

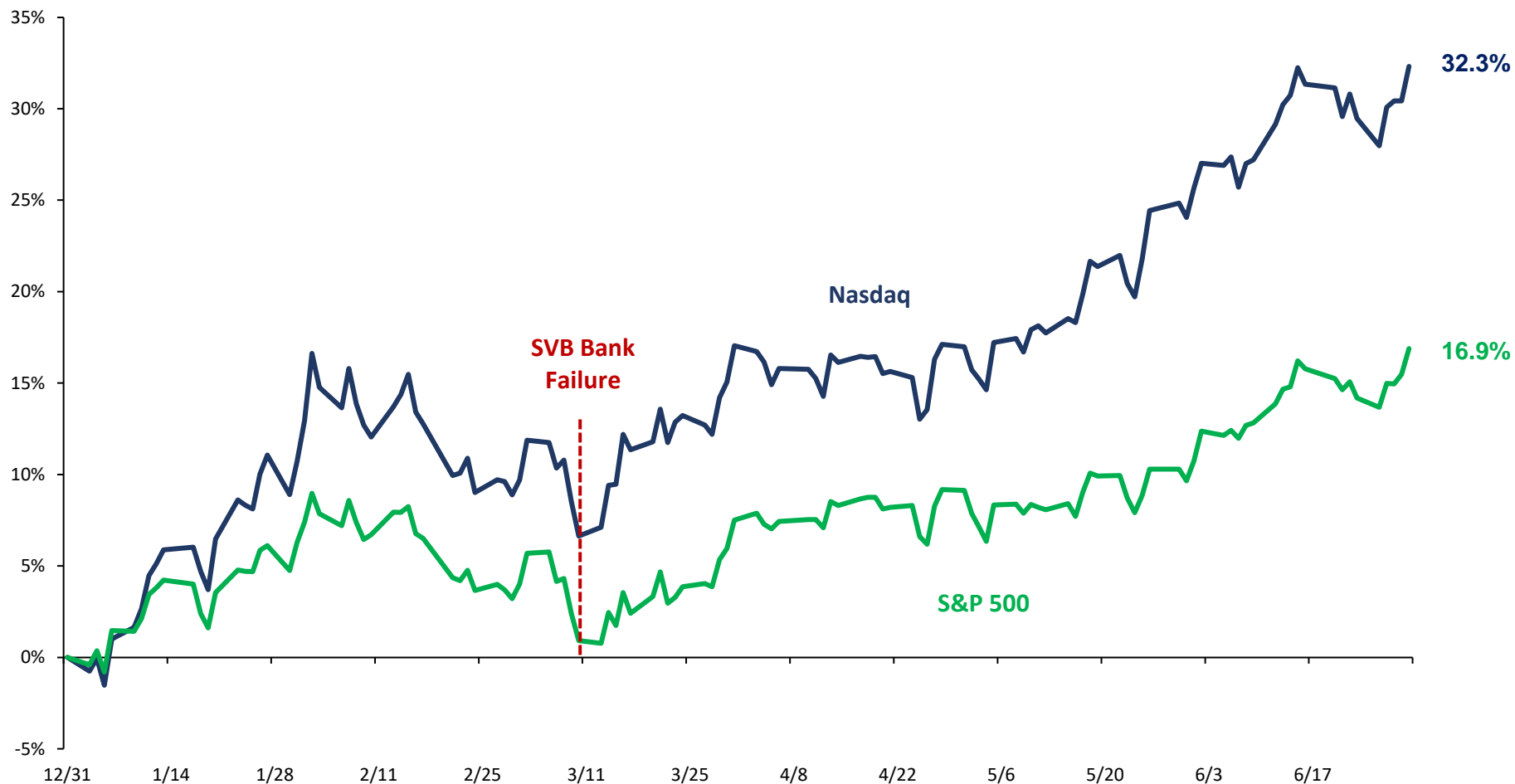


Maryland Government Finance Officers Association
Pension Affinity Group: Economic Outlook and Role of Trustees

September 7, 2023

Mike Stafford, Jr., CFA
Managing Director
(240) 482-2977
mstafford@asbcm.com

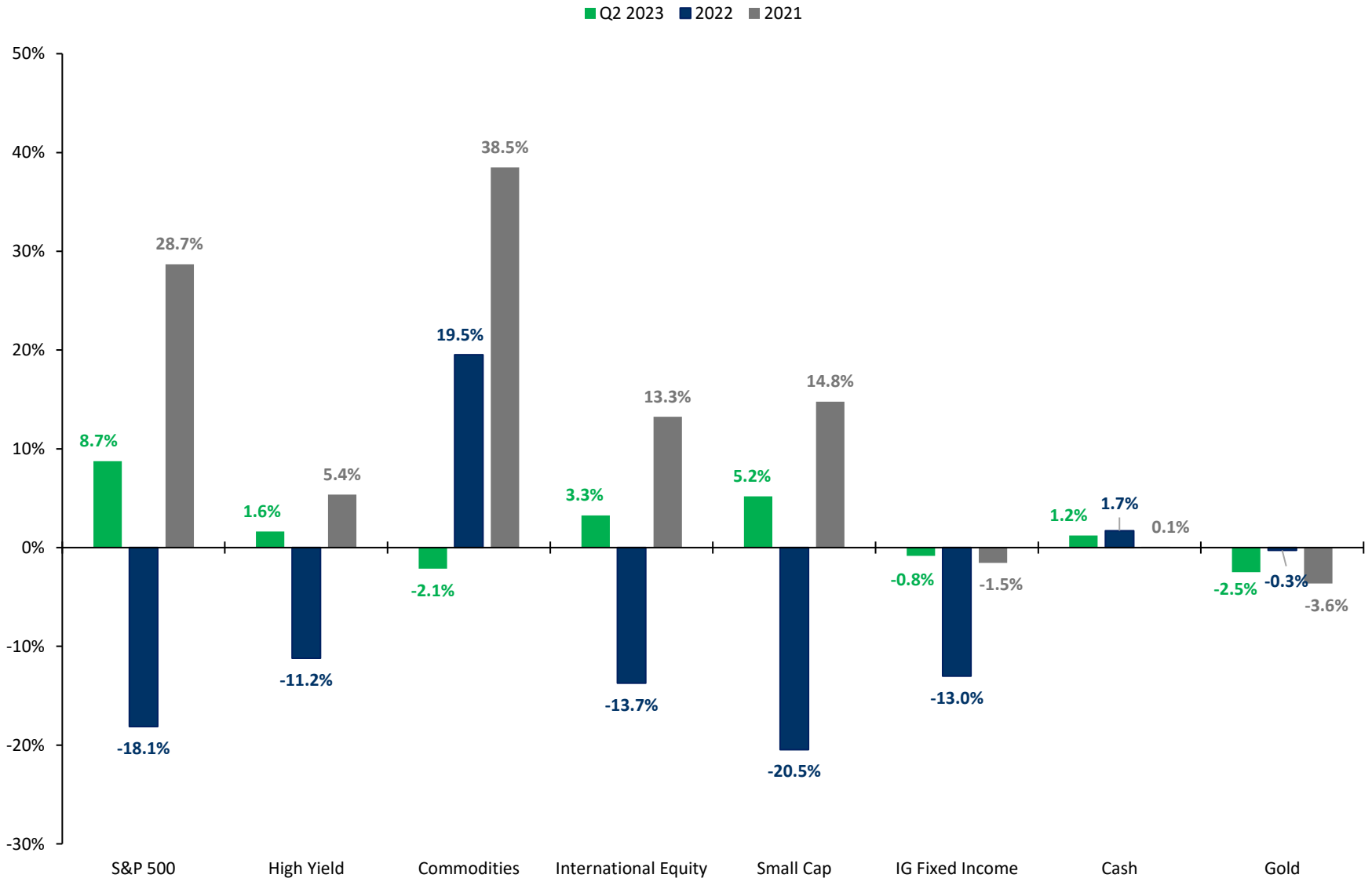
Second Quarter 2023 Capital Markets Review



Source: Bloomberg

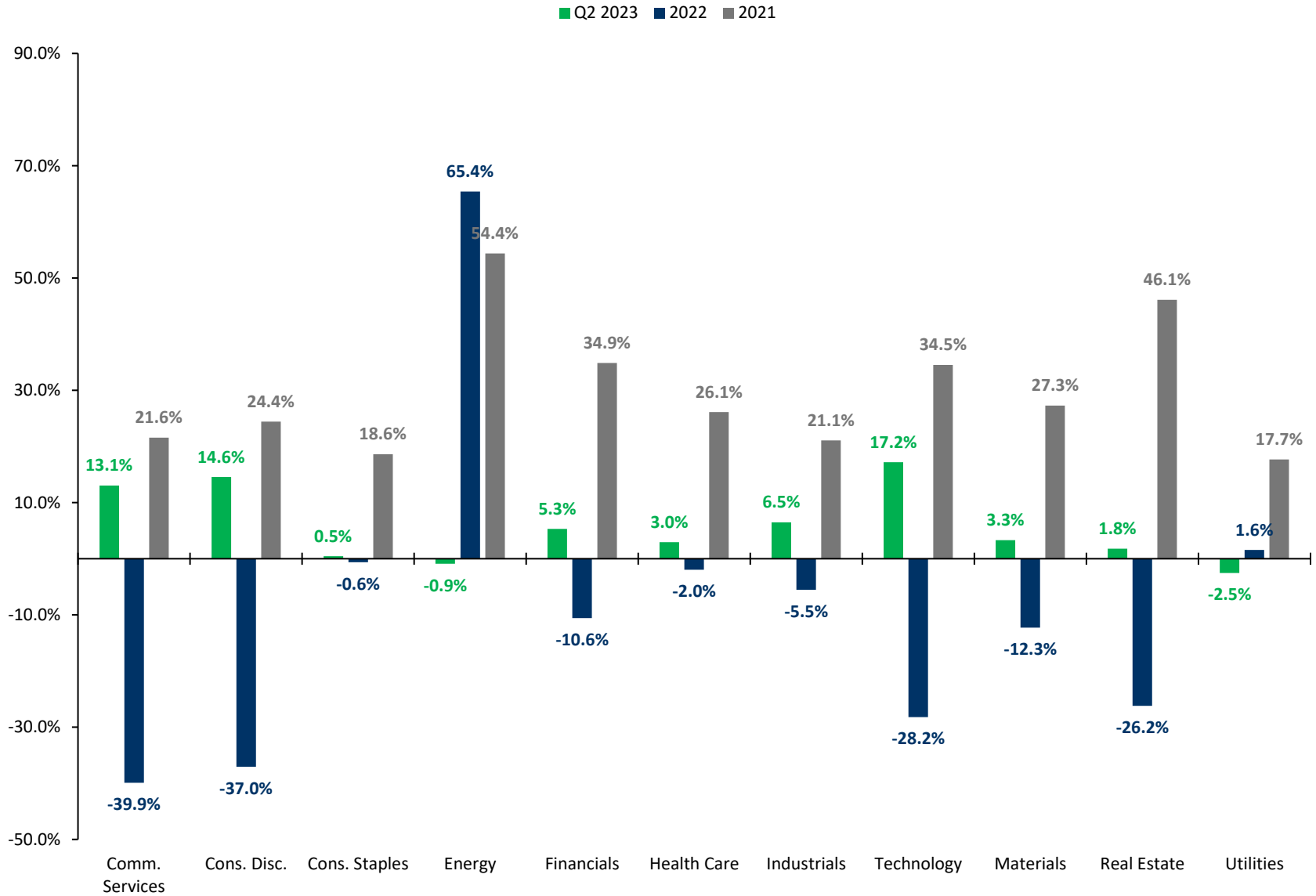


Asset Class Returns



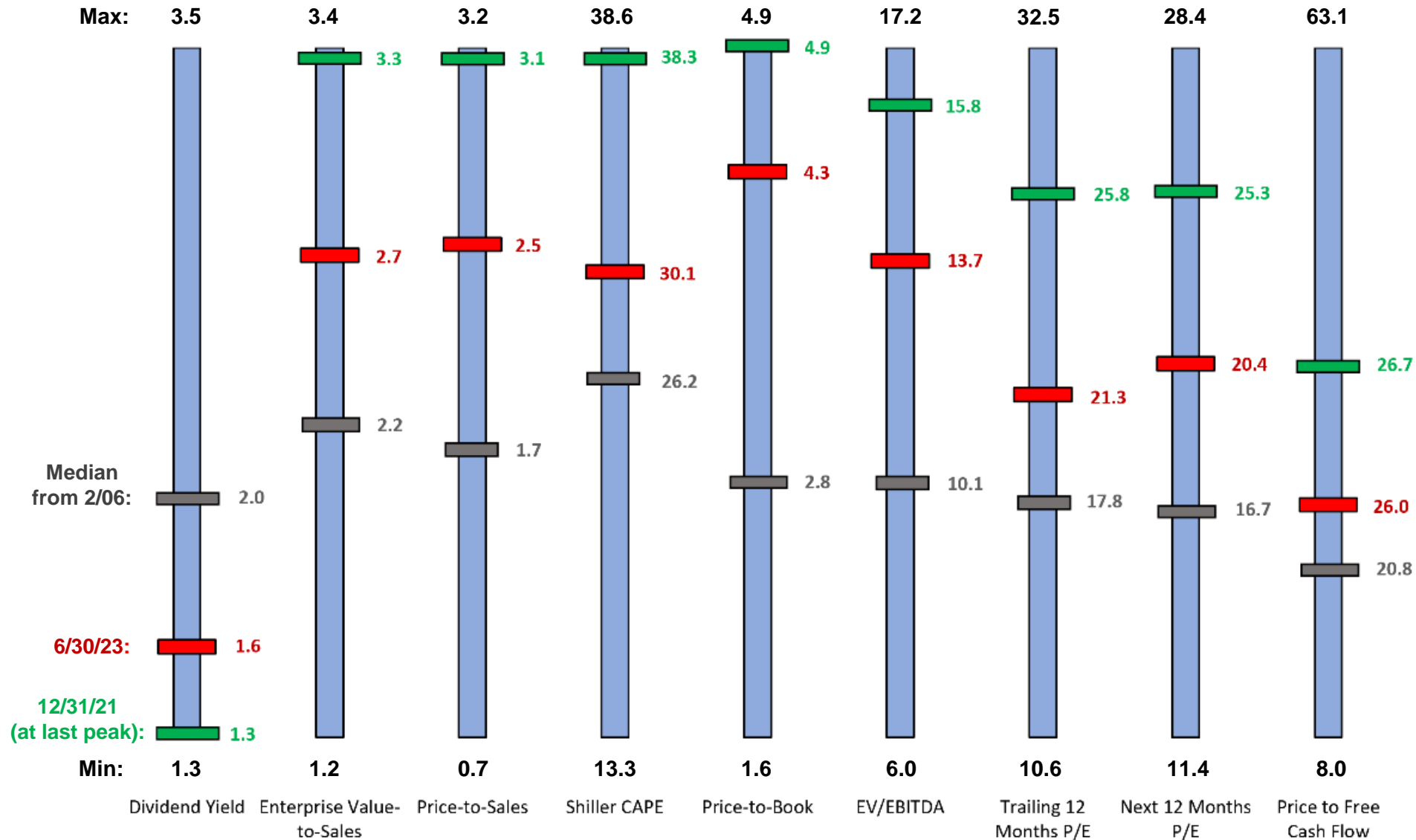
Source: Bloomberg

Equity Sector Returns

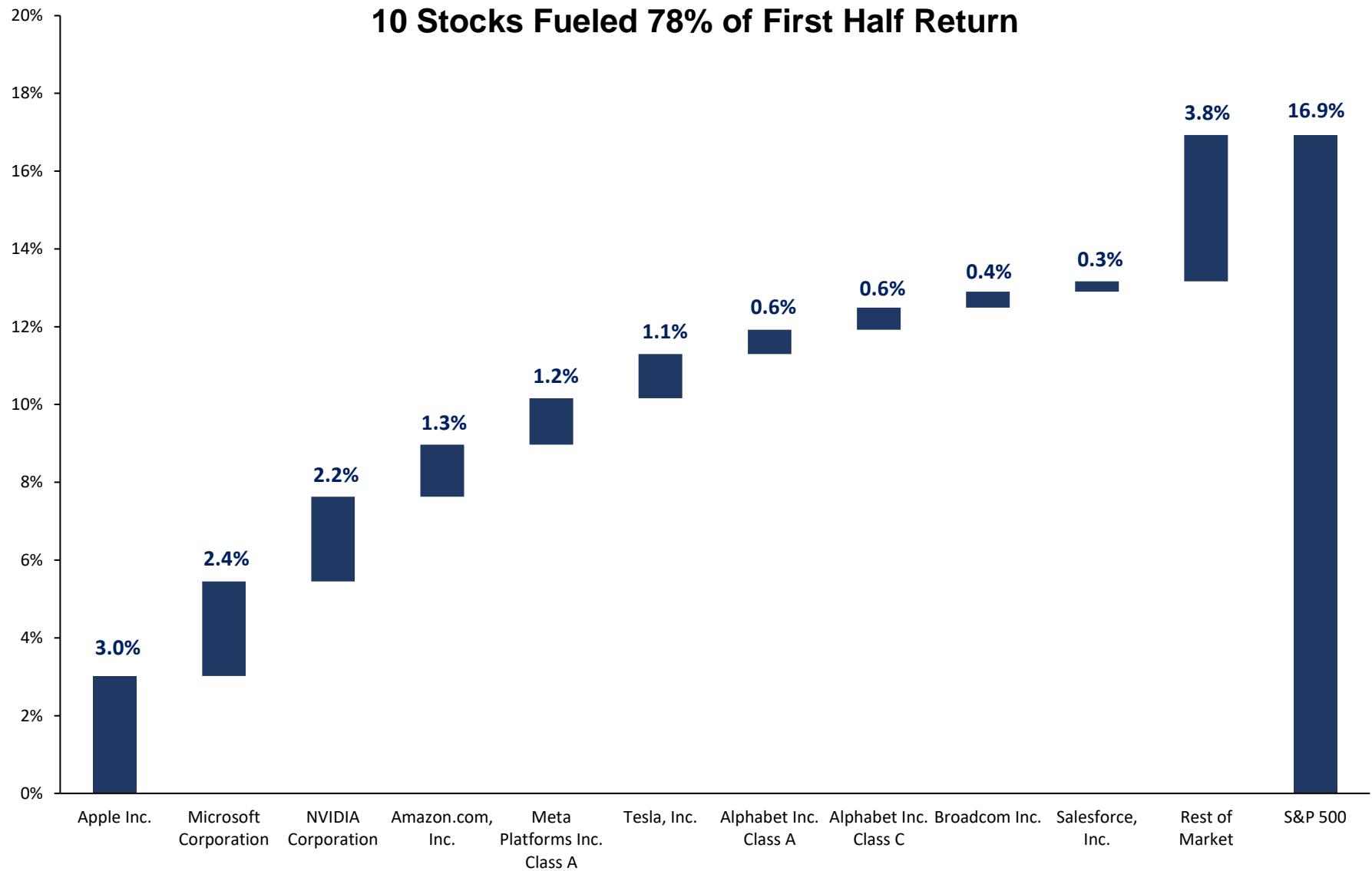


Source: Bloomberg

Equity Valuation: Cheaper than Recent Peak, but Rich vs Median

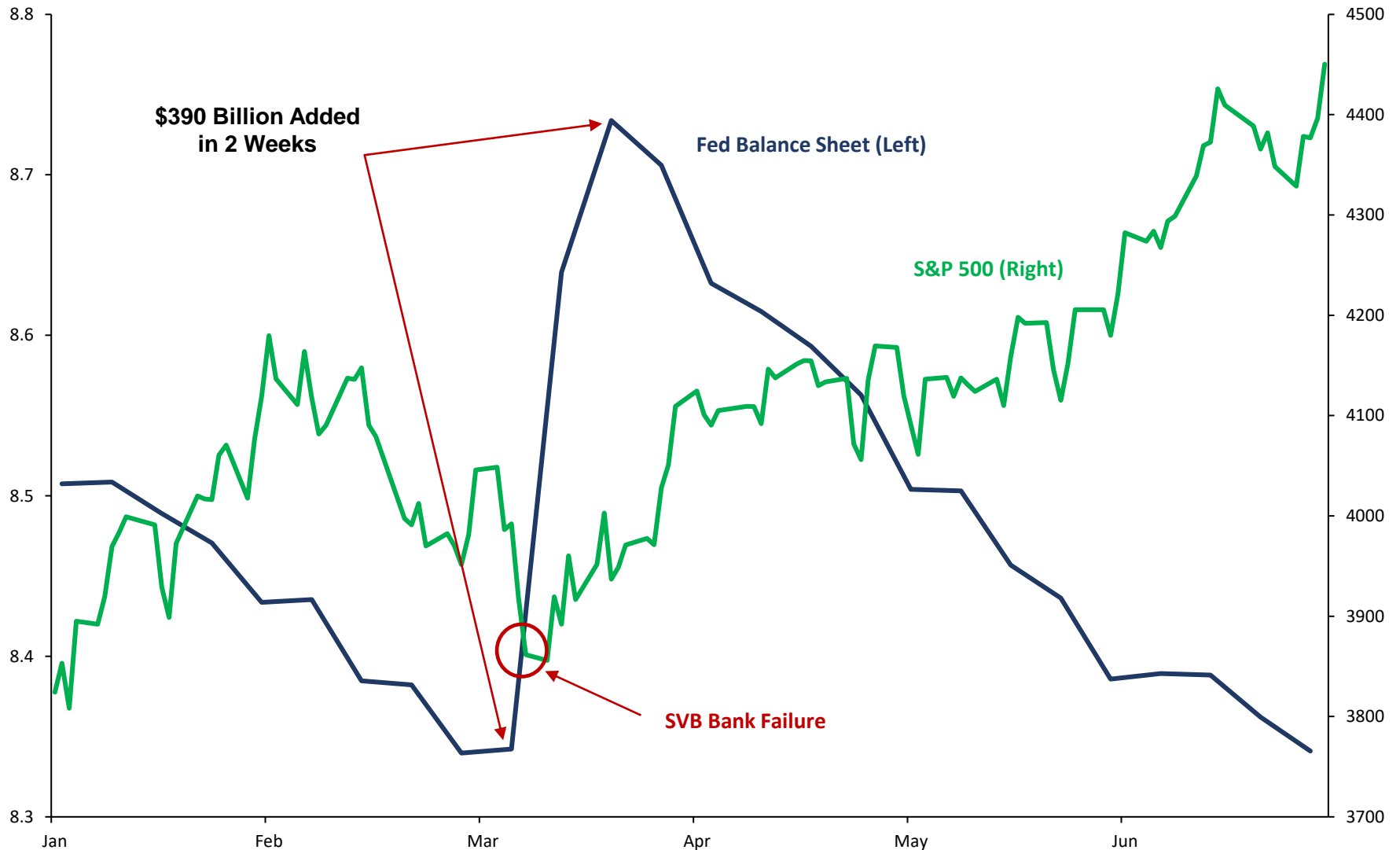


Mega Cap & Tech Dominate Equity Advance



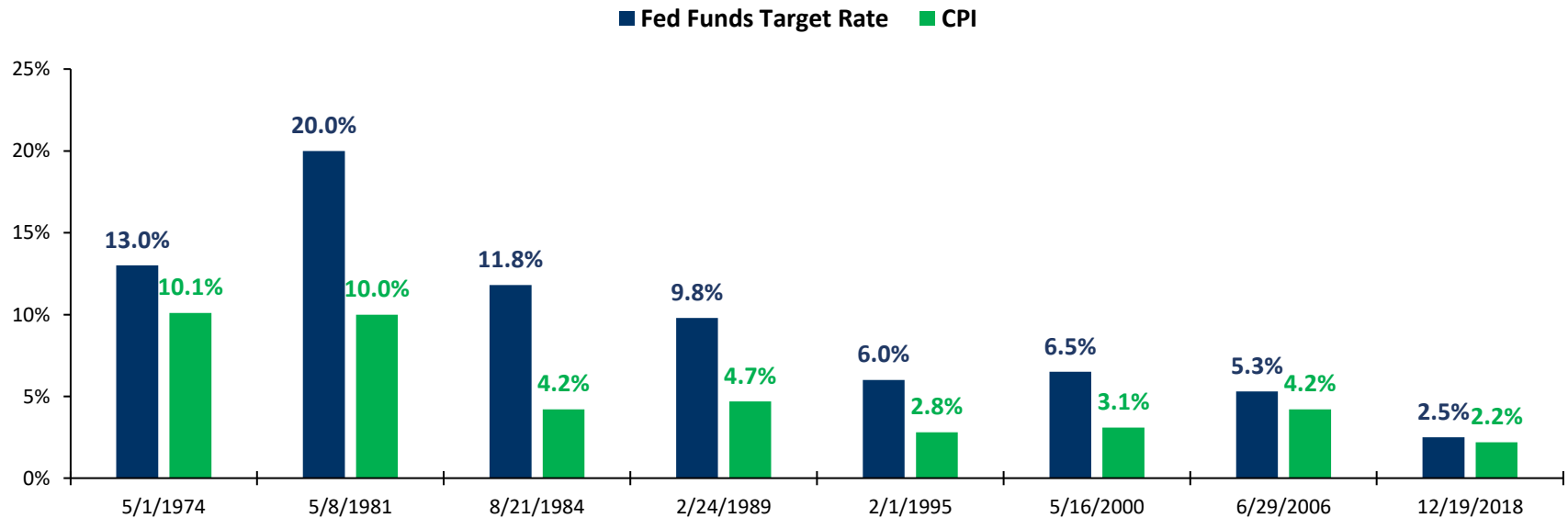
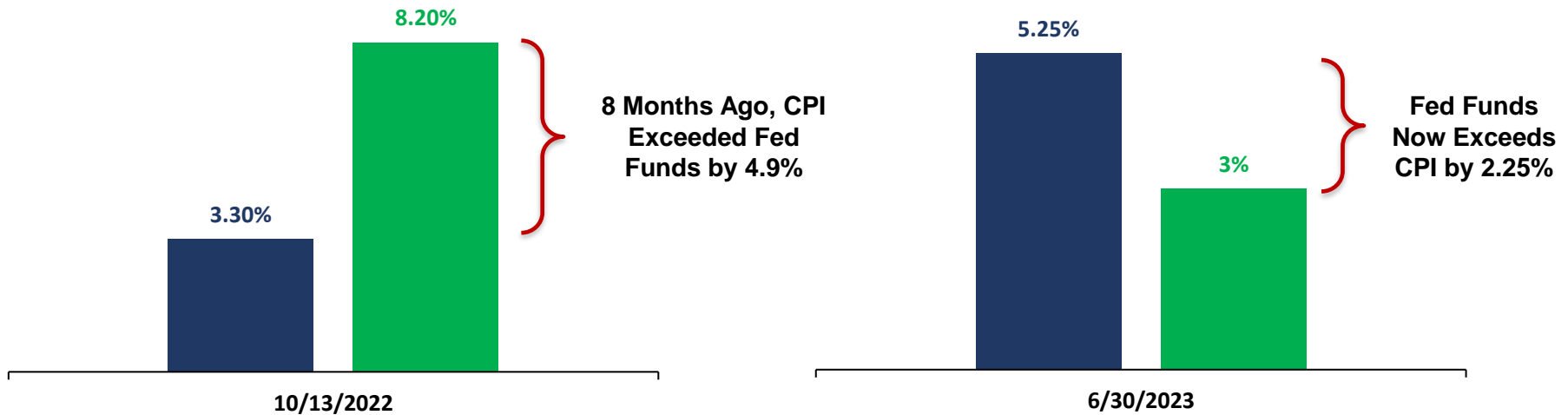
Fed Balance Sheet Addition Marks First Half Low

\$ (Trillions)

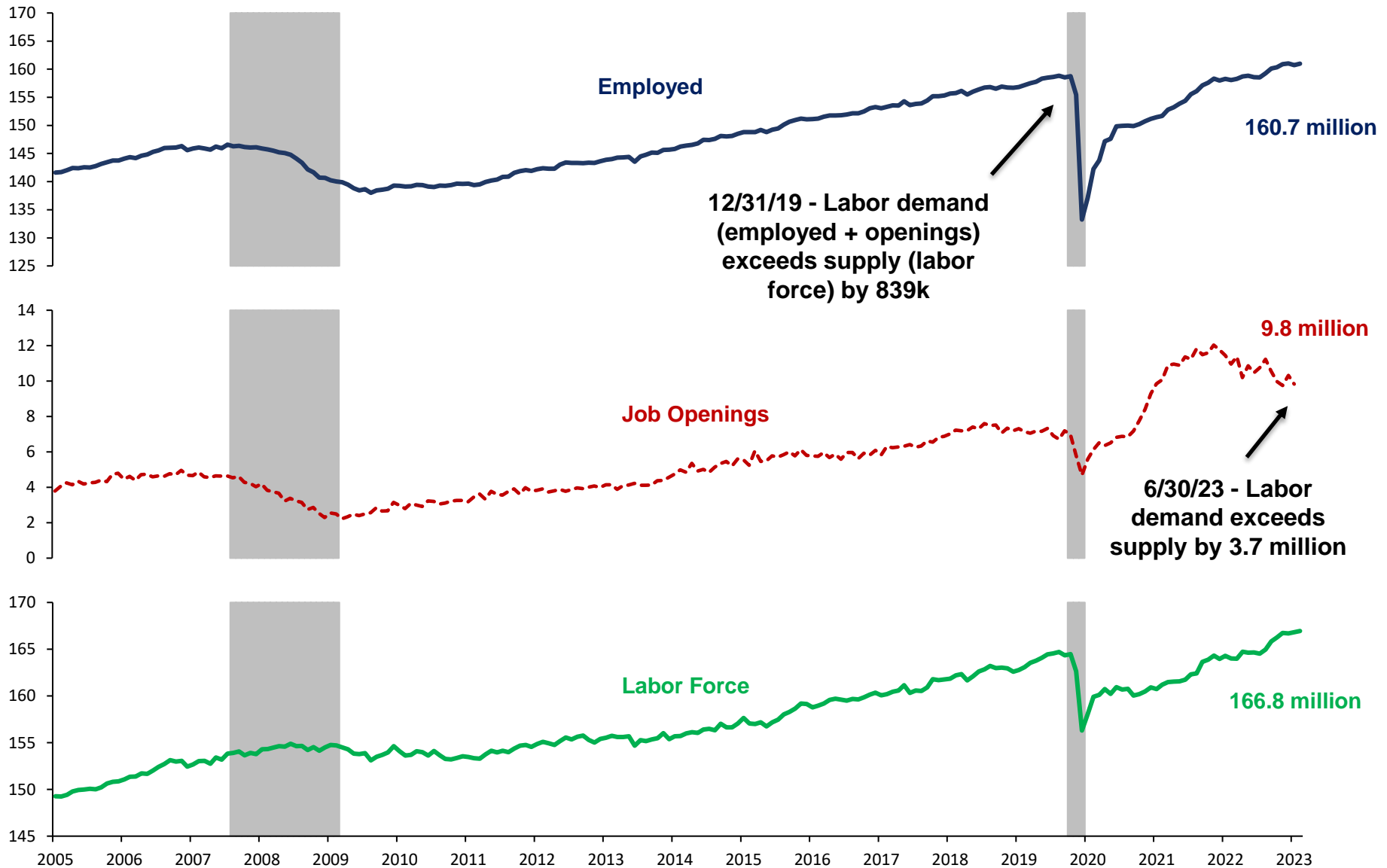


Source: Bloomberg

Fed Pause Warranted? Fed Funds Now Above CPI

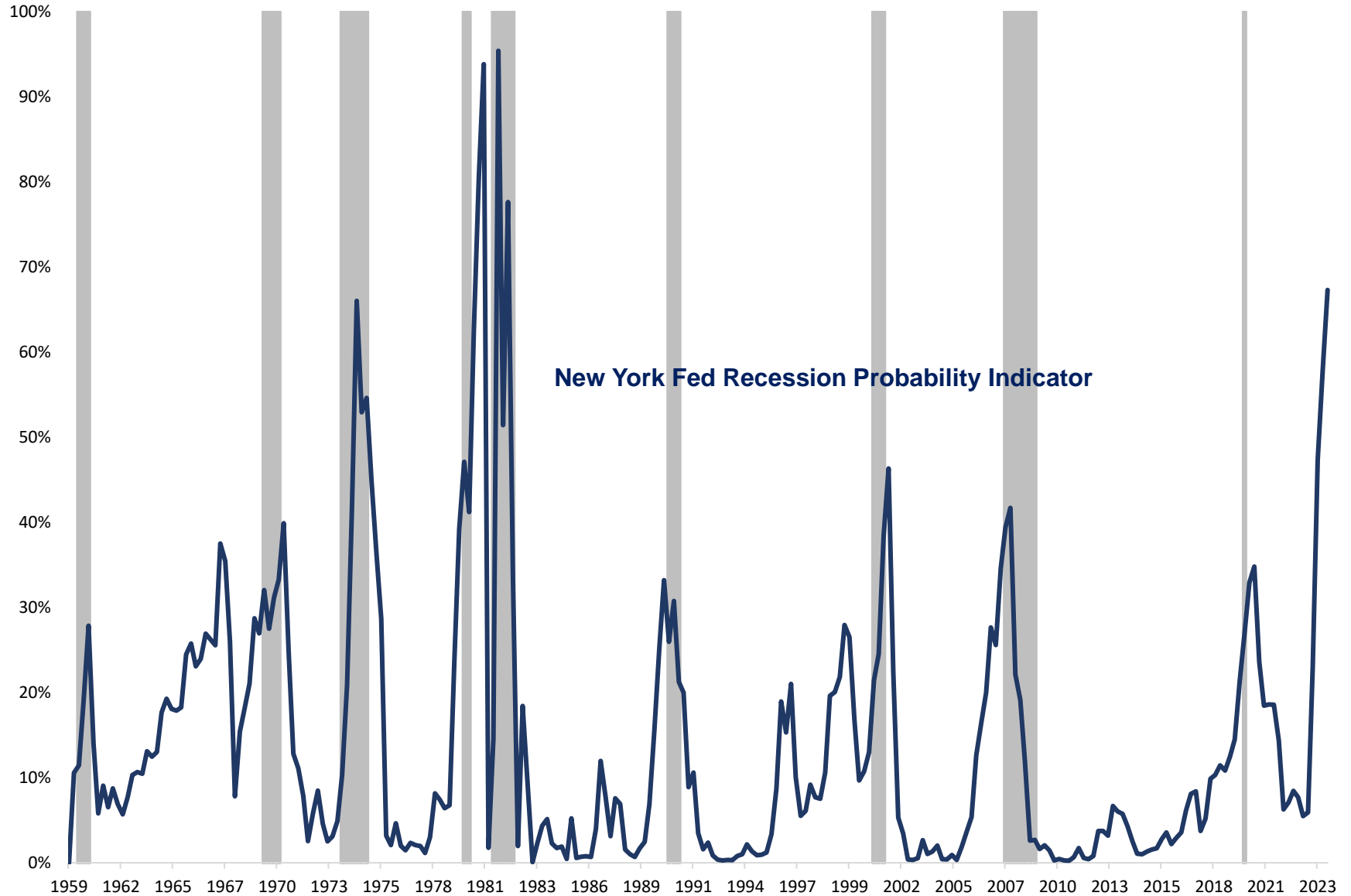


Labor Demand Outpacing Supply



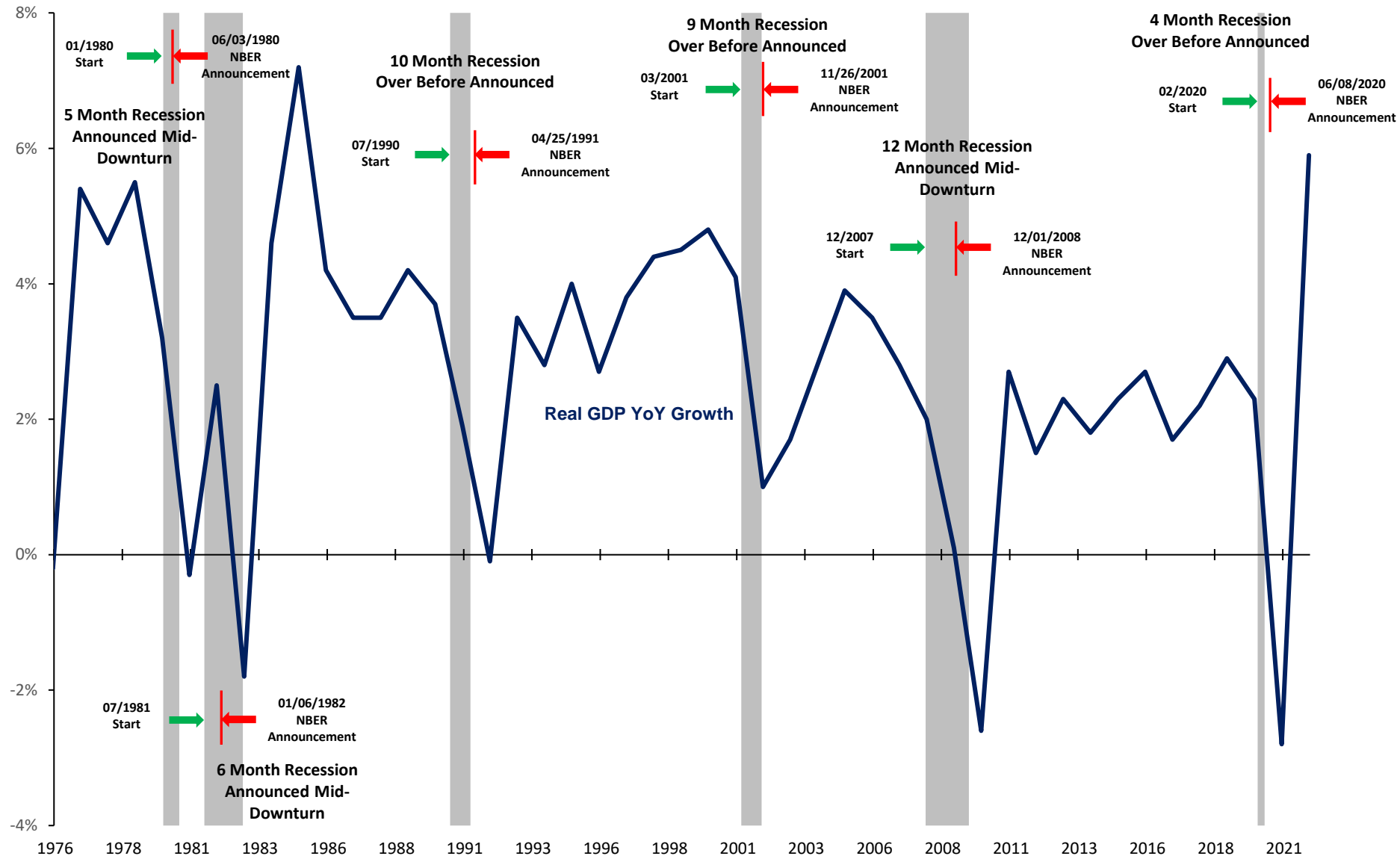
Source: Bloomberg

N.Y. Fed Signal Has Never Been This High Without a Recession



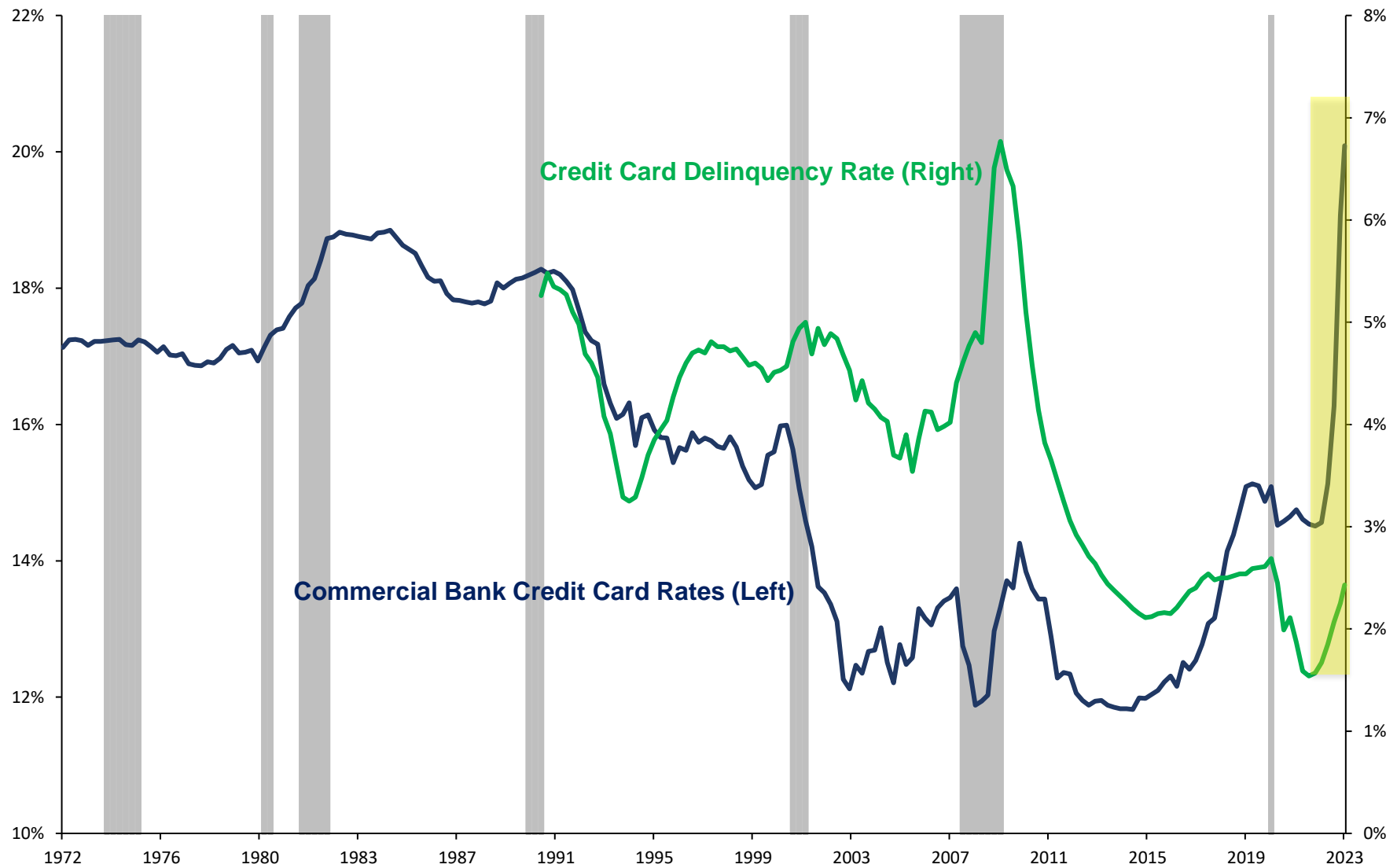
Recession Timing: NBER Start Dates vs Announcement

Real GDP YoY%



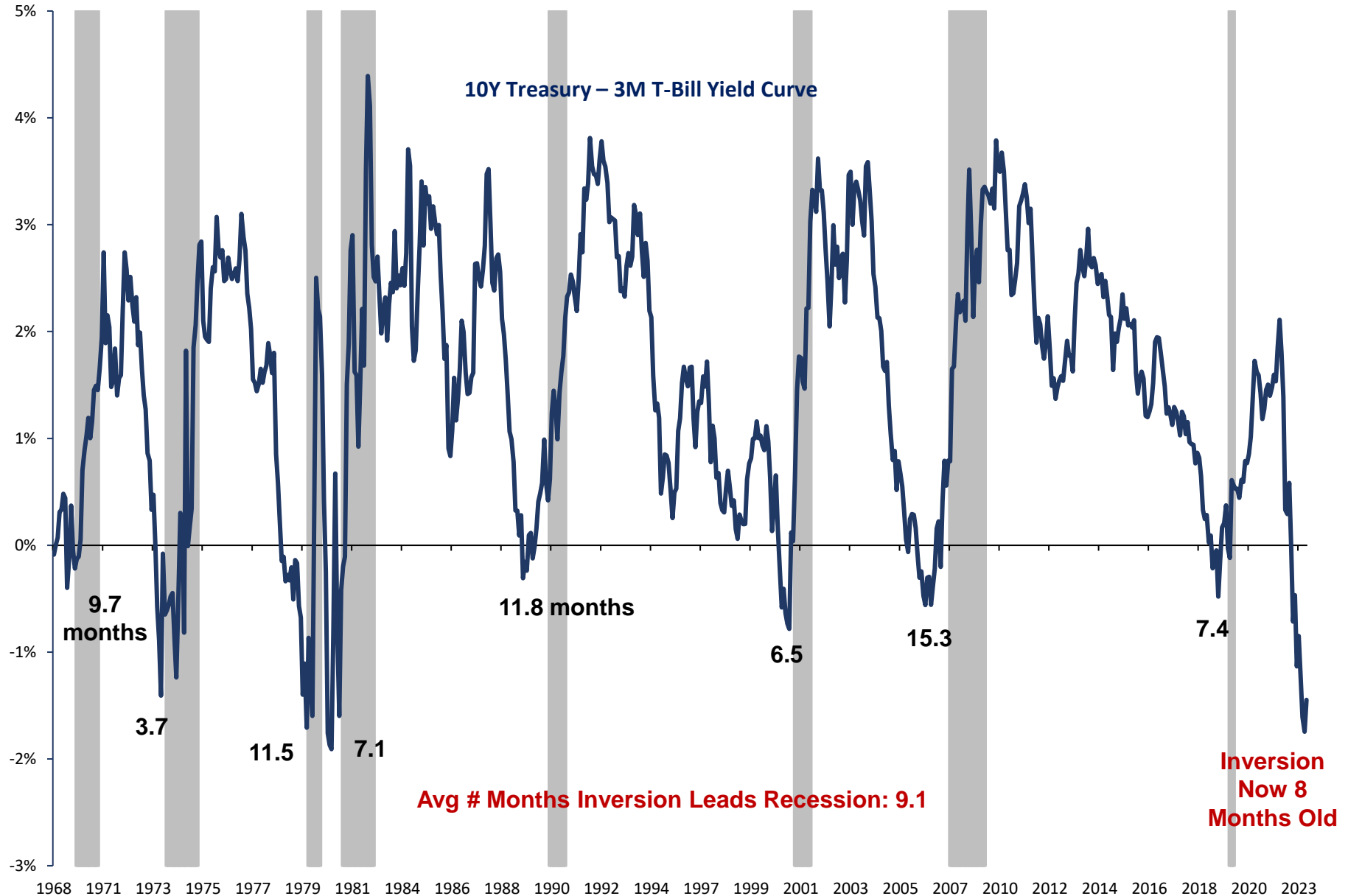
Source: Bloomberg, NBER

Higher Rates Impacting Consumers

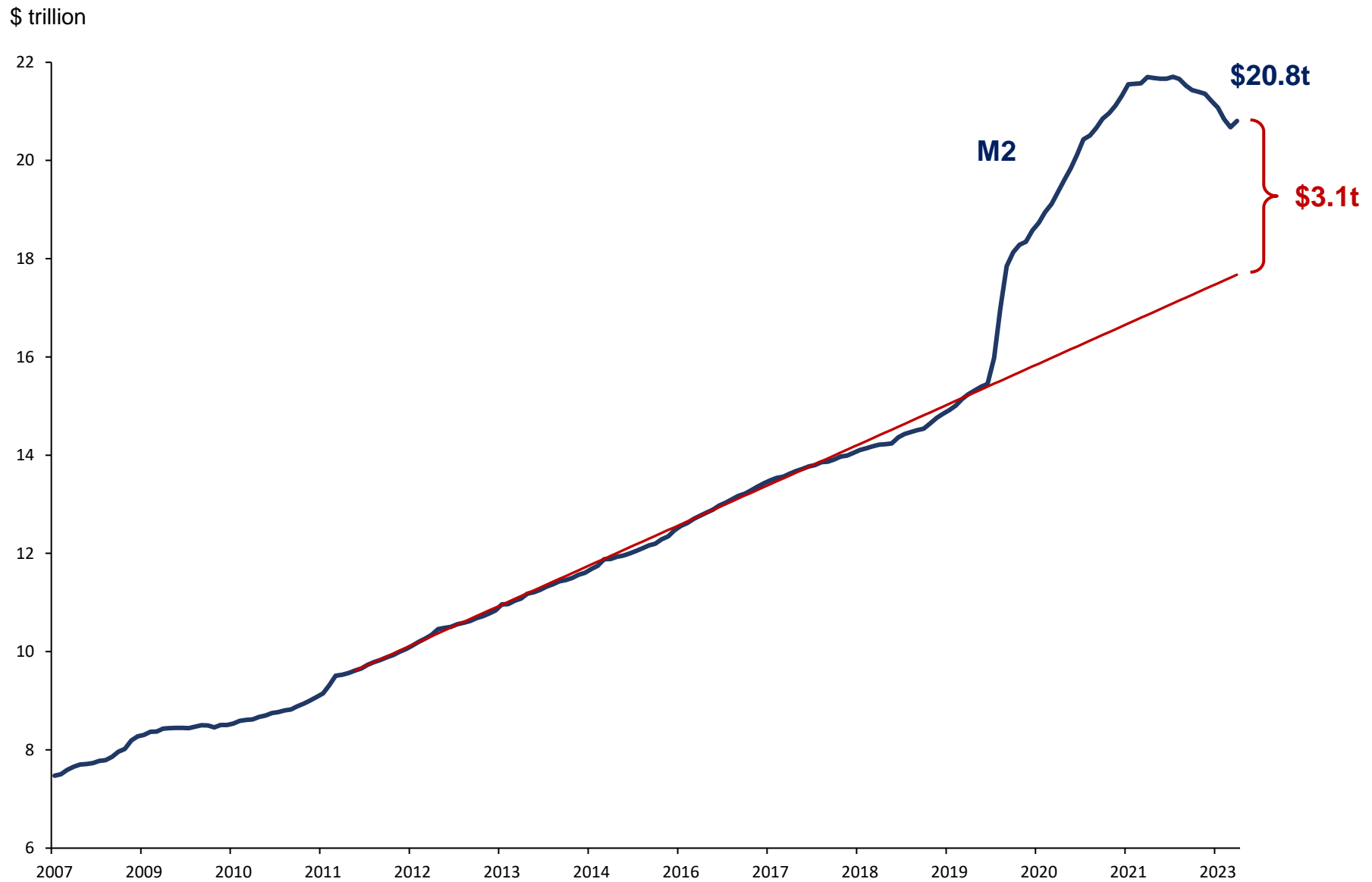


Source: Bloomberg

Curve Inversions Have Always Predicted Recessions

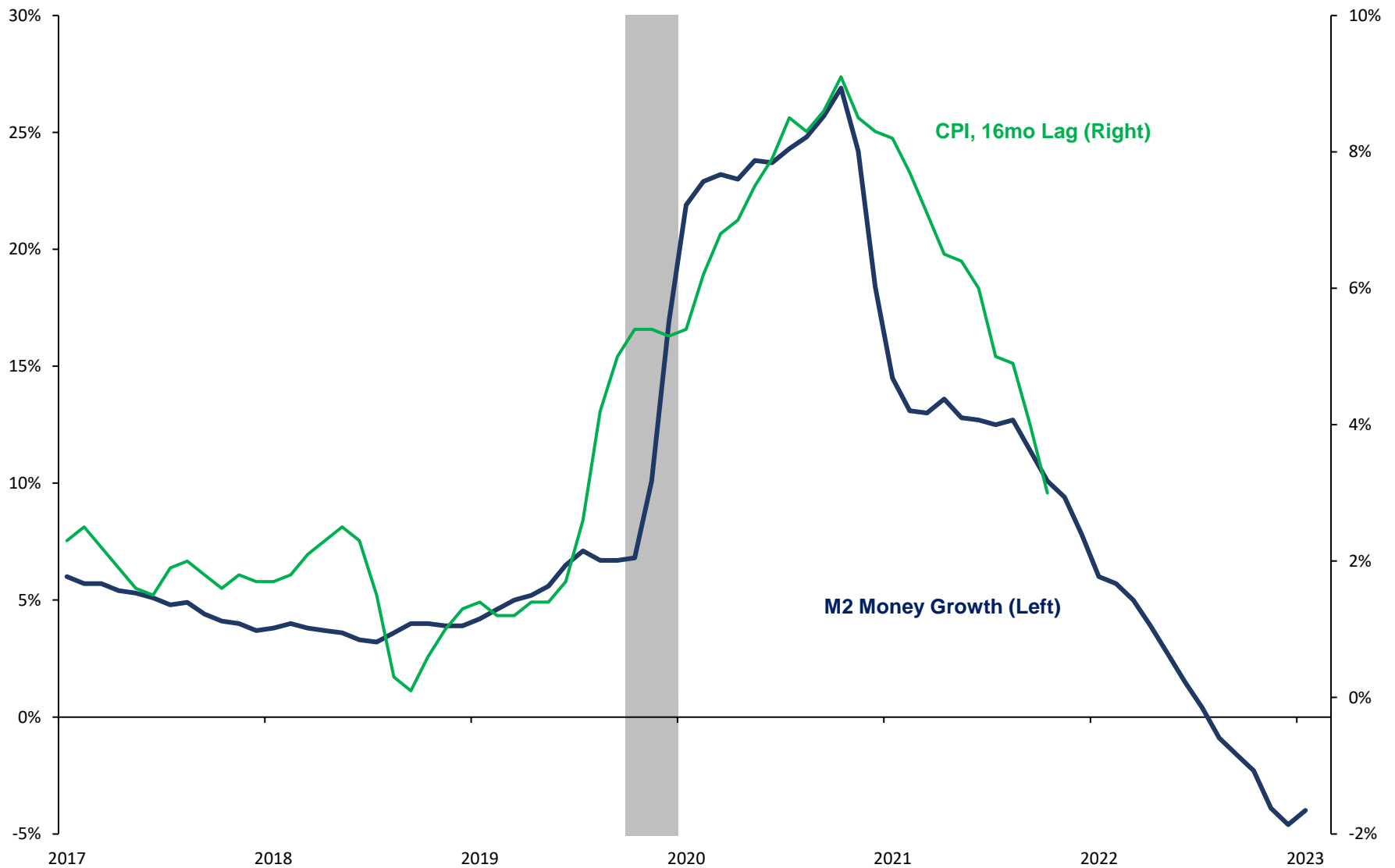


Money Growth Above Long-Term Trend

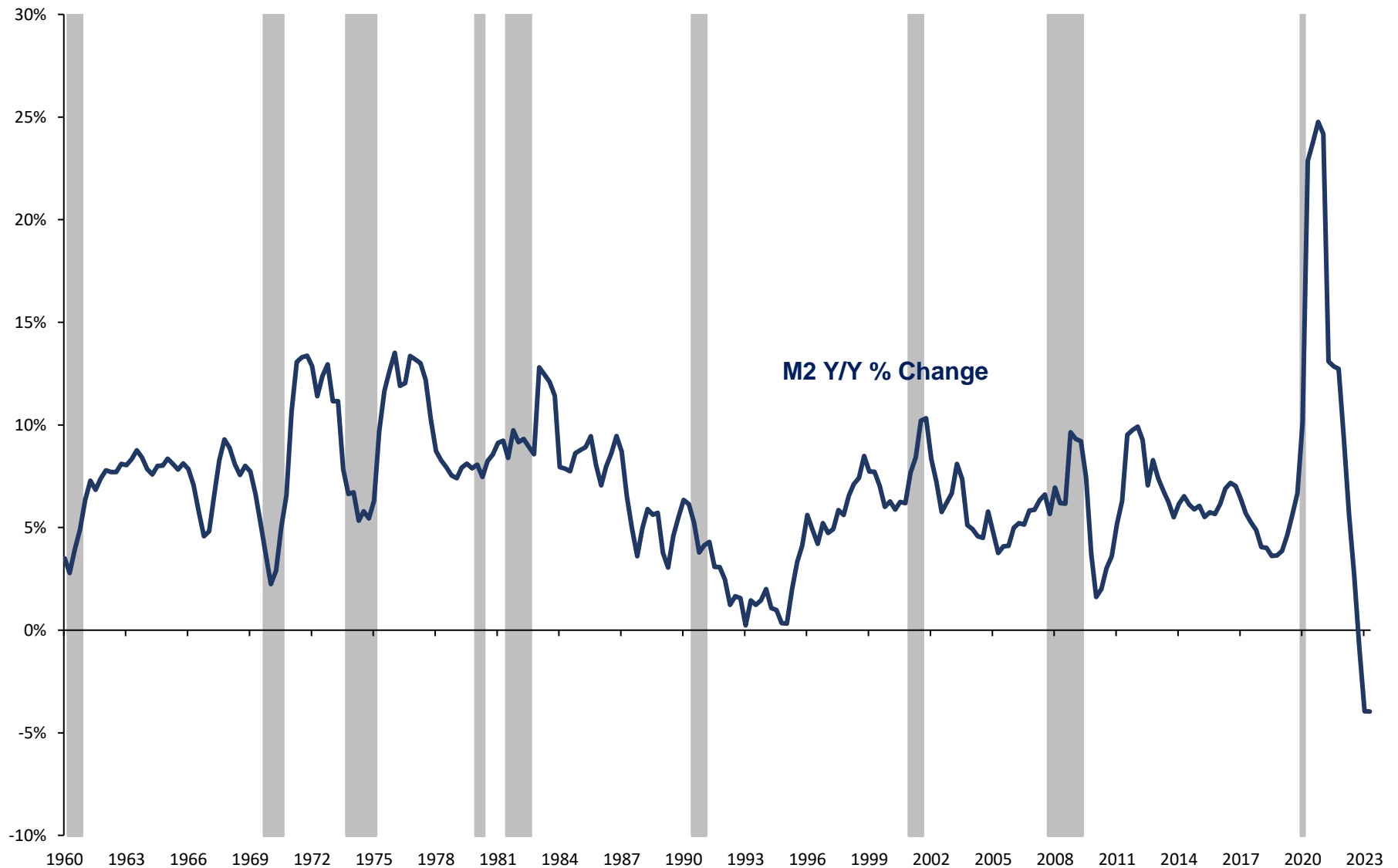


Source: Bloomberg

Inflation Follows M2, with a Lag



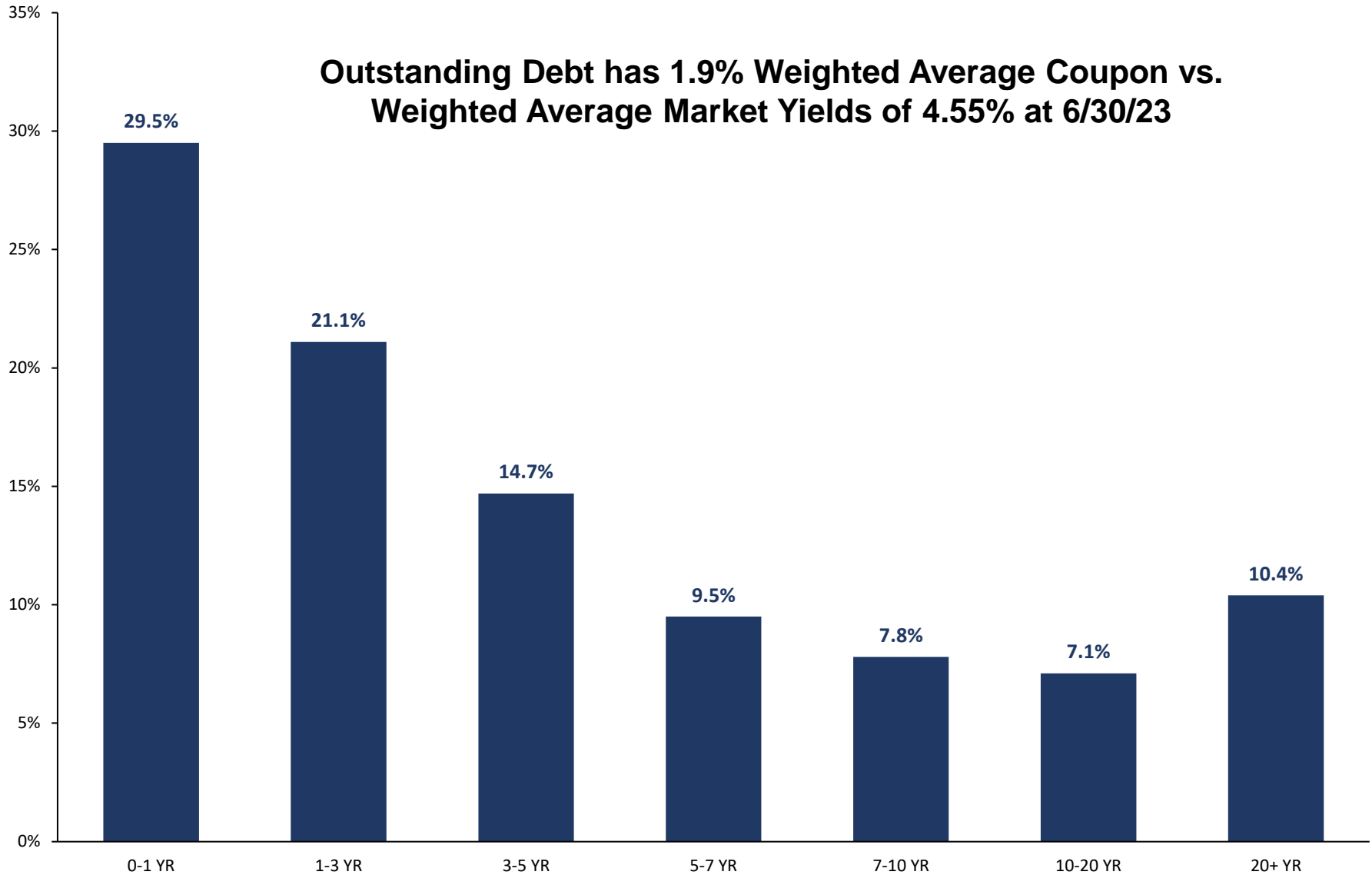
First Time M2 Growth Negative Since Early 1930s



Source: Bloomberg

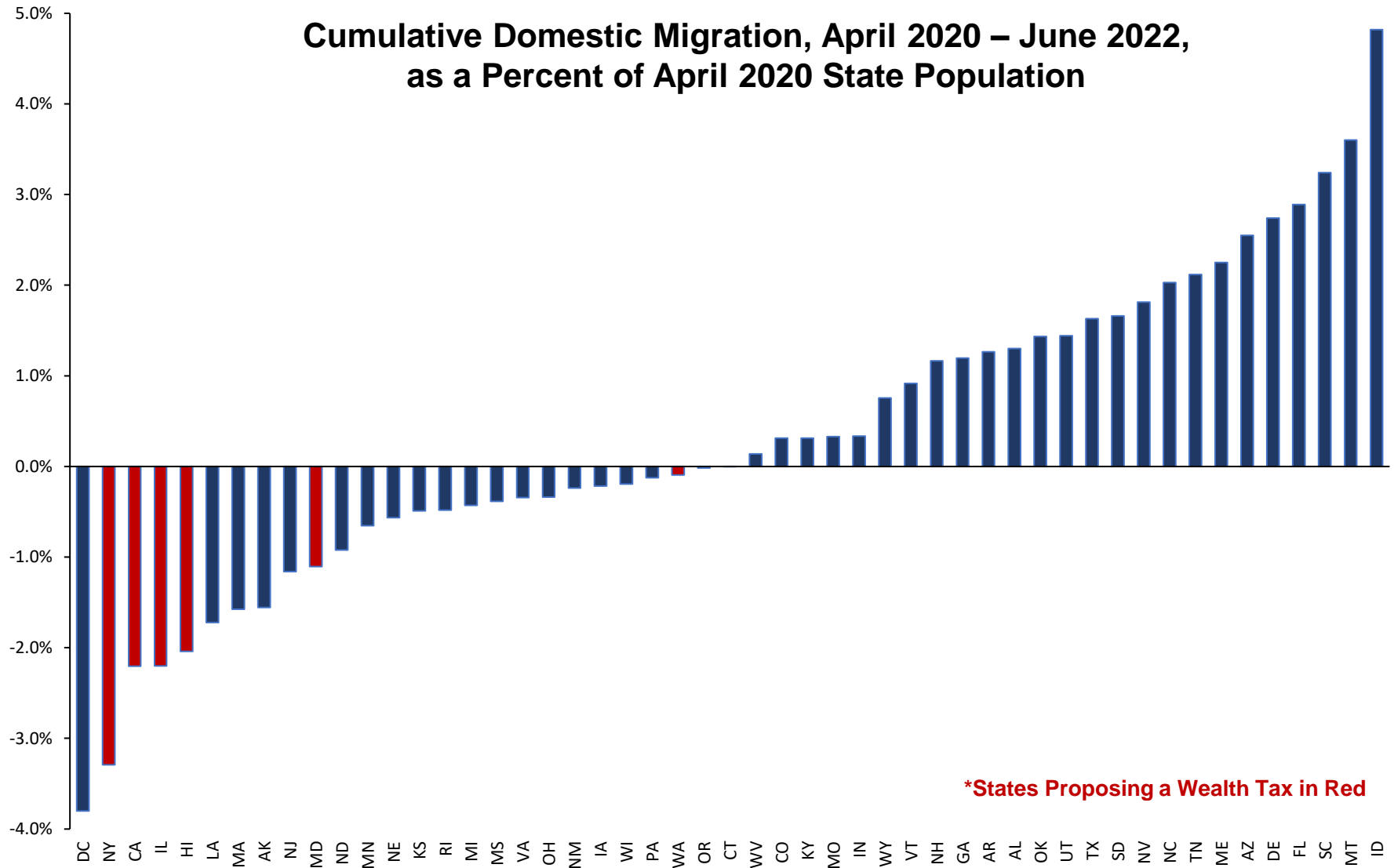
Treasury Refinancing Risk: 50% of U.S. Debt Matures in Three Years

**Outstanding Debt has 1.9% Weighted Average Coupon vs.
Weighted Average Market Yields of 4.55% at 6/30/23**



Pandemic Population Shift Among States

**Cumulative Domestic Migration, April 2020 – June 2022,
as a Percent of April 2020 State Population**



***States Proposing a Wealth Tax in Red**



Consultants are Helpful

- How should macro / investment opinion impact policy?
- Is policy consistent with characteristics and maturity of your plan?
- Consider hybrid / options for lowering long-term costs



Question Your Consultant

- When did you last hear an alternative view?
- Can you quantify your consultant's results?



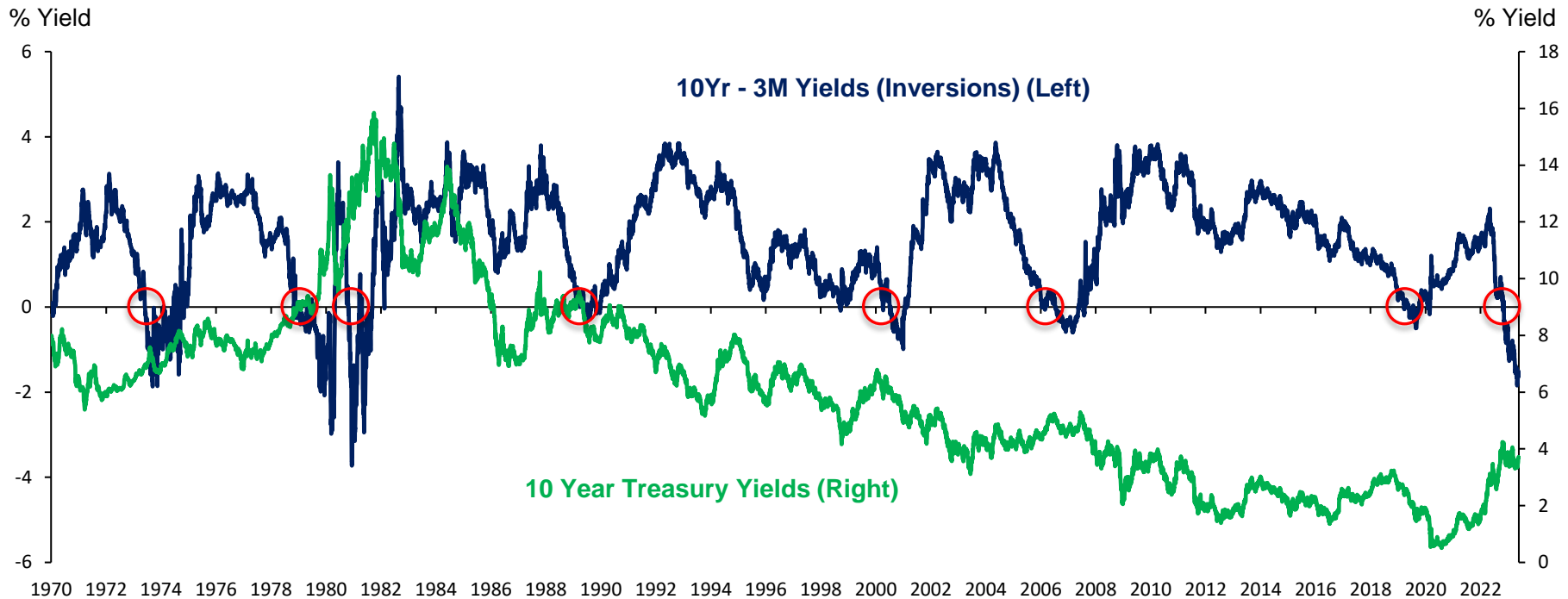
Effective Board

- Different viewpoints are O.K.
- Technical knowledge welcome
- Civility always

Diworsification

- “You don’t need to invest in everything, everywhere”
 - ILS
 - China
 - Private Credit

Benefit of Extending from Cash 3 Months after Initial Curve Inversion



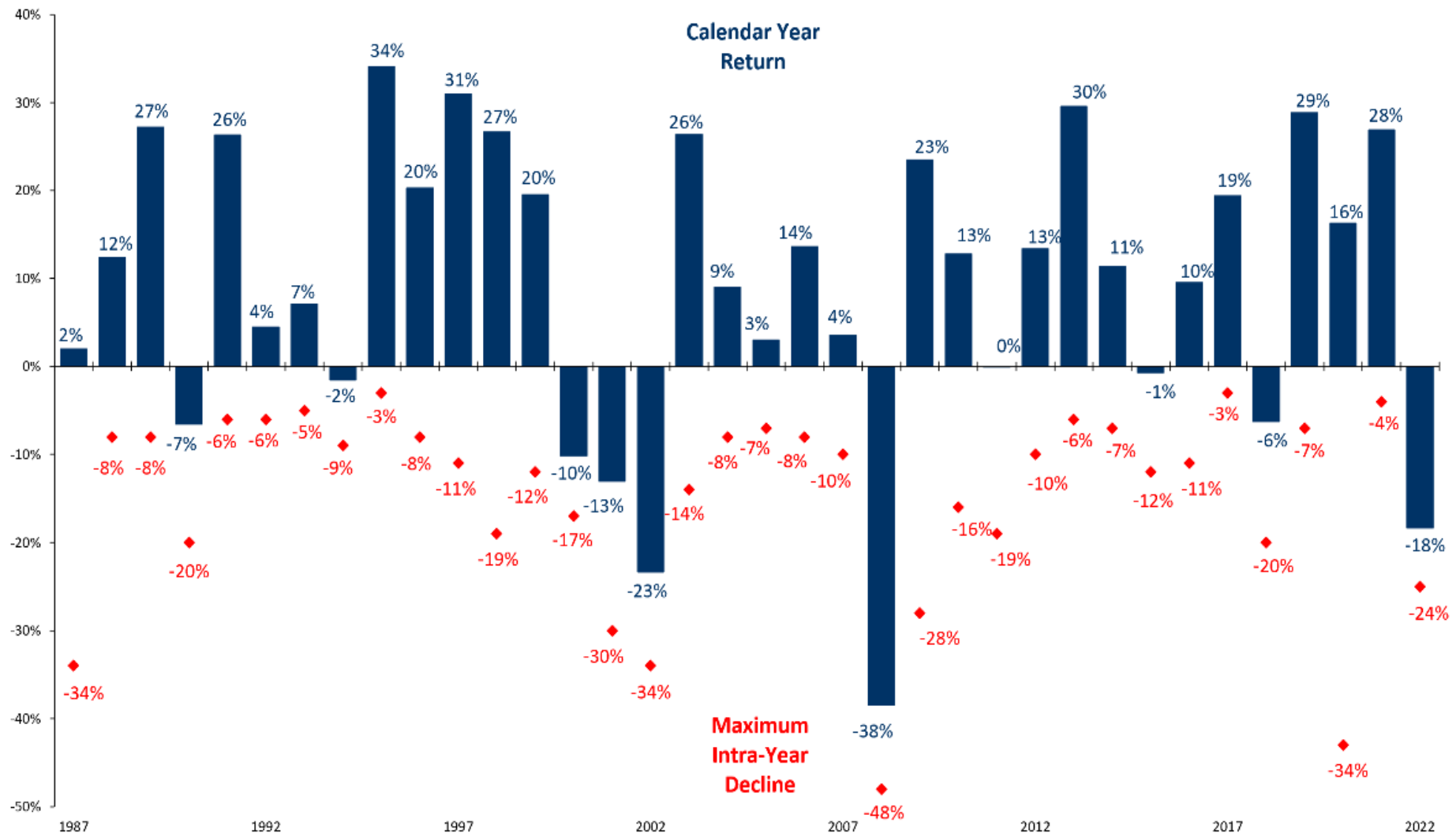
	T-Bill Yields		1-3 Year Government/Credit		Intermediate Government/Credit		Aggregate	
Date of Inversion	+3 Months	+3.25 Years	1 Year Return	3 Year Return	1 Year Return	3 Year Return	1 Year Return	3 Year Return
10/27/2022	4.67%	?	?	?	?	?	?	?
5/23/2019	1.96%	2.72%	3.64%	0.06%	6.01%	-0.66%	6.99%	-1.71%
1/18/2006	4.71%	0.14%	5.23%	5.38%	6.29%	5.67%	7.05%	5.92%
4/5/2000	5.98%	0.85%	9.38%	7.33%	10.74%	9.80%	10.85%	9.83%
3/28/1989	8.32%	3.70%	8.42%	9.70%	7.82%	10.47%	7.85%	10.83%
10/27/1980	15.20%	9.19%	13.15%	14.84%	10.93%	15.35%	6.87%	15.90%
11/1/1978	9.25%	13.68%	6.34%	9.60%	3.08%	7.20%	-2.99%	3.19%
6/1/1973	8.66%	5.09%	N/A*	N/A*	2.27%	8.62%	N/A*	N/A*
Average	7.34%	5.05%	7.69%	7.82%	6.73%	8.08%	6.10%	7.33%

*N/A because inception date of 1-3 year Gov/Credit Index is 1/1/1976; inception date of Aggregate Index is 1/1/1976
Source: Bloomberg

The Devil in the Details – Passive Investing

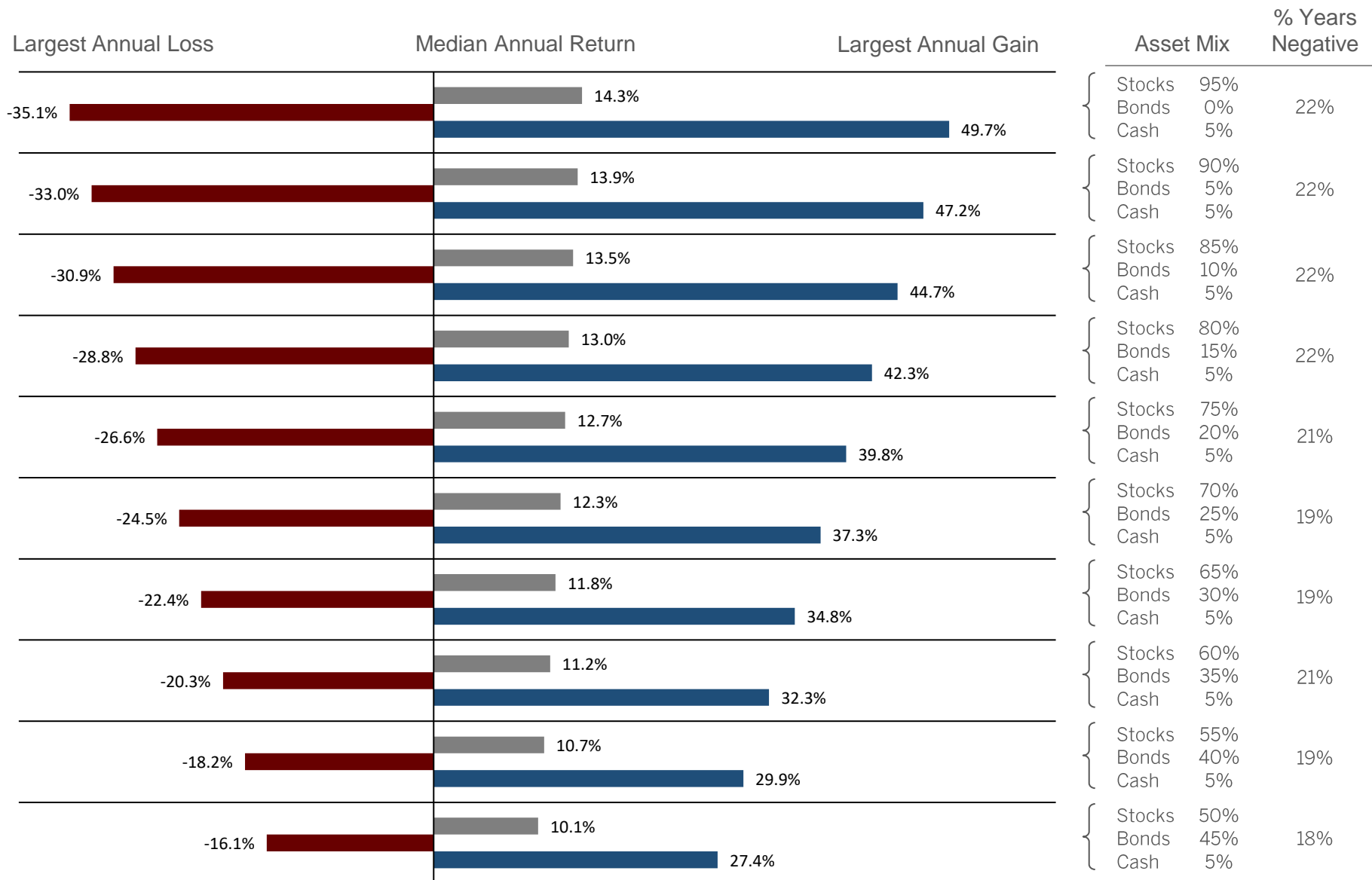
- Understand risk and characteristics of the index
 - Equity: momentum / concentrated leadership
 - Fixed Income: duration / quality
- Low cost, but can't outperform

Recession Timing: NBER Start Dates vs Announcement



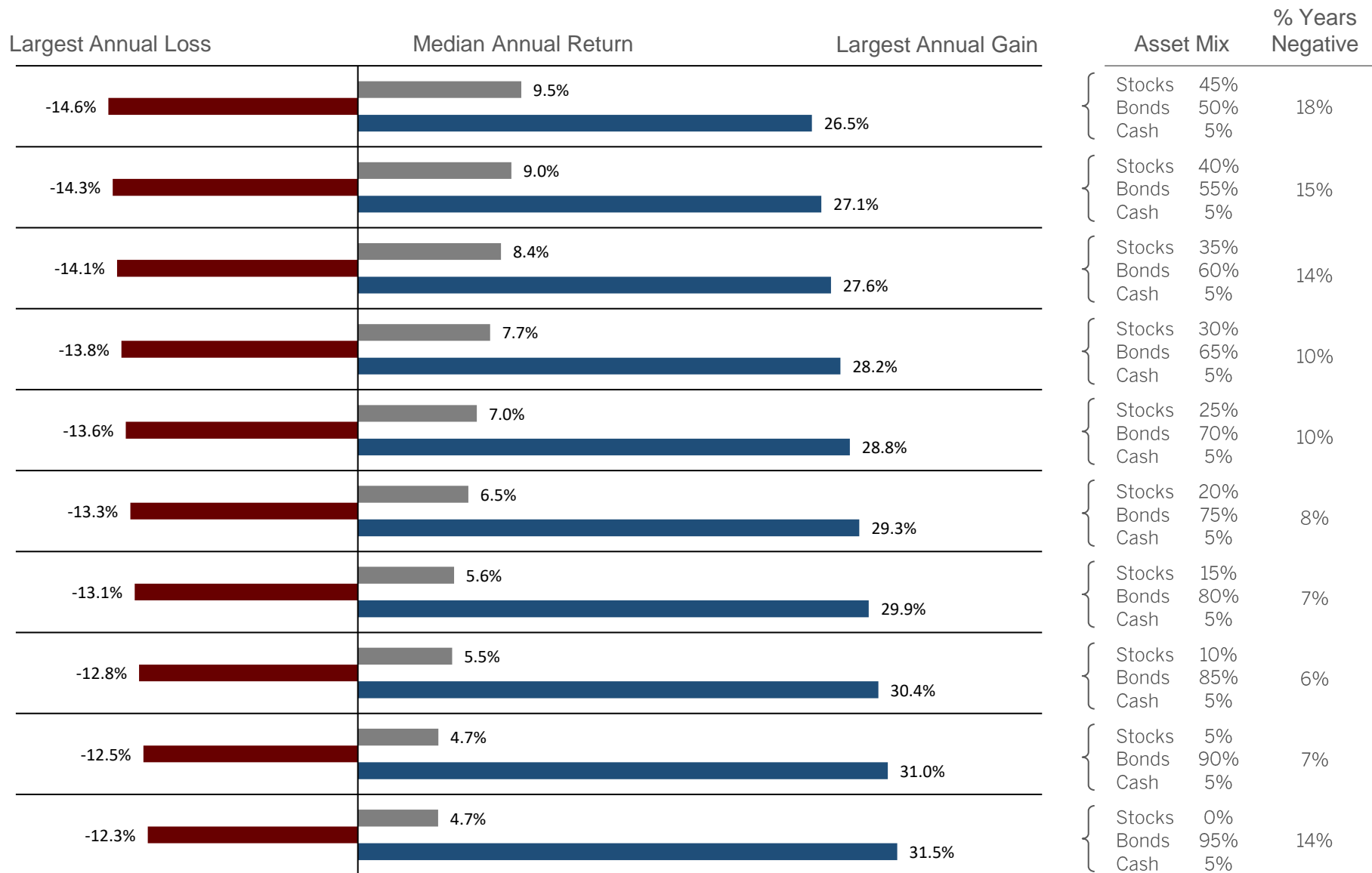
Asset Allocation – Risk & Reward

Calendar Year Returns (1950 through 2022)



Asset Allocation – Risk & Reward

Calendar Year Returns (1950 through 2022)





“Europe’s a museum, Japan’s a nursing home, and China’s a jail”

- ?

“Democracy is the worst form of government, except all those other forms that have been tried from time to time”

- Winston Churchill



THANK YOU!

Mike Stafford, Jr. CFA
mstafford@asbcm.com
443-322-6592