CLA Chartbook 2023

Updated October 2023

CLA's Approach to Economic and Market Analysis

Our outlook uses the mosaic theory to formulate opinions and insights about general economic activity and the relative value of various investment options.

The **big macroeconomic drivers** of our mosaic are defined as:

- **Consumer finances** — Analysis of household spending, borrowing, and saving decisions made over time.
- **Business conditions** — Analysis of profitability, business optimism, inventory management, etc.
- **Labor market** — Analysis of unemployment, wage gains, nonfarm payrolls, and job openings, etc.
- **Federal Reserve policy** — Analysis of the Federal funds rate and the Federal Reserve balance sheet.
- **Fiscal policy** — Analysis of government taxes, spending, and regulation.

When analyzing **financial markets**, our mosaic compares current valuations to **historic values**, tempered by current and expected macroeconomic conditions, specific to:

- **Equity markets** — Publicly-traded equities, large-, mid-, and small cap, as well as developed and emerging international markets.
- **Fixed income markets** — Publicly-traded government, corporate, and mortgage debt.
- **Private markets** — Credit, real estate and equity funds, generally formed as partnerships or LLCs.

Mosaic theory
- *A financial analyst gathers and interprets large quantities of information from many sources.*
- *Analysts seek and use such information to compare and contrast investment alternatives.*
- *Analysts are in the business of formulating opinions and insights that are not obvious to the general investing public about the attractiveness of particular securities.*

Source: Excerpts from CFA Institute, Standards of Practice Guidance

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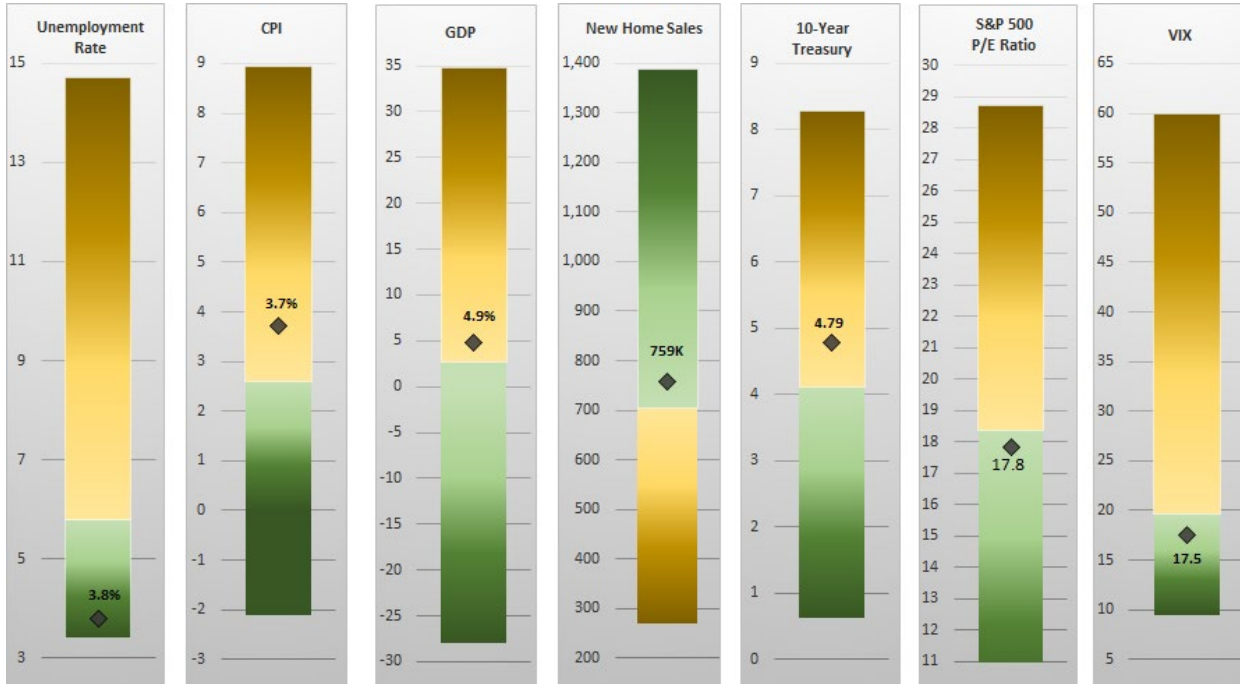- Private markets

Portfolio outlook

Economic Outlook

Macroeconomy

Overview

Data from January 1991 to most recently available.

Unemployment Rate	CPI	GDP	New Home Sales	10-Year Treasury	S&P 500 P/E Ratio	VIX
3.8%	3.7%	4.9%	759K	4.79	17.8	17.5

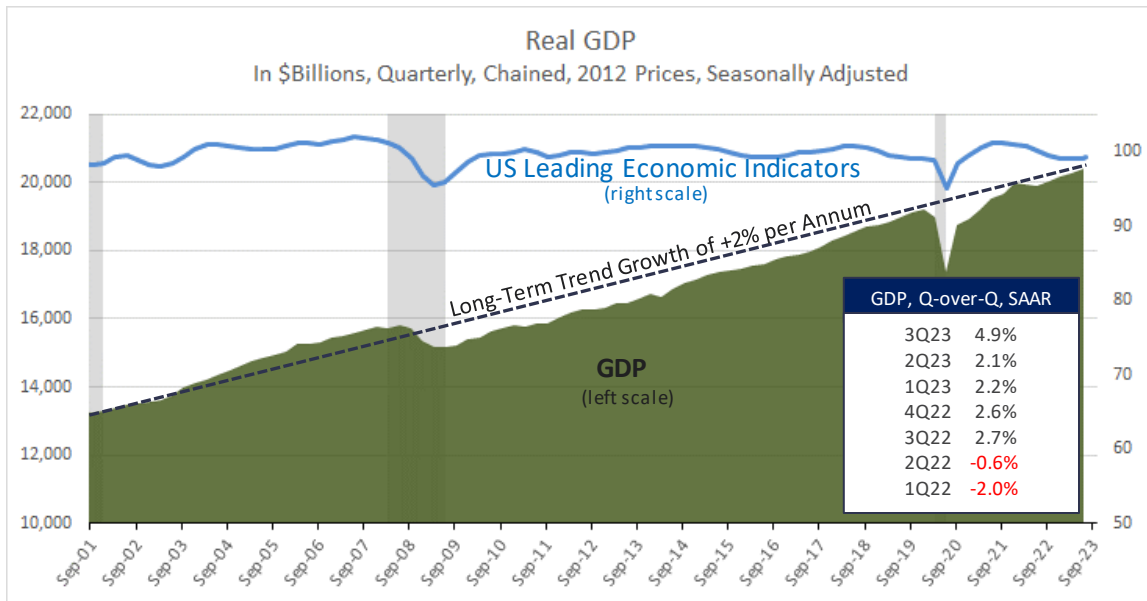*Source: Federal Reserve Bank of St. Louis, Bloomberg, CLA Wealth Advisors*

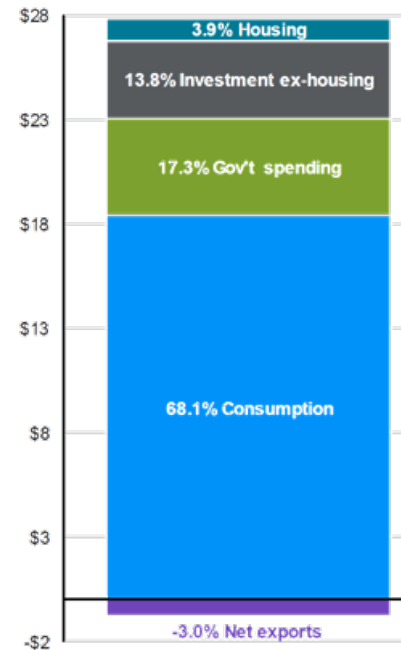*Data is based upon availability as of 10/31/2023*

Macroeconomy

GDP

Real GDP
In $Billions, Quarterly, Chained, 2012 Prices, Seasonally Adjusted

US Leading Economic Indicators
(right scale)

Long-Term Trend Growth of +2% per Annum

GDP
(left scale)

GDP, Q-over-Q, SAAR	
3Q23	4.9%
2Q23	2.1%
1Q23	2.2%
4Q22	2.6%
3Q22	2.7%
2Q22	-0.6%
1Q22	-2.0%

Grey areas denote recessions.

Source GDP: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, CLA Wealth Advisors
Source LEI: OECD, Main Economic Indicators, Copyright, 2016, OECD. Reprinted with permission.

Components of GDP
2Q23 nominal GDP, USD trillions

3.9% Housing
13.8% Investment ex-housing
17.3% Gov't spending
68.1% Consumption
-3.0% Net exports

*Source: BEA, FactSet, Standard and Poor's,
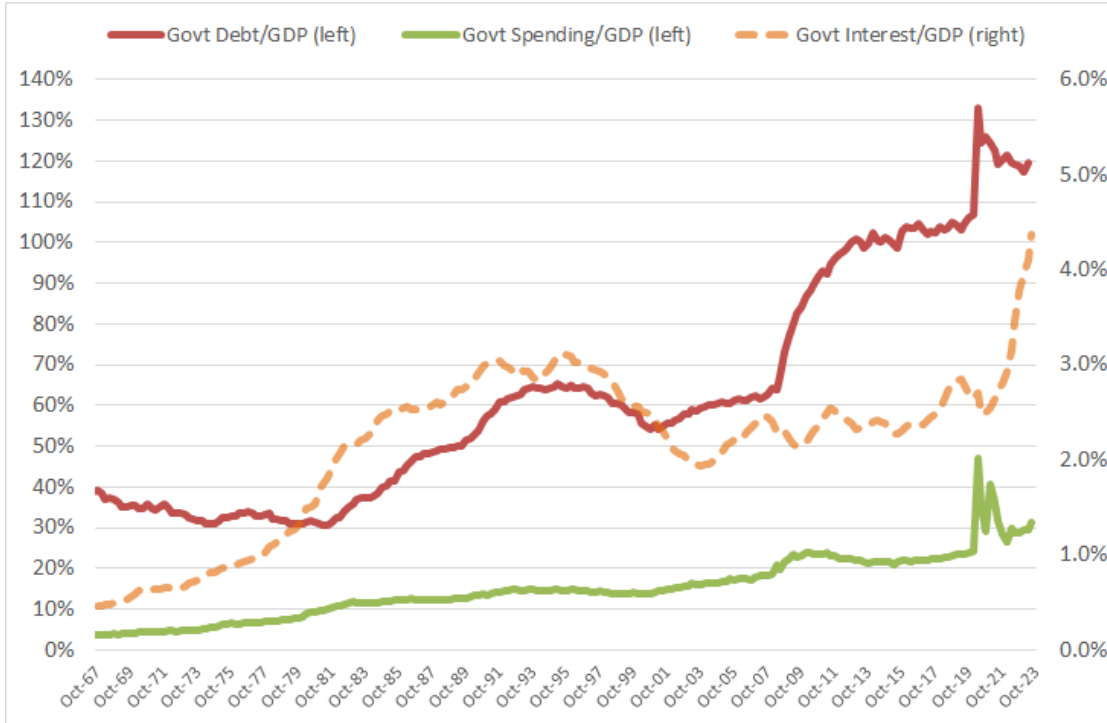J.P. Morgan Asset Management*

Data is based upon availability as of 10/31/2023

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Macroeconomy

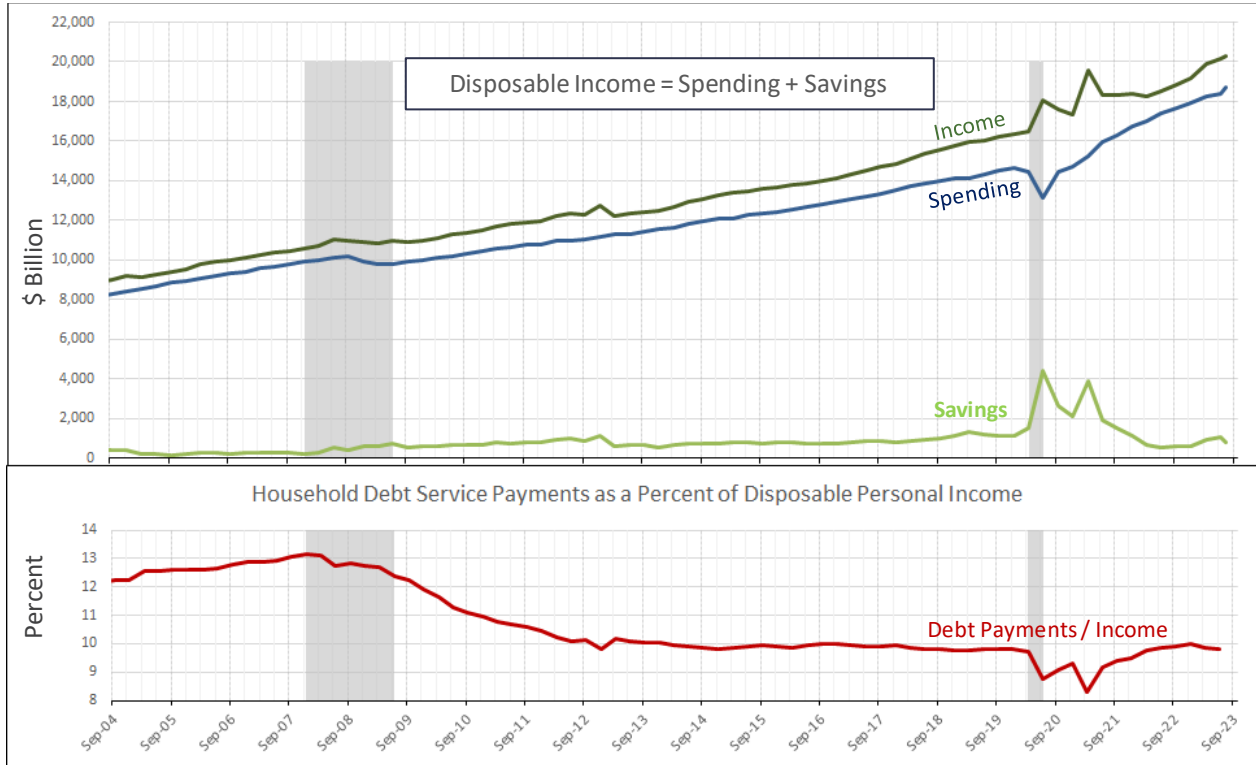Federal debt, spending, and interest payments as a % of GDP

Source GDP: Federal Reserve Bank of St. Louis, CLA Wealth Advisors
Data is based upon availability as of 10/31/2023

Macroeconomy

Consumer finances

Disposable Income = Spending + Savings

Income

Spending

Savings

Household Debt Service Payments as a Percent of Disposable Personal Income

Debt Payments / Income

Grey areas denote recessions.
Source: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System, CLA Wealth Advisors
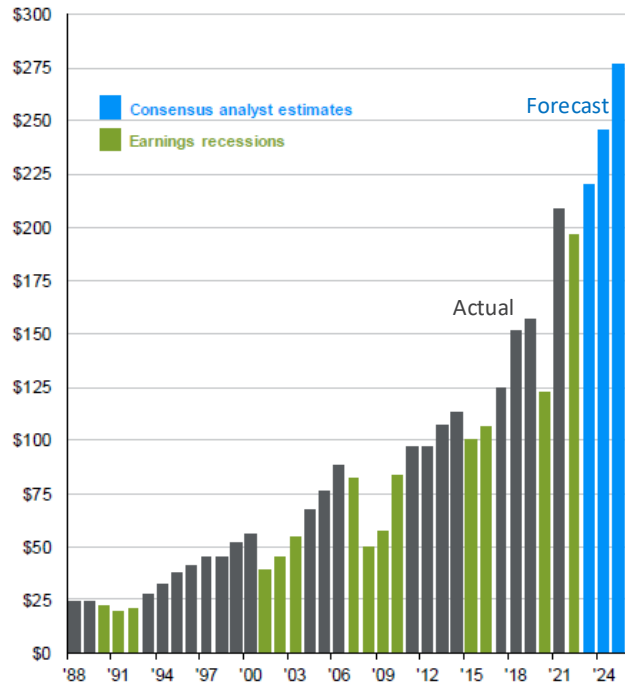*Data is based upon availability as of 10/31/2023.*

Macroeconomy

Business conditions

S&P 500 earnings per share
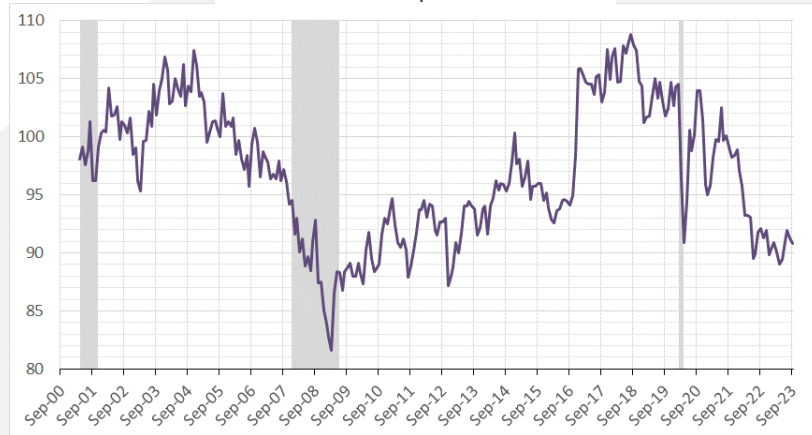Index annual operating earnings, USD

Source: Compustat, FactSet, Standard and Poor's, J.P. Morgan Asset Management

Manufacturing Inventories-to-Sales Ratio (Monthly)

Small Business Optimism Index

Source: Bureau of Economic Analysis, National Federation of Independent Business ("NFIB"),
U.S. Census Bureau, Manufacturers: Inventories to Sales Ratio, Federal Reserve Bank of St. Louis,
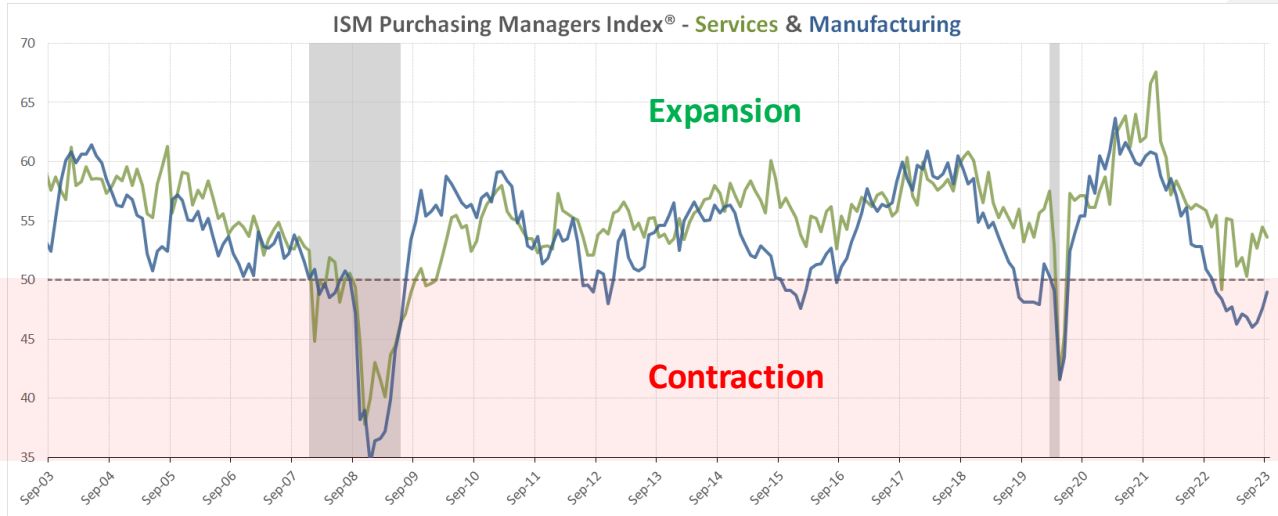CLA Wealth Advisors

Grey areas denote recessions.
Data is based upon availability as of 10/31/2023.

Macroeconomy

Business conditions — ISM® services and manufacturing

ISM Purchasing Managers Index® - Services & Manufacturing

Expansion

Contraction

Dark areas denote recessions.

Source: Institute for Supply Management, CLA Wealth Advisors
Data is based upon availability as of 10/31/2023

Services include real estate, utilities; construction; education; information; transportation and warehousing; health care and social assistance; public administration; finance and insurance; management of companies and support services; professional, scientific and technical services, agriculture, forestry, fishing and hunting; and arts, entertainment and recreation; and other services.
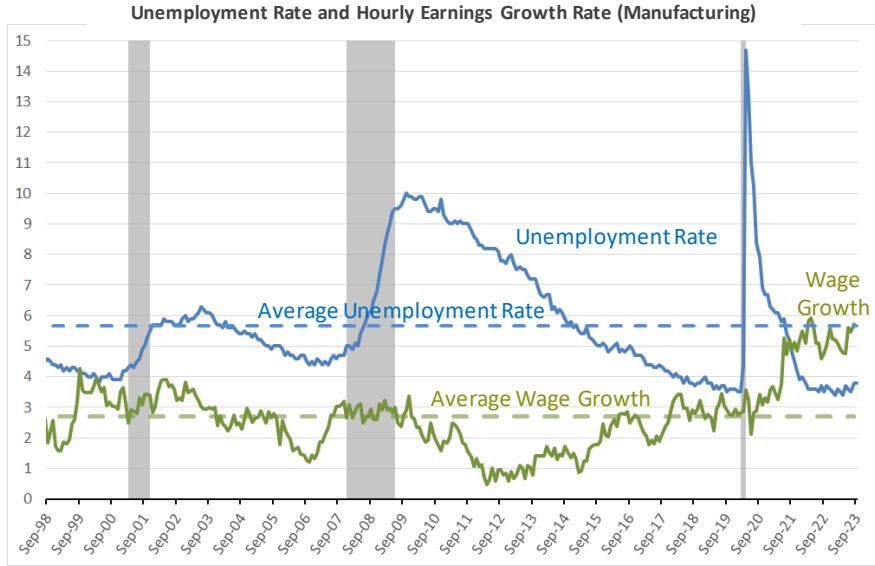
Manufacturing includes mineral products; petroleum and coal; transportation equipment; computer and electronic products; printing and related activities; plastics and rubber products; primary metals; machinery; food, beverage and tobacco products; wood products; apparel, leather and allied products; furniture and related products; paper products; chemical products; fabricated metal products; and electrical equipment, appliances and components.

Macroeconomy
Labor markets

Unemployment Rate and Hourly Earnings Growth Rate (Manufacturing)

- Unemployment Rate
- Average Unemployment Rate
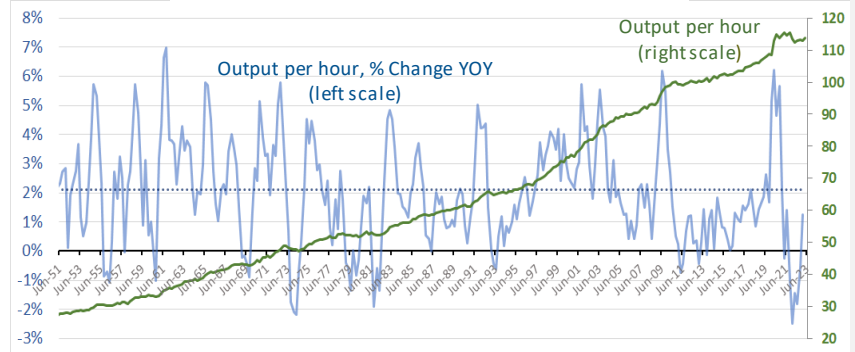- Wage Growth
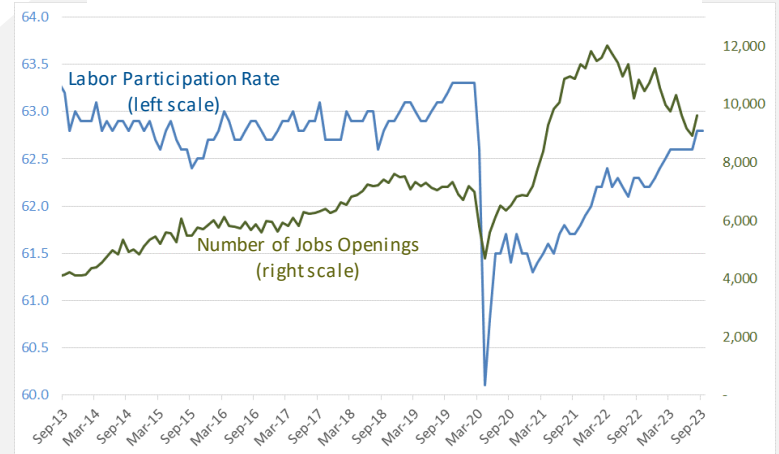- Average Wage Growth

Grey areas denote recessions.

Source: U.S. Department of Labor, U.S. Bureau of Labor Statistics, Atlanta Federal Reserve, Bloomberg , CLA Wealth Advisors

Data is based upon availability as of 10/31/2023

Labor Productivity (Output per Hour, % Change YOY)

- Output per hour (right scale)
- Output per hour, % Change YOY (left scale)

Labor Participation Rate (%), Job Openings (in 1000s), Monthly

- Labor Participation Rate (left scale)
- Number of Jobs Openings (right scale)

Federal Reserve Policy

Federal funds rate

Federal Funds Rate, Consumer Price Index (YOY), Recessions

Restrictive Monetary Conditions

Neutral Monetary Conditions

Accommodative Monetary Conditions

Consumer Price Index

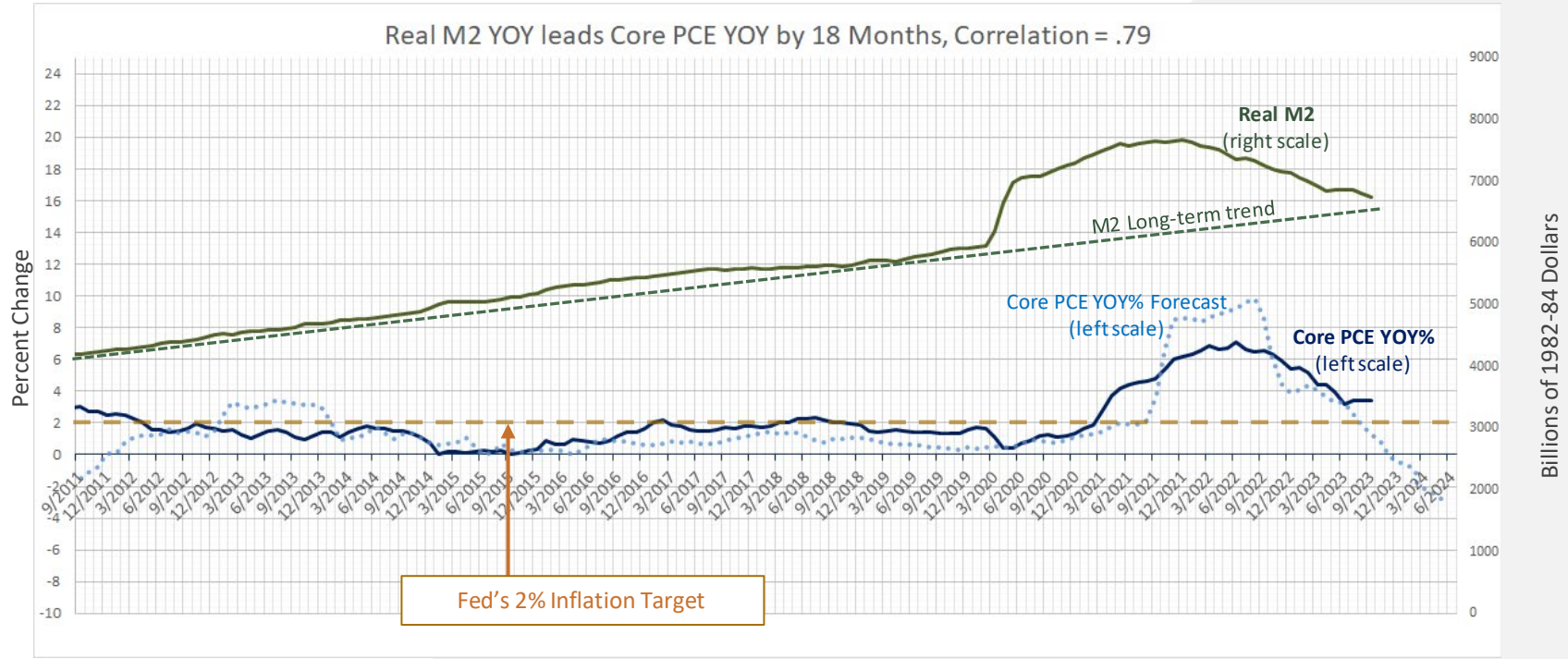Fed Forecast (High, Med, Low)

Federal Funds Rate
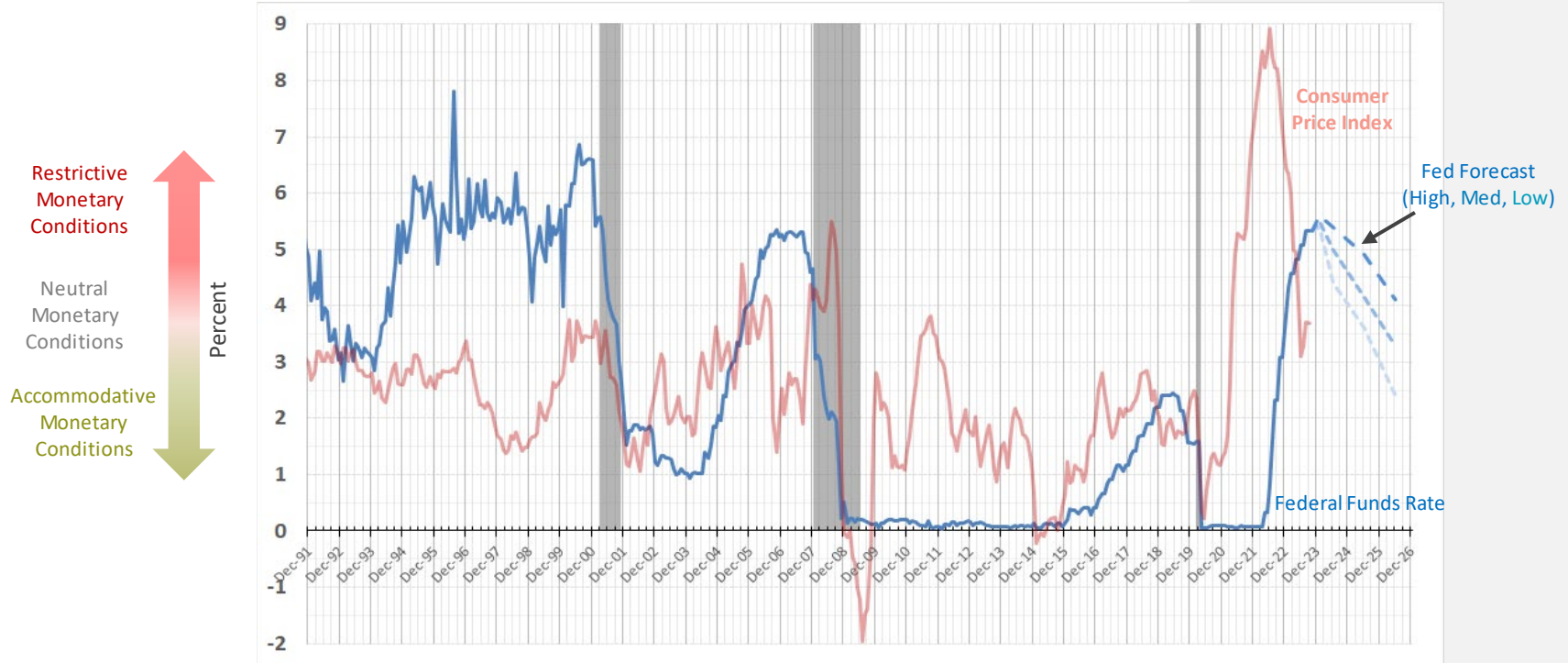
Grey areas denote recessions.

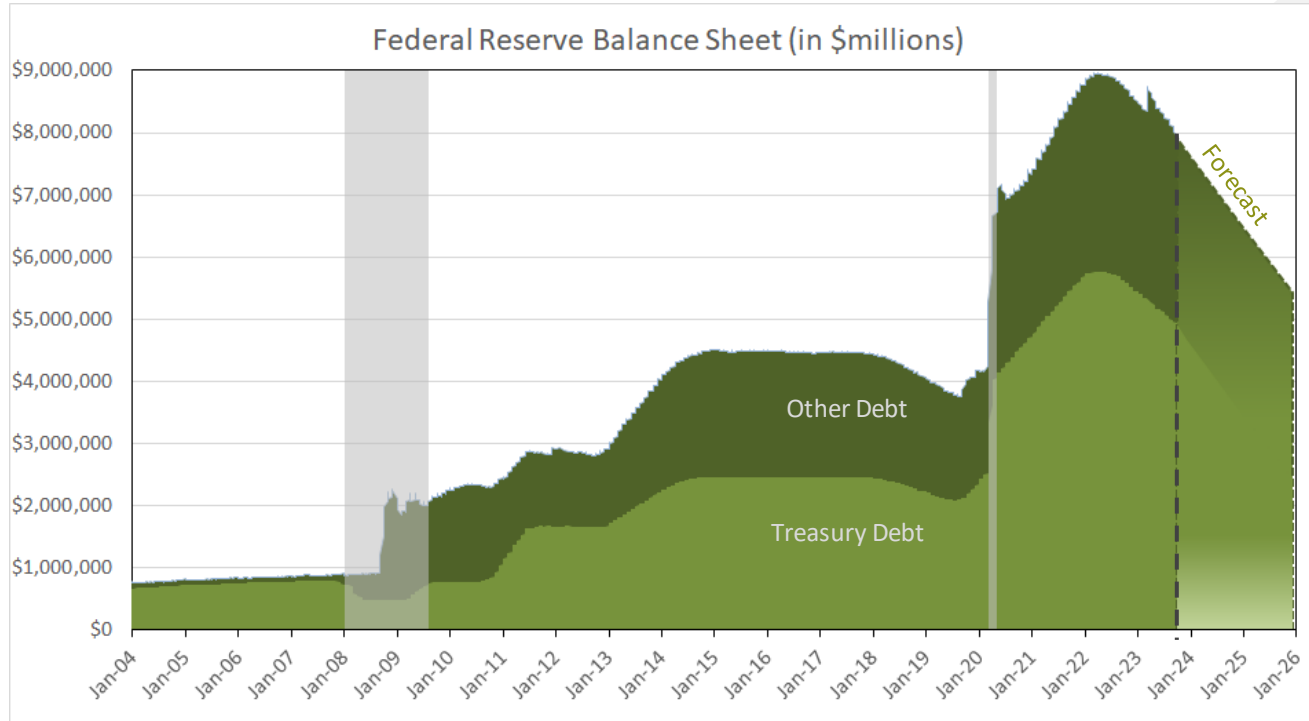Source: Board of Governors of the Federal Reserve System, U.S. Federal Open Market Committee, Federal Reserve Bank of St. Louis, NBER, Organization for Economic Co-operation and Development, CLA Wealth Advisors

Data is based upon availability as of 11/1/2023

Federal Reserve Policy
Inflationary outlook

Real M2 YOY leads Core PCE YOY by 18 Months, Correlation = .79

Real M2 (right scale)

M2 Long-term trend

Core PCE YOY% Forecast (left scale)

Core PCE YOY% (left scale)

Fed's 2% Inflation Target

Percent Change

Billions of 1982-84 Dollars

Federal Reserve Policy

Quantitative tightening

Federal Reserve Balance Sheet (in $millions)

Grey areas denote recessions.
Source: Board of Governors of the Federal Reserve System, Federal Reserve Bank of St. Louis, NBER, CLA Wealth Advisors
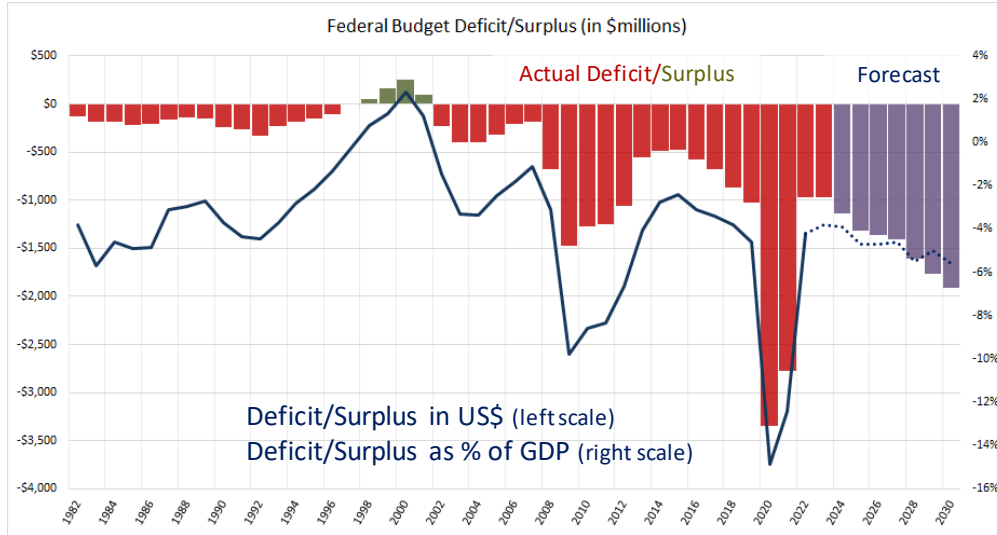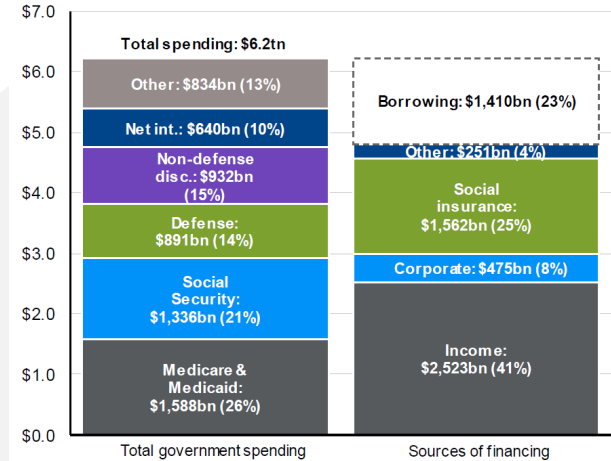*Data is based upon availability as of 11/1/2023*

Fiscal Policy
Deficit spending

Federal Budget Deficit/Surplus (in $millions)

Actual Deficit/Surplus   Forecast

Deficit/Surplus in US$ (left scale)
Deficit/Surplus as % of GDP (right scale)

The 2023 federal budget
CBO Baseline forecast, USD trillions

Total spending: $6.2tn

Total government spending:
- Other: $834bn (13%)
- Net int.: $640bn (10%)
- Non-defense disc.: $932bn (15%)
- Defense: $891bn (14%)
- Social Security: $1,336bn (21%)
- Medicare & Medicaid: $1,588bn (26%)

Sources of financing:
- Borrowing: $1,410bn (23%)
- Other: $251bn (4%)
- Social insurance: $1,562bn (25%)
- Corporate: $475bn (8%)
- Income: $2,523bn (41%)

CBO's Baseline economic assumptions

|	2023	'24-'25	'26-'27	'28-'33
Real GDP growth	0.9%	2.0%	2.4%	1.9%
10-year Treasury	4.0%	3.8%	3.8%	3.8%
Headline inflation (CPI)	3.3%	2.5%	2.1%	2.2%
Unemployment	4.1%	4.6%	4.5%	4.5%

Source: Congressional Budget Office - The Budget and Economic Outlook: 2022-2032, U.S. Office of Management and Budget, Federal Reserve Bank of St. Louis, Federal Reserve Bank of St. Louis, CLA Wealth Advisors
Data is based upon availability as of 11/1/2023

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Macroeconomy

Value of the U.S. dollar ($)
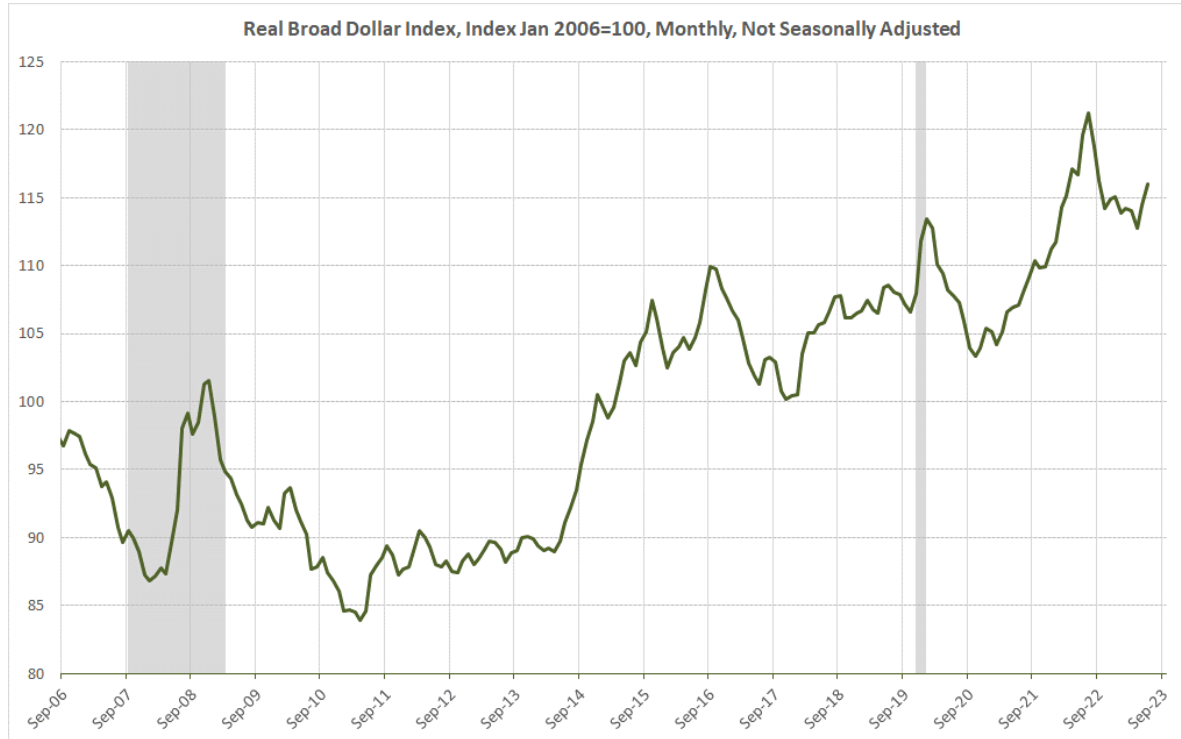
Real Broad Dollar Index, Index Jan 2006=100, Monthly, Not Seasonally Adjusted

Grey areas denote recessions.
Source: Board of Governors of the Federal Reserve System, Federal Reserve Bank of St. Louis, CLA Wealth Advisors
Data is based upon availability as of 11/1/2023
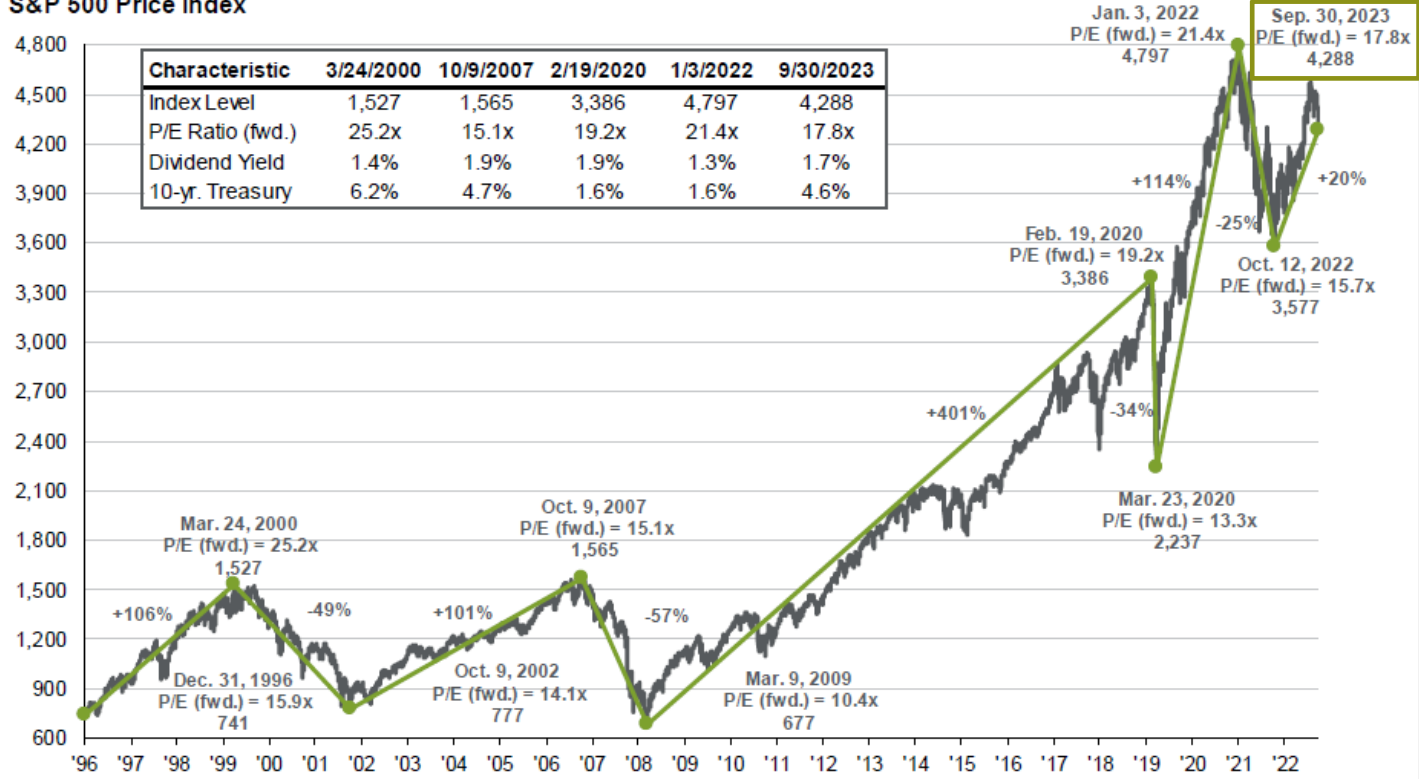
Financial Markets Insights

Equity Markets

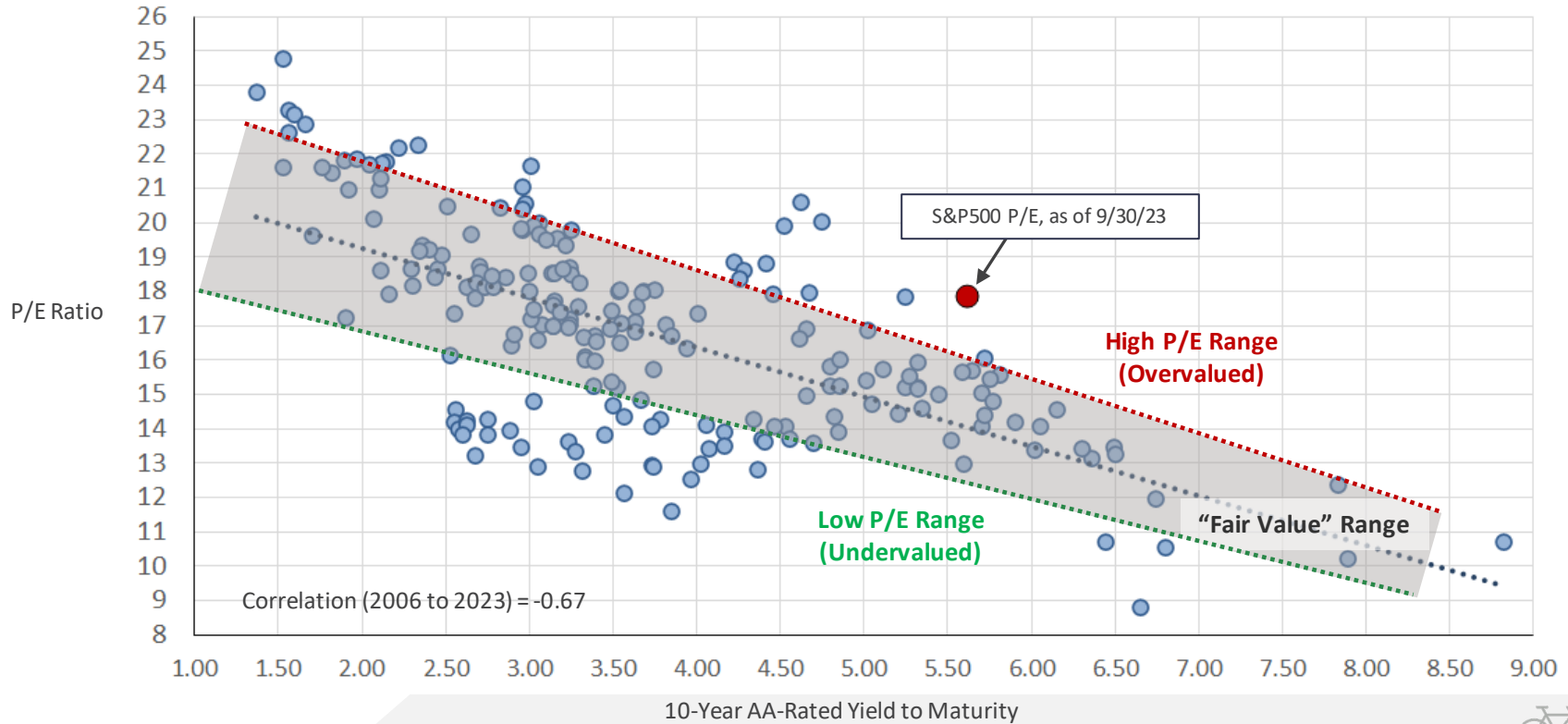## Historical context

S&P 500 Price Index

Characteristic	3/24/2000	10/9/2007	2/19/2020	1/3/2022	9/30/2023
Index Level	1,527	1,565	3,386	4,797	4,288
P/E Ratio (fwd.)	25.2x	15.1x	19.2x	21.4x	17.8x
Dividend Yield	1.4%	1.9%	1.9%	1.3%	1.7%
10-yr. Treasury	6.2%	4.7%	1.6%	1.6%	4.6%

Jan. 3, 2022
P/E (fwd.) = 21.4x
4,797

Sep. 30, 2023
P/E (fwd.) = 17.8x
4,288

+114%

-25%

+20%

Feb. 19, 2020
P/E (fwd.) = 19.2x
3,386

Oct. 12, 2022
P/E (fwd.) = 15.7x
3,577

-34%

+401%

Mar. 23, 2020
P/E (fwd.) = 13.3x
2,237

Oct. 9, 2007
P/E (fwd.) = 15.1x
1,565

Mar. 24, 2000
P/E (fwd.) = 25.2x
1,527

+106%

-49%

+101%

-57%

Dec. 31, 1996
P/E (fwd.) = 15.9x
741

Oct. 9, 2002
P/E (fwd.) = 14.1x
777

Mar. 9, 2009
P/E (fwd.) = 10.4x
677

Equity Markets

S&P500 Index P/E Ratios vs. 10-year AAA-rated yield

P/E Ratio

S&P500 P/E, as of 9/30/23

High P/E Range (Overvalued)

Low P/E Range (Undervalued)

"Fair Value" Range

Correlation (2006 to 2023) = -0.67
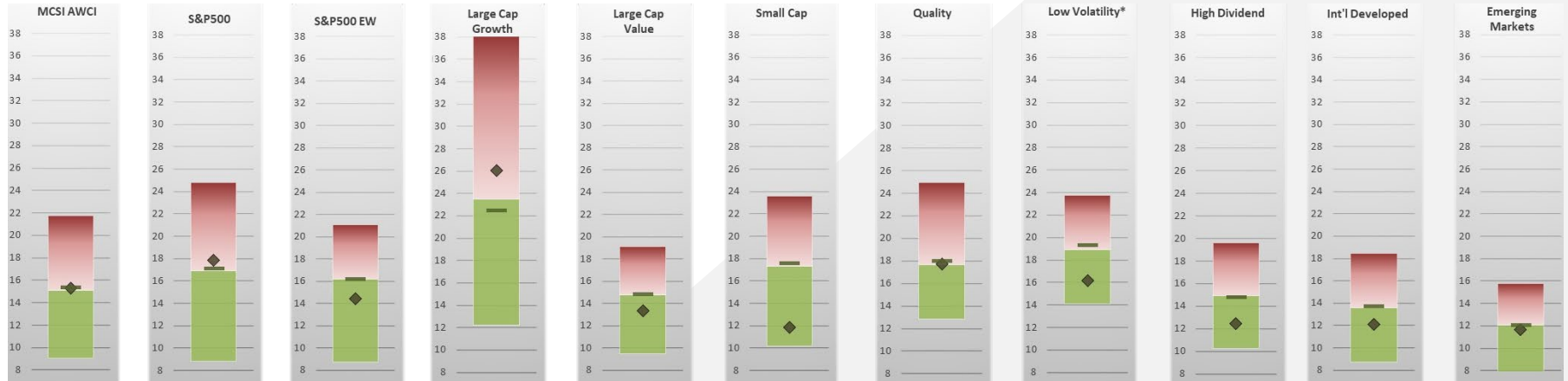
10-Year AA-Rated Yield to Maturity

Equity Markets

Style factor — historical relative value analysis

P/E Ratios: Current, Median and Historical Range (E = EPS consensus forecast)

Data runs from 3/31/2008 to 9/30/23 (except where noted)

Note: the most recent measurement is denoted by "◆", and the median value by "—".

* Data from 5/31/2011

Source: MorningStar, CLA Wealth Advisors

Financial Markets
— Fixed Income

Interest Rates — Fed "Tightening" Cycles

Change in Federal Funds Rate

2/2022-7/2023

3/1988-4/1989

12/1993-1/1994

6/2004-7/2006

5/1983-8/1984

1/1999-7/2000

11/2015-1/2019

Cumulative Change in Federal Funds Rate

Duration of Tightening Cycle (in months)

Interest Rates — Yield Curve Changes

Treasury Yield Curve (Constant Maturity)

Highest Yields Reached Over Prior 20 Years

10/30/2023

12/30/2022

12/31/2021

Lowest Yields Reached Over Prior 20 Years

Yield (%)

Years to Maturity

3 Month · 6 Month · 1 Year · 2 Year · 3 Year · 5 Year · 7 Year · 10 Year · 20 Year · 30 year
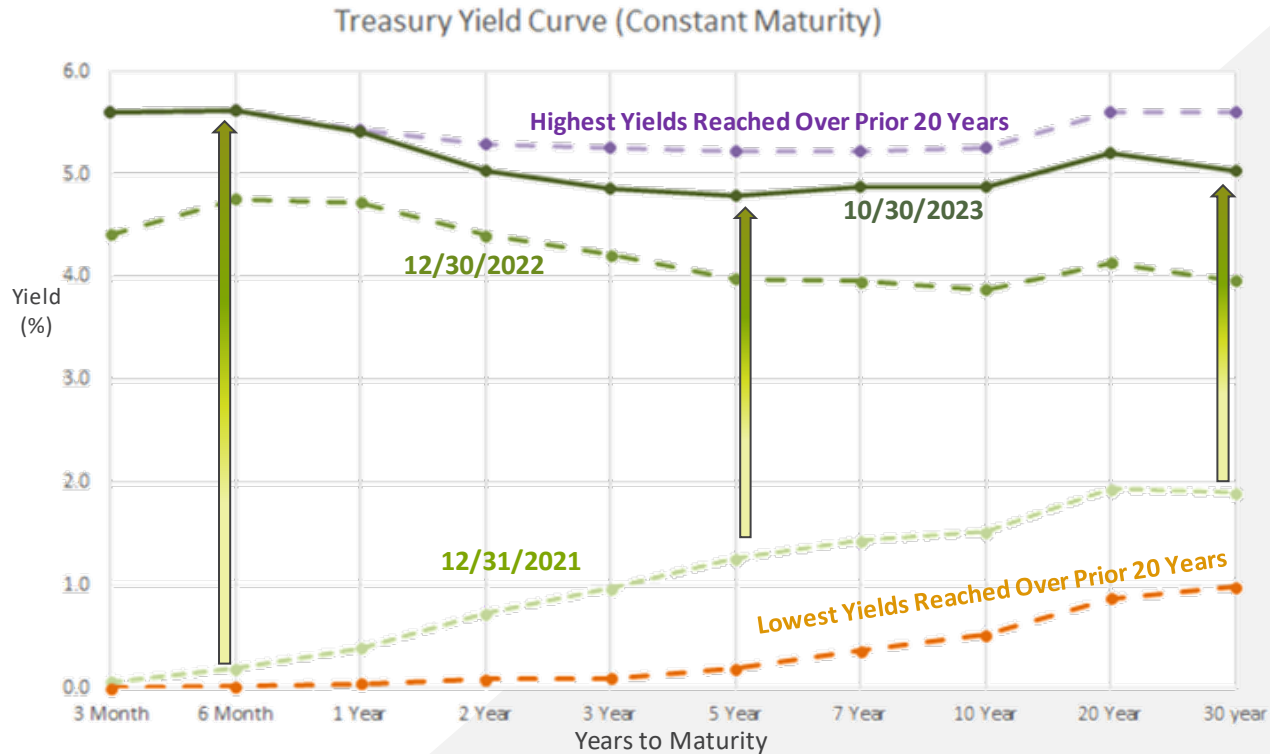
Source: Board of Governors of the Federal Reserve System, St Louis Federal Reserve, CLA Wealth Advisors

Data is based upon availability as of 11/1/2023

Interest Rates — Shape of the Yield Curve

Treasury Curve Slope (10-Year Yield minus 2-Year yield)
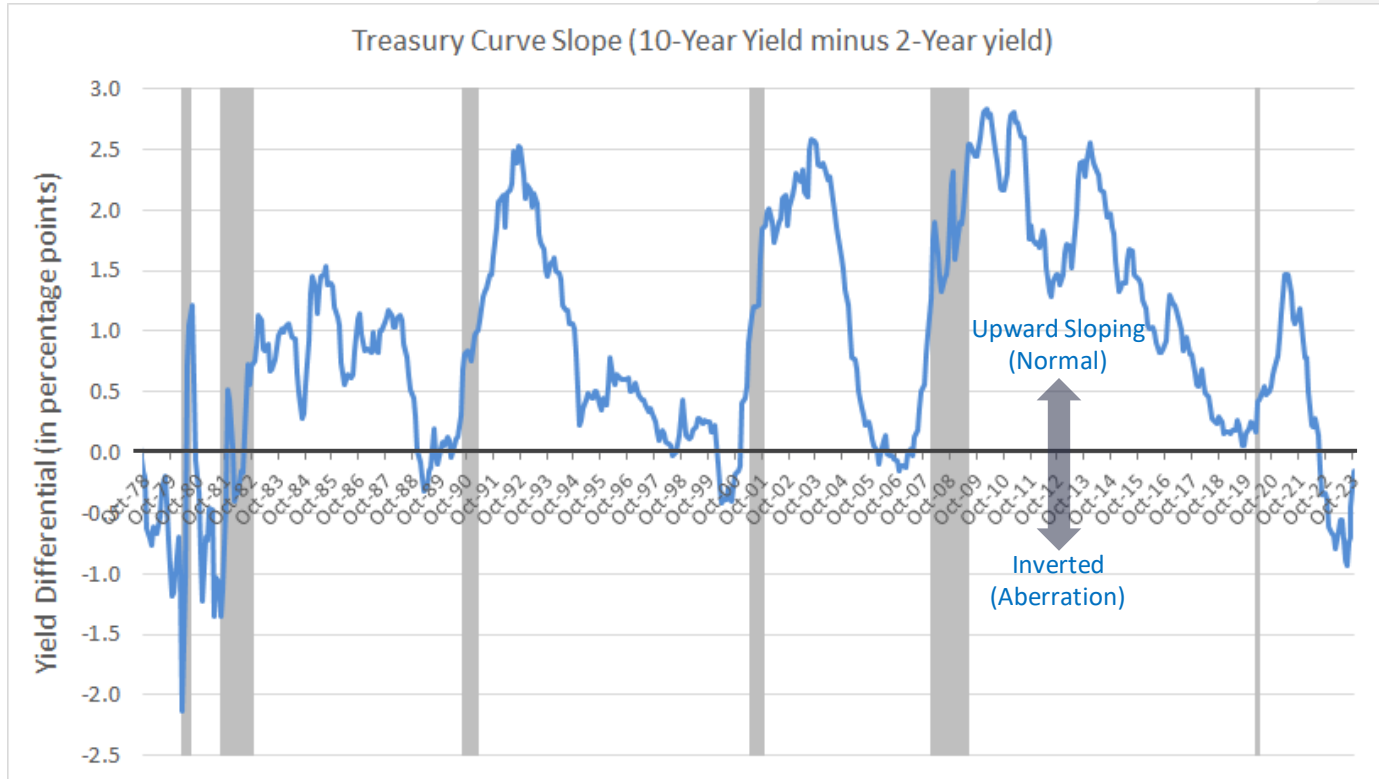
Grey areas denote recessions.
Source: Federal Reserve Bank of St. Louis, NBER, CLA Wealth Advisors
Data is based upon availability as of 11/1/2023

"Real" Interest Rate = Nominal Rate - Inflation

10-Year Nominal Treasury Yield and 10-Year Real Interest Rate

10-Year Nominal Treasury Yield

10-Year Real Interest Rate
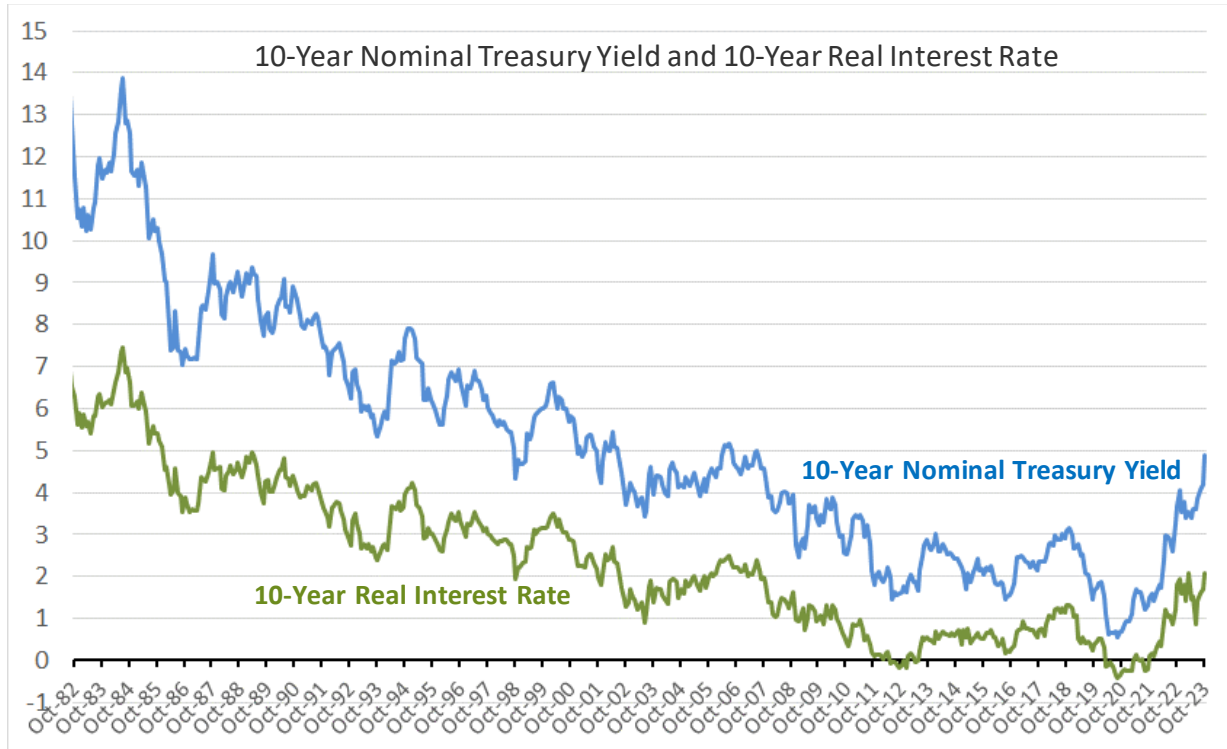
"The Federal Reserve Bank of Cleveland estimates the expected rate of inflation over the next 30 years along with the inflation risk premium, the real risk premium, and the real interest rate. Their estimates are calculated with a model that uses Treasury yields, inflation data, inflation swaps, and survey-based measures of inflation expectations."
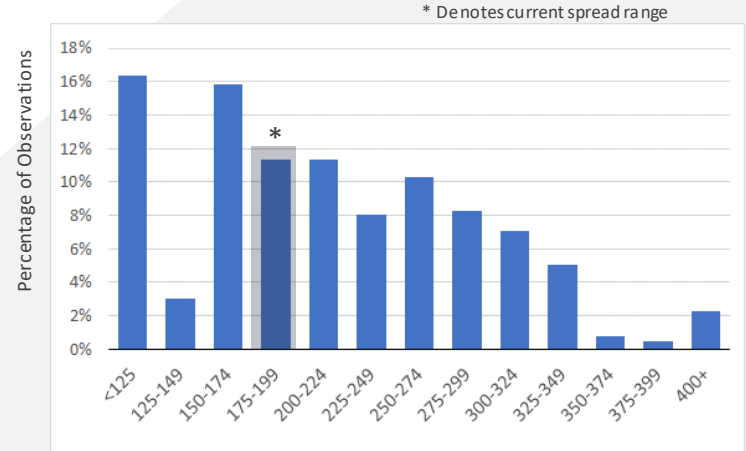
Financial Markets

Interest rates — credit conditions

Chicago Fed National Financial Conditions Credit Subindex Index (NFCI), Monthly
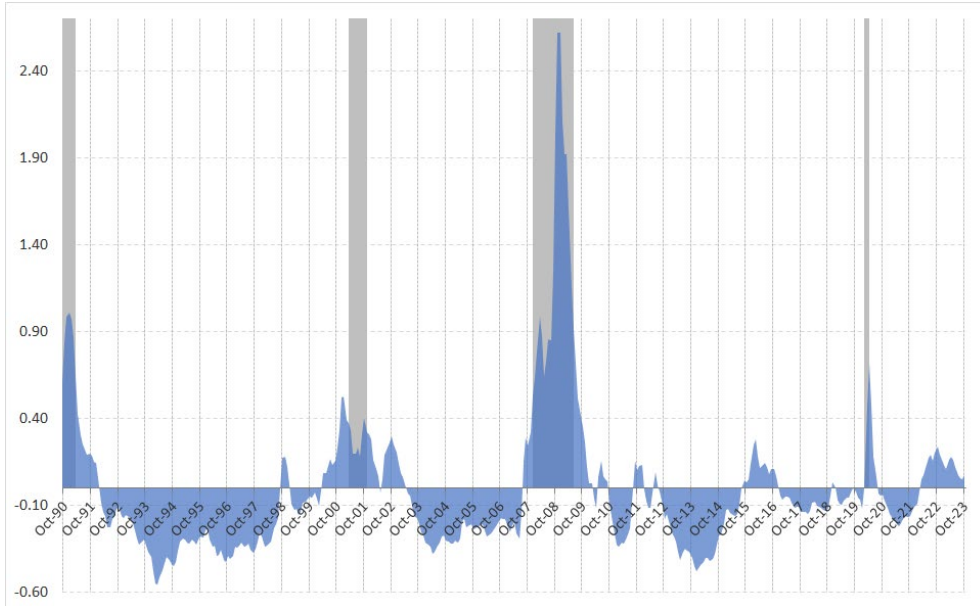
Source: Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Histogram
10-Year Baa Spread (in basis points), Monthly, 1990-2023

* Denotes current spread range

Source: Moody's, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Data is based upon availability as of 10/27/2023

Financial Markets —
Private Credit, Real Estate, and Equity

Private Investments
Opportunity Set

Complementary Public Strategies

Complementary Private Strategies

Core Strategies

Separately Managed Accounts

Private Real Estate

Mutual Funds / ETFs

Private Credit

Interval Funds

Private Equity

Private Equity
- Venture Capital
- Buyouts
- Mezzanine Financing
- Distressed Debt
- Secondaries

Private Real Estate
- Core
- Value-Add
- Opportunistic

Private Credit
- First Lien Mortgage
- Direct Corporate Lending

Private Credit

Growth driven by bank disintermediation

The growth of private credit has been driven by bank disintermediation. That is, increased regulatory pressure has caused regional banks to exit some traditional lending markets, leaving a void for private credit funds to fill.

Private Credit spreads remain attractive.
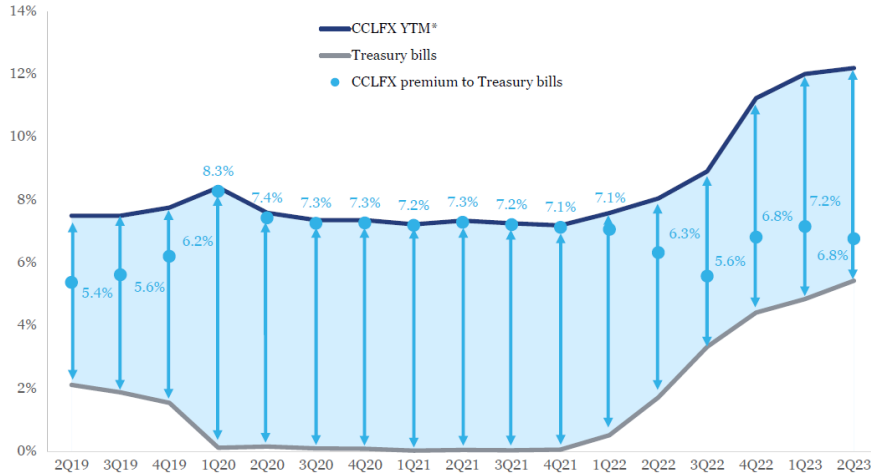
Source: Cliffwater, St Louis Federal Reserve Data

Private Credit default rates remain relatively low.
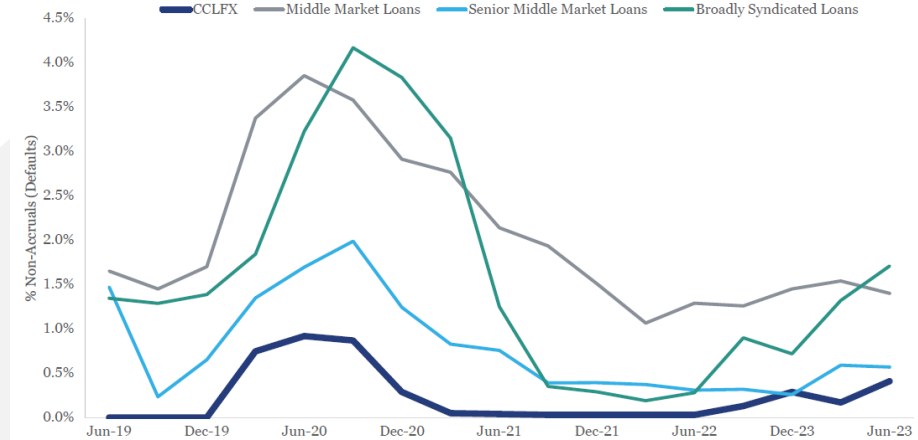
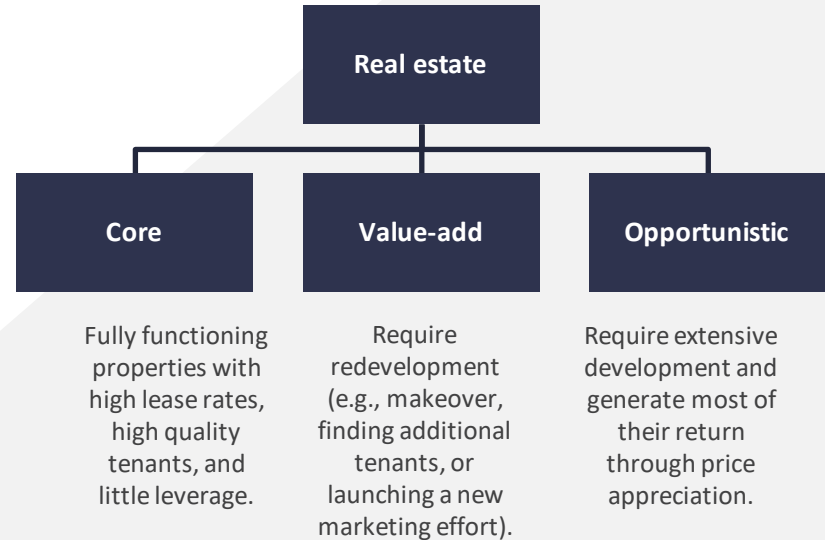Source: Cliffwater, Morningstar

Private Real Estate

The opportunity set

Commercial real estate has five subsectors:
1. Multifamily   Least risky
2. Industrial
3. Office
4. Retail
5. Hospitality   Most risky

And three primary strategies:
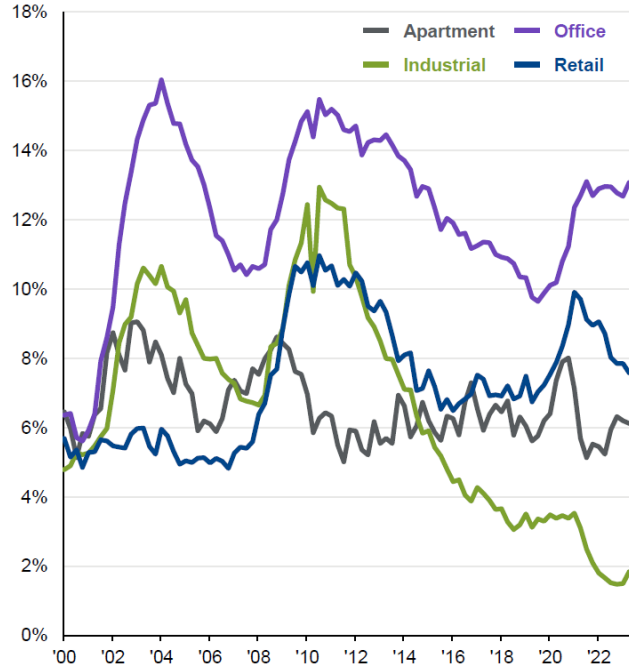1. Core   Least risky
2. Value-add
3. Opportunistic   Most risky

Real estate

Core	Value-add	Opportunistic
Fully functioning properties with high lease rates, high quality tenants, and little leverage.	Require redevelopment (e.g., makeover, finding additional tenants, or launching a new marketing effort).	Require extensive development and generate most of their return through price appreciation.

Private Real Estate

An overall view of real estate

U.S. vacancy rates by property type
Percent

Legend: Apartment, Office, Industrial, Retail

Net operating income growth by property type
Rolling 4-quarter growth, 2013 – present

Legend: Apartment, Office, Industrial, Retail

Data is based upon availability as of 11/2/2023

Private Real Estate

An overall view of real estate

U.S. real estate cap rate spreads
Transaction based, spread to 10y UST, 4-quarter rolling average

Average: 2.8%

Jun. 2023: 1.2%
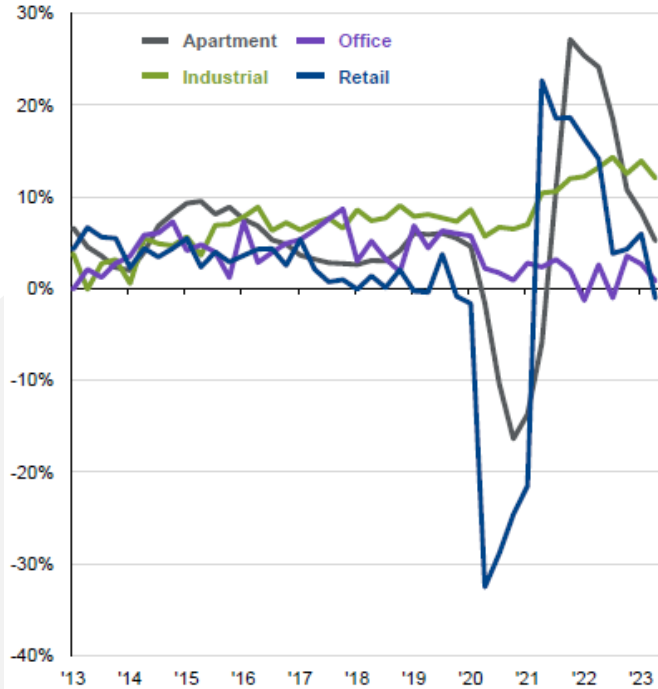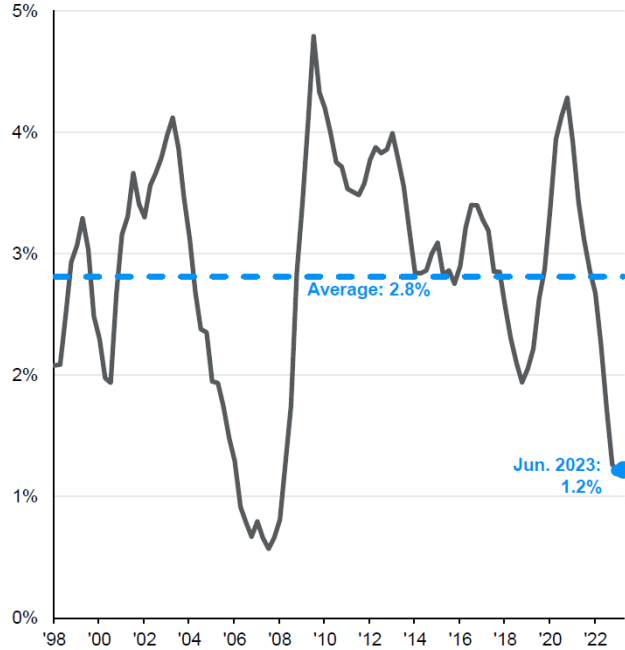
Source: NCREIF, NAREIT, Statista, J.P. Morgan Asset Management.

U.S. real estate transaction volumes
USD millions, seasonally adjusted, 2013 – present

Legend: Apartment, Office, Industrial, Retail
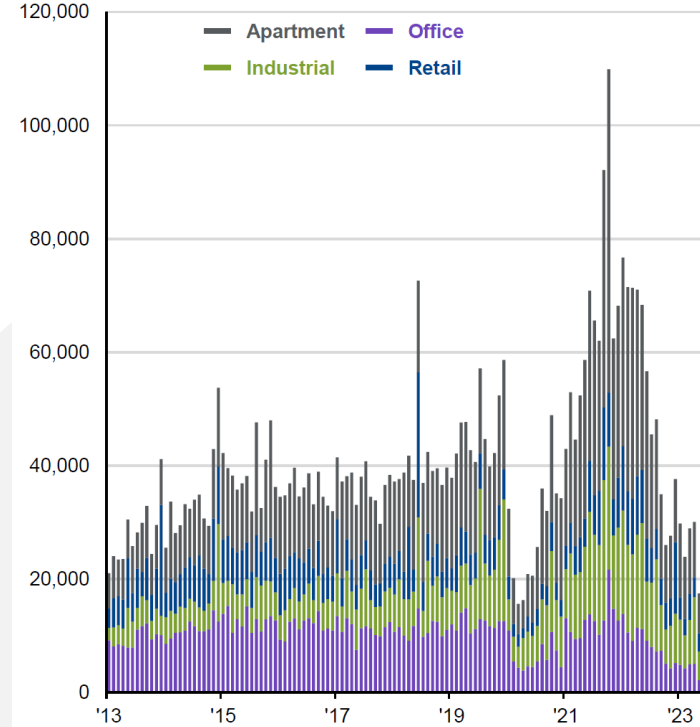
Source: NCEIF, NAREIT, Statista, Robert Shiller, J.P. Morgan Asset Management

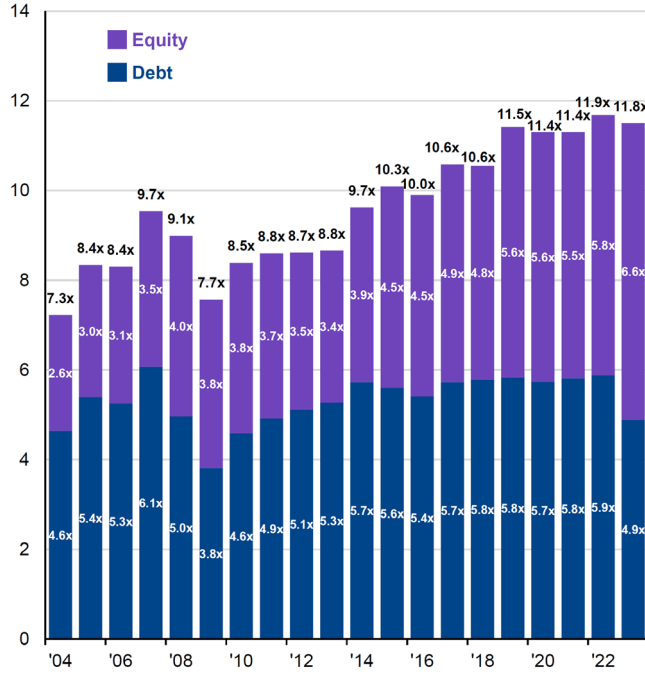*Data is based upon availability as of 11/2/2023*

Private Equity

Buyout valuation and exits

U.S. LBOs: purchase price multiples
Equity and debt over trailing EBTIDA

Private equity exits by type
USD billions

	YTD	Avg. '07 - '22
Secondary buyout	34.0%	36.8%
Public listing	4.1%	18.1%
Corporate acquisition	61.9%	45.1%

Private Equity

Secondaries

Secondary pricing*
Percent of net asset value (NAV), 1H23

Legend:
- Buyout — 90%
- All — 84%
- Real Estate — 73%
- Venture — 69%
- Credit — 76%
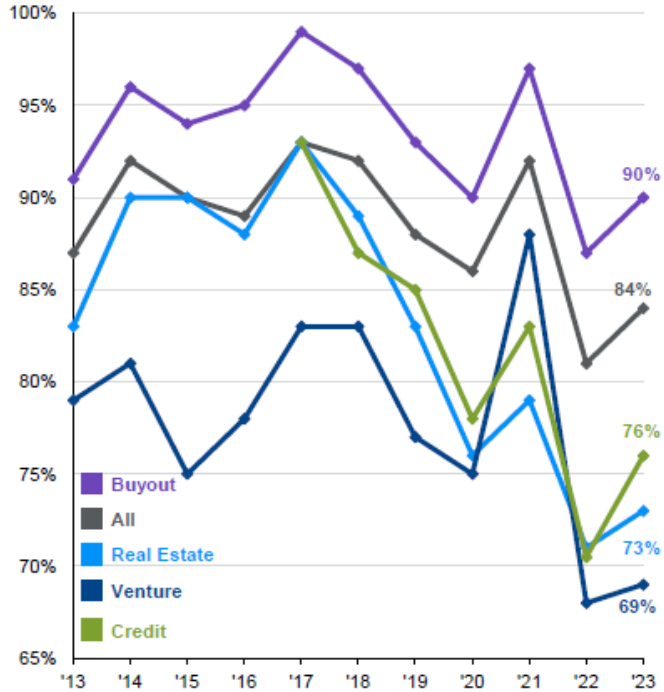
Secondary market volume
USD billions
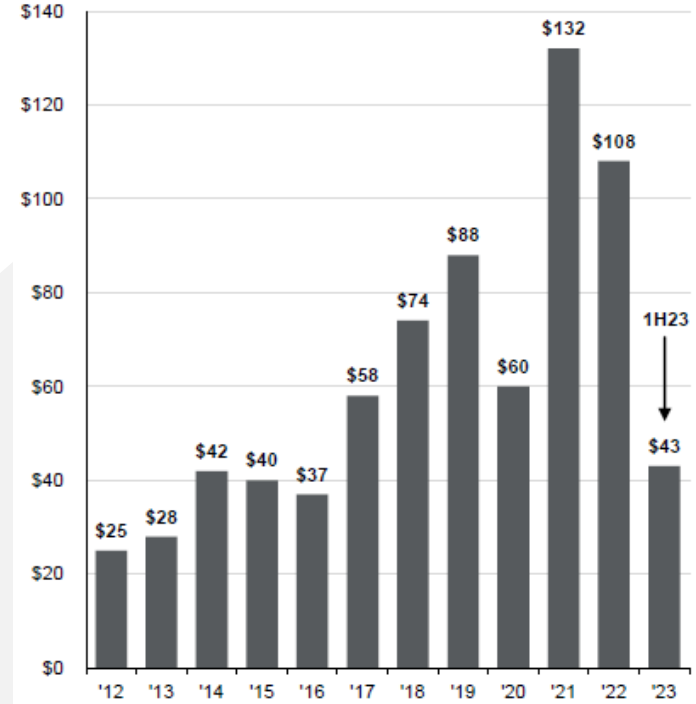
Year	Volume
'12	$25
'13	$28
'14	$42
'15	$40
'16	$37
'17	$58
'18	$74
'19	$88
'20	$60
'21	$132
'22	$108
'23 (1H23)	$43

Portfolio Outlook

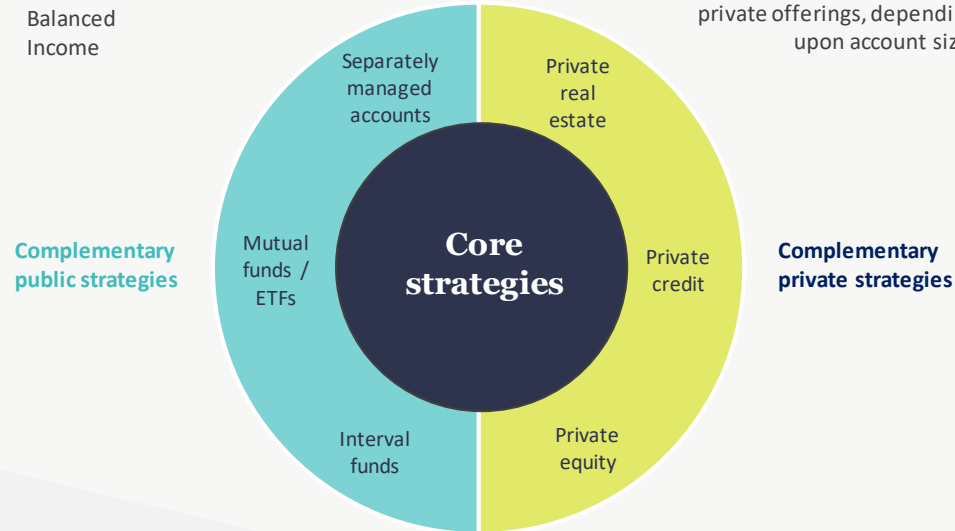# How We Construct Portfolios at CLA

CLA Total Return Portfolios = CLA Core Strategies + Complimentary Strategies

Optimized portfolios offering three different return objectives:
- Growth
- Balanced
- Income

Captures market returns at a low cost.

Increases diversification and improves portfolio efficiency. May include both public and private offerings, depending upon account size.

Complementary public strategies

Complementary private strategies

Separately managed accounts

Private real estate

Mutual funds / ETFs

Core strategies

Private credit

Interval funds

Private equity

CLA's robust investment platform uses both public and private solutions that are overseen by our investment committee. We believe in the power of diversification and portfolio construction to achieve long-term returns while mitigating short-term volatility.
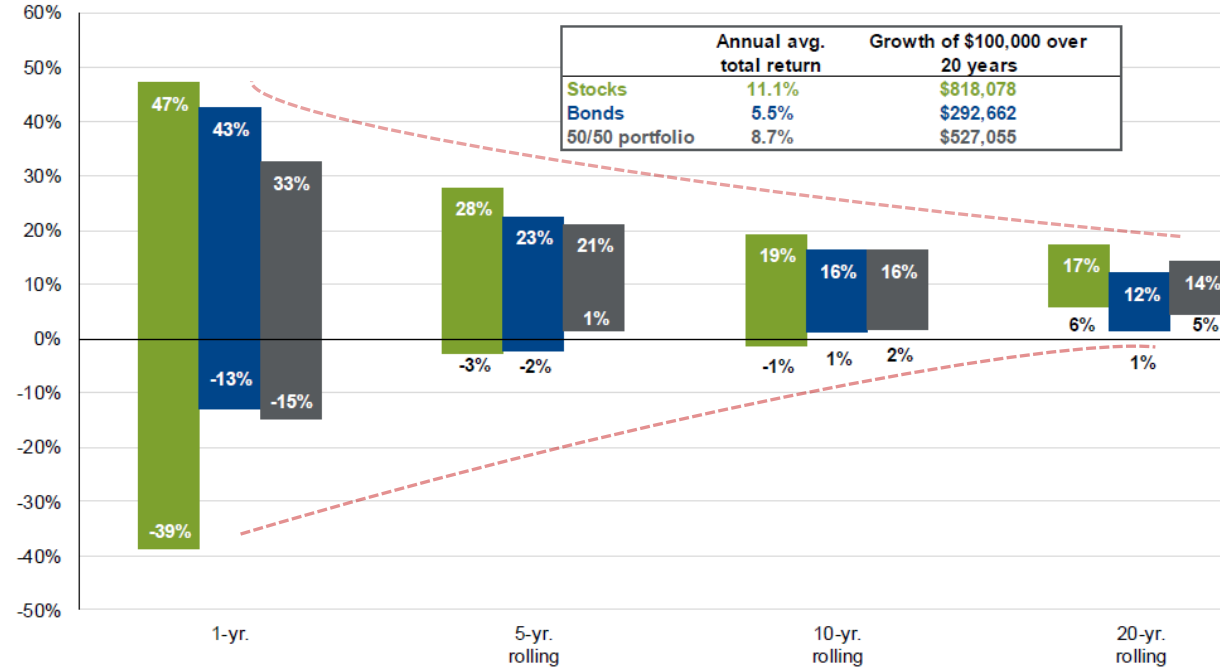
Stay the Course as a Long-Term Investor

Align your risk/return targets with your financial plan

Range of stock, bond and blended total returns
Annual total returns, 1950-2022

	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.1%	$818,078
Bonds	5.5%	$292,662
50/50 portfolio	8.7%	$527,055

Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
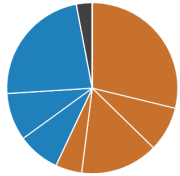*Data is based upon availability as of 10/31/2022*

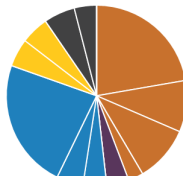# Diversification is the Key to Portfolio Optimization
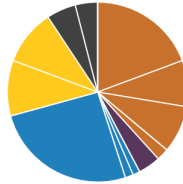
Sample balanced "60/40" portfolios

<$1 million

Return Target: 6.6%
Risk Budget: 9.8%

$1-5 million

Return Target: 6.8%
Risk Budget: 9.9%

$5-15 million

Return Target: 7.1%
Risk Budget: 10.4%

$15-50 million

Return Target: 7.2%
Risk Budget: 10.7%

$50+ million

Return Target: 7.3%
Risk Budget: 11.0%

7-10 YEAR RISK/RETURN CHARACTERISTICS

Expected Return

- Private Equity
- Emerg Market
- Int'l Large
- Private Debt
- Total Stock Mrkt
- US Large
- Private Real Assets
- High Yield
- REITS, MLPs
- Aleatory
- US TIPS
- Interm Bond
- Cash

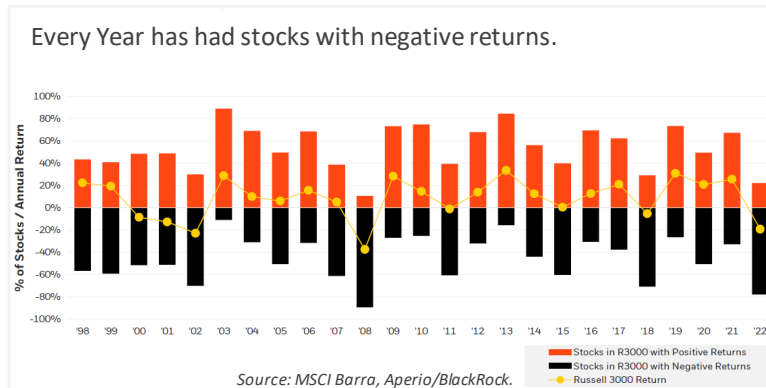Risk (Expected Standard Deviation)
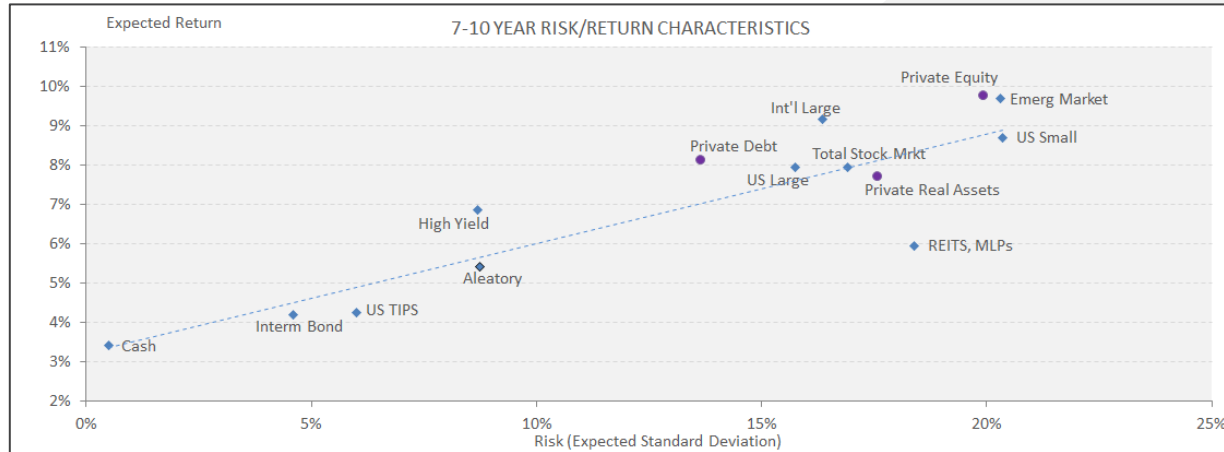
Key
- Equities
- Fixed income
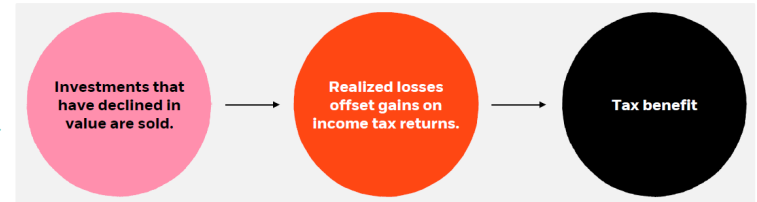- Multi-Asset
- Privates
- Alternatives

Tax Loss Harvesting

It's not what you earn … it's what you keep.

- Financial markets can be highly volatile. Individual investments can be even more volatile.
- In any given year, some investments will have likely increased in value while others will have declined.
- Tax loss harvesting takes advantage of this volatility by selling assets that have declined in value to offset taxable gains from assets that have risen in value.

Every Year has had stocks with negative returns.

Source: MSCI Barra, Aperio/BlackRock.

Stocks in R3000 with Positive Returns
Stocks in R3000 with Negative Returns
Russell 3000 Return

Tax loss harvesting process:

Investments that have declined in value are sold. → Realized losses offset gains on income tax returns. → Tax benefit

Investment objectives:

- Keep tracking error low relative to the chosen benchmark.
- Reduce taxes by lowering net capital gains on client's Form 1040, Schedule D.

Disclosures

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