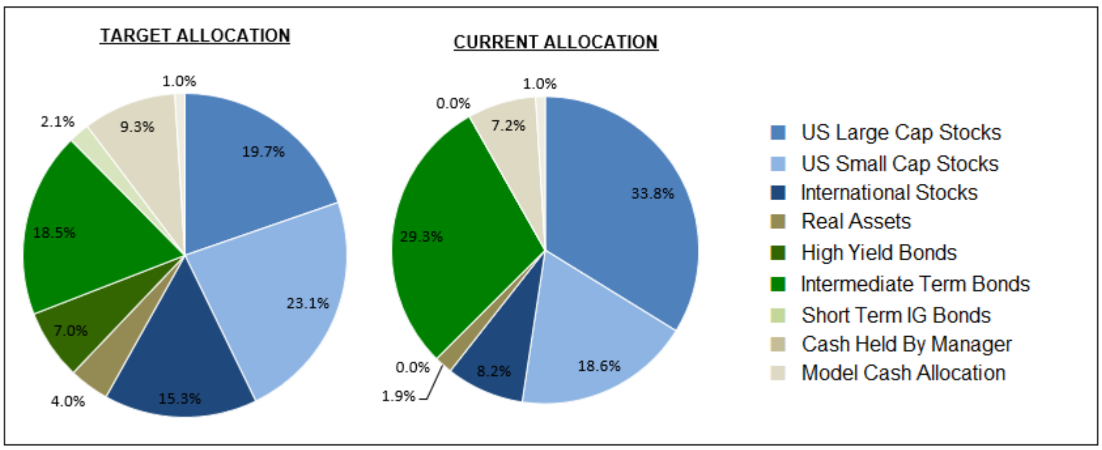
*General overall portfolio comments refer to the Moderate Growth allocations used in both the Pooled Fund Program and the Unified Managed Account Program. These general comments will be referred to as "Moderate Growth" throughout. Specific references to performance, current allocation, or comparison to indexes are derived from the CWA Model 5 Portfolio in the Pooled Fund Program; these specific comments will be referred to as "Model 5" throughout.

PORTFOLIO ANALYSIS

Overall Goal. We construct portfolios to generate a return that maximizes the probability that an investor will meet their retirement goals, as opposed to maximizing their asset base (which interjects significant risk). We believe that a value bias, international exposure and general diversification provide the best avenue to meet this objective. Our portfolios have lower volatility†, but can go through periods where they do not keep pace with the U.S. equity markets (the most common benchmark) because of our focus on value, fixed income and international stocks.

The **Moderate Growth Portfolio** is intended to provide a balanced allocation, with a slight overweight to equities over fixed income. The goal is to provide a balance of growth and income with lower volatility than an all-equity portfolio. Our target and current portfolio asset class allocations for Model 5 are listed below.



ACTUAL VS. TARGET

Equal Weight Equities

Under Weight International Exposure

Equal Weight Intermediate and Long-Term Fixed Income

High Cash Position

LARGEST EQUITY AND FIXED INCOME POSITIONS

In normal market environments, Moderate Growth has a target allocation of 60% stocks & 40% bonds, with approximately 20% of the portfolio in international equities and fixed income. So, the portfolio is a global one – with a U.S. tilt. By design, the holdings are broadly diversified by location/country, by company size, by credit quality/yield and by maturity/duration. The investment managers have a degree of flexibility which allows them to respond to different market environments, and our equity managers are currently holding a large amount of cash (given current valuations).

† as of 07/31/2023, the 10-year volatility (standard deviation) of Model 5 is 9.6%, versus 14.8% for the S&P 500 Index.

PERFORMANCE

The Moderate Growth portfolios in the Pooled Fund Program and the Unified Managed Account Program have slightly different investments, costs and thus returns. Accordingly, we direct you to your account statement for your individual performance.

In July, Model 5 (net of fees and expenses) market performed compared to the Global 60/40 Index, outperformed compared to the U.S. 60/40 Index, and outperformed compared to the S&P Moderate Growth which posted the following returns:

PERFORMANCE	JUL	COMMENTS
Global 60/40 Benchmark Index(2)	2.57%	Equity markets were robust again in July. Large cap indexes were up over 3%, while small cap indexes were up double that. Bonds were flat despite the Fed raising rates 0.25%.
U.S. 60/40 Benchmark Index(3)	1.90%	
S&P Moderate Growth Index(4)	1.79%	

(1) "Market Perform" means within a range of +10 bps to -10 bps of the applicable index for the month (or +/- 8 bps per month for YTD performance); "Outperform" means more than +10 bps for the month (or more than +8 bps per month for YTD performance); "Underperform" means more than -10 bps for the month (or more than -8 bps per month for YTD performance). **Please note performance comparison comments are based upon Model 5 Pooled Fund Program data. There are inherent limitations in the use of model performance – please read the Model Disclosure found on page 6. Investors should consult their individual custodial statement for actual performance of individual portfolios. Actual performance comparisons may differ from model comparisons.**
(2) Global 60/40 Benchmark is 60% MSCI ACWI Index & 40% Barclays Global Aggregate Bond Index.
(3) US 60/40 Benchmark is 60% S&P 500 Index & 40% Barclays U.S. Aggregate Bond Index.
(4) S&P Moderate Growth Index is 50% S&P Target Risk Moderate Index & 50% S&P Target Risk Growth Index.

MARKET PERFORMANCE

Equities

PERFORMANCE	JUL	MULTIPLE	COMMENTS
U.S. Equities(5)	3.58%	21.3X	Broader markets outperformed the large cap indices due to outsized performance by small and mid caps.
International Developed(6)	3.26%	13.8X	International developed were up strongly during July.
Emerging Markets(7)	6.28%	13.2X	EM bounced nicely during the month as global liquidity loosened and the U.S. dollar weakened.

(5) U.S. Equities are represented by the Russell 3000 Index.
(6) International Developed is the MSCI EAFE Index.
(7) Emerging Markets is the MSCI EM Index.

Fixed Income

PERFORMANCE	JUL	SPREAD OVER UST 10 YEAR	COMMENTS
U.S. Treasuries (Medium Duration)(8)	-0.62%	-	The 10-year yield rose, and the long bond yield rose sharply as the curve became less inverted during July. All credit performed well during the month.
U.S. Treasuries (Longer Duration)(9)	-2.46%	0.10%	
Global Fixed Income(10)	0.69%	-0.09%	
Emerging Fixed Income(11)	1.82%	3.65%	
High Yield(12)	1.38%	4.54%	

(8) U.S. Treasuries (7-10 Years), represented by the Barclays U.S.T 7-10 Yr Total Return Index
(9) U.S. Treasuries (20+ Years), represented by the Barclays U.S.T 20+ Yr Total Return Index
(10) Barclays Global Aggregate Bond Index.
(11) Barclays Emerging Markets EMEA Total Return
(12) Barclays U.S. Corporate High Yield Index.

Commodities and Real Assets. The Model 5 portfolios do not have significant exposure to commodities, except indirectly. However, commodities and real assets (real estate) provide a good sense of global demand (in the case of industrial commodities) or fear (gold).

PERFORMANCE	JUL	TREND	COMMENTS
Energy(13)	16.03%	UP	Oil bounced sharply during the month as the U.S. dollar weakened and supply constraints began to weigh on prices.
Real Estate(14)	1.78%	-	RE bounced again in July.
Industrial Metals(15)	6.47%	UP	Industrial metals stemmed are in an uptrend.
Gold(16)	2.29%	-	Gold bounced as the U.S. dollar weakened.

(13) S&P GSCI Energy Total Return Index.
(14) Dow Jones U.S. Real Estate Index.
(15) S&P GSCI Industrial Metals Total Return Index.
(16) SPDR Gold Shares (GLD).

Market Comments

For this month's report, we have included the text from Anne Walsh, the CIO of Guggenheim, one of our Fixed Income Managers. We feel this is an important letter and one we should share here.

https://www.guggenheiminvestments.com/institutional/perspectives/portfolio-strategy/use-this-goldilocks-market-to-prepare-for-its-end?utm_source=pardot&utm_medium=email&utm_campaign=Use+This+%E2%80%9CGoldilocks+Market%E2%80%9D+to+Prepare+for+Its+Eventual+End&utm_content=portfolio+strategy

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Use This 'Goldilocks Market' to Prepare for Its Eventual End, Anne Walsh, 8/1/2023

Talk of Goldilocks has taken hold in the markets, and with it the risk-taking allure of not-too-hot and not-too-cold investing conditions. Just a few weeks ago the market was preparing for two or more hikes and a well-telegraphed recession to prompt the start of a Federal Reserve (Fed) easing cycle in the second half of 2023, but now consensus is rapidly building for no more hikes after July and no recession at all. Two-year and 10-year Treasury yields have retreated some 30 basis points from recent peaks, and stocks have rebounded. "Markets Appear Convinced the Fed Can Pull Off a Soft Landing," read the headline in the *Wall Street Journal* on July 16.

Several encouraging developments have helped stoke this rapid change in market perception. The June "miss" in nonfarm payrolls, the first since March 2022, along with the significant downward revisions of prior months, was followed by a weaker-than-expected June Consumer Price Index (CPI) release. The latest reading for the University of Michigan consumer confidence hit its highest level in almost two years, while inflation expectations hit the lowest rate since January 2021. Now, fear of missing out (FOMO) is encouraging more investors to wade even further into risk assets, taking equity price-to-earnings multiples to their highest level since before the Fed delivered its first rate hike of this cycle.

I say not so fast.

Investors may be thinking that the rebound in equity markets is foreshadowing future economic strength, but there are times when the market behaves in a way that is completely uncorrelated with the economy. Often, markets lead or lag economic conditions, but sometimes they chase a hot sector or story. The economy has proven to be resilient despite the Fed's inflation-quashing efforts, and being overly bearish has not been rewarded. Equity markets have handily outperformed fixed income, with the S&P 500 up nearly 20 percent and the Nasdaq up a whopping 37 percent year to date while the Bloomberg U.S. Aggregate Index and the Bloomberg U.S Investment-Grade Corporate Bond Index are up just 2.5 percent and 3.6 percent, respectively. The artificial intelligence frenzy has boosted valuations of megacap tech and powered equity indexes higher. Part of what started to fuel this rally in mid-March was the Fed's change of heart about financial conditions when it sought to limit the fallout from regional bank failures, giving market participants the confidence to buy risk without "fighting the Fed."

Despite this positive market news, the Fed's roadmap is telling us that the stance of monetary policy will remain tight for some time, suggesting that conditions are due for a change. This may be one of those times when the market and economy are disconnected. Monetary policy works in long and variable lags, and we are only starting to see the lagged effects of 525 basis points of hikes and quantitative tightening. The economy might be on a glide path to a mild recession, but we are seeing many cracks—from the large investment-grade rated U.S. regional bank failures that battered over $5 billion in their corporate debt and preferred securities (which doesn't count another $17 billion in Credit Suisse's AT1 bonds), to several large retail companies that went bankrupt when lifelines that had been available in more borrower-friendly periods were no longer available to them, and the numerous occasions where commercial real estate owners have simply handed the keys over to their lenders. Credit trends are getting worse, with rising downgrades, defaults, and bankruptcies, falling recoveries, and higher borrowing costs and debt burdens starting to bite leveraged issuers.

The credit cycle hasn't even started in earnest. The 12-month default rate in U.S. leveraged credit is only 3 percent and we expect it to peak between 5–7 percent. The full reach of recent commercial real estate stress is unknown so far, but this sector has meaningful links to the banking and insurance industries which themselves play an important role in supplying credit to others. Despite these trends, markets are pricing in a high degree of certainty that everything will be just fine and that the little damage that rate hikes have caused will be isolated to the unlucky few.

As for the Fed, Chairman Powell and his colleagues may be pleased with recent data, but they are not anywhere close to declaring Mission Accomplished. The Fed is going to err on the side of overdoing it and, fearing the inflationary tendencies of a resurgent economy, hiked in July and is likely to do so again in September. Meanwhile, the process of quantitative tightening via a shrinking Fed balance sheet continues at an annualized pace of about $1 trillion (give or take $100 billion), and the Fed has not signaled plans to change that. Quantitative tightening (QT) has not had a significant impact on markets yet. However, the expansion of the balance sheet through quantitative easing helped inflate asset prices, so it makes sense to surmise that asset prices will come under pressure as it shrinks.

This market backdrop tells me that the current Goldilocks market, like those that came before, won't last. History shows that this calm before a storm is consistent with some of the worst market drawdowns. Our Macroeconomic and Investment Research Group looked at several to track market performance in the wake of Fed efforts to control overheating. Two that come to mind are the Black Monday stock market crash that occurred in October 1987 and two phases of the Global Financial Crisis (GFC) in 2007 and 2008. The glaring similarity across all of these time periods is the withdrawal of liquidity that preceded them.

Today's year-to-date performance in risk assets and Treasury yields looks similar to 2007. Although the integrity of systemically important bank balance sheets and wholesale funding markets is better today than in 2007, there are also some interesting similarities that highlight how long it takes to fully realize the second- and third-order effects of tighter conditions. The Fed concluded two years and 425 basis points of tightening in June 2006, but the largest subprime lender bankruptcy, New Century Financial Corporation, occurred in April 2007. Bear Stearns announced that two of its hedge funds with significant exposure to subprime mortgages had lost all value in July 2007. Meanwhile, equity markets rallied in the first half of 2007 while the Fed was on hold and credit spreads were contained. The Fed's easing cycle wouldn't begin until September 2007, and ended in December 2008, before the equity market bottomed.

Equity markets and credit spreads have followed the 2007 path like a stenciled outline. Market participants in 2007 might have thought everything would be okay and that the full impact of policy tightening was behind them after a one-year pause in the hiking cycle, but the long and variable effects of policy extended well beyond that period.

While we are not predicting a GFC-magnitude financial crisis in 2024, mainly because of regulation put in place since then, we believe that the timeline for that recession—and other periods that followed Fed tightening—indicate that tighter conditions take a long time to work through the economy and markets. We are still near an early stage where capital is being rationed as lenders become more selective, bank loan officers continue to tighten lending standards, and primary market issuance declines. Conditions do not seem to warrant the optimism that is fueling equity valuations to these levels. In addition, our seasonality work suggests that most of the 10 percent or more six-month drawdowns in the S&P 500 since 1950 began in August. Large stock market declines—when they occur—tend to happen more often in the second half of the calendar year.

Some asset allocators and investors may be rethinking their relative equity versus fixed-income allocations as they struggle with FOMO. This would be premature. Once Goldilocks conditions end, we believe high quality bonds will outperform equities. The 2007 experience shows that in the 18 months following the Bear Stearns hedge funds collapse, investment grade bonds outperformed stocks by a cumulative 50 percent.

The good news for investors is that this Goldilocks period may persist in the short term, which means there is still time to take appropriate portfolio measures. Taking cues from history, we remain defensive and have been reducing high beta exposure and using market strength to increase allocations to high quality credit. In high yield, we are implementing a more defensive approach by going up in the capital stack and obtaining stronger investor protections. But we do not believe that we are sacrificing yield in the process. Investment-grade corporate bond yields remain attractive at over 5 percent. In structured credit, we can obtain even higher yields with solid structural protections—supported by the historically lower default rates in asset-backed securities and collateralized loan obligations—when compared to corporate bonds of similar ratings. These sectors have delivered steady returns in the first half of this year. As we near the end of the hiking cycle, the stability in rates will result in steady coupon returns, as many subsectors have exhibited over the first half of 2023. A decline in rates as the economy slows could support performance further in 2024.

The swimming is fine while the waters appear calm, but we expect it won't last. Investors should consider preparing for it now, otherwise, as Warren Buffett famously said, we will see who is swimming naked when the tide rolls out.

For questions, or to request additional information, please contact your CWA Financial Planner

a particular investor's financial objectives or risk tolerances. Any specific mention of securities is for informational purposes only and is not intended as a recommendation or solicitation to purchase.
CWA Model 5 Moderate Growth Pooled Fund Program: The target allocation and portfolio data used throughout this presentation is for the CWA Model 5 recommended for participants in the Pooled Fund Program. This Model is the most common recommendation and is used here to illustrate the CWA methodology. Other CWA Recommended Investment Program models will vary in asset allocation and underlying manager and/or security selection. Clients should discuss these models and programs with their planner prior to selection.

***The CAPE ratio is a valuation measure that uses real earnings per share (EPS) over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle. The ratio is generally applied to broad equity indices to assess whether the market is undervalued or overvalued. While the CAPE ratio is a popular and widely-followed measure, several leading industry practitioners have called into question its utility as a predictor of future stock market returns. The CAPE ratio, an acronym for Cyclically Adjusted P/E (i.e. Price-Earnings) ratio, was popularized by Yale University professor Robert Shiller. It is also known as the Shiller P/E ratio.*

+*Statements relating to Value outperforming Growth are based upon the data of the Fama-French 3-Factor Model. A pioneering study by renowned academics, Eugene Fama and Ken French, suggesting that three risk factors: market (beta), size (market capitalization) and price (book/market value) dimensions explain 96% of historical equity performance.*

Model Performance Disclosure: Model performance is NOT an indicator of future or actual results. Performance does not represent the returns that any individual investor actually received. Cain Watters Investors may incur a loss. *Cain Watters Models contain allocations to several different common pooled trust funds. Each individual pooled trust fund has a defined investment strategy; usually designed around a specific asset class. Investment managers and their respective strategies are chosen to meet each of the pooled funds' objectives. Investors in the models pay a monthly asset based trust fee, based on their average investment balance during the month. Model performance is calculated using the reported net asset value of each individual pooled fund. Performance for the individual funds is then weighted according to the model target allocation. Model performance includes the reinvestment of dividends and interest. The annual trust fee of 0.65% is subtracted from gross returns on a pro-rated basis of 0.0541% per month; and includes trust fees and investment advisory fees. For time periods prior to July 1, 2016 an annual trust fee of 1.05% or 0.0875% per month was used. Model performance has inherent limitations in that it does not reflect the effects of significant cash flows, or take into account actual client asset allocation that may differ materially from the target allocation due to rebalancing policies and changes in market values. This model performance information is provided for illustrative purposes only. Cain Watters Model investors may experience materially different returns.*

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