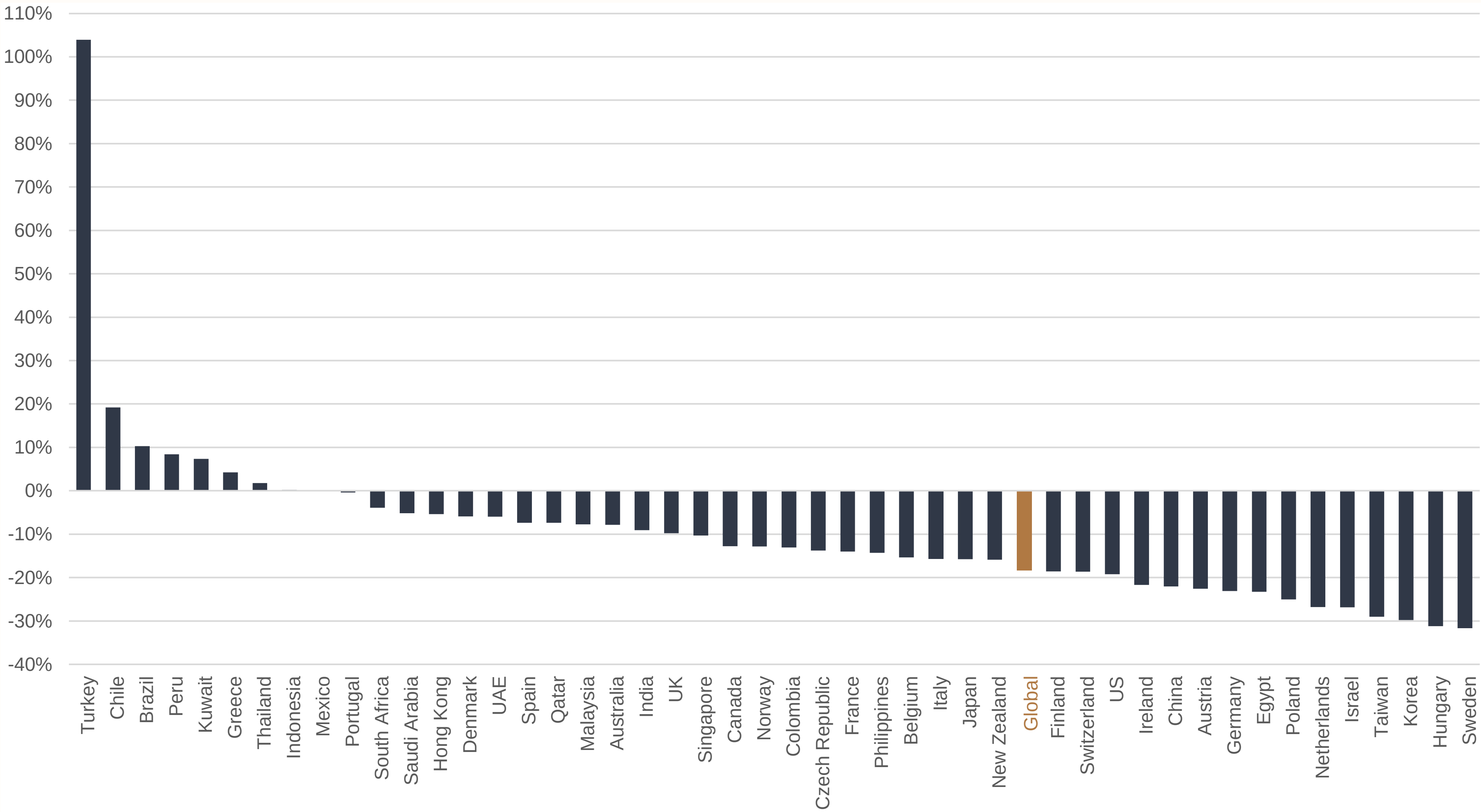
PERIOD RETURNS (%)

		Annualized		
Asset Class	1 Year	3 Years	5 Years	10 Years
Value	-15.83	-2.62	-1.59	0.06
Small Cap	-18.02	5.11	1.06	3.21
Large Cap	-20.09	-2.69	-1.40	1.44
Growth	-23.96	-2.93	-1.33	2.68

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market.

Country Returns

2022 INDEX RETURNS



Past performance is no guarantee of future results.
Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes.

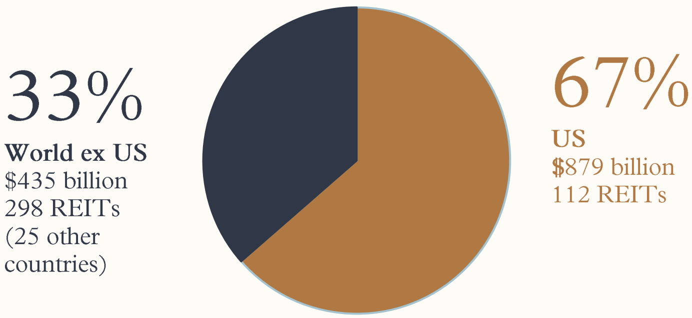
Real Estate Investment Trusts (REITs)

2022 INDEX RETURNS

- REIT markets broadly underperformed stock markets last year.
- US real estate investment trusts underperformed non-US REITs during the year.

RANKED RETURNS (%)

TOTAL VALUE OF REIT STOCKS



PERIOD RETURNS (%)

		Annualized		
Asset Class	1 Year	3 Years	5 Years	10 Years
Global ex US REITS	-22.56	-7.77	-2.13	1.61
US REITS	-25.96	-1.37	2.50	5.74

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market.

Commodities

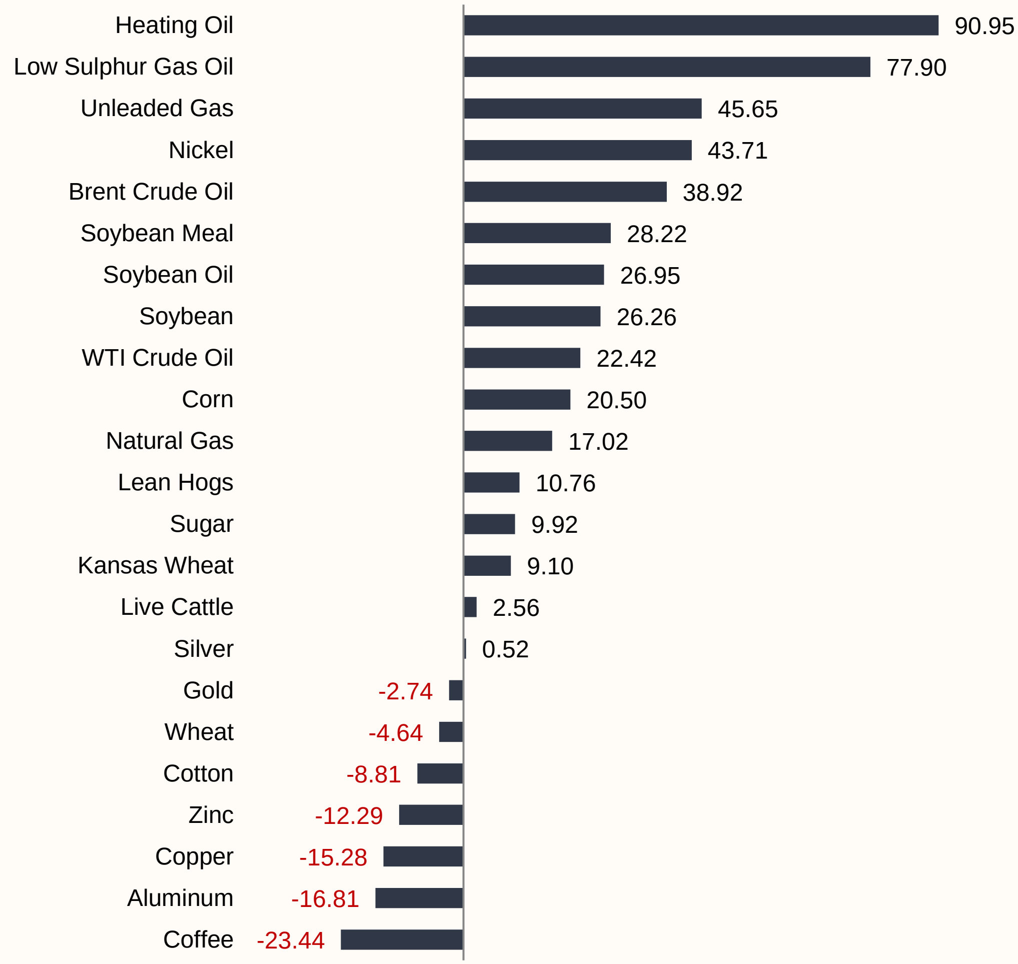
2022 INDEX RETURNS

- Commodities gained +16.09% for the year.
- Heating Oil and Low Sulphur Gas Oil were the best performers, returning +90.95% and +77.90% during the year, respectively.
- Coffee and Aluminum were the worst performers, returning -23.44% and -16.81% during the year, respectively.

PERIOD RETURNS (%)

		Annualized		
Asset Class	1 Year	3 Years	5 Years	10 Years
Commodities	16.09	12.65	6.44	-1.28

RANKED RETURNS FOR INDIVIDUAL COMMODITIES (%)



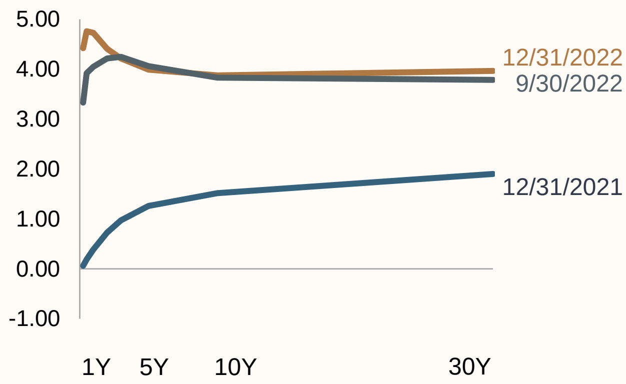
Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

Fixed Income

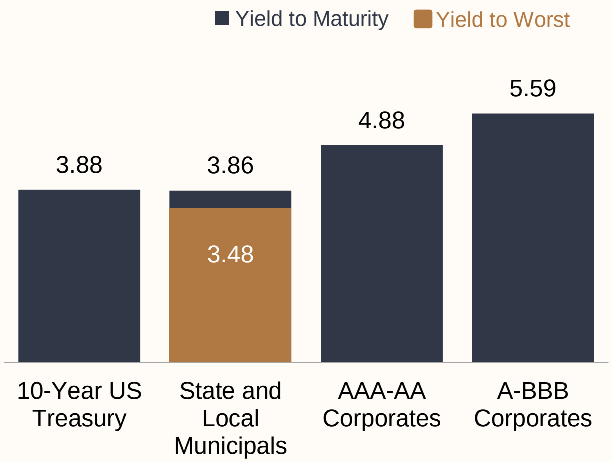
2022 INDEX RETURNS

- Interest rates increased across all maturities in the US Treasury market for the year.
- On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 406 basis points (bps) to 4.12%, while the 1-Year US Treasury Bill yield increased 434 bps to 4.73%. The yield on the 2-Year US Treasury Note increased 368 bps to 4.41%.
- The yield on the 5-Year US Treasury Note increased 273 bps to 3.99%. The yield on the 10-Year US Treasury Note increased 236 bps to 3.88%. The yield on the 30-Year US Treasury Bond increased 207 bps to 3.97%.
- In terms of total returns, short-term US treasury bonds returned -5.47% while intermediate-term US treasury bonds returned -7.77%. Short-term corporate bonds returned -5.62% and intermediate-term corporate bonds returned -9.40%.[1]
- The total return for short-term municipal bonds was -3.17% and -6.01% for intermediate-term municipal bonds. Within the municipal fixed income market, general obligation bonds outperformed revenue bonds, returning -7.74% vs -9.29, respectively.[2]

US TREASURY YIELD CURVE (%)



BOND YIELD ACROSS ISSUERS (%)



PERIOD RETURNS (%)

		Annualized		
Asset Class	1 Year	3 Years	5 Years	10 Years
ICE BofA US 3-Month Treasury Bill Index	1.46	0.72	1.26	0.76
ICE BofA 1-Year US Treasury Note Index	-1.02	0.23	1.09	0.74
FTSE World Government Bond Index 1-5 Years (hedged to USD)	-4.49	-0.75	0.73	0.98
Bloomberg Municipal Bond Index	-8.53	-0.77	1.25	2.13
FTSE World Government Bond Index 1-5 Years	-8.73	-2.44	-1.15	-1.20
Bloomberg U.S. High Yield Corporate Bond Index	-11.19	0.05	2.31	4.03
Bloomberg U.S. TIPS Index	-11.85	1.21	2.11	1.12
Bloomberg U.S. Aggregate Bond Index	-13.01	-2.71	0.02	1.06
Bloomberg U.S. Government Bond Index Long	-29.19	-7.39	-2.19	0.61

1. Bloomberg US Treasury and US Corporate Bond Indices
2. Bloomberg Municipal Bond Index

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg.

Global Fixed Income

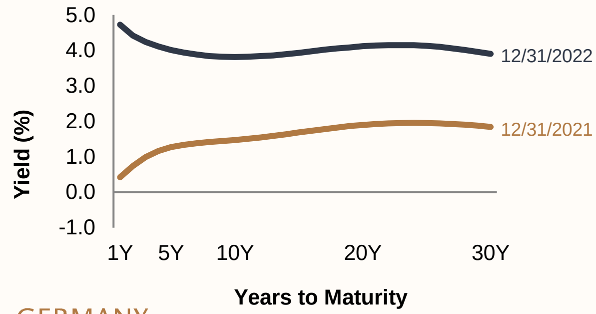
2022 YIELD CURVES

- Interest rates generally increased within global developed markets for the year.
- In Japan, except for ultra-short term interest rates, interest rates were positive. In Canada, the ultra-short-term segment of the yield curve inverted.

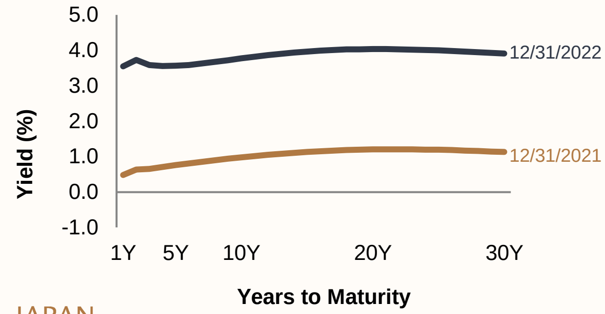
CHANGES IN YIELDS (BPS) SINCE 12/31/2021

	1Y	5Y	10Y	20Y	30Y
US	430.2	274.3	233.8	221.9	205.8
UK	306.6	280.5	279.6	283.4	278.4
Germany	295.5	297.9	269.3	250.9	225.3
Japan	10.6	34.0	52.1	80.9	84.3
Canada	368.7	211.6	183.2	165.5	158.6
Australia	302.0	239.2	236.4	208.8	194.6

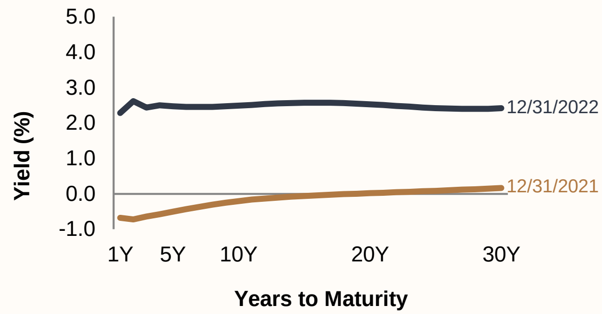
US



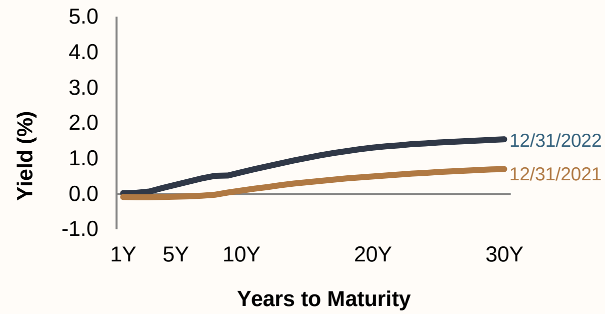
UK



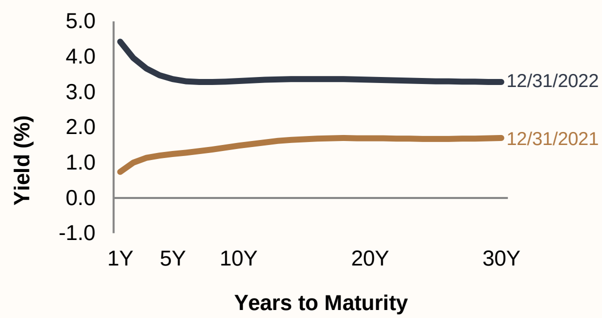
GERMANY



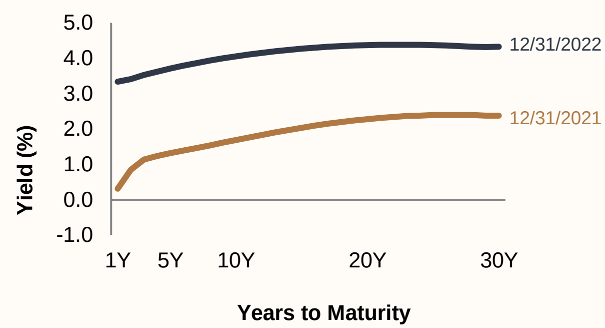
JAPAN



CANADA



AUSTRALIA



One basis point (bps) equals 0.01%. Source: ICE BofA government yield. ICE BofA index data © 2023 ICE Data Indices, LLC.

Market Outlook

CAPSTONE COMMENTARY

STOCK MARKET VOLATILITY IS LIKELY TO REMAIN, BUT A RECOVERY COULD START IN 2023

- Stock markets will likely remain turbulent throughout the first half of 2023 amid the current state of uncertainty.
- We expect that stocks will likely remain highly volatile, falling if worse-than-expected economic and earnings metrics are released and rising if positive news is reported about inflation moderating and indications of a milder-than-expected economic slowdown.
- Stock markets could ultimately stay rangebound until there is more clarity around economic growth, inflation, and subsequent central bank interest rate policy.
- However, as the year progresses, stock markets could stabilize as the economy slows, inflation subsides, and the Fed becomes less hawkish by stopping interest rate hikes.
- The prospects for an easier monetary policy in the second half of 2023 will likely allow stock markets to begin a sustainable rally.
- Because stock markets are forward-looking, historically bull markets typically start amid economic slowdowns or recessions, as markets eventually look past the current weakness and shift towards reasons for future optimism and the resumption of growth.

Market Outlook

CAPSTONE COMMENTARY

BOND MARKET VOLATILITY IS LIKELY TO SUBSIDE, AND HIGHER YIELDS WILL BOOST FUTURE BOND RETURNS

- Even after the extraordinary bond market volatility of 2022, the outlook for bonds is brighter than it's been in many years.

- The severe bond market volatility investors experienced last year is likely to subside because the Fed will likely stop hiking rates in 2023, removing a key source of uncertainty for bond investors.

- Although policy rates will likely increase some more throughout the first few months of the year, the bond market has already discounted this.

- Moreover, the good news for bond returns going forwards is that yields on bonds are now at levels that have not been reached in over a decade. Yields are much higher now in nearly every sector of the bond market.

- Those increased income payments will serve as a buffer against potential future rate increases that are not already anticipated by the market today.

- Further, higher yields have historically provided a much better starting point for total returns in the future. As such, expected bond returns going forward are materially higher than they've been amid ultra-low interest rates over the past several years.

Important Disclosure Information

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