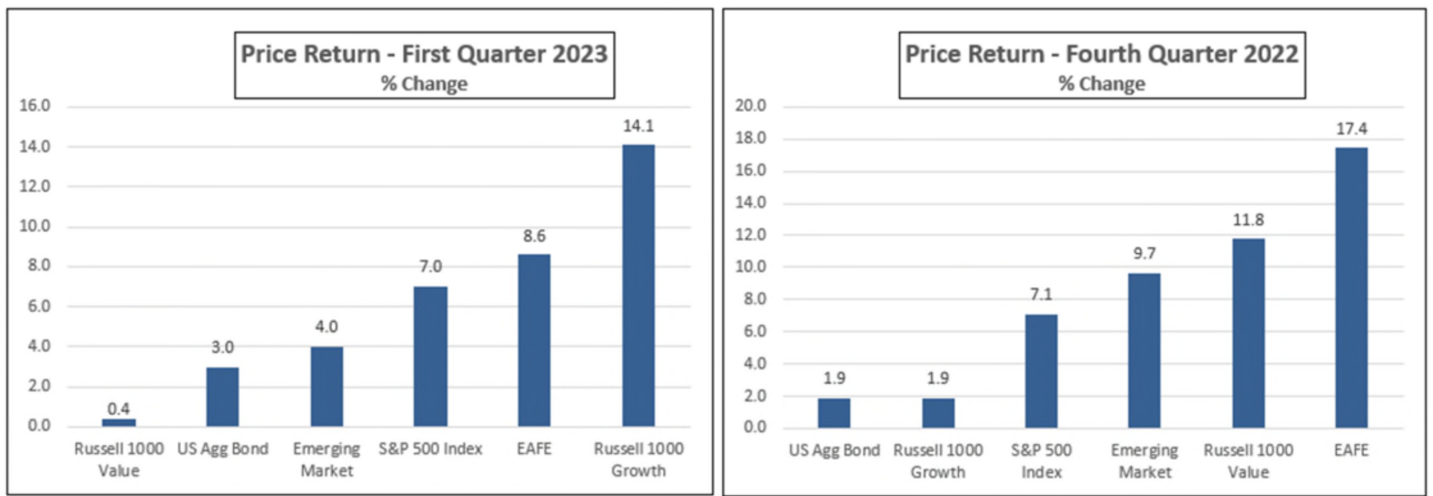
Dear clients and friends,

April 2023

With the perceived end of Federal Reserve rate hikes on the horizon and the U.S. economy holding up better than expected through this period of Fed tightening, first quarter returns across all major asset classes were positive. To quantify this, the S&P 500 Index was +7.0% on a price basis, while the US Aggregate Bond Index was up 3.0%. As a result, the traditional 60/40 allocation returned 5.4%. These developments follow a positive fourth quarter of 2022, where a 60/40 return exceeded 5%. Over the past two quarters, the S&P 500 Index was up 14.6%, while the US Agg Index returned 4.9%, providing investors with some much-needed relief after a historically challenging first three quarters in 2022.

Figure 1: Return by Asset Class



Source: Standard & Poor's, Credit Suisse

Equity Performance: While the returns of the S&P 500 Index were nearly identical over the past two quarters, the composition of returns varied over the two periods. For example, while value stocks outpaced growth stocks in the last year's fourth quarter (+11.8% vs. +1.9%), the reverse was true in the first quarter of 2023, with growth stocks beating value stocks by a wide margin (+14.1% vs. +0.4%). Growth-oriented sectors, such as Technology (+21.5%) and Communication Services (+20.2%), were the return leaders, while traditional value sectors, such as Financials (-6.0%) and Energy (-5.6%), lagged. Energy stocks fell after leading in 2022, and Financials were impacted by the recent banking crisis. *Speaking of the banking crisis, we note that the increase in yields for treasuries and CDs and their relative safety has provided an opportunity for United's clients to take advantage of our attractive cash-alternative offering*. Lastly, defensive sectors, such as Staples (+0.2%), Utilities (-4.0%) and HealthCare (-4.7%), lagged in the first quarter, as investors rotated away from sectors that had held up better in 2022 and bought beaten-down growth stocks. It is worth noting that only three of the eleven GICS sectors generated superior returns over the overall market, a fairly concentrated trade.

Fixed Income Performance: Similar to the recent trends in stocks, bonds declined through the first three quarters of 2022 before generating a 1.9% return in the fourth quarter. As noted above, the first quarter for bonds of 2023 was relatively strong (+3.0%) but quite volatile. Interest rates finished the quarter lower than where they started but moved quite a bit throughout. In January, the market built on the rally that had begun in late October 2022, driven by continued optimism that the end of the Fed's hiking campaign was in sight. Come early February, strong employment and inflation data emboldened the Fed to signal that additional hikes were coming. This sent yields higher and credit spreads wider. In March, however, interest rates changed direction again, with a sharp move lower as the crisis in the banking sector caused a flight to quality and fueled a 125 basis-point decline in the market's expectations of the Fed's terminal rate. Most recently, however, rates have started to move up again, as regulators moved quickly to address the banking crisis.

WHAT WE ARE WATCHING

ECONOMY: Despite the sharp upward move in rates over the past year, the US economy has held up better than expected, as a persistently strong labor market has underpinned a resilient consumer. That being said, there are now cracks emerging in the labor market, with the recent US Initial Jobless Claims data showing more job losses than expected, while retail sales have taken a hit. In addition, the closely watched ISM Services Index moved down to 51 in March (below 50 is considered contractionary), joining the ISM Manufacturing Index, which has declined to 46.3. Layoffs that were concentrated in the technology sector are now spreading to other segments of the economy – in our view, any prospects for a deep or lasting recession are likely to be determined by the extent to which the labor market weakens.

EARNINGS: The first quarter earnings season is upon us, and the consensus calls for a 6% decline in EPS for the quarter, reflecting slower revenue growth, margin compression and tough comparisons (1Q22 EPS was +10.3%). On the positive side, earnings growth for cyclicals is broadly expected to be positive, led by the Energy, Industrials and Discretionary segments. Weaker earnings are expected for companies in the Technology and Communication Services sectors. For 2023, the consensus EPS estimate is flat, having come down meaningfully over the past two quarters. With more favorable comparisons in 2H23 (as EPS in 2H22 weakened), earnings growth is expected to resume a positive trend. The reduction in earnings, coupled with the rise in stock prices, has resulted in valuation multiple expansion over the past few quarters.

***FISCAL POLICY*:** With the US reaching the statutory debt limit earlier this year, the Treasury Department is now using extraordinary measures to meet the government's obligations. While there is no formal date set when measures will be exhausted (aka the X-date), most economists are guiding towards a July/August timeframe, very similar to the 2011 debt ceiling X-date of August 2. Recall that Congress did not agree then to a formal plan to raise the debt ceiling until two days before the X-date, resulting in a downgrade of the US sovereign debt rating to AA from AAA. The current backdrop is quite similar to that in 2011, with a Republican takeover of the House in the mid-term election leading to an impasse with the Democratic administration.

While President Biden met with Speaker McCarthy in February to start discussions on the debt ceiling, the process kicked into high gear only with the recent speech by McCarthy at the NYSE, where he outlined the House GOP plan to raise the ceiling with budget concessions. If the House GOP can get the 218 votes needed, a bill will then move to the Senate for a work-up in the hopes of an agreeable solution that the President will sign. Realistically, this is going to be a very volatile negotiating process. Our team will be tracking developments closely, as the process could result in heightened volatility for stocks and the Treasury market.

FIXED INCOME:

Looking ahead, we see the Fed's efforts continuing to have an impact on inflation and the broader economy. While the end of the hiking cycle appears to be near, we don't believe that interest rate cuts are imminent. Considering this, we expect volatility in the bond market to continue and stand ready to take advantage of opportunities as they arise.

Additional Company Updates:

- ***Schwab/TD Ameritrade Integration Update*:** For our clients with accounts at TD Ameritrade, Q3 of this year will see the integration of the TD and Schwab platforms. As a result, all TD Ameritrade Institutional accounts will be transitioning to the Schwab platform this September. *Your relationship with United Asset Strategies will remain unchanged, as we have long-standing relationships with both custodians*. We will provide proactive and regular updates and remain available to answer all questions.

- ***Update on Electronic ADV Delivery***: As of March 15, 2023, United Asset Strategies will be sending all required disclosure documents electronically going forward. In the event that you wish to withdraw from receiving all required disclosure documents electronically, or would like more information, please contact Jeanine Kosakowski at (516) 222-0021 or at jeaninek@unitedasset.com. Withdrawal means that you will instead receive all required disclosure documents by postal mail.

- ***Forbes 2023 Best in State:*** The team at United is pleased to share that we have again been named by Forbes to its Best in State rankings list, coming in at #29 in New York State in 2023!

Respectfully submitted by the Professional Staff at United Asset Strategies

Strategy Review and Positioning – First Quarter 2023

FIXED INCOME UPDATE

For active managers like United, the first quarter was ripe with opportunity. To this end, the Fixed Income team took advantage of January's run up to lower credit risk by lightening up on high-yield and emerging-markets debt. The team redeployed cash into higher quality segments of the bond market, such as taxable munis, Treasuries and agency bonds. The team continues to favor higher quality, longer duration bonds that provide the opportunity for continued upside in a slowing economy.

GROWTH & INCOME STRATEGY (GI)

Overview: Growth & Income (GI) is our most utilized strategy, favored by clients seeking growth with income while managing risk.

Update: The market volatility arising from regional bank failures triggered two preset stop-loss orders. This resulted in a net increase in cash and a net reduction in cyclical sector exposure, where earnings would be at risk should a recession occur. The team also opportunistically boosted exposure to growth stocks, with last year's market pressure providing more attractive entry points. The strategy ended the quarter with 15% risk management, made up of cash and stops.

HIGH DIVIDEND EQUITY STRATEGY (HDIV)

Overview: This strategy is recommended for risk-averse clients who seek a steady stream of income with a preference for dividend payouts. The strategy aims to generate a yield that is greater than that of the broader market, while exhibiting defensive characteristics that have less downside volatility during periods of economic or market weakness.

Update: The team reduced exposure to cyclical sectors and used proceeds to boost exposure to companies with conservatively funded dividends and sectors benefiting from secular tailwinds. Cash currently equals 2%, and the strategy's mandate to invest in stocks with sustainable dividends drives an inherently defensive posture compared to the broader market.

VALUE PLUS EQUITY STRATEGY (VAPL)

Overview: This strategy is recommended for clients who seek a value-based equity strategy with a beta below that of the overall market. This strategy seeks to invest in mispriced stocks with attractive fundamentals in a diversified portfolio.

Update: The team took profits in more cyclical sectors, such as Energy and Financials (including the sale of a regional bank), using the proceeds to increase exposure to Technology and Communication Services, which have been beaten down and presented greater value. Risk management equals 5.0% cash, 2.0% hedge and 5.0% gold.

GROWTH PLUS EQUITY STRATEGY (GP)

Overview: This strategy is recommended for clients who seek a growth-based equity strategy with a beta above that of the overall market. Higher growth names across the various sectors are selected using a two-part screening process.

Update: During the quarter, the team increased exposure to the technology sector with proceeds used from the elimination of emerging markets. The strategy is fully invested with no current weight to cash or hedges.

TACTICAL OPPORTUNITIES PLUS EQUITY STRATEGY (TOPS)

Overview: This strategy is recommended for clients who seek to take advantage of opportunities created by timely investing decisions in evolving trends and themes. The strategy seeks to combine growth with downside protection.

Update: During the quarter, the managers reduced exposure to financials and consumer discretionary, while increasing international exposure. To manage risk, the weights to cash and gold were increased to 6.5% and 1.5%.

ESG STRATEGY (ESG)

Overview: This strategy is recommended for clients seeking a values-based equity strategy that invests in companies that rank well on environmental, social and governance criteria, while also being expected to generate attractive returns.

Update: The team executed swaps in the Discretionary, Healthcare and Industrials sectors, selling stocks that no longer meet the strict ESG criteria while maintaining the sector weights. Risk management is 3% cash, 2% hedge and 3% gold.

CORE QUALITY (CORQ)

Overview: This strategy is recommended for risk-averse clients who seek to invest in high-quality businesses. A portfolio of quality stocks has historically reduced volatility, outperformed in weak markets and participated in strong markets.

Update: The team shifted away from cyclical sectors and toward sensitive sectors. The team continues to manage the strategy towards higher quality businesses with strong balance sheets and profit margins. Risk management is 1.5% cash.

EXCHANGE-TRADED FUNDS STRATEGIES (ETF)

Momentum Plus®: This is a dynamic strategy that utilizes technical indicators, such as relative strength, to make sector selections. The team reduced Energy and Healthcare exposure, while increasing weight to Technology and Industrials.

Risk-Based ETF: This strategy seeks to identify relative-value opportunities for investment. The team again increased large cap US exposure, reducing small cap. Risk management consists of 2.5% SPDR Bloomberg 1-3 Month T-Bill ETF (BIL) and 5% gold.