

# February 2023 Investment Report

## Highlights

- Fixed income and equity markets ended the month lower. In addition, the Federal Reserve's (Fed) preferred inflation gauge Core Personal Consumption Expenditures (PCE) Price Index reported an unexpected increase.
- The S&P 500 Index of U.S. stocks declined 2.4%, while non-U.S. stocks, represented by the MSCI ACWI ex-U.S. IMI Index, fell 3.4%. The Bloomberg U.S. Aggregate Bond Index decreased 2.6%.
- Oil futures jumped after Russia announced a decrease in output by 500,000 barrels a day in retaliation for price caps levied on their oil products by the European Union.
- The U.S. economy added 311,000 non-farm jobs in February, while the unemployment rate increased to 3.6%.
- The U.S. Equity Fund, Fixed Income Fund and Inflation Protection Fund outperformed their respective benchmarks in February, while the International Equity Fund and Multiple Asset Fund underperformed their benchmarks.

## Monthly Overview

### Markets Decline and Inflation Reading Surprises

After increasing in January, stock and bond prices fell in February. Near the end of the month, the Fed's preferred gauge for inflation, the Core PCE Price Index, reported a year-over-year increase of 4.7% compared to the consensus estimate of 4.3% for the period ending in January. Domestically, the S&P 500 declined 2.4% for the month, and the Russell 3000 fell 2.3%. Corporate earnings for Q4 2022 declined 4.6% compared to the same period a year ago. With the exception of technology, every sector ended the month negative. International equities, measured by the MSCI ACWI ex-U.S. IMI, decreased 3.4% during the month. The U.S. dollar strengthened relative to other currencies as the U.S. Dollar Index rose 2.7% for the month.

In fixed income markets, the prospect of higher interest rates from a more hawkish Fed caused bond markets to decline. The Bloomberg U.S. Aggregate Index and U.S. High Yield Index returned 2.6% and 1.3%, respectively. The yield on the 10-year U.S. Treasury Note increased 0.37% in February to finish the month at 3.92%. Commodities also declined during the month with the Bloomberg Commodity Index down 4.7%.

### Household Debt Reaches Record Level

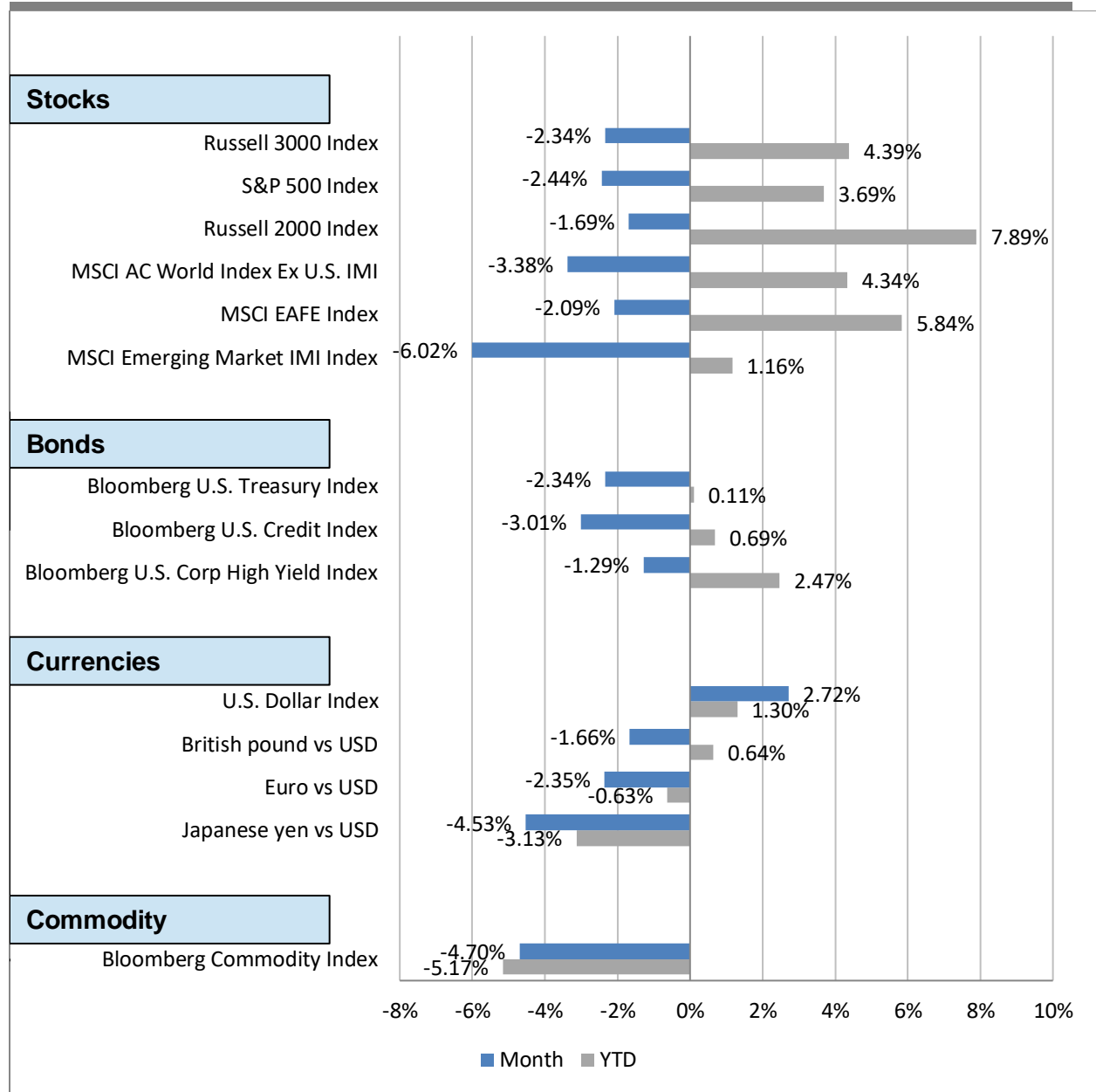
The Fed released a [report](#) showing household debt grew to a record \$16.9 trillion in the last quarter of 2022, an increase of \$394 billion from the previous quarter and \$2.8 trillion higher than before the pandemic began. This is the largest increase in 20 years as borrowers experience rising interest rates and elevated inflation. Most of the increase can be attributed to mortgage debt. Student loan, credit card and auto loan debt also increased from the previous quarter.

### The Rise of Artificial Intelligence (AI)

The explosive popularity of ChatGPT and DALL-E sparked a global race to integrate AI into a variety of everyday activities. From authoring and illustrating children's books to providing legal advice, OpenAI's projects are quickly being adapted by individuals and organizations across all industries. Other companies experimenting with the technology have expedited their releases with mixed results. Google recently launched the initial test phase of its AI, "Bard AI." A highly publicized error during testing caused Google parent company Alphabet's shares to tumble. Baidu also announced the implementation of its AI chatbot "Ernie Bot" across all of its operations. As an early investor in OpenAI, Microsoft has already begun incorporating ChatGPT into its Bing search engine along with its Azure cloud services.

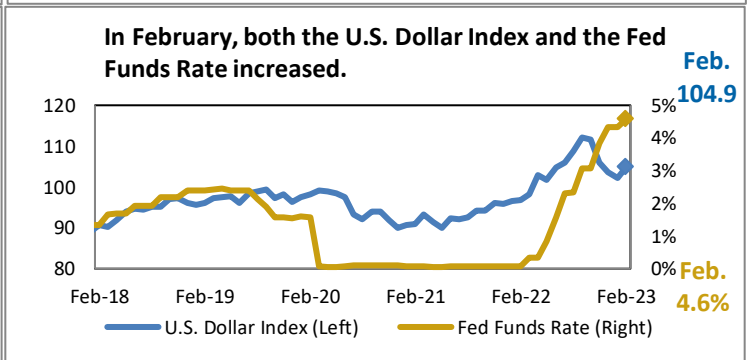
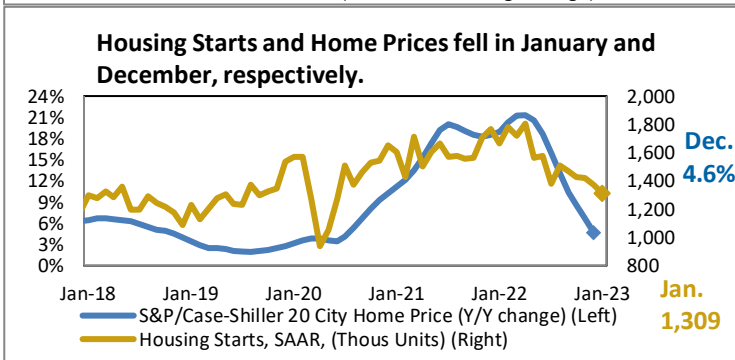
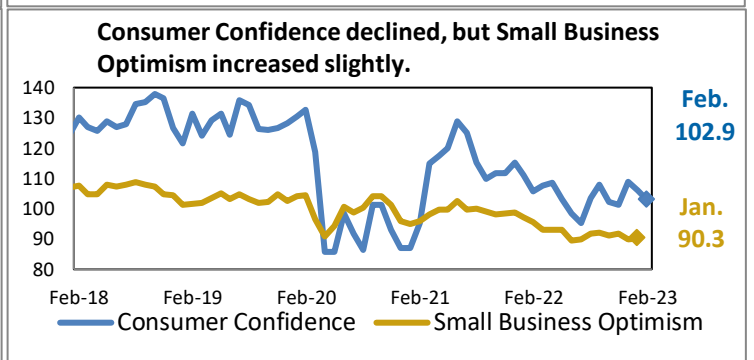
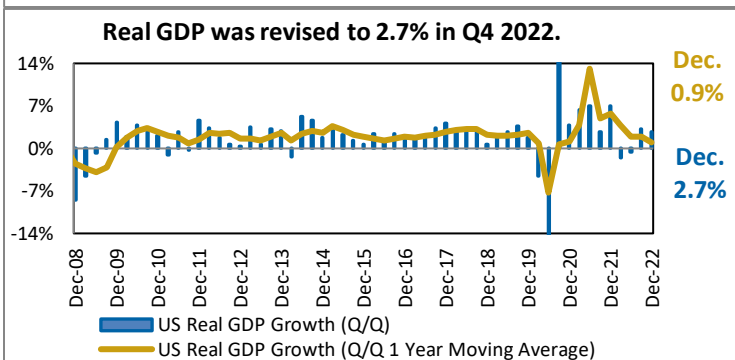
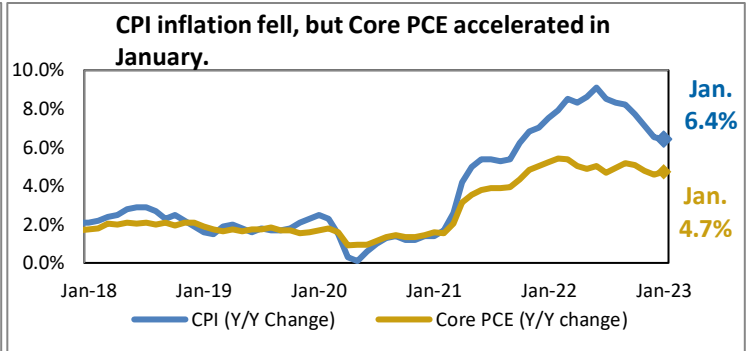
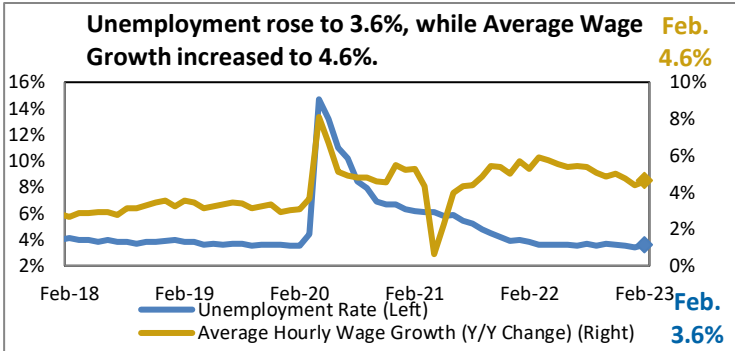
Sources: Bureau of Economic Analysis, New York Times, Seeking Alpha, Wall Street Journal, Reuters, and FactSet.

## Market Performance



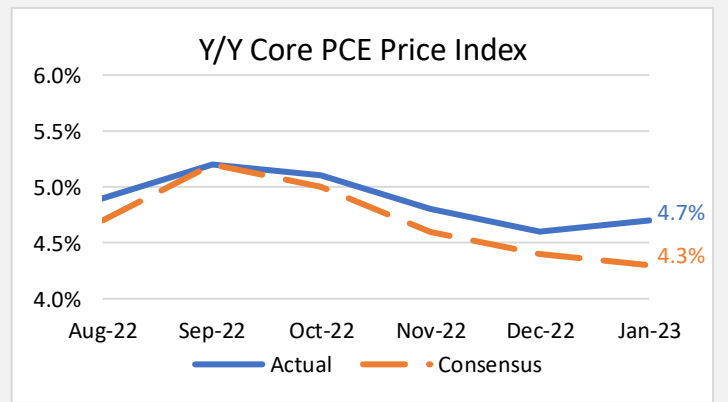
Source: FactSet, as of February 28, 2023.

## Key Monthly Economic Statistics



### Chart of the Month

- The Core Personal Consumption Expenditures (PCE) Price Index rose more than expected in January.
- Increased personal income and consumer spending accelerated inflation for the year.
- The Core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices.
- The Fed prefers Core PCE over the Consumer Price Index (CPI) because it better reflects changes to consumer spending, such as selecting substitute goods due to price changes. It also covers a broader range of spending.



Source: FactSet, U.S. Bureau of Labor Statistics, The Conference Board, Federal Reserve Bank of St. Louis, Bureau of Economic Analysis, National Association of Realtors, U.S. Census Bureau, S&P Global.

## Investment Fund Review (Net-of-Fees Performance)<sup>i</sup>

### Equity Funds

#### U.S. Equity Fund

Fund	February	YTD
U.S. Equity Fund	-2.09%	5.42%
Russell 3000 Index	-2.34%	4.39%
Difference (percentage points)	+0.25	+1.03

- During the month and year to date, the fund outperformed its benchmark mainly due to four out of six active managers outperforming their respective benchmarks and the fund's strategic overweight to small- and mid-cap growth stocks.

#### International Equity Fund

Fund	February	YTD
International Equity Fund	-4.18%	4.50%
MSCI ACWI ex U.S. Investable Market Index (Net)	-3.38%	4.34%
Difference (percentage points)	-0.80	+0.16

- During the month, the fund underperformed its benchmark due to the majority of active managers underperforming their respective benchmarks and the fund's fair market valuation policy (described [here](#)).
- Year to date, the fund modestly outperformed its benchmark mainly due to nine out of 11 active managers outperforming their respective benchmarks. Specifically, growth-oriented stocks and asset managers focused in emerging economies outperformed.

#### U.S. Equity Index Fund

Fund	February	YTD
U.S. Equity Index Fund	-2.28%	4.55%
Russell 3000 Index	-2.34%	4.39%
Difference (percentage points)	+0.06	+0.16

- The U.S. Equity Index Fund is a passively managed fund designed so that it closely matches the fund benchmark, less fees and expenses. Year to date certain stocks excluded in accordance with Wespath's Exclusions Policy (described [here](#)) contributed to relative performance.

## Fixed Income Funds

### Fixed Income Fund

Fund	February	YTD
Fixed Income Fund	-2.21%	1.05%
Bloomberg U.S. Universal (ex MBS) Index	-2.40%	0.57%
Difference (percentage points)	+0.19	+0.48

- During February, the Fixed Income Fund outperformed its benchmark. The key contributing factors for outperformance include an overweight allocation to high-yield rated corporate bonds, as well as core plus managers' security selection. The allocation to U.S. agency commercial mortgage-backed securities and Positive Social Purpose loans also added to relative performance.
- Year to date, the core plus managers' security selection and overweight allocation to high-yield rated corporate bonds positively contributed to relative performance. Allocation to, and manager's issue selection in, emerging market debt also added to relative performance. Allocation to, and manager's issue selection in, global bonds detracted from benchmark relative performance.

### Extended Term Fixed Income Fund

Fund	February	YTD
Extended Term Fixed Income Fund	-3.50%	1.51%
Bloomberg U.S. Government/Credit Long Term Index	-4.96%	1.30%
Difference (percentage points)	+1.46	+0.21

- The fund's policy of maintaining a lower sensitivity to interest rate movements until interest rates return to more "normal" levels was the largest driver of benchmark-relative performance for the month.
- Year to date, asset manager security selection contributed positively to benchmark relative performance.

### Inflation Protection Fund

Fund	February	YTD
Inflation Protection Fund (IPF)	-1.45%	0.46%
IPF Benchmark <sup>ii</sup>	-1.70%	0.41%
Difference (percentage points)	+0.25	+0.05

- During February, an overweight allocation to non-U.S. developed market inflation-linked bonds and floating rate senior loans contributed positively to relative performance. The commodities manager's selection decisions also added to relative performance. An overweight allocation to emerging market inflation-linked bonds detracted from benchmark relative performance.
- Year to date, the dedicated allocation to floating rate senior loans contributed to relative performance. An overweight allocation to non-U.S. developed market inflation-linked bonds also added, while the commodities manager's selection decisions detracted from benchmark relative performance.

### Balanced Fund

#### Multiple Asset Fund

Fund	February	YTD
Multiple Asset Fund (MAF)	-2.70%	3.54%
MAF Benchmark <sup>iii</sup>	-2.60%	3.03%
Difference (percentage points)	-0.10	+0.51

- During the month, the U.S. Equity Fund, Fixed Income Fund and Inflation Protection Fund contributed positively to benchmark-relative performance, while the International Equity Fund detracted.
- Year to date, all four funds contributed positively to the Multiple Asset Fund's benchmark relative performance.

## Social Values Choice Suite of Funds

### Social Values Choice Bond Fund

Fund	February	YTD
Social Values Choice Bond Fund	-2.30%	1.02%
Bloomberg U.S. Universal (ex MBS) Index	-2.40%	0.57%
Difference (percentage points)	+0.10	+0.45

- The fund's duration positioning and manager security selection added to benchmark-relative performance in for the month and year-to-date.

### Social Values Choice Equity Fund

Fund	February	YTD
Social Values Choice Equity Fund (SVCEF)	-2.45%	4.87%
SVCEF Benchmark <sup>iv</sup>	-2.39%	4.70%
Difference (percentage points)	-0.06	+0.17

- The Social Values Choice Equity Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. The fund's fair market valuation policy (described [here](#)) negatively impacted benchmark-relative performance for the month.

### U.S. Treasury Inflation Protection Fund

Fund	February	YTD
U.S. Treasury Inflation Protection Fund	-1.43%	0.57%
Bloomberg U.S. Inflation Linked Bond Index	-1.38%	0.51%
Difference (percentage points)	-0.05	+0.06

- The U.S. Treasury Inflation Protection Fund is a passively managed fund designed to closely match the performance of the fund benchmark, less fees and expenses.

**For additional information, please contact:****Karen Manczko***Director, Institutional Relationships*

(847) 866-4236 direct

(847) 866-4100 general

[kmanczko@wespath.org](mailto:kmanczko@wespath.org)**Evan Witkowski, CIPM, FSA Credential Holder***Manager, Institutional Relationships*

(847) 866-5271 direct

(847) 866-4100 general

[ewitkowski@wespath.org](mailto:ewitkowski@wespath.org)

1901 Chestnut Avenue

Glenview, Illinois 60025

(847) 866-4100

[wespath.org](http://wespath.org)

- 
- <sup>i</sup> Historical returns are not indicative of future performance. Fund returns are net of fees. Please refer to the [Investment Funds Description – P Series](#) for more information about the funds. This is not an offer to purchase securities.
- <sup>ii</sup> The benchmark for the Inflation Protection Fund was comprised of 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index through January 31, 2023. Effective February 1, 2023, the benchmark for the Inflation Protection Fund is 90% Bloomberg U.S. Treasury Inflation-Linked Bond Index and 10% Bloomberg Commodity Index.
- <sup>iii</sup> The benchmark for the Multiple Asset Fund is comprised of 35% Russell 3000 Index, 30% MSCI All Country World Index (ACWI) excluding USA Investable Market Index (IMI), 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities and 10% Inflation Protection Fund (IPF) Benchmark.
- <sup>iv</sup> The benchmark for the Social Values Choice Equity Fund is the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index.
-