Investment Trust Company

QUARTERLY REPORT 1Q23

OK, ON AVERAGE

On average, the global economy looks to be "OK" – regional and sectoral areas of weakness being offset by other areas of relative strength; meanwhile, inflation seems contained in some areas albeit still raging in others. *On average*, the financial system is "OK" – concerns in some regional banks and other "one-off" issues (driven mostly by poor risk management) absorbable by the broader, still-healthy banking industry. And, *on average*, the global financial market outlook looks "OK" – global equity valuations are near the median valuation level of the past 25 years (~19 times last-twelve-months earnings).

But you are also "OK, on average" if you are six feet tall standing in a lake that averages five feet deep. That is, on average, you have no fear of drowning despite the fact that there are almost assuredly areas in that lake where you would be underwater. The key to successful investing is to appreciate potential financial and economic "deep spots" potentially masking what looks "OK" on the surface.

Growth and Inflation. *On average*, the global economy has displayed much resiliency in the face of geopolitical disruptions and higher interest rates. Global composite purchasing managers' indices (PMIs) sit at ~52 – modestly higher than the ~48 mark coming into 2023 and above the 50 mark that separates expansion from contraction. But underneath that modest expansion, we find a notable gap between the fairly hot service industry and the mostly tepid manufacturing industry; most notably the case in the United States, where the manufacturing PMI sits near 46 while the services PMI sits closer to 55. Growth disparities have led to inflation disparities, with core goods inflation already back below the Federal Reserve's 2% target but with core services inflation still stuck in the 6-7% range.

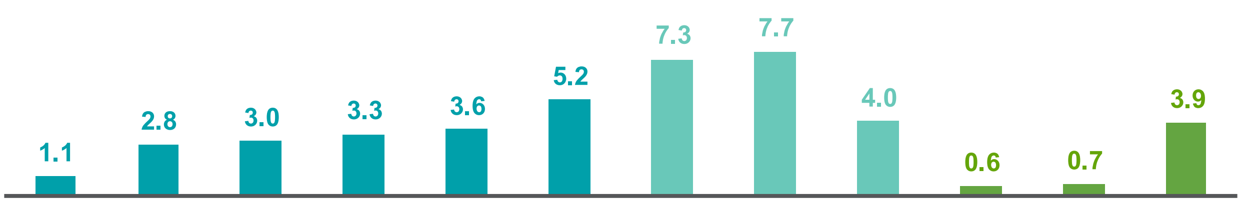
Central Banks and Credit Markets. Stubborn services inflation kept the Fed focused on rate hikes – until the failure of Silicon Valley Bank and resulting contagion forced one eye over to monitoring financial industry health. As such, *on average*, markets expect one more 0.25% rate hike before a Fed cutting cycle starts near year end. But that "average" is a combination of a higher rate trajectory should services inflation linger and a lower rate trajectory should bank stresses persist.

Financial Markets. When ostensibly benign average expected outcomes are masking a wide range of potential outcomes underneath, financial markets often respond with outsized volatility. One day, an inflation print below expectations can lead to "risk-on" markets as investors price in the end of the rate hike cycle; the next day, a headline suggesting another bank may be in trouble can mean "risk-off" markets as investors brace for impact. In these environments, it is especially important to keep adequate liquidity for spending needs so as to not be forced into selling "good assets on a bad day" while also maintaining proper diversification – not only among stocks and bonds but also real assets and other diversifiers.

FIRST QUARTER 2023 TOTAL RETURNS (%)

Strong returns across most financial market assets mask a quarter full of volatile swings – especially within bond markets.

	RISK CONTROL					RISK ASSETS						
	FIXED INCOME						EQUITIES			REAL ASSETS		
	Cash	Muni	Inv. Grade	TIPS	High Yield	EM Debt	U.S.	Dev. Ex-U.S.	EM	NR	GRE	GLI



2022	1.5	-8.5	-13.0	-11.8	-11.2	-11.7	-19.2	-14.8	-19.5	10.3	-24.1	-0.2

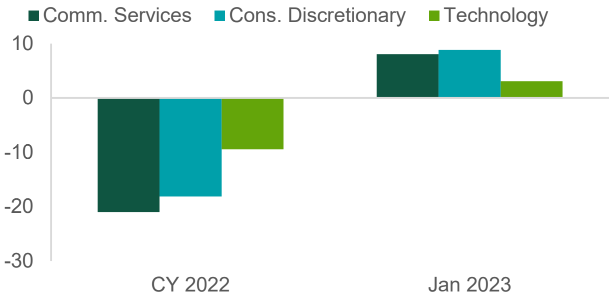
Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

KEY DEVELOPMENTS

Initial Inflation Optimism

Equities firmly rebounded in January with key support from increased investor optimism on the path of inflation and less communication from central bankers on further rate hikes. This led to a strong month of returns in the U.S. and also outside the U.S. with mild weather alleviating energy concerns in Europe and China's rebound from Covid-19 reopening. Equity performance in January was in many ways a reversal of 2022, where many 2022 laggards notably outperformed (see chart) and riskier parts of the market performed well.

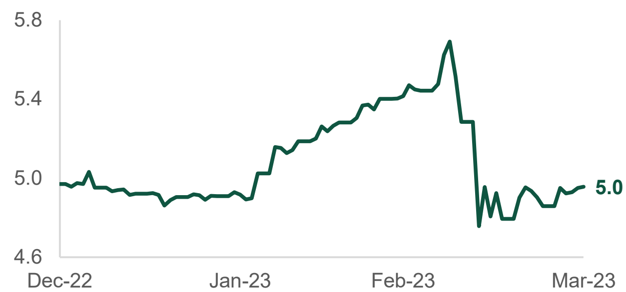
RELATIVE RETURNS OF VARIOUS SECTORS (%)



Not So Fast…

In February, economic data releases proved firmer than expected – more resilient on the growth front and stickier on the inflation side. A key tenet of the solid economic backdrop was strong labor markets where the unemployment rate fell to its lowest level since the late 1960s. In response, the equity market rally lost steam as investors reconsidered their inflation views and upwardly revised their expected trajectory for central banks. However, March's banking issues (see next section) unwound the increase in Fed expectations.

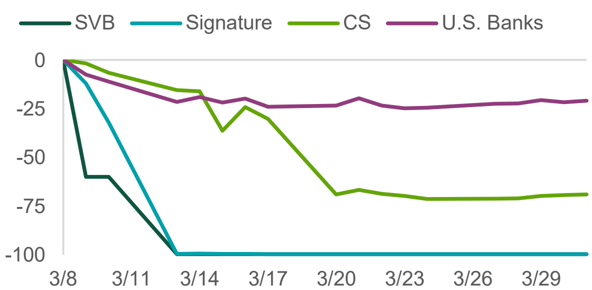
EXPECTED 2023 PEAK FED FUNDS RATE (%)



March Madness for Banks

In March, investor worries of more Fed rate hikes shifted to financial stability concerns. Initially, Silicon Valley Bank (SVB) suffered major deposit outflows before regulators took control of it (along with Signature Bank). U.S. policymakers quickly stepped in with emergency liquidity measures to help stabilize the banking sector. Credit Suisse (CS) was then under pressure the next week before being acquired by UBS with support from Swiss authorities. Overall, U.S. banks declined 25% in March (versus a 3.5% S&P 500 gain).

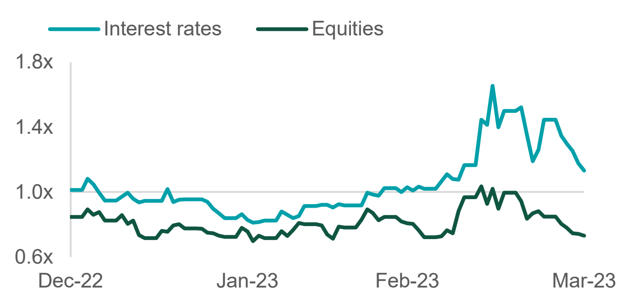
% RETURN SINCE ONSET OF SVB ISSUES (3/8/23)



Choppy Rates, Calmer Equities

The banking-related market reaction was more notable in interest rates versus equities. The S&P 500 initially lost only 3%, while interest rates saw historically high volatility. The 2-year Treasury yield dropped over 100 bps as investor Fed expectations reset lower (i.e., lower peak rate, more likely 2023 rate cuts). While systemic risks stabilized to some degree by late March, a number of implications are possible both near-term (tightening in credit conditions) and longer-term (bank regulation, profitability challenges for small-to-midsized banks).

VOLATILITY RELATIVE TO 2022 AVERAGE LEVEL



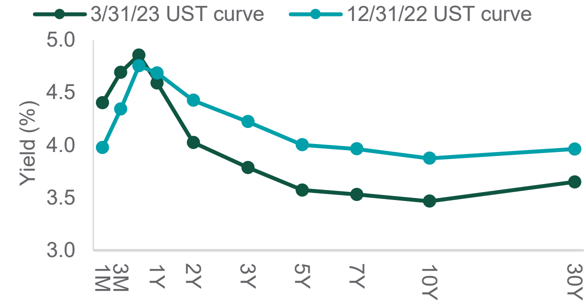
Source: Bloomberg. U.S. Banks = KBW Bank Index. Volatility: VIX Index for equities, MOVE Index for interest rates. Data as of 3/31/2023. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

MARKET REVIEW

Interest Rates

The Fed continued to tighten policy but is moving forward with more caution due to the potential for bank stresses to weigh on credit availability. That said, inflation remains a concern and the Fed's year-end policy rate forecast (5.1%) implies a hold-firm approach. Interest rates seesawed in a volatile manner during the quarter as investors struggled to ascertain the monetary policy outlook in the wake of hot inflation amid risks to financial stability. Interest rates across the curve ended lower with near-term yields declining the most.

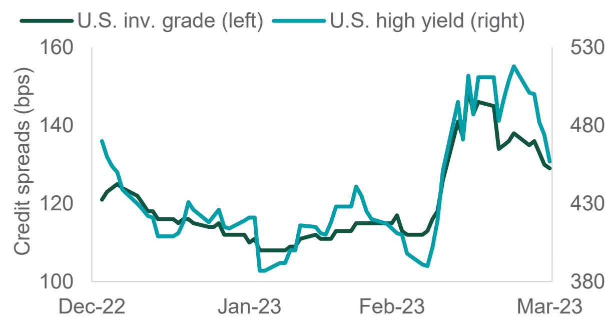
U.S. TREASURY YIELD CURVE



Credit Markets

Credit spreads floated up and down for most of the quarter before moving decidedly higher on banking sector strains. The bank shocks ramped up investor uncertainty on the health of corporate credit and drove wider risk premia across investment grade (IG) and high yield (HY). IG and HY credit spreads rose as much as 38 and 128 basis points (bps), respectively, before coming back in as perceived risks abated. IG spreads ended 8 bps wider, while HY finished 13 bps tighter. Current spreads for both are under recessionary levels.

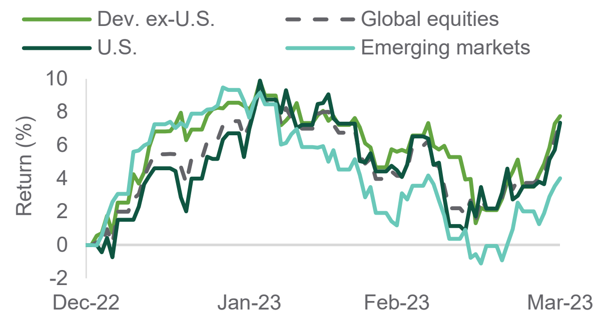
CREDIT SPREADS



Equities

Global equities brought solid gains (7.4%) as developed ex-U.S. equities (7.7%) and U.S. equities (7.3%) led the way while emerging market equities delivered a lower-but-strong return (4.0%). These gains may appear at odds given two of the largest U.S. bank failures ever, however, declining interest rates led to a reprieve in some of the most sizable areas of the markets (i.e., U.S. tech up 21.8%) which buoyed aggregate returns. Equity volatility paled in comparison to bond volatility, but there were still notable swings beneath the surface.

REGIONAL EQUITY INDICES



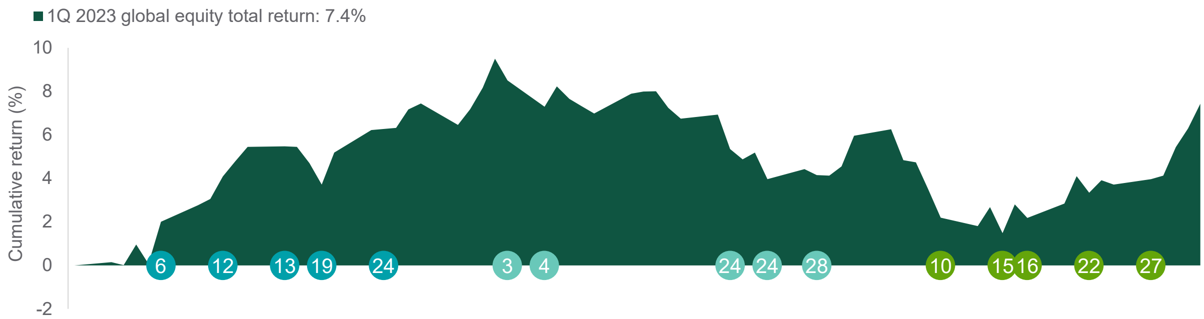
Real Assets

Real assets bore the brunt of weakness extending from both central bank tightening and banking strains as listed infrastructure (3.9%), global real estate (0.7%) and natural resources (0.6%) all lagged global equities. Listed infrastructure's interest rate sensitivity benefited from the decline in yields. Lower commodity prices hurt equity-based natural resources as demand concerns intensified on signs of global economic vulnerability. Real estate suffered from investor concerns on bank lending – mostly regarding commercial real estate.

REAL ASSET INDICES

Source: Bloomberg. Returns in U.S. dollars. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

MARKET EVENTS



JANUARY	FEBRUARY	MARCH
6 December U.S. jobs report shows continued strength but gradual cooling with slower job gains, increased participation and slower wage growth.	**3** A much stronger than expected U.S. jobs report triggers upward revisions in investor policy expectations (later intensified by the 2/14 CPI data).	**10** The second-biggest U.S. bank failure (Silicon Valley Bank, aka SVB) triggers a run on regional bank deposits and elevates financial stability risks.
12 Investors price in less central bank tightening after U.S. Consumer Price Index (CPI) cools year-over-year (y/y).	**4** Geopolitical frictions deepen after the U.S. shoots down a China surveillance balloon in U.S. airspace, though the market impact is contained.	**15** Bank turmoil continues after Credit Suisse (CS) shares plunge on perceived weakness and its ensuing deposit outflows force a rescue sale to UBS.
13 Q422 earnings season unofficially begins; earnings proceed to contract with broad-based weakness (ex-energy) and disappointing forward guidance.	**24** One-year anniversary of the Ukraine war; little progress has been made toward a peaceful resolve and escalation risks remain present.	**16** The European Central Bank moves ahead with a 50-bp rate hike, but aims to verbally assuage financial stability worries and removes forward guidance.
19 U.S. government reaches its $31.4 trillion borrowing limit and invokes extraordinary funding measures estimated to last until ~June–September.	**24** Core Personal Consumption Expenditures – the Fed's preferred inflation measure – unexpectedly accelerates to 4.7% from 4.3%.	**22** Amid bank turmoil but elevated inflation the Fed hikes its policy rate by 25 bps, softens language on future hikes and leaves its 2023 year-end Fed funds rate forecast unchanged at 5.1%.
24 U.S. and Europe flash Purchasing Managers' Indexes (PMIs) come in better than expected while 4Q U.S. Gross Domestic Product is solid at 2.9%.	**28** China PMIs top expectations and the expansionary threshold (50) as its reopening supports domestic growth.	**27** First Citizens Bank purchases SVB at a $16.5B discount, helping ease investor concern after a period of no new developments on further bank contagion.

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