# North Carolina Community Foundation

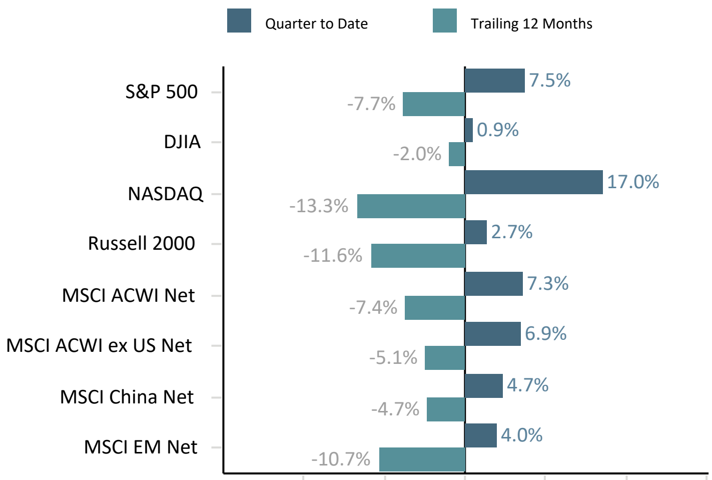
Data as of March 31, 2023

## Market Commentary - Q1 2023

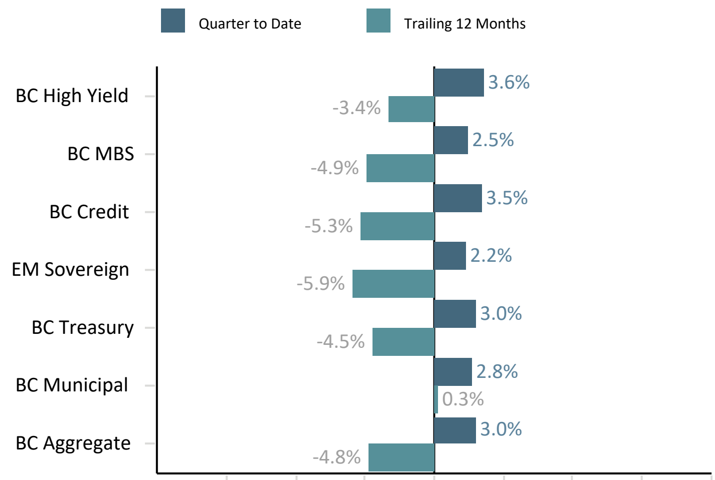
The first quarter of 2023 brought positive returns for many fixed income and equity indices as the Federal Open Market Committee (FOMC) ensured commitment to taming inflation through rate hikes and tightening financial conditions. Meanwhile, the 10Y2Y yield curve stayed inverted alongside a slowing economy. Throughout the quarter, equities and fixed income markets were not aligned. As expectations for interest rates decreased, valuations rose, short-covering picked up, and one-day options activity surged. Equities appeared to look through potential risks for an economic and/or profits recession and lagged effects of central bank tightening and tighter credit availability.

Inflation remained at elevated levels in 1Q23 even as US Headline CPI Inflation cooled to 6.0% year-over-year in February, a decline from the June 2022 peak of 9.1%. Since this was well above the FOMC's 2% inflation target, the Committee continued to raise rates. Following seven rate hikes in 2022, the FOMC raised rates a total of 50 basis points during the first quarter while the Quantitative Tightening (QT) program held. Together with tighter lending standards from banks, these monetary effects caused tightening in financial conditions, which threatens to slow economic activity.

### Equity Sector Performance




### Bond Market Performance




### Equity Markets Commentary

The collapse of SVB, followed shortly by further financial sector disruption in Europe, caused stocks to dip sharply in March before recovering to finish the month and quarter higher. The Fed expressed confidence in the resilience of the US banking system and raised the policy rate by 50 basis points. This took borrowing costs to the highest points since 2007. However, inflation climbed less than expected in March, leading to speculation that further rate hikes will be limited.

Seven of the eleven sectors posted positive returns in 1Q 2023. Technology, Telecommunications, and Consumer Discretionary performed the strongest returning 21.8%, 20.5%, and 16.1% respectively. The poorest performing sectors in 1Q were Healthcare, Energy, and Financials. Each posting -4.3%, -4.7%, and -5.6% respectively.

### Fixed Income Markets Commentary

During Q1, growth improved as headwinds from higher inflation on consumers' real incomes, started to abate. While there were signs that hiking cycles were already taking effect, the full spill-over effects to the broader economy are yet to come. Core measures of CPI delivered upside surprises to inflation in the US. The US 10-year yield fell from 3.92% to 3.47%, with the two-year going back from 4.82% to 4.03%.

All sectors of the bond market improved in the first quarter of 2023. The best performers in the fixed income market where the BC Aggregate, and Treasury indices, each improving 3.0% for the quarter. BC Credit improved by 3.5%, and the best performer in Q1 was the BC High Yield index at 3.6%.



Further information, including current portfolio size, performance, fees, underlying investment holdings and detail, can be obtained from the Foundation office by contacting 919-828-4387 or via email at info@nccommunityfoundation.org,
North Carolina Community Foundation
3737 Glenwood Ave, Suite 460, Raleigh, NC 27612
www.nccommunityfoundation.org

NORTH CAROLINA COMMUNITY FOUNDATION