

Quarterly Economic Report

4th Quarter 2023

SVB Asset Management views on
economic and market factors affecting
global markets and business health



Quarterly Economic Report

Published in Q4 2023 | [Data for Q3 2023](#)

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OVERVIEW

Key Takeaways

- The Federal Reserve continues to be focused on inflation and has indicated that it needs to see more data to confirm inflation is on a trajectory toward its 2% target.
- Inflation has softened from multidecade highs while expectations remain contained and are expected to ease further in 2023. Fed Chair Powell speaks about the risks of inflation expectations coming “unanchored,” which allows inflation to persist.
- Consumption reflects solid consumer activity. Higher wages and savings rates should lead to continued consumer spending.
- The annualized rate for Q3 2023 GDP is 4.9% quarter-over-quarter (QoQ). This is up from 2.1% in Q2 2023 due to a rebound in business investment and strong consumer spending.



Labor markets show signs of deceleration.

The unemployment rate increased to 3.8% at the end of September, a high for the year. There continue to be more jobs available (~9.6 million) than unemployed Americans (~6.4 million).



The Fed delivered another pause in rate hikes for the cycle.

The Federal Open Market Committee (FOMC) paused in September as economic projections improved for 2023 and 2024. Market sentiment suggests the Fed may be done raising rates for this cycle.



Inflation has softened from multidecade highs.

The Fed sees the economy as remaining resilient and growing while inflation runs higher. The implication is that the economy can tolerate higher rates while inflation moves back to its target.



Corporate credit metrics continue to normalize.

Capital spending and investments are expected to begin moderating in 2024 as higher borrowing costs continue weighing on corporates.



The US dollar (USD) struggles to retain its strength vs. other currencies.

As the Fed's hiking cycle is projected to come to an end, the USD may be poised to resume its downward slide.

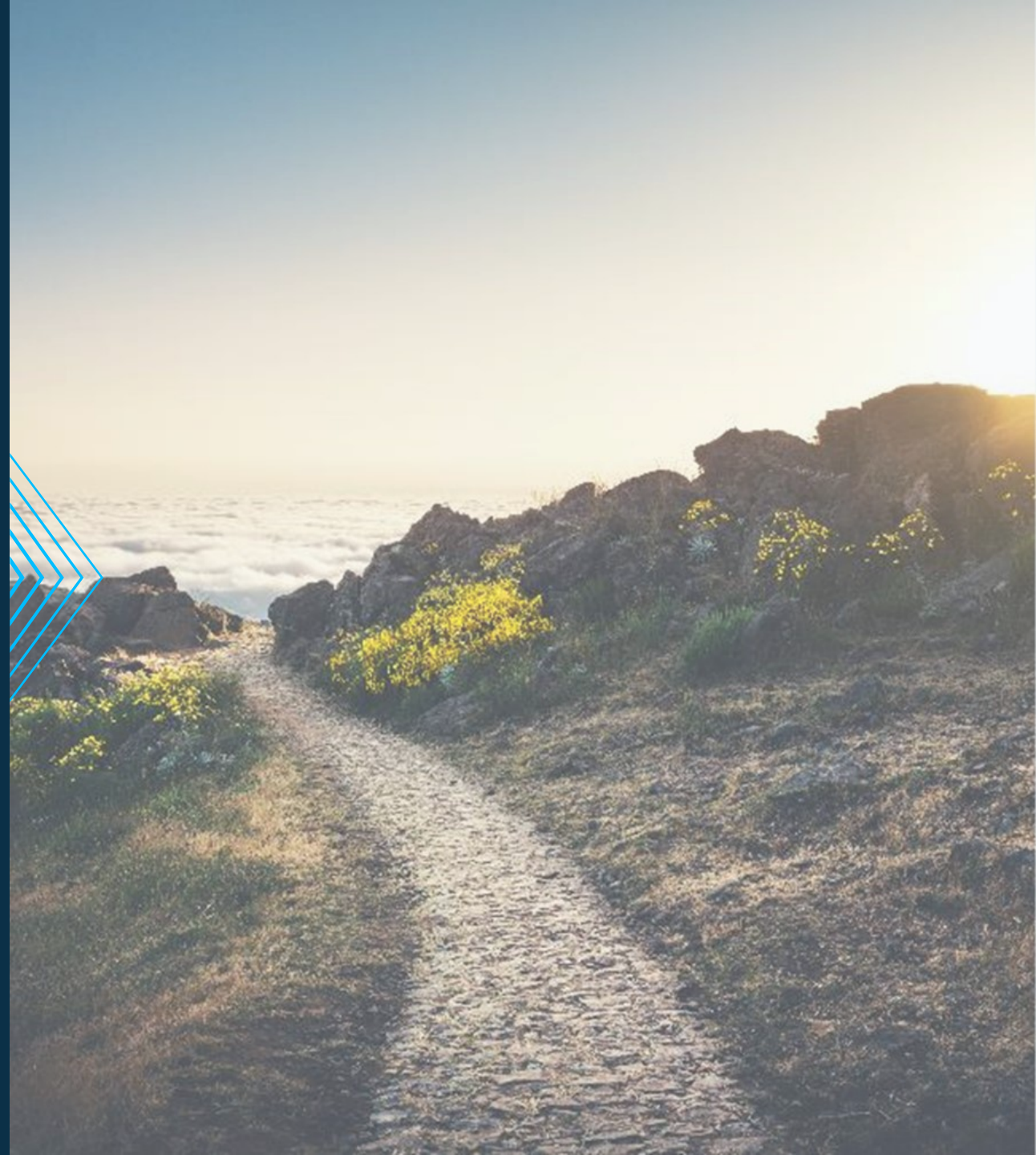


Yields rose across all maturities.

Counter to the year-to-date (YTD) trend of further inversion, the yield curve steepened as long-term Treasury yields rose considerably more than short-term Treasury yields.



Domestic Economy



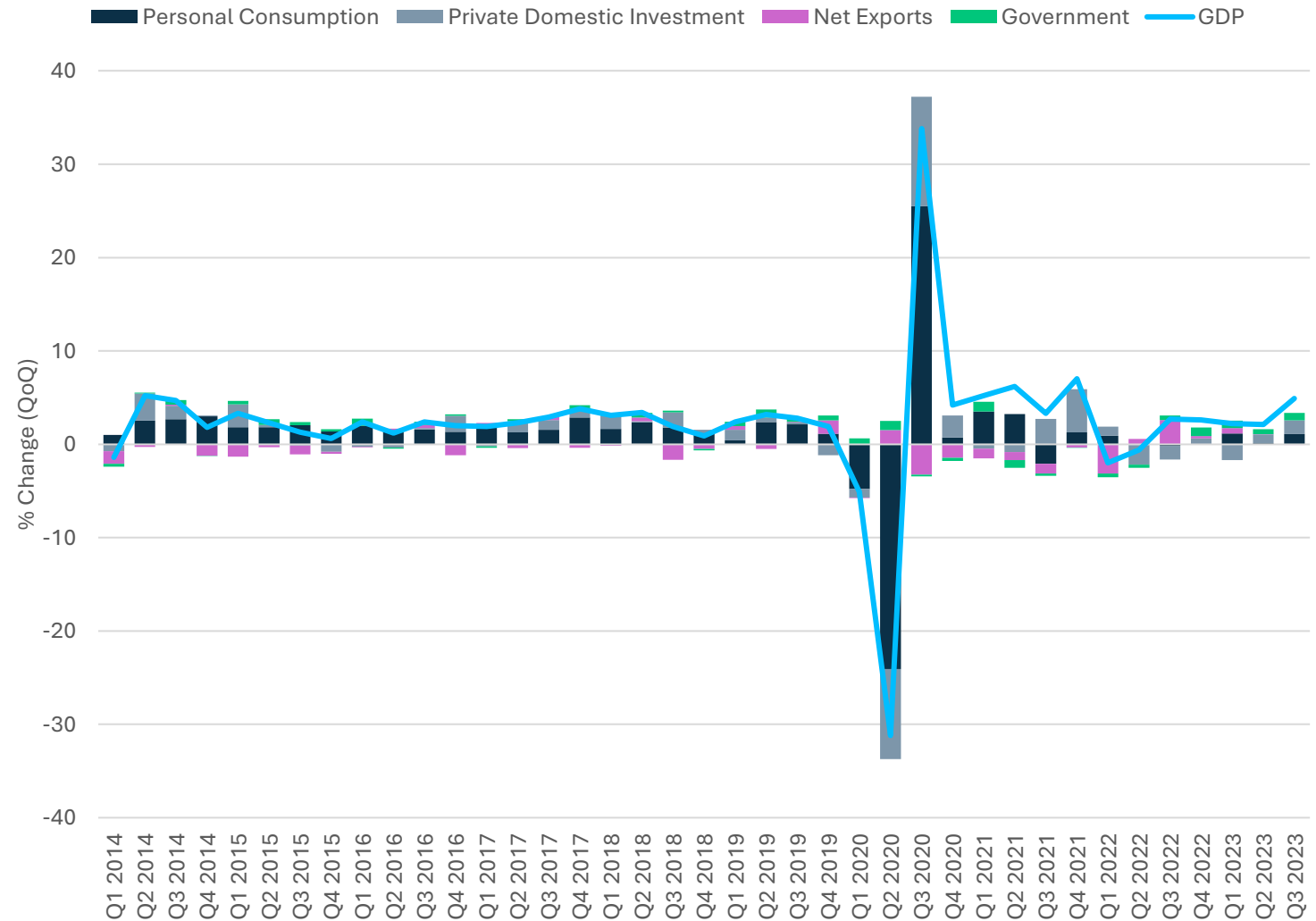
GDP: Continued Resilience

The annualized rate for Q3 2023 GDP read 4.9% QoQ. This is up from 2.1% in Q2 2023 due to growing consumer spending and private investment.

For the full year 2022, GDP growth was 1.9%, with personal consumption and domestic investment heavily contributing.

Growth is still expected to be resilient in 2023, with market consensus showing expectations for 2.2% for Q4 2023 and 1.6% for Q1 2024.

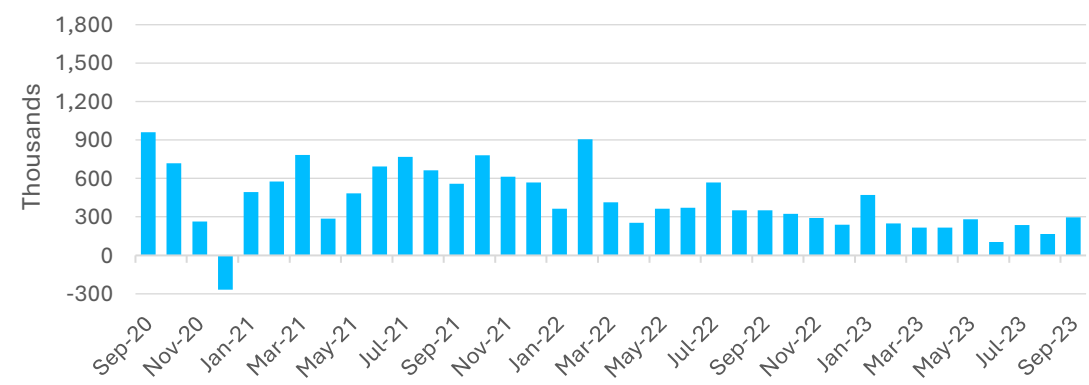
GDP and Components



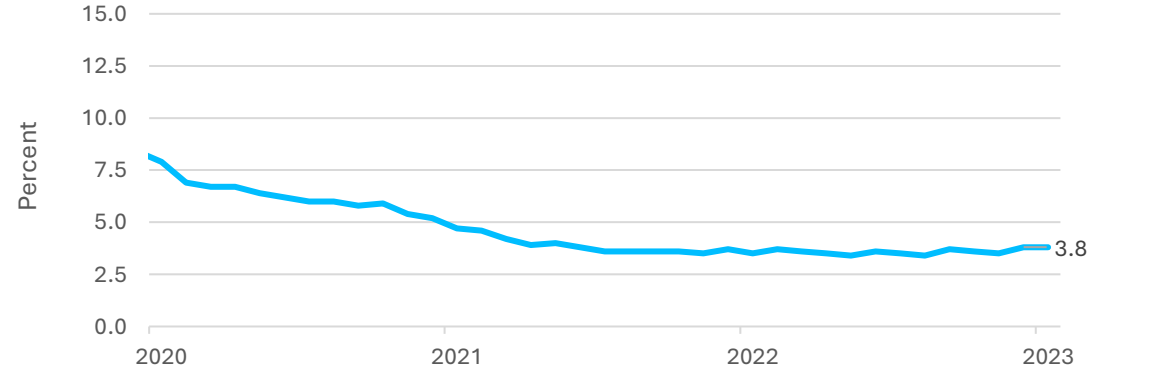
Employment: Showing Signs of Slight Deceleration

During the third quarter of 2023, the average number of jobs grew by approximately 233,000 per month. While the unemployment rate increased from 3.6% at the end of June to 3.8% at the end of September — a high for the year — there continue to be more jobs available (~9.6 million) than unemployed Americans (~6.4 million).

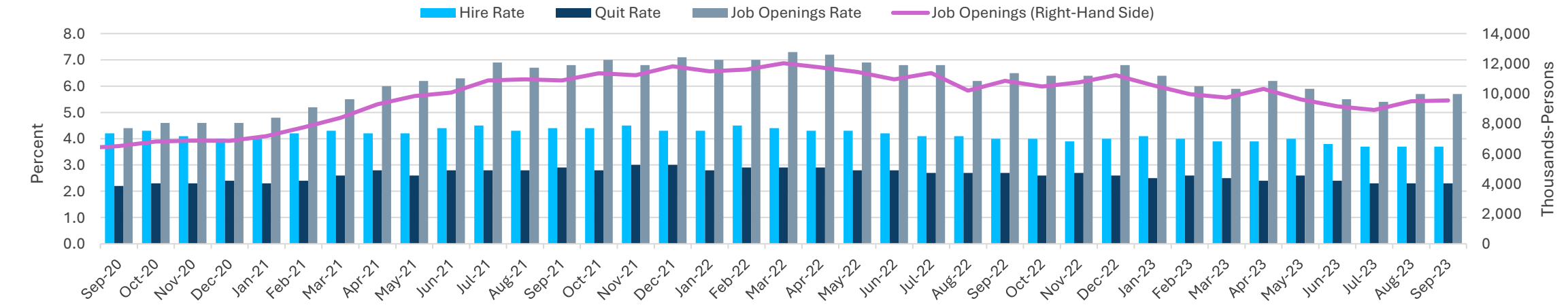
Non-Farm Payrolls



Unemployment Rate



Job Openings and Labor Turnover



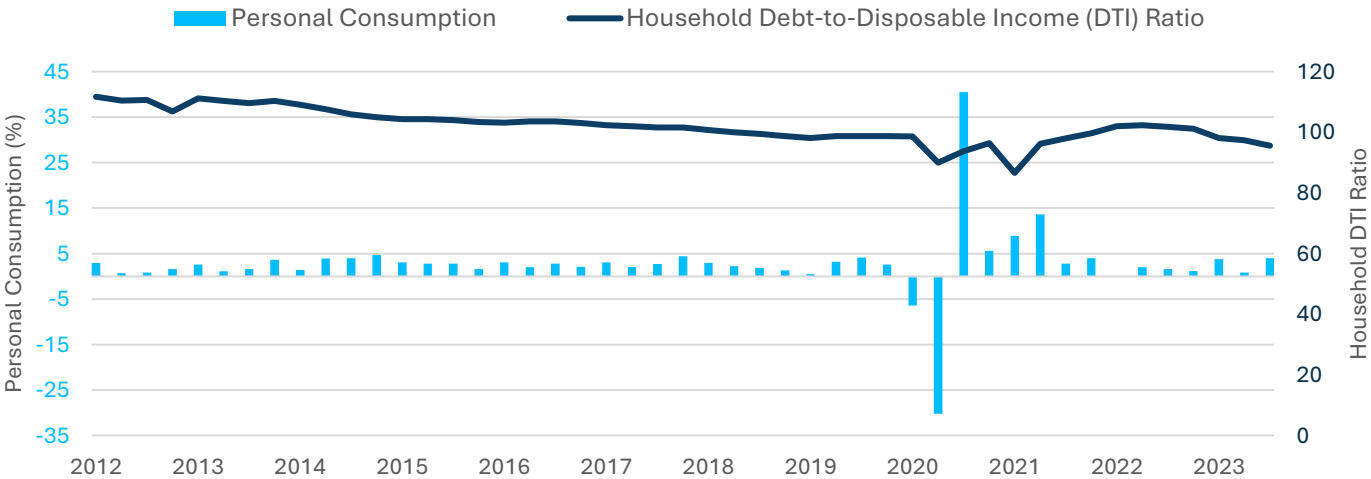
Consumption: Solid Consumer Spending

Personal consumption for Q3 2023 increased 4.0% from the prior quarter and increased 2.4% on a year-over-year (YoY) basis. Market expectations are that personal consumption will moderate to 1.0% in Q4 2023.

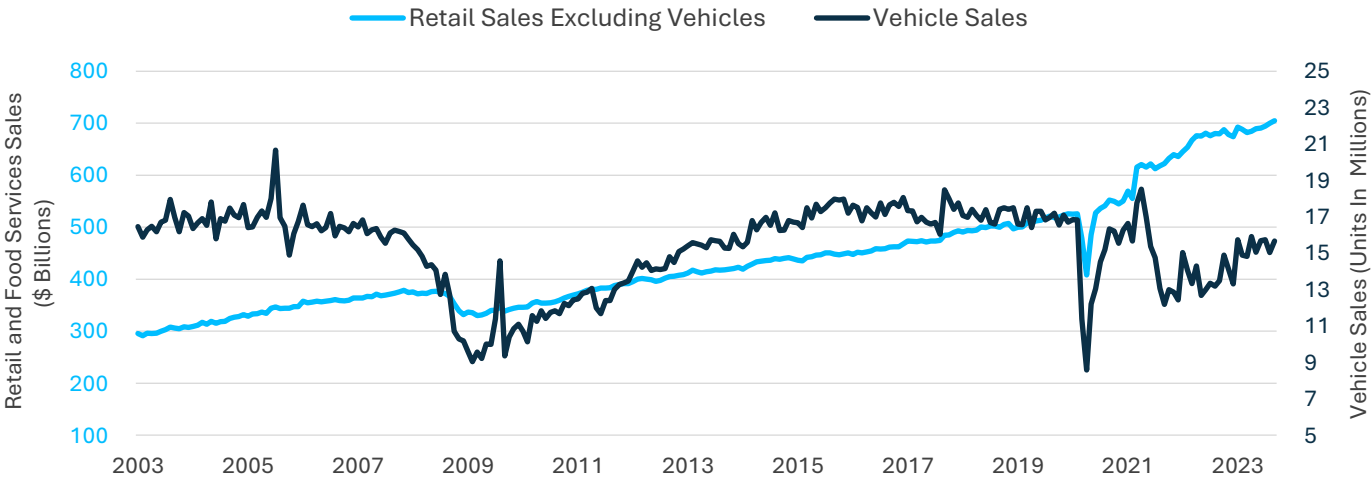
Retail sales excluding vehicles have been relatively flat from Q2 2023 to Q3 2023.

Higher wages and savings rates should lead to continued consumer spending. The rotation from goods to services should also be in effect.

Consumption Overview



Retail Sales

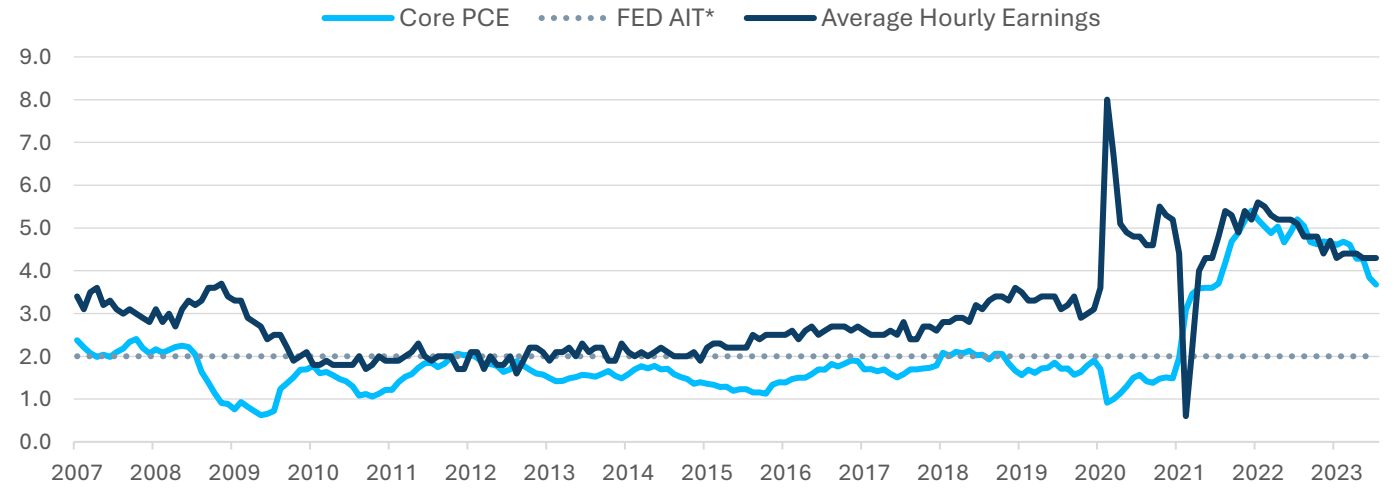


Inflation: Starting to Rise

Inflation has started to rise again with the September 2023 consumer price index (CPI) YoY reaching 3.7%. Core personal consumption expenditures (PCE) — the Fed’s preferred inflation indicator — rose 3.7% on a YoY basis, which is down from 5.5% in September 2022.

In addition to market forecasts, the Fed continues to reiterate that it expects inflation to decline during the remainder of 2023.

Core PCE



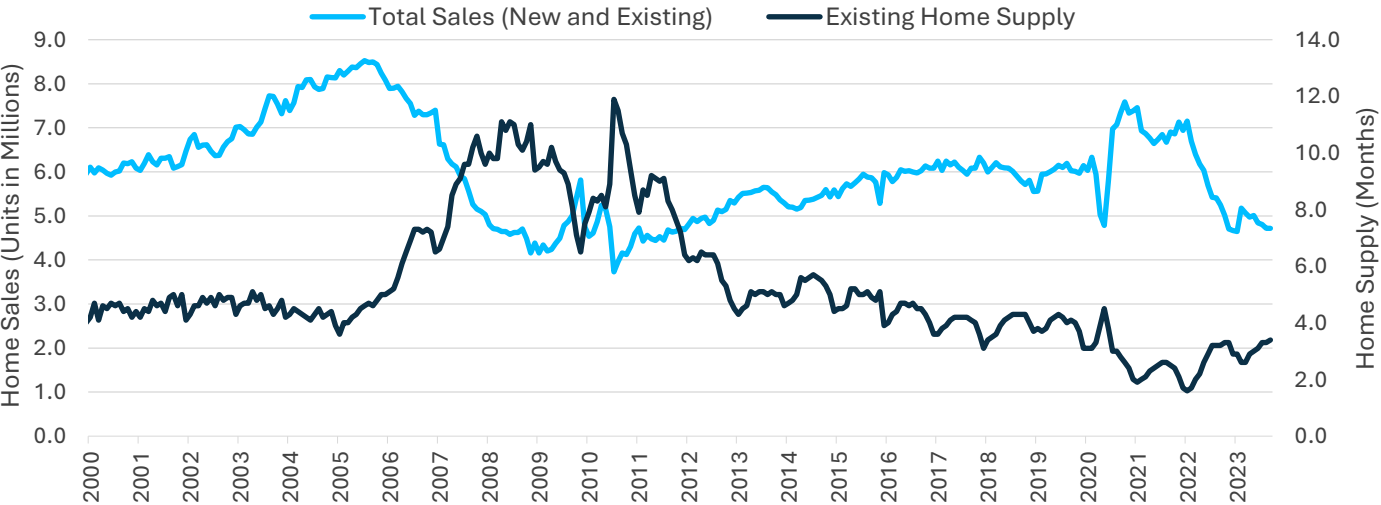
CPI Breakdown (MoM Change)**

| | All items | Food | Food at Home | Food Away from Home | Energy | Gasoline (All Types) | Electricity | Natural Gas (Piped) | All Items Less Food and Energy | Commodities Less Food and Energy | Apparel | New Vehicles | Medical Care Commodities | Services Less Energy | Shelter | Medical Care | Education and Communication |
|--------|-----------|--------|--------------|---------------------|---------|----------------------|-------------|---------------------|--------------------------------|----------------------------------|---------|--------------|--------------------------|----------------------|---------|--------------|-----------------------------|
| Sep-23 | 3.70% | 3.70% | 2.40% | 6.00% | -0.50% | 3.00% | 2.60% | -19.90% | 4.10% | 0.00% | 2.30% | 2.50% | 4.20% | 5.70% | 7.20% | -2.60% | 1.00% |
| Aug-23 | 3.70% | 4.30% | 3.00% | 6.50% | -3.60% | -3.30% | 2.10% | -16.50% | 4.30% | 0.20% | 3.10% | 2.90% | 4.50% | 5.90% | 7.30% | -2.10% | 1.00% |
| Jul-23 | 3.20% | 4.90% | 3.60% | 7.10% | -12.50% | -19.90% | 3.00% | -13.70% | 4.70% | 0.80% | 3.20% | 3.50% | 4.10% | 6.10% | 7.70% | -1.50% | 1.20% |
| Jun-23 | 3.00% | 5.70% | 4.70% | 7.70% | -16.70% | -26.50% | 5.40% | -18.60% | 4.80% | 1.30% | 3.10% | 4.10% | 4.20% | 6.20% | 7.80% | -0.80% | 1.10% |
| May-23 | 4.00% | 6.70% | 5.80% | 8.30% | -11.70% | -19.70% | 5.90% | -11.00% | 5.30% | 2.00% | 3.50% | 4.70% | 4.40% | 6.60% | 8.00% | -0.10% | 1.50% |
| Apr-23 | 4.90% | 7.70% | 7.10% | 8.60% | -5.10% | -12.20% | 8.40% | -2.10% | 5.50% | 2.00% | 3.60% | 5.40% | 4.00% | 6.80% | 8.10% | 0.40% | 1.60% |
| Mar-23 | 5.00% | 8.50% | 8.40% | 8.80% | -6.40% | -17.40% | 10.20% | 5.50% | 5.60% | 1.50% | 3.30% | 6.10% | 3.60% | 7.10% | 8.20% | 1.00% | 1.40% |
| Feb-23 | 6.00% | 9.50% | 10.20% | 8.40% | 5.20% | -2.00% | 12.90% | 14.30% | 5.50% | 1.00% | 3.30% | 5.80% | 3.20% | 7.30% | 8.10% | 2.10% | 1.00% |
| Jan-23 | 6.40% | 10.10% | 11.30% | 8.20% | 8.70% | 1.50% | 11.90% | 26.70% | 5.60% | 1.40% | 3.10% | 5.80% | 3.40% | 7.20% | 7.90% | 3.00% | 1.00% |
| Dec-22 | 6.50% | 10.40% | 11.80% | 8.30% | 7.30% | -1.50% | 14.30% | 19.30% | 5.70% | 2.10% | 2.90% | 5.90% | 3.20% | 7.00% | 7.50% | 4.10% | 0.70% |
| Nov-22 | 7.10% | 10.60% | 12.00% | 8.50% | 13.10% | 10.10% | 13.70% | 15.50% | 6.00% | 3.70% | 3.60% | 7.20% | 3.10% | 6.80% | 7.10% | 4.40% | 0.70% |
| Oct-22 | 7.70% | 10.90% | 12.40% | 8.60% | 17.60% | 17.50% | 14.10% | 20.00% | 6.30% | 5.10% | 4.10% | 8.40% | 3.10% | 6.70% | 6.90% | 5.40% | 0.00% |
| Sep-22 | 8.20% | 11.20% | 13.00% | 8.50% | 19.80% | 18.20% | 15.50% | 33.10% | 6.60% | 6.60% | 5.50% | 9.40% | 3.70% | 6.70% | 6.60% | 6.50% | 0.20% |
| Aug-22 | 8.30% | 11.40% | 13.50% | 8.00% | 23.80% | 25.60% | 15.80% | 33.00% | 6.30% | 7.10% | 5.10% | 10.10% | 4.10% | 6.10% | 6.20% | 5.60% | 0.50% |
| Jul-22 | 8.50% | 10.90% | 13.10% | 7.60% | 32.90% | 44.00% | 15.20% | 30.50% | 5.90% | 7.00% | 5.10% | 10.40% | 3.70% | 5.50% | 5.70% | 5.10% | 0.50% |
| Jun-22 | 9.10% | 10.40% | 12.20% | 7.70% | 41.60% | 59.90% | 13.70% | 38.40% | 5.90% | 7.20% | 5.20% | 11.40% | 3.20% | 5.50% | 5.60% | 4.80% | 0.80% |
| May-22 | 8.60% | 10.10% | 11.90% | 7.40% | 34.60% | 48.70% | 12.00% | 30.20% | 6.00% | 8.50% | 5.00% | 12.60% | 2.40% | 5.20% | 5.50% | 4.00% | 0.80% |
| Apr-22 | 8.30% | 9.40% | 10.80% | 7.20% | 30.30% | 43.60% | 11.00% | 22.70% | 6.20% | 9.70% | 5.40% | 13.20% | 2.10% | 4.90% | 5.10% | 3.50% | 1.00% |
| Mar-22 | 8.50% | 8.80% | 10.00% | 6.90% | 32.00% | 48.00% | 11.10% | 21.60% | 6.50% | 11.70% | 6.80% | 12.50% | 2.70% | 4.70% | 5.00% | 2.90% | 1.50% |
| Feb-22 | 7.90% | 7.90% | 8.60% | 6.80% | 25.60% | 38.00% | 9.00% | 23.80% | 6.40% | 12.30% | 6.60% | 12.40% | 2.50% | 4.40% | 4.70% | 2.40% | 1.60% |
| Jan-22 | 7.50% | 7.00% | 7.40% | 6.40% | 27.00% | 40.00% | 10.70% | 23.90% | 6.00% | 11.70% | 5.30% | 12.20% | 1.40% | 4.10% | 4.40% | 2.70% | 1.60% |
| Dec-21 | 7.00% | 6.30% | 6.50% | 6.00% | 29.30% | 49.60% | 6.30% | 24.10% | 5.50% | 10.70% | 5.80% | 11.80% | 0.40% | 3.70% | 4.10% | 2.50% | 1.60% |
| Nov-21 | 6.80% | 6.10% | 6.40% | 5.80% | 33.30% | 58.10% | 6.50% | 25.10% | 4.90% | 9.40% | 5.00% | 11.10% | 0.20% | 3.40% | 3.80% | 2.10% | 1.70% |

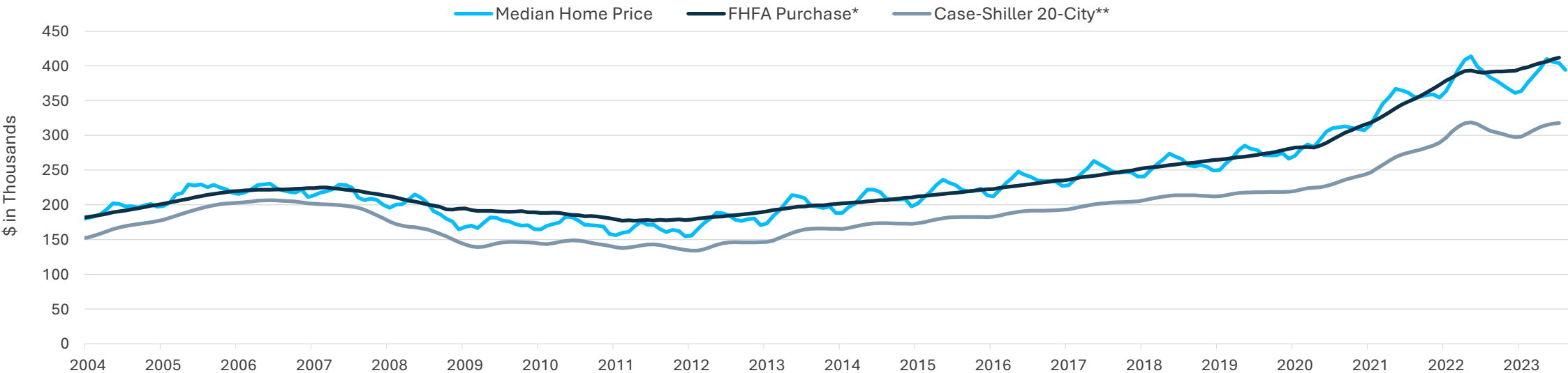
Housing: Sales Continue to Slump

Home sales have continued to decline as inventory flattens out. For 2023, the market is focused on the impact that multiyear highs in mortgage rates and tightening monetary policy could continue to have on home sales.

Housing Market



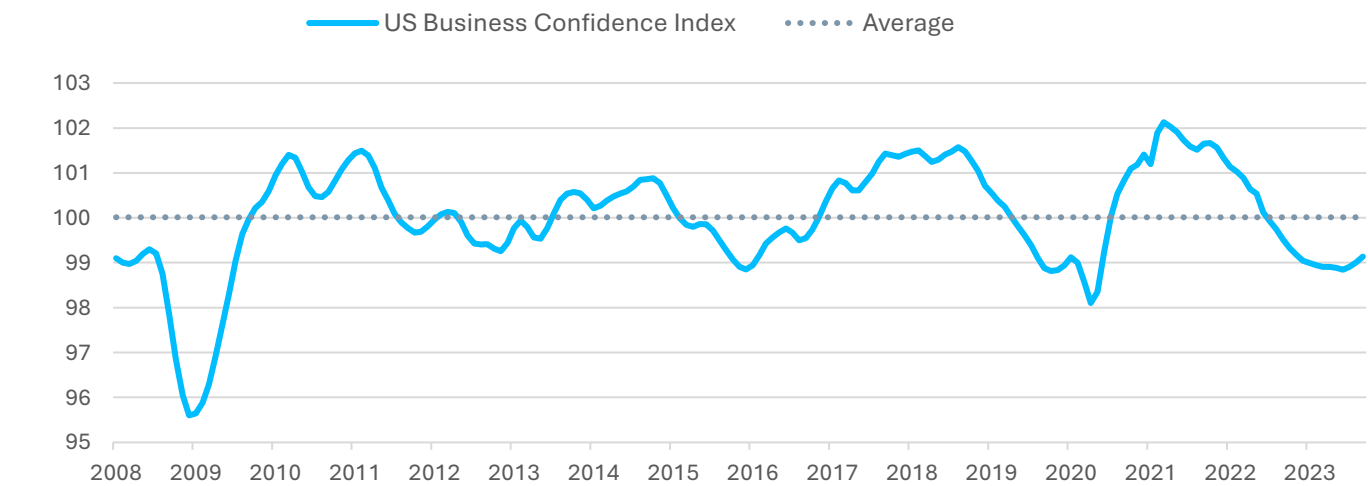
Home Prices



Business Outlook: Moderating

Business sentiment has started to turn around after declining over the past several quarters, and stayed below average in Q3 2023. Economic activity continued steadily throughout the third quarter. Institute for Supply Management (ISM) data remained in solid territory, and companies continue to be impacted by supply-chain issues and geopolitical events.

Business Confidence Index (BCI)



Business Sentiment

| | Dallas Fed Manufacturing Survey | Philly Fed Manufacturing Survey | New York Fed's Empire Manufacturing Survey | Kansas City Fed Manufacturing Survey | Richmond Fed Manufacturing Survey | ISM Manufacturing PMI SA | ISM Non-Manufacturing |
|--------|---------------------------------|---------------------------------|--|--------------------------------------|-----------------------------------|--------------------------|-----------------------|
| Sep-23 | -18.1 | 28.6 | 17.5 | 17.0 | 22.0 | 46.0 | 53.9 |
| Aug-23 | -17.2 | 21.1 | 23.5 | 16.0 | 12.0 | 46.9 | 50.3 |
| Jul-23 | -20.0 | 22.2 | 17.4 | 24.0 | 3.0 | 47.1 | 51.9 |
| Jun-23 | -23.2 | 32.1 | 17.0 | 26.0 | 18.0 | 46.3 | 51.2 |
| May-23 | -29.1 | 22.1 | 25.8 | 24.0 | 21.0 | 47.7 | 55.1 |
| Apr-23 | -23.4 | 24.7 | 21.6 | 22.0 | 22.0 | 47.4 | 55.2 |
| Mar-23 | -15.7 | 10.8 | 24.1 | 15.0 | 22.0 | 50.0 | 54.5 |
| Feb-23 | -13.5 | 22.4 | 19.0 | 12.0 | 28.0 | 49.0 | 55.5 |
| Jan-23 | -8.4 | 21.7 | 19.4 | 9.0 | 16.0 | 48.4 | 49.2 |
| Dec-22 | -20.0 | 14.0 | 21.1 | 17.0 | 10.0 | 50.9 | 56.7 |
| Nov-22 | -15.7 | 11.1 | 11.1 | 9.0 | -2.0 | 52.8 | 56.9 |
| Oct-22 | -20.6 | 13.2 | 4.8 | 6.0 | 0.0 | 52.8 | 56.7 |
| Sep-22 | -18.6 | -3.8 | 10.3 | 1.0 | 14.0 | 53.1 | 56.0 |
| Aug-22 | -14.1 | 11.1 | 5.1 | 8.0 | 8.0 | 56.1 | 56.4 |
| Jul-22 | -23.7 | 7.0 | 9.4 | 4.0 | 8.0 | 55.9 | 57.5 |
| Jun-22 | -18.8 | 17.5 | 14.4 | 4.0 | 8.0 | 57.0 | 58.4 |
| May-22 | -8.1 | 2.2 | -6.4 | 0.0 | 4.0 | 58.4 | 57.2 |
| Apr-22 | 0.2 | 21.6 | 4.2 | -3.0 | -10.0 | 57.6 | 60.4 |
| Mar-22 | 7.8 | 13.6 | 4.2 | -5.0 | -3.0 | 58.6 | 61.7 |
| Feb-22 | 12.5 | 13.7 | 2.2 | -1.0 | -8.0 | 60.8 | 67.6 |
| Jan-22 | 0.9 | 7.9 | 3.3 | -3.0 | 4.0 | 60.4 | 66.6 |

Source: Bloomberg, Organization for Economic Co-operation and Development (OECD, 2022) and BCI (indicator). Updated 11/13/2023. Heatmap colors are based on the indices and time periods shown and summarize business plans for economic activities. For the Fed surveys, the number represents business sentiment; the higher number represents higher business sentiment. For ISM indexes, the neutral number is usually 50. >50, the economy is likely to expand; <50, the economy is likely to contract.

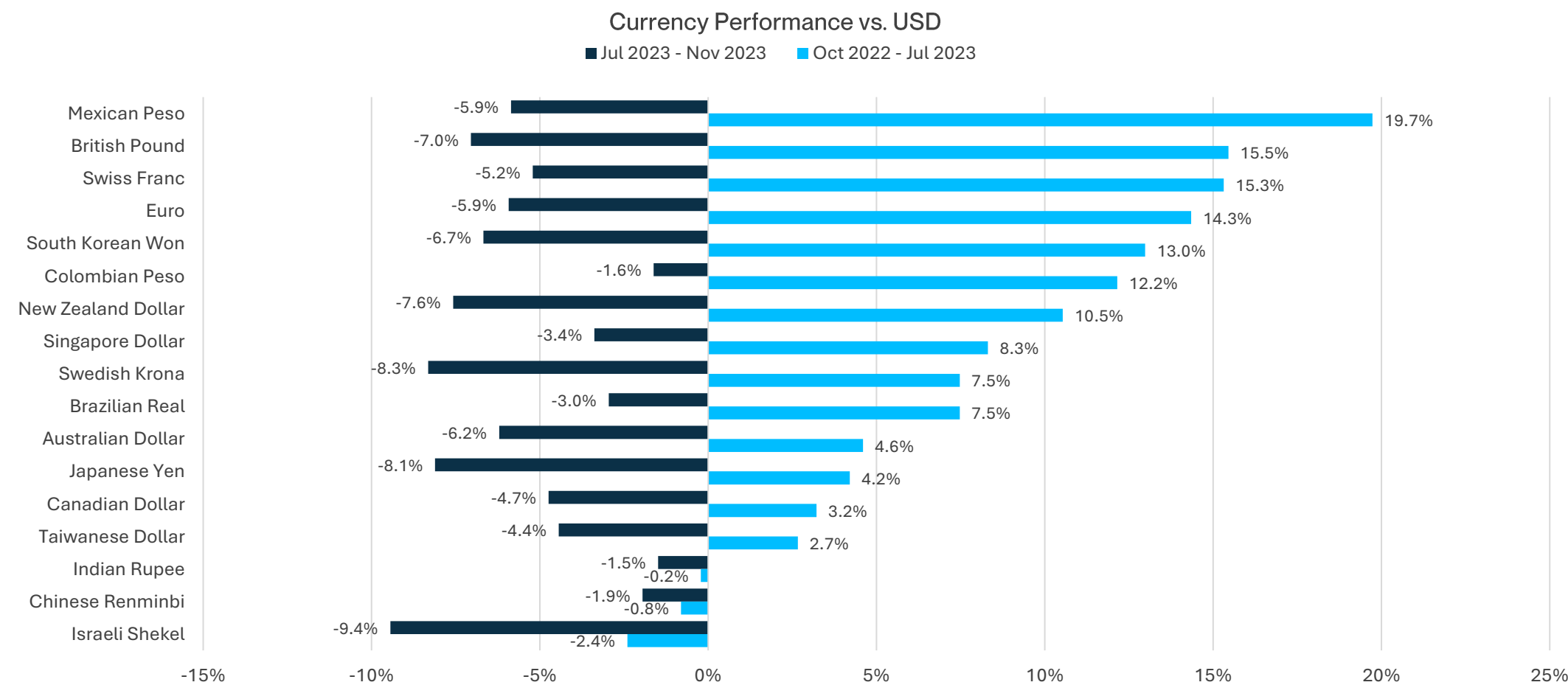


Foreign Exchange



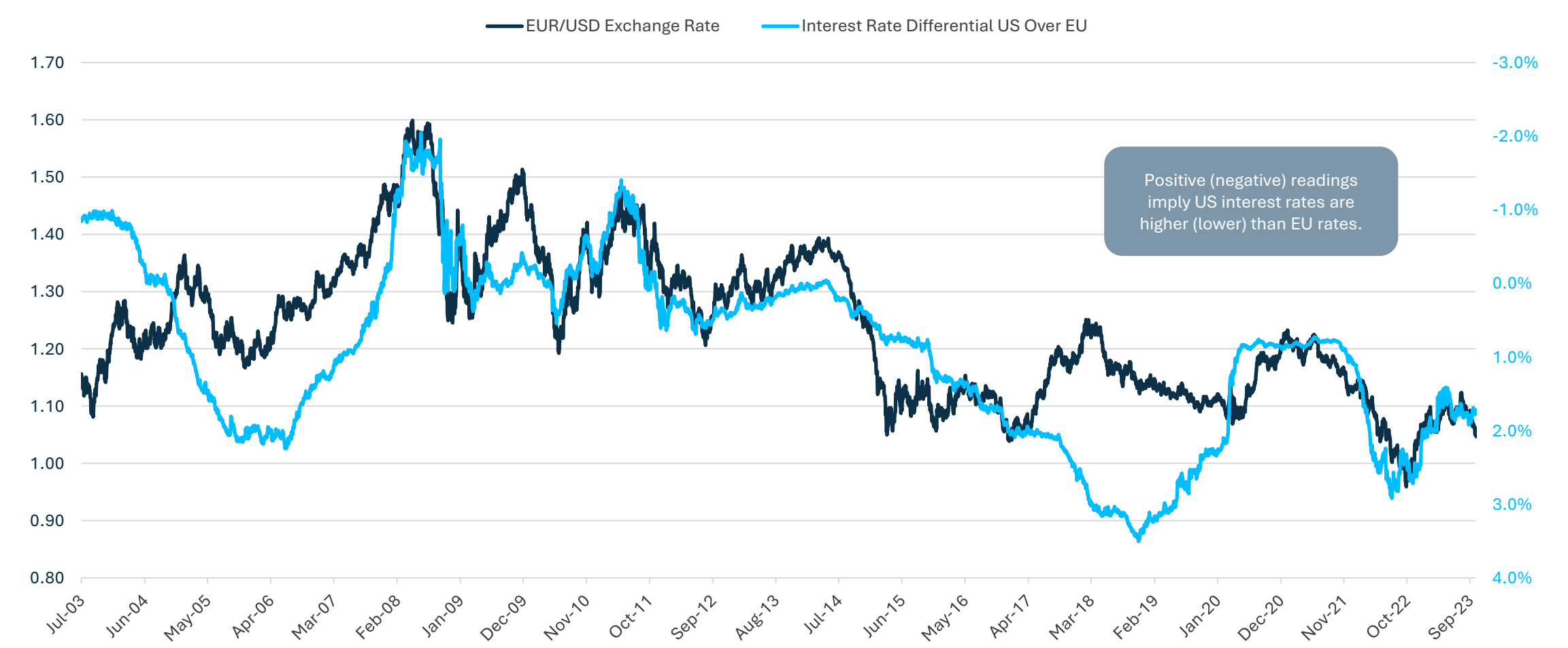
USD poised to Resume Downward Slide as Fed Hiking Cycle Projected to End

Below-expectation inflation readings, softer employment data and lower oil and energy prices have not only pared back rate hike expectations, but have also shifted focus to rate cuts. The USD will struggle to make new highs without the interest rate boost it has enjoyed in recent years.



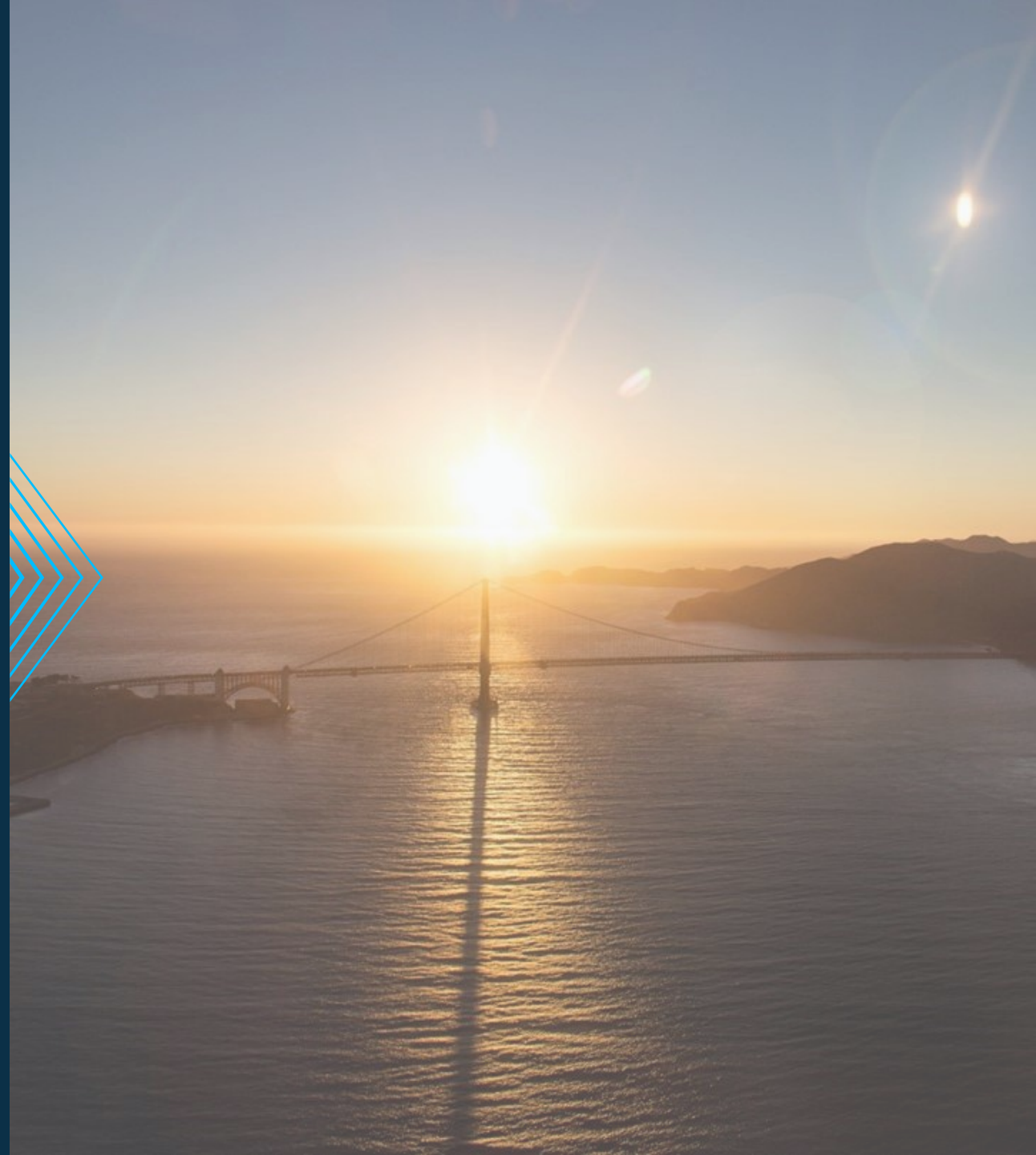
Narrower Interest Rate Differentials Will Challenge USD into 2024

With futures markets pricing in up to four Fed rate cuts in 2024, the interest rate advantage of the USD over foreign currencies is projected to narrow. Historically, exchange rates have tracked interest rate differentials closely.



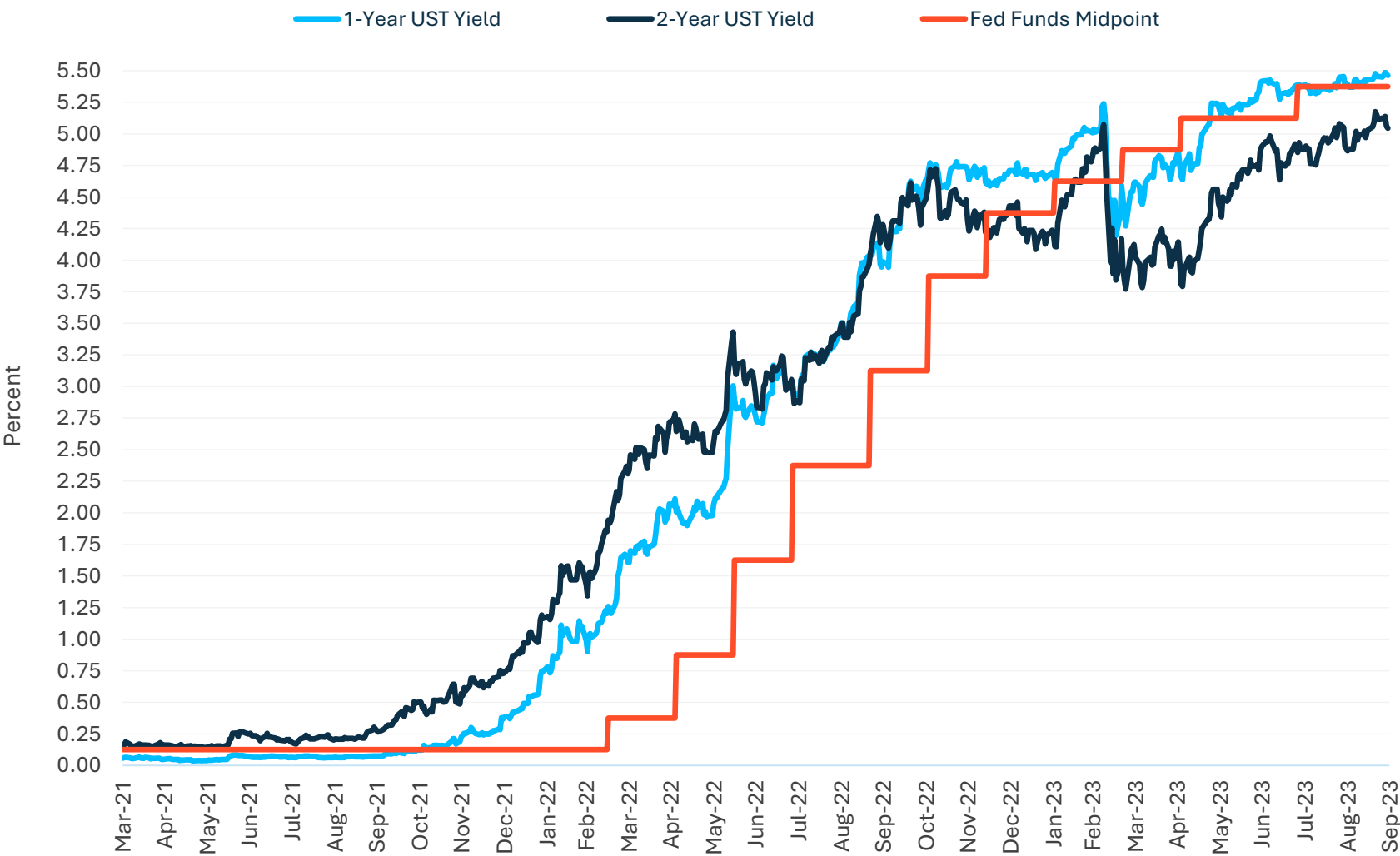


Central Banks and Fiscal Policy



Short-End Interest Rates

Market yields have slowed their upward trajectory as the Fed nears the end of the hiking cycle.



Q1 2022: The Fed turned hawkish in an effort to slow persistently elevated inflation. Seven or more rate hikes — along with balance sheet reductions — pushed interest rates to multiyear highs.

Q2 2022: Inflation and deteriorating consumer confidence forced the Fed to hike 50 and 75 basis points (bps) in May and June. The Fed warned that the likelihood of a soft landing would be challenging as growth slowed.

Q3 2022: The Fed remained very hawkish with three consecutive 75 bps rate hikes in Q3 2022. Inflation stayed elevated, and all “Fed speak” was unified in the message to raise rates until there was evidence that inflation was heading toward the 2% target.






Q4 2022: The Fed reduced the pace of rate hikes from 75 bps to 50 bps in December, as inflation showed signs of abating and the market expected a fairly stable fed funds rate in 2023.

Q2 2023: The Fed delivered its first pause in rate hikes for the cycle. Inflation materially improved, and the Fed cited the “lag effect” of the rate hikes’ impact on the economy.

Q3 2023: The Fed paused again in September as economic projections improved for 2023 and 2024. One more hike is expected in 2023 says the Fed, but market odds reflect the Fed may be done.

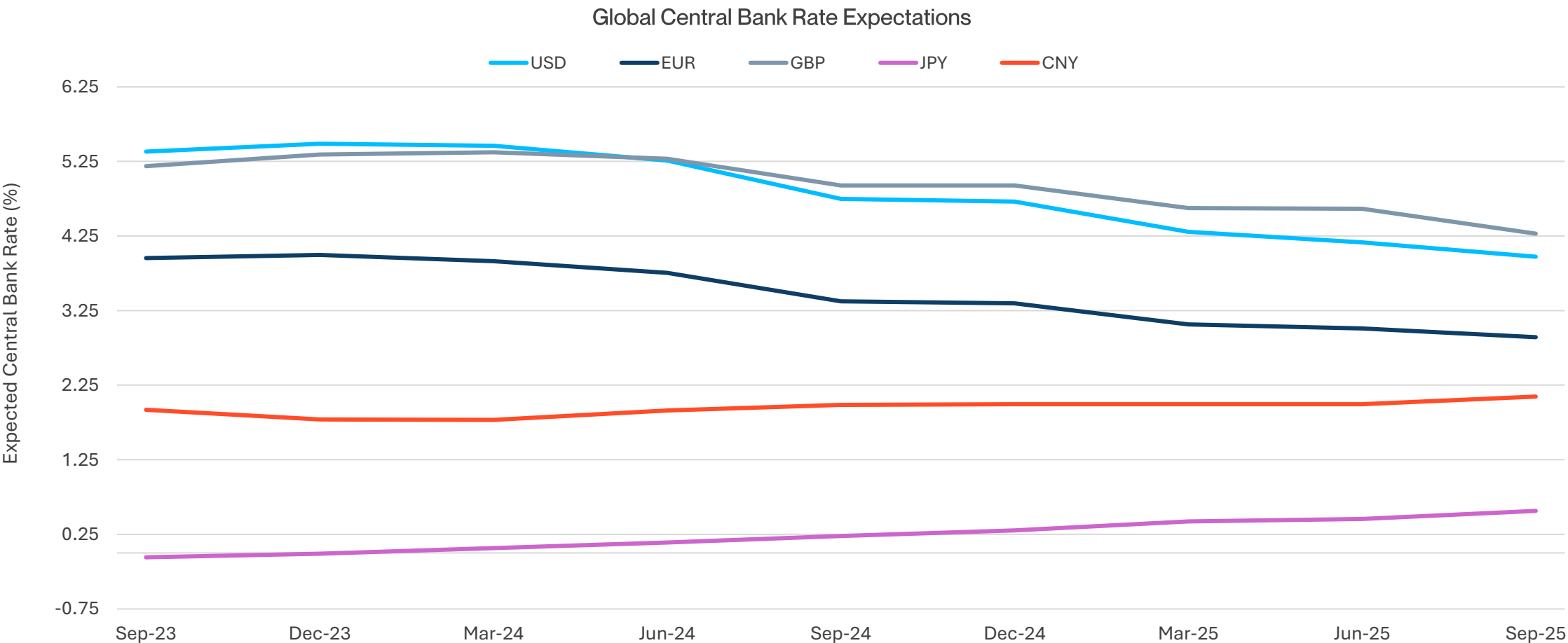
Economic Forecasts

Global central banks moderately upgrade their forecasts in Q3 2023.

| | Economic Projections | 2023 | 2024 | 2025 |
|---|----------------------|------|------|------|
|  | United States | | | |
| | Change in Real GDP | 2.1% | 0.9% | 1.9% |
| | Core PCE | 4.1% | 2.6% | 2.2% |
| | Unemployment Rate | 3.7% | 4.3% | 4.2% |
|  | United Kingdom | | | |
| | Change in Real GDP | 0.4% | 0.5% | 1.5% |
| | CPI | 7.5% | 3.1% | 2.0% |
| | Unemployment Rate | 4.2% | 4.6% | 4.4% |
|  | Eurozone | | | |
| | Change in Real GDP | 0.6% | 0.8% | 1.5% |
| | CPI | 5.6% | 2.7% | 2.1% |
| | Unemployment Rate | 6.5% | 6.7% | 6.7% |
|  | Japan | | | |
| | Change in Real GDP | 1.8% | 1.0% | 1.0% |
| | CPI | 3.1% | 1.9% | 1.4% |
| | Unemployment Rate | 2.6% | 2.5% | 2.3% |
|  | China | | | |
| | Change in Real GDP | 5.0% | 4.5% | 4.5% |
| | CPI | 0.6% | 1.9% | 2.0% |
| | Unemployment Rate | 4.1% | 4.0% | 3.9% |

Global Central Bank Expectations

The US, EUR and GBP are near their peak with central anks expected to be cutting rates by mid 2024.





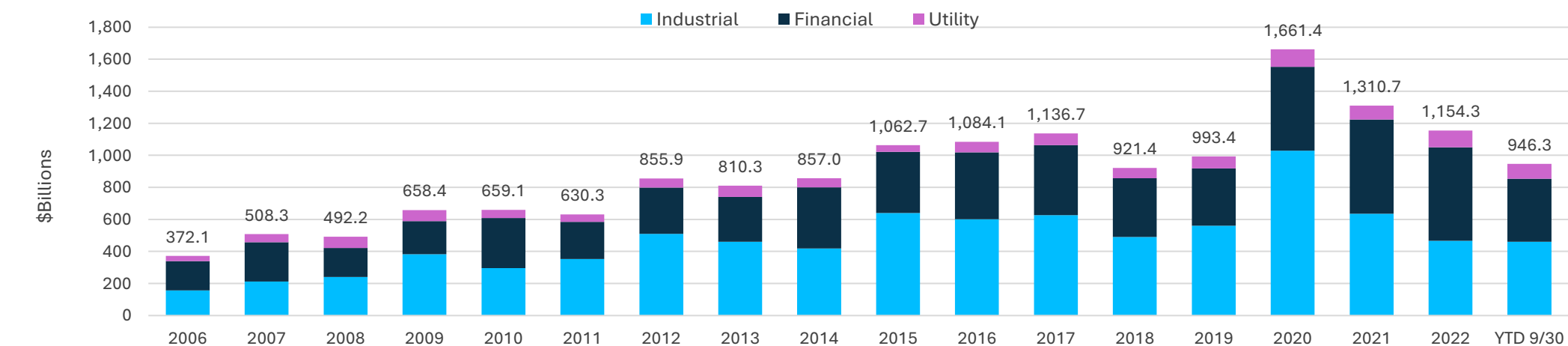
Corporate Bond Market



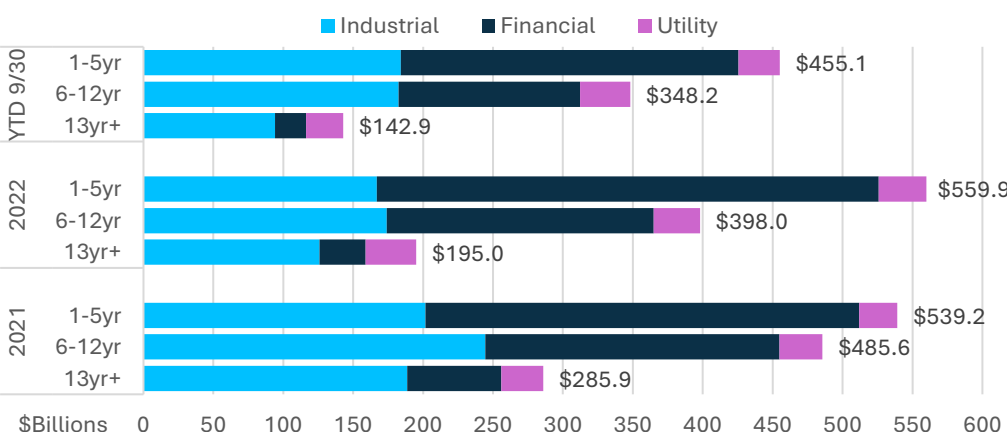
Corporates: New Issue Update

New issue of investment-grade (IG) corporate bonds remains relatively strong YTD, with corporates retaining healthy access to debt capital markets. Full-year issuance is expected to rebound modestly compared to lower levels seen over the last two years, though new issuance so far in the second half of 2023 has slowed compared to levels in the first half of 2023.

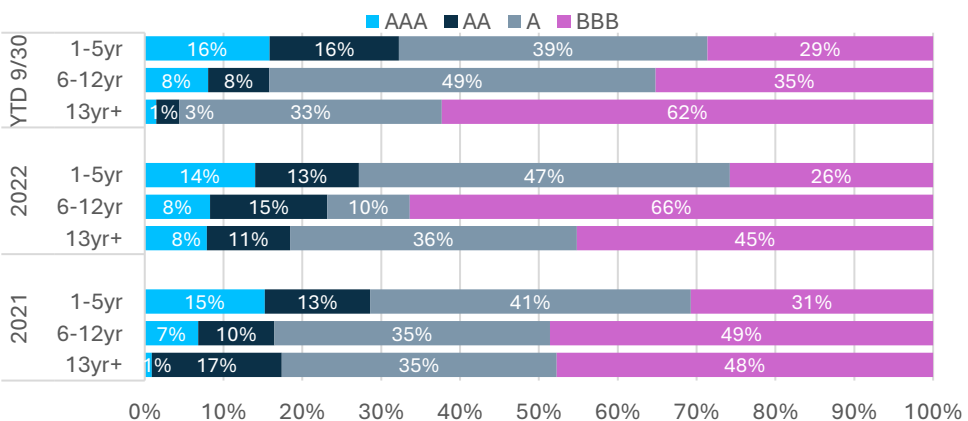
US IG Corporate New-Issue Volume



IG Corporate New-Issue Supply (Sector/Maturity)



IG Corporate New-Issue Supply (Rating/Maturity)



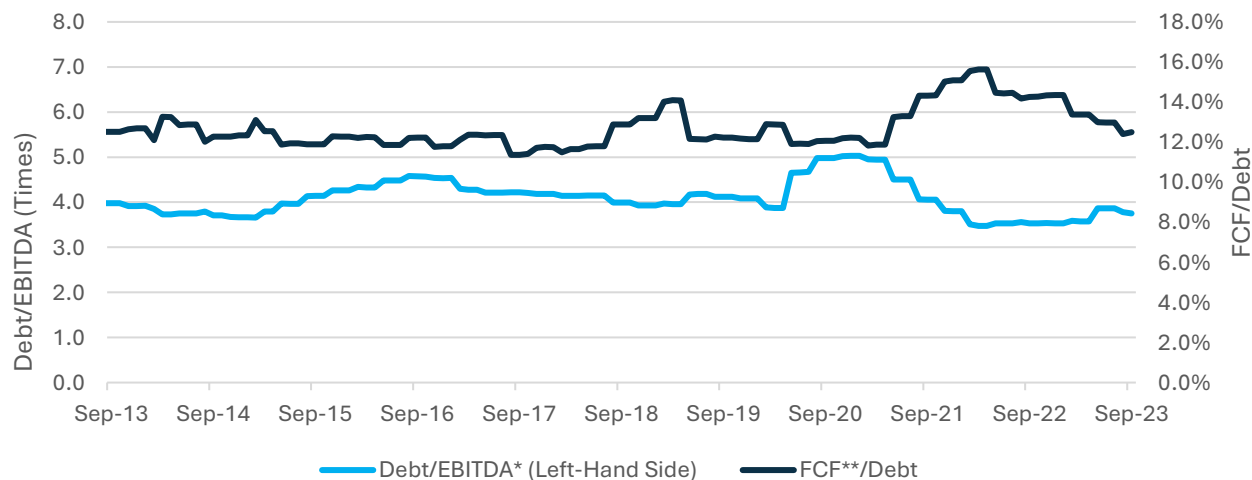
Corporates: Credit Metrics Continue to Normalize

While corporate credit metrics remain stable, leverage and debt coverage continue to normalize from stronger levels in 2021 and 2022.

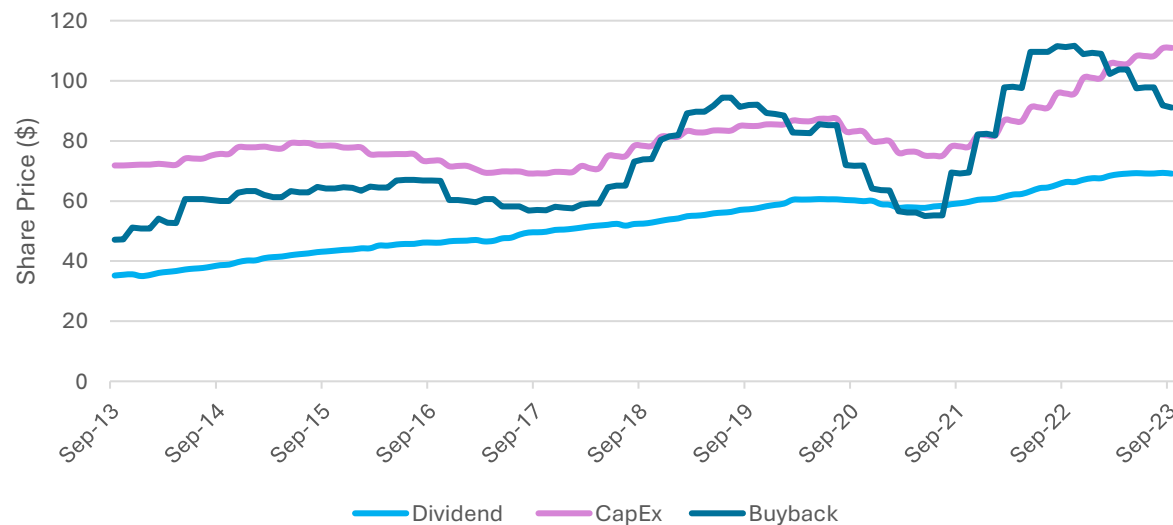
Dividends and capital expenditures remain elevated indicating still resilient corporate fundamentals, though shareholder buybacks have continued to taper as companies have shifted to cash preservation given rising rates and a weaker economic outlook.

Capital spending and investments are expected to begin moderating in 2024 as higher borrowing costs continue weighing on corporates.

S&P 500 Leverage and Debt Coverage

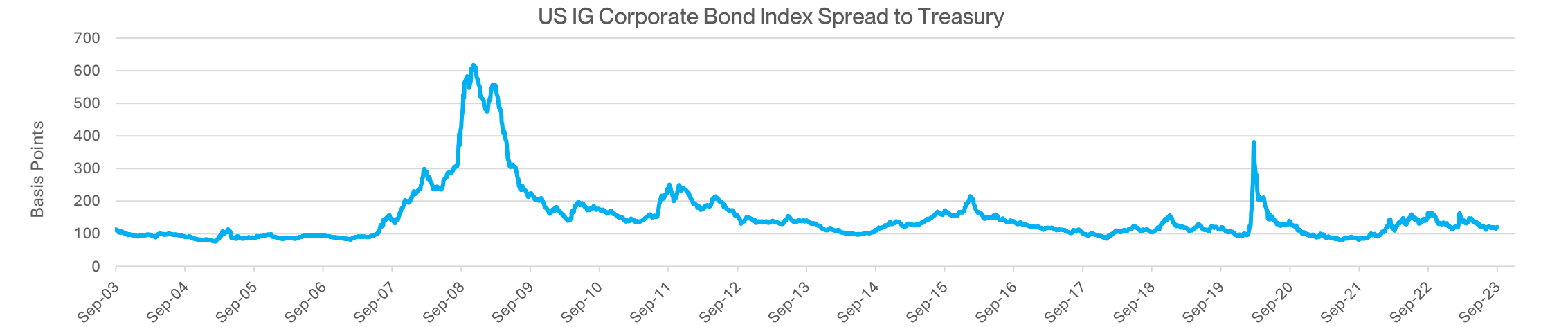


S&P 500 Capital Spending and Distribution

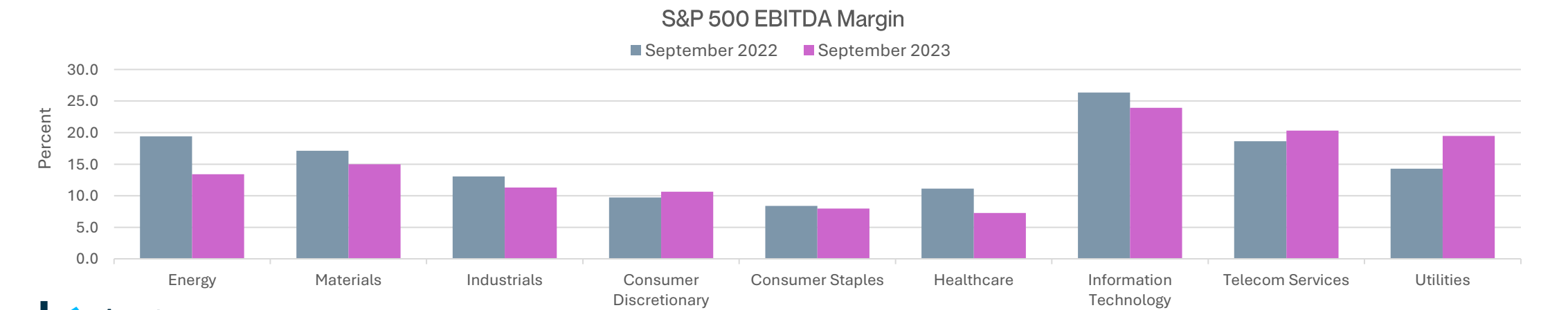


Corporates: Spread and Sector Performance

The risk premium between US Treasuries and corporate bonds tightened modestly during the year from higher levels in 2022. However, spreads are expected to widen again as expectations of higher-for-longer interest rates and the potential for an economic downturn continue to weigh on corporate credit.

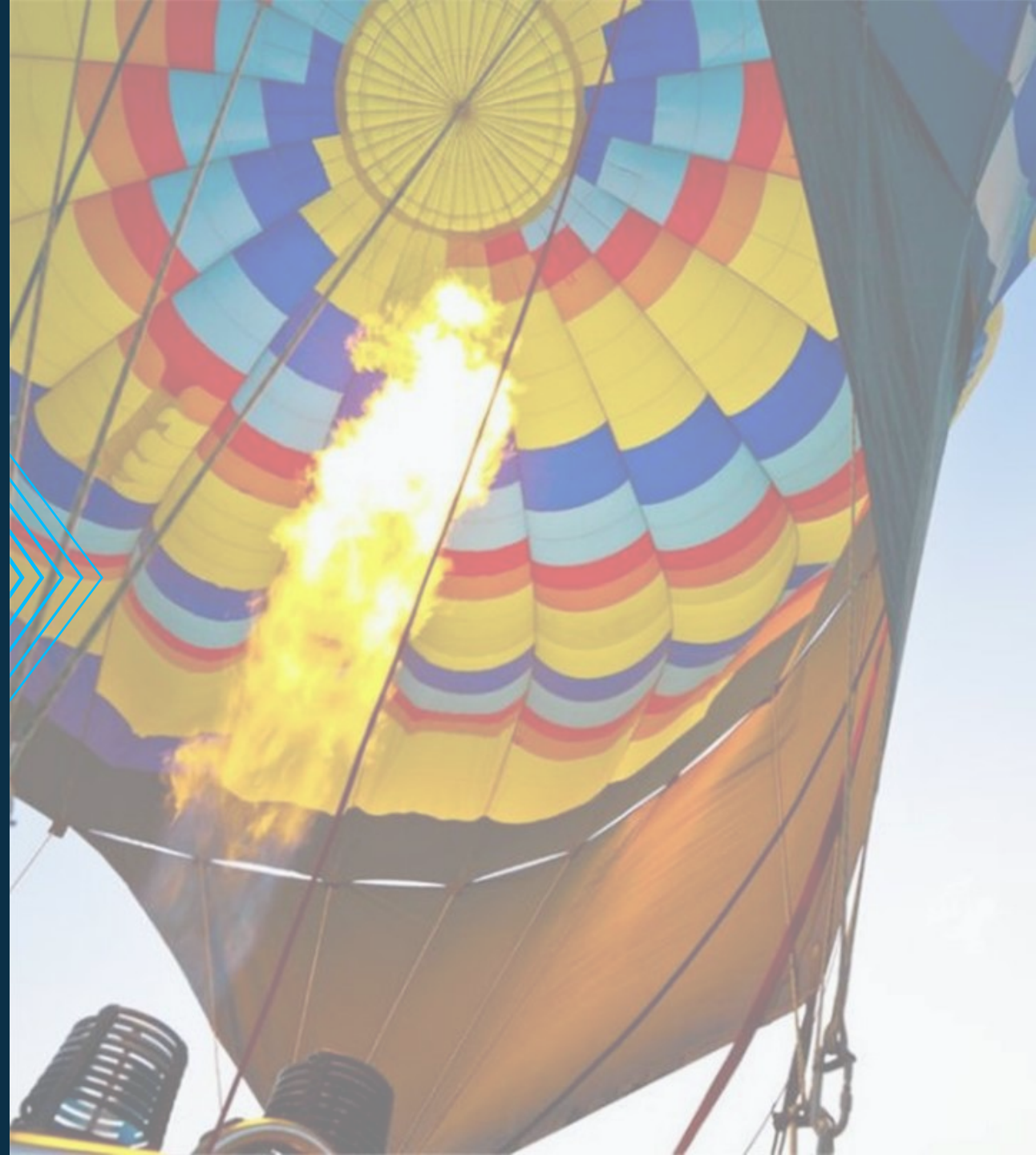


Operating profitability, as measured by EBITDA margin, declined or was flat YoY for most sectors, excluding Utilities and Telecom, which both saw modest increases. Energy margins fell sharply YoY due to generally declining profits from recent record-high levels in 2022.





Markets and Performance



Market Sector Performance

US equity markets were slightly negative in the third quarter but stayed in positive territory YTD. The tech sector's strong YTD performance was propelled by a few artificial intelligence (AI)-related stocks. Meanwhile, the IPO market flourished, marked by successful launches from a few prominent companies. In contrast, bonds encountered difficulties as benchmark Treasury yields climbed, pushing broad fixed income indices into negative territory for the year.

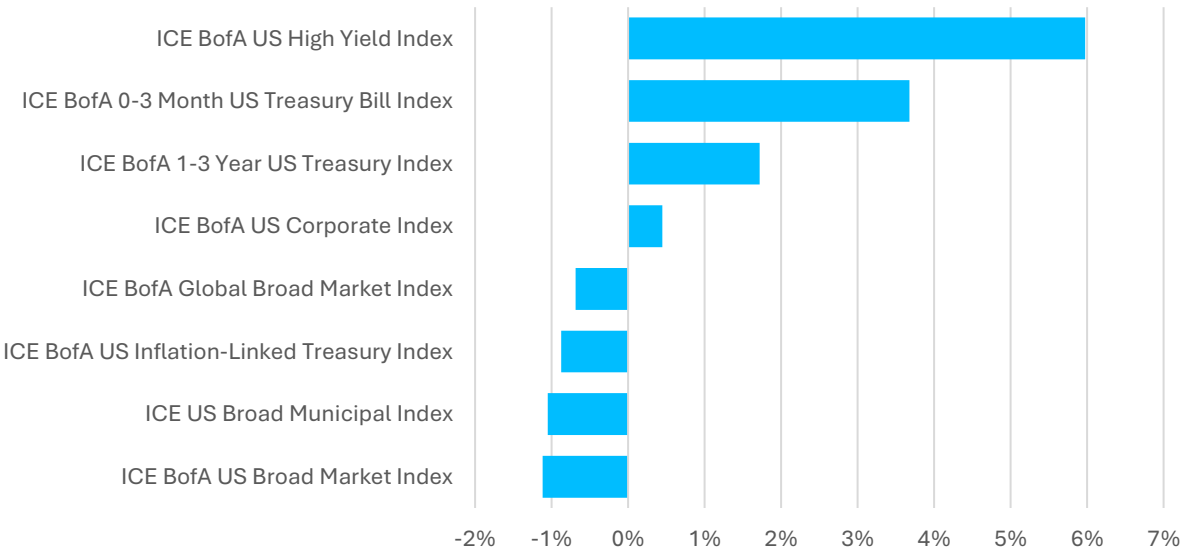
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | YTD 2023 |
|--|---------------------------|--------------------------|---------------------------|--------------------------|--------------------------|---------------------------|---------------------------|--------------------------|---------------------------|----------------------------|--------------------------|
| | IPO Index 54.33% | Biotech 43.24% | Biotech 13.09% | Crude Oil 45.03% | Biotech 43.85% | US Treasury 0.86% | Tech 45.97% | IPO Index 109.60% | Crude Oil 55.01% | Crude Oil 6.71% | Tech 29.76% |
| | Biotech 48.20% | Tech 14.23% | Tech 3.23% | High Yield 17.13% | Tech 39.65% | US Aggregate 0.01% | Crude Oil 34.46% | Biotech 48.10% | Tech 28.73% | High Yield -11.19% | IPO Index 27.83% |
| | S&P 500 32.39% | S&P 500 13.69% | S&P 500 1.38% | Tech 12.27% | IPO Index 35.75% | High Yield -2.08% | IPO Index 33.87% | Tech 42.64% | S&P 500 28.71% | US Treasury -12.46% | Crude Oil 13.12% |
| | Tech 23.66% | US IG Corporate 7.46% | US Treasury 0.84% | S&P 500 11.96% | S&P 500 21.83% | US IG Corporate -2.51% | Biotech 32.34% | S&P 500 18.40% | High Yield 5.28% | US Aggregate -13.01% | S&P 500 13.07% |
| | High Yield 7.44% | IPO Index 7.17% | US Aggregate 0.55% | US IG Corporate 6.11% | Crude Oil 12.47% | S&P 500 -4.38% | S&P 500 31.49% | US IG Corporate 9.89% | US IG Corporate -1.04% | US IG Corporate -15.76% | High Yield 5.86% |
| | Crude Oil 7.19% | US Aggregate 5.97% | US IG Corporate -0.68% | US Aggregate 2.65% | High Yield 7.50% | Tech -6.02% | US IG Corporate 14.54% | US Treasury 8.00% | US Aggregate -1.54% | S&P 500 -18.11% | US IG Corporate 0.02% |
| | US IG Corporate -1.53% | US Treasury 5.05% | High Yield -4.47% | US Treasury 1.04% | US IG Corporate 6.42% | Biotech -14.99% | High Yield 14.32% | US Aggregate 7.51% | US Treasury -2.32% | Biotech -25.62% | US Aggregate -1.21% |
| | US Aggregate -2.02% | High Yield 2.45% | IPO Index -7.98% | IPO Index -0.51% | US Aggregate 3.54% | IPO Index -17.53% | US Aggregate 8.72% | High Yield 7.11% | IPO Index -9.89% | Tech -30.29% | US Treasury -1.52% |
| | US Treasury -2.75% | Crude Oil -45.87% | Crude Oil -30.47% | Biotech -15.61% | US Treasury 2.31% | Crude Oil -24.84% | US Treasury 6.86% | Crude Oil -20.54% | Biotech -20.38% | IPO Index -57.06% | Biotech -11.80 |

All returns above are on a total return basis. YTD 2023 returns are on an aggregate basis up to 9/30/2023. US Aggregate refers to Bloomberg Barclays Aggregate Bond Index. US Treasury refers to the US Treasury allocation of the Bloomberg Barclays Aggregate Bond Index. US IG Corporate refers to the IG Corporate allocation of the Bloomberg Barclays Aggregate Bond Index. High Yield refers to the US Corporate High Yield Bloomberg Index. Crude Oil refers to the Spot West Texas Intermediate Crude Oil — Bloomberg-sourced. S&P 500 refers to the S&P 500 Total Return Index. Tech refers to the S&P Global 1200 Information Technology Index. Biotech refers to the S&P Biotechnology Select Industry Index. IPO Index refers to the Renaissance IPO Index.

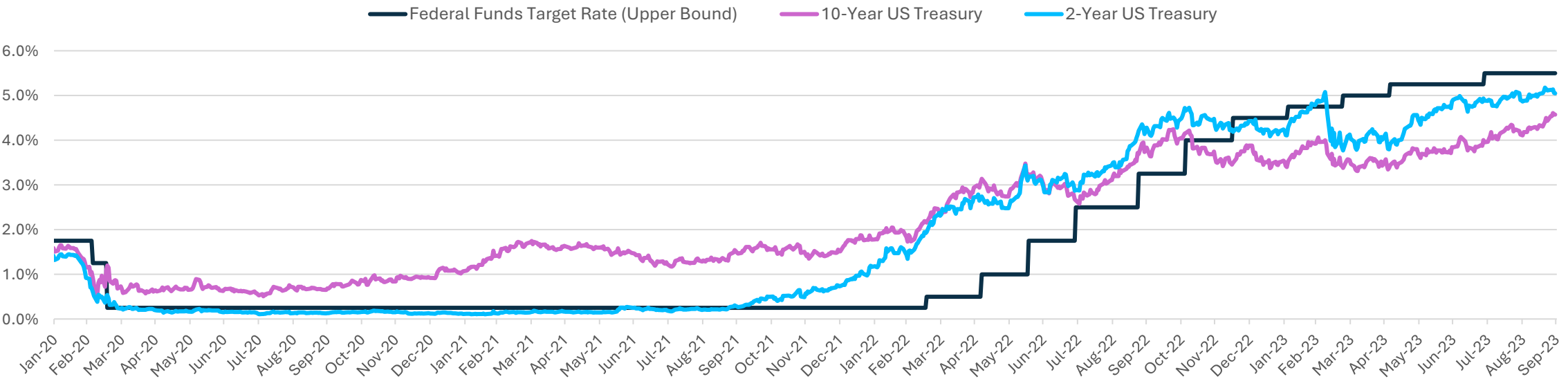
Bond Market Performance

The bond markets faced yet another tough quarter as Treasury yields rose, leading to declines across the broad fixed income markets YTD. This is amidst a backdrop of uncertainty surrounding the Fed, the geopolitical landscape and the global economy.

2023 YTD Bond Performance



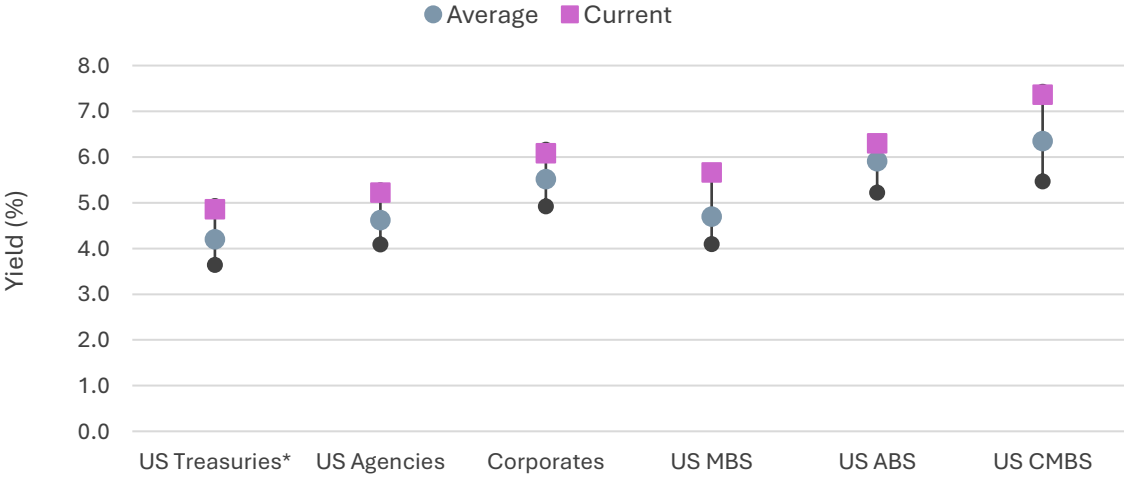
Bond Yields



Global and Domestic Yields

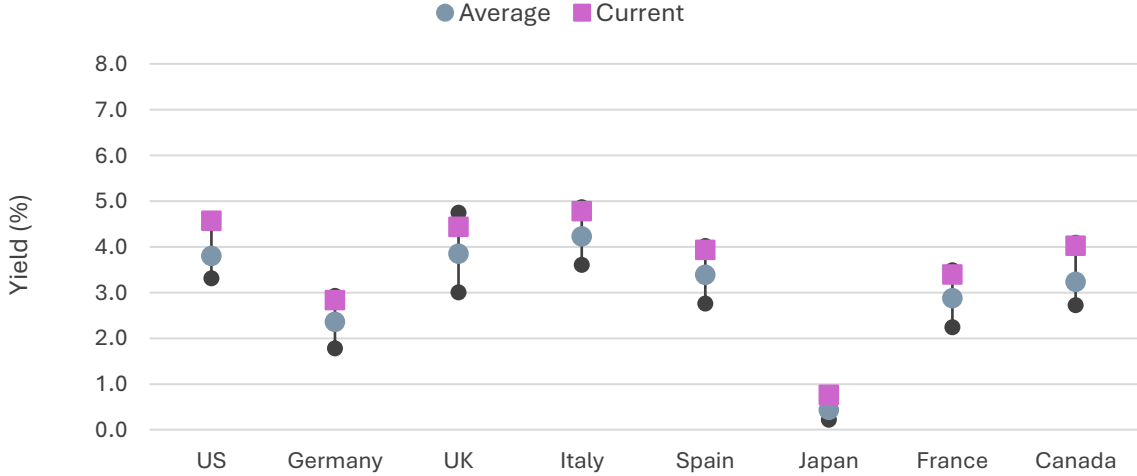
Yields continued to climb as the Fed reinforced higher-for-longer messaging to tame inflation.

Broad Fixed Income Yields

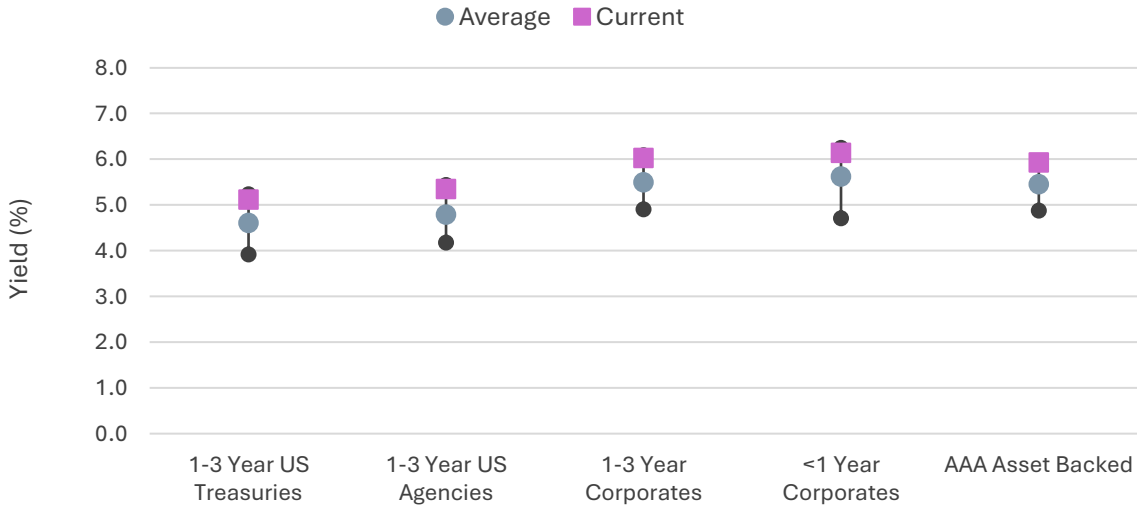


*US Treasuries pertain to on-the-run sovereign 10-year securities.

Yields Across the Globe



Short-Duration Yields



Quarterly Credit and Duration Performance Stratification

During the third quarter, investment-grade credit spreads tightened. However, the increase in Treasury yields posed a significant challenge for investment returns. The benchmark Treasury curve steepened as long-term Treasury yields rose considerably more than short-term Treasury yields.

Corporate Credit

| Duration | 0-0.25 | 0.25-0.5 | 0.5-1.0 | 1.0-1.5 | 1.5-2.0 | 2.0-2.5 | 2.5-3.0 | 3.0-4.0 | 4.0-5.0 | 5.0-6.0 | 6.0-7.0 | 7.0-8.0 | 8.0-9.0 | 9.0-10.0 | 10.0-11.0 | 11.0-12.0 | Over 12.0 |
|----------|--------|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|-----------|-----------|-----------|
| AAA | 1.07% | 1.23% | 1.33% | 0.99% | 0.78% | 0.46% | -0.18% | -0.64% | -1.02% | | -3.48% | -3.55% | | -5.20% | -6.25% | -6.80% | -10.29% |
| AA1 | 0.00% | 1.25% | 1.12% | 0.66% | 0.85% | 0.41% | -0.02% | -0.60% | -1.09% | -1.43% | -3.55% | -4.12% | | -5.20% | -5.73% | -6.68% | -9.58% |
| AA2 | 1.48% | 1.49% | 1.24% | 1.10% | 0.87% | 0.74% | 0.44% | -0.33% | -1.07% | -1.71% | -3.22% | -3.78% | -4.97% | -4.66% | -5.24% | -6.48% | -9.06% |
| AA3 | 1.42% | 1.34% | 1.33% | 1.10% | 0.94% | 0.43% | 0.34% | -0.40% | -0.83% | -2.08% | -3.44% | -3.71% | -3.55% | -3.88% | -4.95% | -5.90% | -8.41% |
| A1 | 1.45% | 1.32% | 1.35% | 1.17% | 0.85% | 0.52% | 0.11% | -0.52% | -0.98% | -2.38% | -3.69% | -4.04% | -3.63% | -4.90% | -6.06% | -6.53% | -8.73% |
| A2 | 1.45% | 1.43% | 1.30% | 1.24% | 0.93% | 0.53% | 0.28% | -0.40% | -0.90% | -2.08% | -3.37% | -3.79% | -3.42% | -3.88% | -5.37% | -6.15% | -8.26% |
| A3 | 1.49% | 1.46% | 1.39% | 1.26% | 1.11% | 0.65% | 0.44% | -0.25% | -0.84% | -2.10% | -3.19% | -3.68% | -3.93% | -4.44% | -5.23% | -6.68% | -8.27% |
| BBB1 | 1.49% | 1.45% | 1.45% | 1.39% | 1.09% | 0.86% | 0.64% | -0.13% | -0.66% | -1.73% | -2.82% | -3.45% | -3.62% | -3.49% | -4.89% | -5.69% | -7.51% |
| BBB2 | 1.51% | 1.46% | 1.38% | 1.29% | 1.01% | 0.86% | 0.40% | -0.18% | -0.64% | -1.86% | -2.76% | -3.27% | -3.59% | -4.22% | -5.09% | -5.61% | -7.67% |
| BBB3 | 1.70% | 1.49% | 1.48% | 1.37% | 1.27% | 0.98% | 0.81% | 0.18% | -0.42% | -1.46% | -2.30% | -2.69% | -2.67% | -3.25% | -4.38% | -5.02% | -6.69% |

US Treasuries

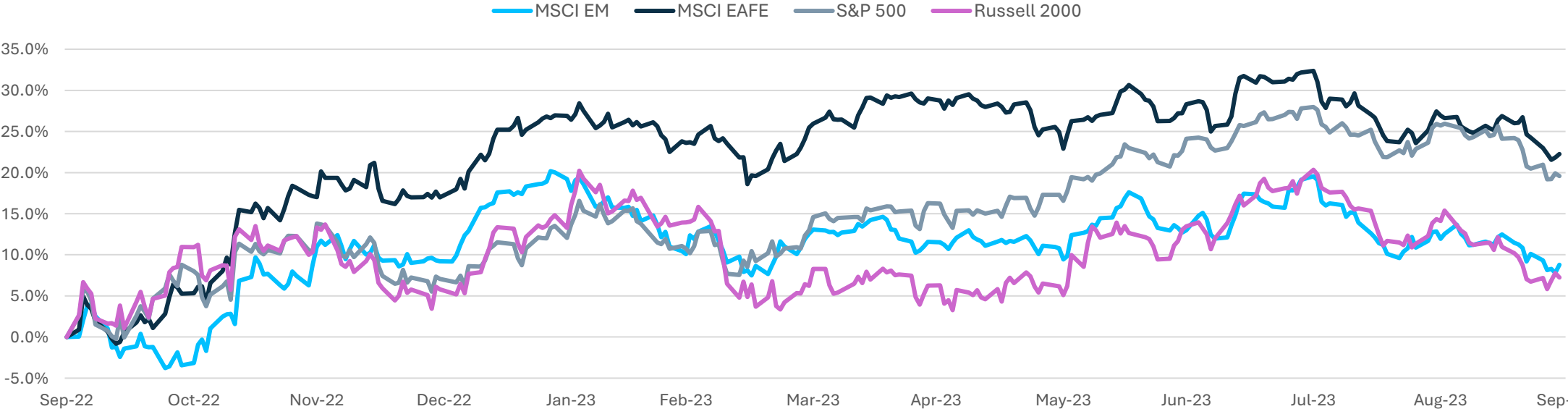
| Duration | 0-0.25 | 0.25-0.5 | 0.5-1.0 | 1.0-1.5 | 1.5-2.0 | 2.0-2.5 | 2.5-3.0 | 3.0-4.0 | 4.0-5.0 | 5.0-6.0 | 6.0-7.0 | 7.0-8.0 | 8.0-9.0 | 9.0-10.0 | 10.0-11.0 | 11.0-12.0 | Over 12.0 |
|----------|--------|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|-----------|-----------|-----------|
| Treasury | 1.31% | 1.29% | 1.31% | 1.13% | 0.80% | 0.47% | 0.16% | -0.34% | -1.14% | -2.22% | -3.53% | -4.57% | -5.17% | -6.80% | -7.88% | -8.98% | -11.79% |

Percentages in table represent total return. Red cells indicate the lowest returns, and green cells indicate the highest returns. Gray cells indicate there were no securities within the specific duration range for the evaluation period.

Global Equity Performance

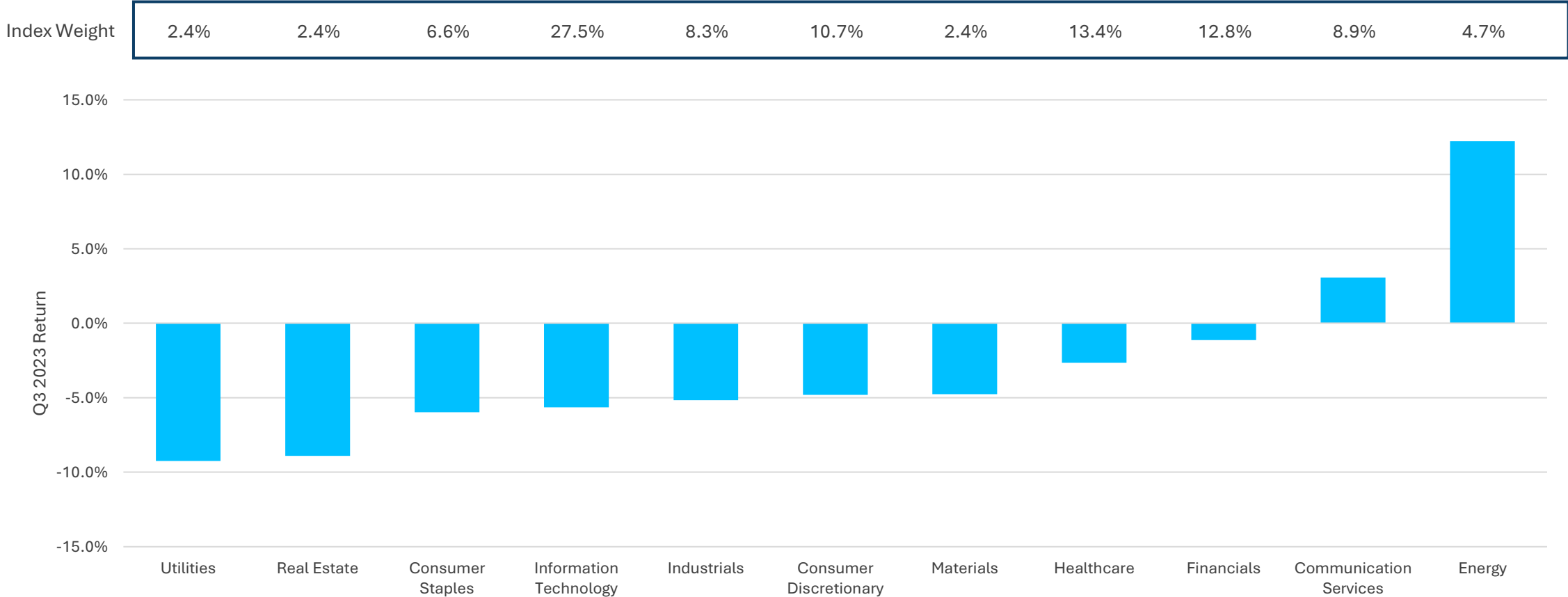
Despite a downturn in the third quarter, the overall performance of global equities has remained solid throughout the year. This comes as investors contemplate the prospect of enduring higher interest rates for longer to counteract persistently high inflation.

| Price Return | |
|--------------|-------|
| YTD 2023 | |
| MSCI EM | 8.8% |
| MSCI EAFE | 22.3% |
| S&P 500 | 19.6% |
| Russell 2000 | 7.2% |



US Equity Sector Performance

After a strong start to the year, US equities experienced a slowdown in the third quarter. Large-cap growth stocks, which were the main driver of the rally in the first half, pulled back as investors grappled with the implications of a prolonged high interest rate environment. A surge in gasoline prices due to OPEC oil production cuts helped with the Energy sector’s outperformance.



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