North Carolina Community Foundation

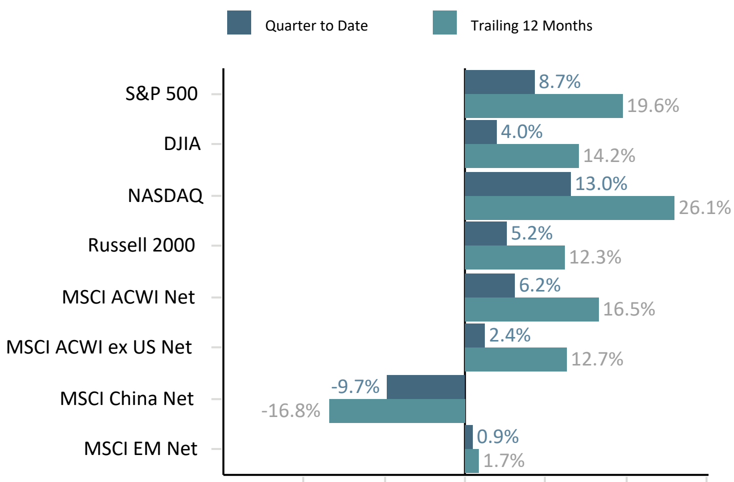
Data as of June 30, 2023

Market Commentary - Q2 2023

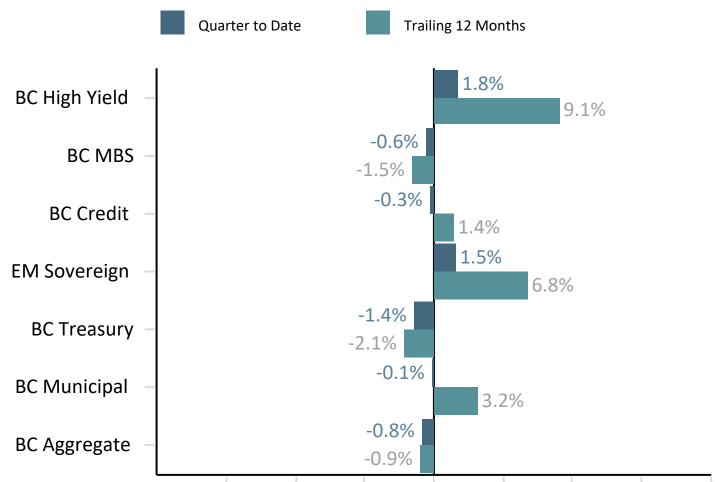
The second quarter of 2023 brought positive returns for equity indices and negative returns for bond market indices as most developed market central banks continued their commitments to fighting inflation through rate hikes and quantitative tightening. Meanwhile, the yield curve remained inverted, reaching the low of the first quarter as global economic growth slowed. The second quarter saw growth outperform value and large cap outperform small, led by mega-cap tech companies, as earnings came in stronger than expected. In US equities, the S&P 500 Index posted an 8.7% return while the Russell 2000 Index gained 5.2%. The Bloomberg US Aggregate declined 0.8%, gold fell 2.5%, WTI oil fell 6.6%, while natural gas rose 26.3%. The US dollar Index increased 1.29% over the same period.

The bear market rally that began last October with peaking two and ten year US Treasury rates has been resilient, with the S&P 500 Index up 14% as of the end of June. While lower long-term rates have provided some valuation support over the past nine months, 2023's positive performance has been squarely rooted in better-than-expected real economic growth, with a durable labor market sustaining US consumption. Although historical macroeconomic models have been signaling material slowdown, if not outright recession, constructive liquidity and still-ample household and corporate cash cushions have forestalled the impact of the swiftest Federal Reserve tightening campaign in 40 years. The implication, especially given headline Consumer Price Index inflation still at 5.3%, is that nominal, top-line corporate growth, which powers earnings, is still running at 6% - 7% on a year-over-year basis- more than 50% - 75% above the 25 year norm.

Equity Sector Performance



Bond Market Performance



Equity Markets Commentary

US equities ended the quarter higher, with the bulk of the gains made in June. The advance came amid moderating inflation and signs that the US economy remains resilient in spite of higher interest rates. A revision of Q1 GDP growth indicated expansion of 2% (annualized), substantially more than the previous estimate of 1.3% growth.

The Federal Reserve raised interest rates by 25 basis points in May, However, it did not hike rates in June, adopting what economists have termed a "hawkish pause". Rates are predicted to have two more increases in 2023

Nine of the eleven sectors posted positive returns in 2Q 2023. Technology, Consumer Discretionary, and Telecommunications performed the strongest returning 17.2%, 14.6%, and 13.1% respectively. The poorest performing sectors in 2Q were Utilities, and Energy. Each posting -2.5%, and -0.9% respectively.

Fixed Income Markets Commentary

The second quarter of 2023 saw a significant drop in market volatility. Government bond yields were on the rise again, although there was some divergence, with the UK and Australia underperforming due to higher than expected inflation and a greater resolve by central banks to combat inflation. Most major central banks kept raising interest rates over the quarter; however, the Fed was the first to pause in June, leaving rates at 5% - 5.25% after more than a year of consecutive rate increases. The US 10-year yield rose from 3.47% to 3.84%, with the two-year raising from 4.03% to 4.87%.

High Yield and Emerging Market debt had positive returns in Q22023, posting 1.8% and 1.5% respectively. All other sectors were negative for the quarter with BC Treasury down 1.4% and BC Agg down 0.8%.

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