Mercer

THE CATHOLIC FOUNDATION IN THE ARCHDIOCESE OF DUBUQUE

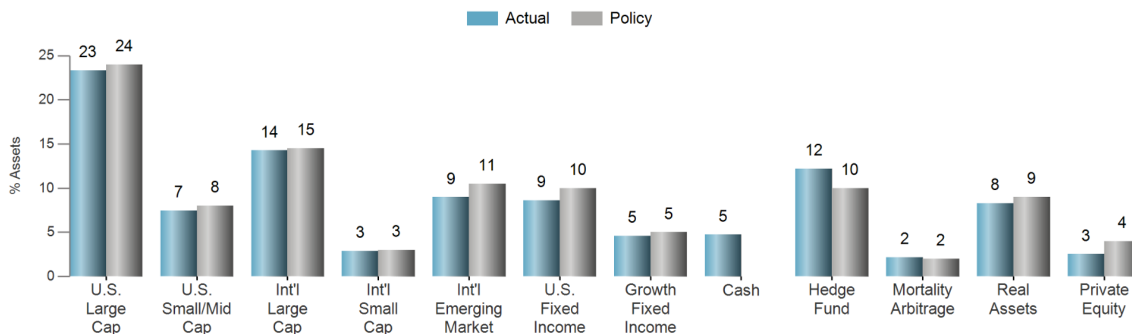
Quarterly Update for the first quarter of 2023 (January, February, March)

Annualized Performance

Portfolio	Market Value	1 Year (%)	3 Year (%)	5 Year (%)	Since Inception (%)	Inception Date
Catholic Foundation	**137,807,724**	**-5.0**	**11.0**	**5.4**	**5.7**	**Apr-13**
Growth	*108,932,735*	*-5.2*	*11.5*	*5.6*	*6.3*	*Jan-13*
Moderate	*25,908,311*	*-3.9*	*9.2*	*4.7*	*5.0*	*Apr-13*
Conservative	*2,966,679*	*-*	*-*	*-*	*8.6*	*Sep-22*

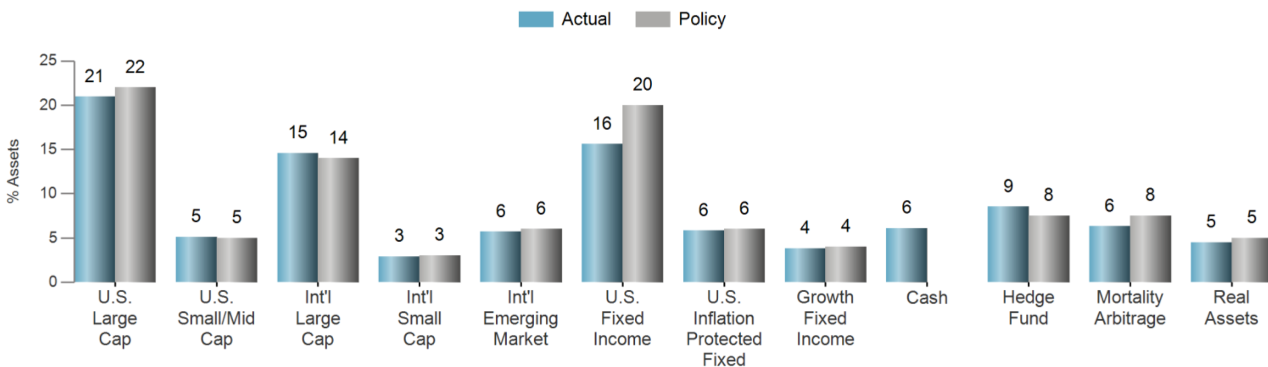
Performance in the table above is net of investment fees

Growth Portfolio (Designated Funds)



Percentages may not add to 100% due to rounding.

Moderate Allocation (10-Year Agency Trust Accounts)



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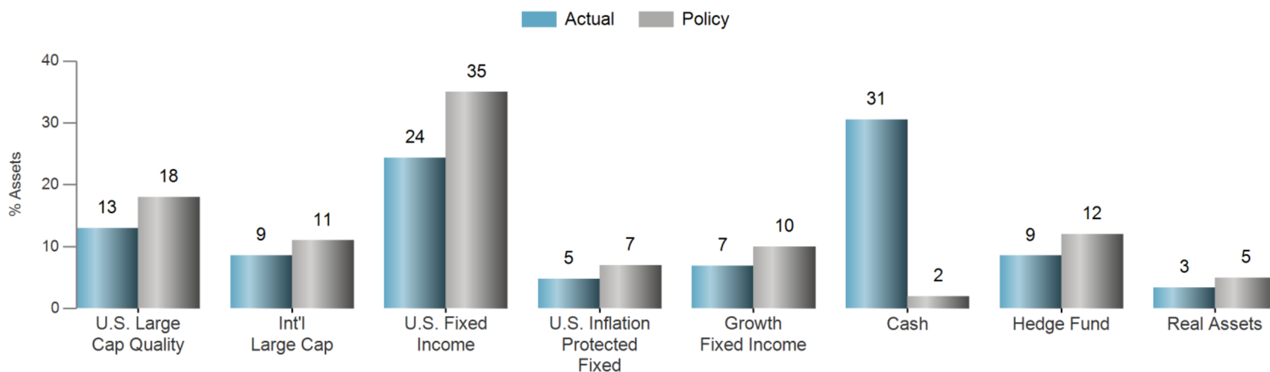
Conservative



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Market Recap

- Global economic growth has been more resilient than most economists expected. In the US, GDP grew at an annual rate of 2.6% during the fourth quarter, and economic data tended to surprise to the upside during the first quarter. This led the market to price the Fed to stay higher for longer into early March.
- However, in March signs of a potential banking crisis began to unfold. Silicon Valley Bank became the first in a string of banks to come under stress. Regulator intervention looks to have contained the crisis for the time being. The causes appear to be poor management at the affected organizations. It appears unlikely to develop into a broader, systemic issue. One potential result could be tighter lending standards, increasing the risk of a recession. It could also reduce the need for the Fed to tighten policy further. While the bond market has priced the potential for one more rate hike, it has priced an easing cycle to begin in the second half of 2023.
- Encouragingly, inflationary pressures have maintained their downward momentum. The gradual easing of supply chain issues and weaker demand resulting from tight policy should slow core inflation. One ongoing area of concern for the inflation picture is the continued strength of the labor market, although increases in average hourly earnings appear to be moderating.
- A mild recession in the US later in 2023 still appears likely. As long as inflation continues to fall towards the target, we do not expect a mild recession to be especially bearish for equities because it will allow the Fed to ease policy. Easier monetary policy could offset the negative impact of weak earnings for equities. The biggest downside risk we see for balanced portfolios is if inflation remains sticky amid a slowing economy. This could require a far more forceful Fed response than what is currently priced by markets and a deeper recession. This could result in further weakness in stocks and bonds.
- Global markets moved higher during the quarter as investors appeared to remain hopeful for a soft landing. However, volatility was elevated at times as stresses in the banking sector and uncertainty over monetary policy weighed on markets.
- Treasury yields generally finished the quarter lower than where they started the year, as markets repriced the outlook for monetary policy following the banking scare. The 10-year Treasury yield reached 4.1% in early March, but ended the quarter at 3.4%.
- In both its February and March meetings, the Federal Reserve raised rates by 25 bps. This brought its policy rate to 4.75% - 5.0%. The market has priced the potential for one more rate hike. However, the market expects an easing cycle to begin in 2H23 with overnight rate falling to nearly 3% by late 2024.

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Outlook

Mercer's current position/view

Position/view last quarter (if changed)

Public Equities

- The macro outlook remains uncertain amid tightening financial conditions. Strong equity returns over the past two quarters have worsened valuations. We maintain a view on the underweight side of neutral as we currently prefer the risk-to-reward of growth fixed income.

Public Real Assets

- This quarter we are adding a major asset class view for real assets. While we find the inflation sensitivity of real assets attractive, the uncertain macro outlook contributed to our neutral view.

Growth Fixed Income

- We believe yields are relatively attractive, particularly for high yield bonds. Emerging market currencies may also stand to benefit from continued weakness in the dollar. We maintain a modest overweight view toward growth fixed income.

Defensive Fixed Income

- Yields have generally fallen since the start of the year, but they remain considerably higher than they were in late 2021. We have shifted our view to the underweight side of neutral due to the recent decline in yields and the relative attractiveness of shorter-term yields (cash).

Cash

- We have upgraded our cash view to overweight / neutral, given our preference for shorter-term yields and the desire for dry powder should opportunities develop.