MARKET LETTER

PACIFIC PORTFOLIO CONSULTING, LLC

First Quarter 2023

TO BUY, OR SAY "GOODBYE!"…THAT IS THE QUESTION!

Verily, 'tis so! As the Ides of May grow nigh, investors are in a state of consternation to rival that of the Prince of Denmark himself as they ponder whether it be nobler – or financially more astute – to go "all-in" (Shakespeare, too, was apparently a big Texas Hold'em player) or move to the sidelines and check back in on the markets some time in the late Fall. If, perchance, either of those two extremes looks particularly appealing to you right now, I beg you heed my warning and reframe the question lest ye suffer the financial equivalent of a tragic ending.

There is no question that investors may be forgiven their sense of malaise and confusion, their hesitation to act even in the face of an overwhelming urge to do something – anything!! – just for the sake of relieving this tension. It's an all-too-familiar feeling by now, albeit one impossible to ever get comfortable with. However, just as a cooler head would have served Hamlet well in his time of doubt and indecision, so too will one benefit investors today as they seek to parse the potential ramifications of current economic and capital market conditions for their portfolios, hopefully imparting upon them the patience and discipline – but note that I did not say paralysis! – critical to long-term investment success.

Were it only that such clarity of mind could then render similarly transparent the subtext underlying the drama currently playing out on the global financial stage…but, sadly, investors will likely have to endure the slings and arrows of a seemingly ill-defined and often confusing plot for at least a while longer. Nonetheless, as we attempt to lay out the "Cliffs Notes" version herein, it is my hope that we will be able to provide a reasonable context within which to interpret the scenes most likely to unfold over the next few acts and, if successful, demonstrate that – although clearly not a comedy – we are by no means in the process of writing an "Everybody Dies" ending worthy of the Great Bard himself.

SOMETHING IS ROTTEN IN THE STATE OF THE ECONOMY

Much like the angst-ridden young prince, we, too, are currently condemned to navigate a dark and uncertain landscape in which something is just not right...but exactly what that is and just how "not right" it may be is proving hard to pin down. In keeping with this quarter's theme – which, I'll admit, I'm having quite a lot of fun with! – we face a situation in which we must make difficult decisions under conditions of uncertainty, not knowing what the outcome will be or what unforeseen consequences may ensue as a result. Not to make light, but that seems to pretty well sum up the process of investing in financial markets under even the best of circumstances (which these, admittedly, are not): you need to be prepared to make decisions in the face of imperfect information (just imagine how much happier Hamlet's fate would have been had he managed to learn that lesson early on!)

In fact, there's little of any real consequence that can be considered certain these days: although some things do appear to be "likely certain," most look as though they are at best "certainly likely." For example, inflation is certainly falling but will likely take quite a bit longer to get back to "normal" than the Fed would have us believe. As a result, the Fed's rate hike cycle is almost certainly coming to an end, though likely has a little bit further to run. The level of economic activity, meanwhile, is most certainly on the decline but likely only now getting to where it is in position to take a meaningful edge off of inflation – notably via greater slack in the labor market, as it is also very likely inching its way towards recession. Against this backdrop, investor sentiment had sunk to levels that certainly qualified as "gloomy" but has since begun to recover without ever providing signs of wholesale panic typical of the sort of "wash-out" conditions we would like to see accompany a durable market inflection point. As you can see, the scenery is vivid but shifting under our feet and rife with opportunity for plot twists, thereby denying us any kind of definitive answer as to where we are headed. What we must do, therefore, is develop a game plan around those scenarios that we consider most likely based on the above and use this to position portfolios – MODESTLY!! – towards the exposures most likely to benefit and away from those that may pose the most prominent risks as the plot continues to develop.

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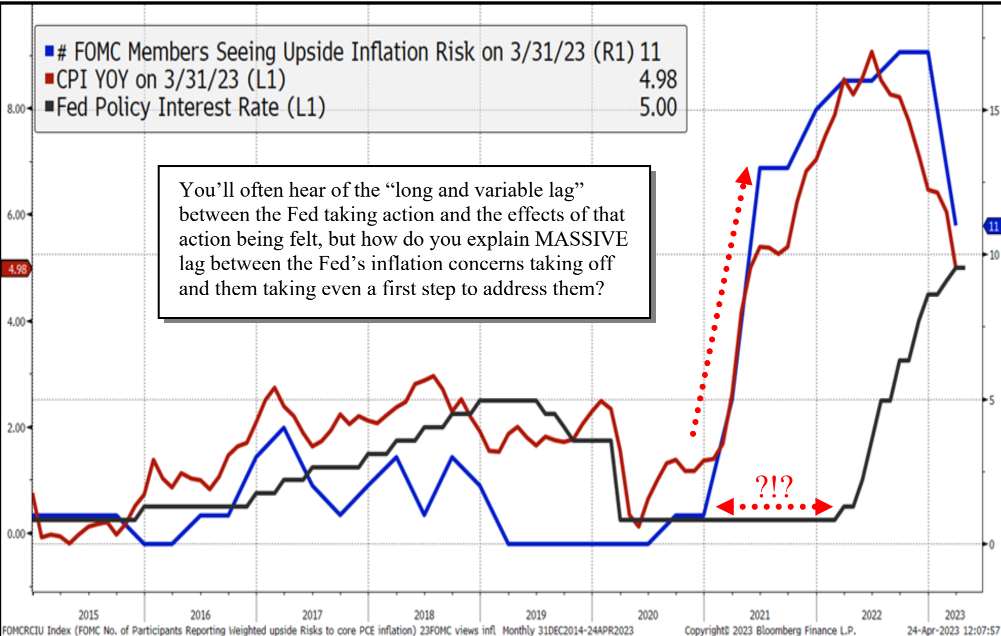
Some Achieve Greatness…And Some Work For the Federal Reserve

Since no great production would be complete without a villain – and a world class one at that! – let's start there. Enter: Jerome Powell, starring in the role it seems he was born to play! Now, at this point even an occasional reader is probably wondering: why the constant hating on the Fed? Why indeed, given how much we owe them – like the 2001 dot-com bust or the 2008-2009 financial crisis or the 2022 decimation of the bond market…Of course, they did not act alone to bring about most of those disasters: they had no small amount of help from their co-conspirators, investor greed and fear. Nonetheless, if anyone were to ever put on a finance-themed production of Purdue Pharmaceutical's OxyContin saga, just know that the members of the Sackler family would be played by the likes of Powell, Janet Yellen, Ben Bernanke, and – the patriarch himself – Alan Greenspan, all of whom – even if only through sheer negligence – are the ones who got the world economy and markets thoroughly addicted to the high of dirt-cheap money.

Our opening scene is set, therefore, at the FOMC meeting – pick one, it really doesn't matter which! Say, April 2021 is your starting point and the year-over-year change in US inflation has just jumped from 2.6% to 4.2%; or perhaps June or July of that same year, when inflation hit nearly 5.5%? In fact, it was not until its year-end meeting – as the CPI was hitting 7%! – that the Fed finally decided to change its rhetoric. Even then, it would not be until March of 2022 that the FOMC managed to even get its policy rate of interest off the zero-bound, by which time, mind you, the rate of US inflation had been above the Fed's 2% target (at that time, a "mere" 6% over it!) for a full year.

Chart I: The Course of Monetary Policy Never Did Run Smooth



Even within the grips of the pandemic, inflation began to make its move. Granted, the initial "pop" did, undoubtedly, have its roots in the unprecedented supply disruptions that struck to the very heart of the global economy. Nonetheless, it was not long before a sustained – and downright alarming – rise in the level of pricing pressure sent inflation on a moonshot not seen since the mid- to late-70s and, perversely, resulted in a rapid increase in the number of FOMC members worried about upside risks to inflation. And yet…it would not be until a full year after the start of the COVID lockdown that the Fed would manage to move even a smidge off of the "emergency life support" monetary policy levels that had been in place for most of the past dozen-plus years. Of course, having arrived so late to the party, they have since compounded – um, I mean, attempted to fix their mistake by precipitating the global financial system into the sharpest withdrawal of accommodation seen in decades. Last year, you saw the impact this sort of heavy-handed approach had on your bond portfolios. This year, we have started to gain a glimpse into the impact it has had on the bond portfolios of some apparently not-too-big-to-fail regional banks. And, of course, either later this year or early next, we will be regaled with its impact on the US and, likely, global economies as we head into what we continue to believe will be a relatively brief and shallow recession.

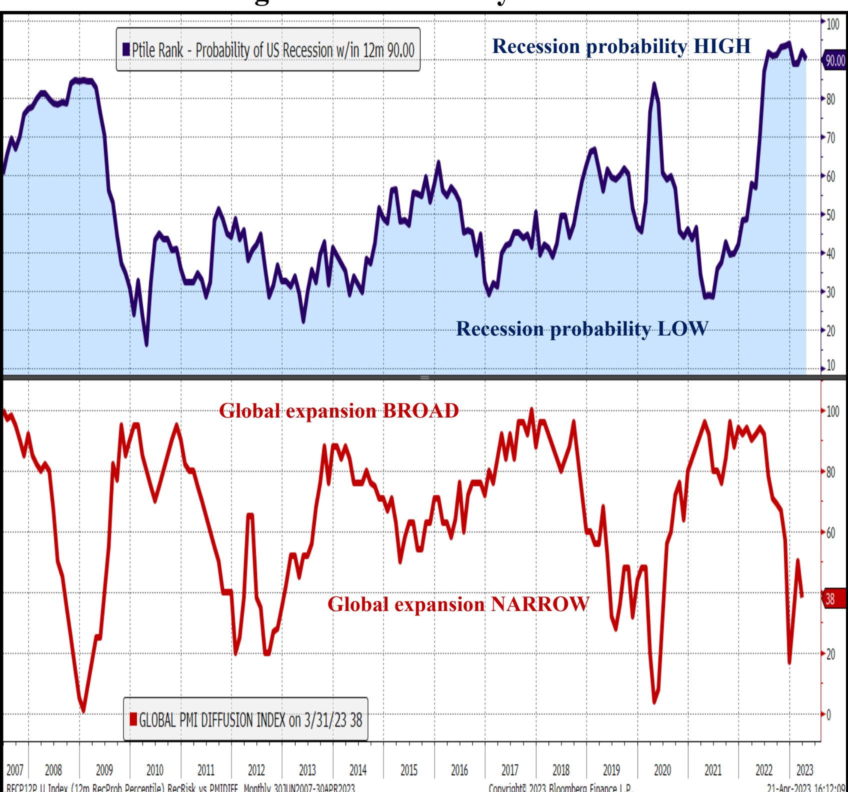
Now, in its defense the Fed would no doubt – and not entirely inappropriately, either – attempt to prop itself up on the fact that inflation had been all but non-existent since 2009 and that they considered it important to reestablish the financial system's faith in a modestly but reliably positive rate of inflation. This, combined with their now-debunked faith that the bulk of the inflation issue was due to the pandemic and would, therefore, prove "transitory", led them to sit on their hands for, in hindsight, far too long, making it necessary (though perhaps not advisable) to move aggressively: suddenly, it was no longer the credibility of inflation that the Fed was trying to bolster but its OWN credibility in the eyes of the market as a force willing and able do what was necessary to put the inflation genie back in the bottle.

The good news is that the Fed's monetary tightening campaign is beginning to show results; the more volatile, "unfiltered" CPI measure of inflation that peaked at 9.1% all the way back in June of 2022 (If you can believe that! It

certainly does not feel like it.) reached 5% in March, while the more subdued core rate of inflation (which strips out food and energy) followed suit at 6.6% in September before staging a somewhat less impressive pullback to 5.6% by March. Clearly, interest rate hikes are potent monetary medicine, the kind that will, indeed, eventually "fix what ails you" – provided it doesn't kill you in the process. And so, just like dear old Uncle Claudius, Jerome Powell has effectively continued to pour poison into the ear of the economy over the past year at an alarming rate, taking the Fed's policy rate of interest – the so-called "price of money" in the US economy – from +0.25% to +5% over that time, the steepest tightening in over 40 years.

Inevitably, signs that the treatment was beginning to erode some of the patient's "vitality" have grown steadily throughout this process, though the economy has defiantly refused to put more than one foot in the grave at a time, as a key component of the Fed's plan to take the legs out from under inflation – the labor market – has simply refused to roll over and play dead. This has been particularly problematic for the Fed, as beating back wage pressures appears to be key to resolving the broader inflation problem.

Chart II: Something Wicked This Way Comes!



Has the Federal Reserve – famous for taking away the punchbowl when the party gets too rowdy – decided instead to simply poison the punchbowl this time? Despite a barrage of earnest yet unconvincing reassurances that a "soft landing" – i.e., a taming of inflation without a recession – was in the cards, markets have struggled to digest the fact that the Fed might actually NEED a recession if it is ever to loosen stubbornly tight labor markets. Of course, the Fed can't and won't come right out and say that; nonetheless, the actions of monetary authorities worldwide have, over the past year, visibly impaired the health of the global economy and meaningfully raised the risk of recession. Despite some improvement earlier this year, when inflation continued to ease without any further deterioration evident in the economy, risks are on the rise again, particularly since the mini "crisis" within the regional banks in March. While the worst of that is likely behind us, it has contributed to a further tightening of credit within the economy and, as a result, we continue to look for the economy to enter recession sometime during the second half of this year.

What's Past Is (Kind Of) Prologue

They say the Fed always continues until something breaks. As markets briefly shuddered in March following the collapse of a few regional (and one global) banks, many thought the banking system might prove to be the weak link that broke (or that went broke). Simply put (we have a longer piece on the issue on our website for those who need more), the Fed' rate hikes have produced massive losses *on paper* for many/most financial institutions. Loaded up to their ears in cash thanks to absurd levels of monetary and fiscal stimulus to a level that far outstripped anything productive they could do with it, banks parked mountains of excess cash in the safest place they knew: US Treasury securities, considered the "gold standard" of credit risks with – an assumed – zero risk of default. So far, that's all well and good. When interest rates rise, however, as they have thanks to the Fed, bond prices go down, leaving these banks carrying an asset that – once again, *on paper* – is no longer worth what they paid for it. Thanks to the marvels of modern accounting, however, the vast majority of these banks need never worry about this fact: they intend to hold the bonds to maturity and retain full confidence that they will get their money back plus interest. So far, it has only been banks – such as Silicon Valley Bank – that had other extenuating circumstances (in their case, a massive concentration of depositors) that required them to sell the bonds in question (and, thus, turn their paper losses into real losses that effectively wiped out their capital) that have run into trouble.

While the worst of this particular storm appears to be behind us, it has already had an incremental dampening effect on the availability of credit within the financial system, compounding the effects of the Fed's interest rate hikes to further

slow economic activity. While we do not anticipate a full-blown "credit crunch," we do believe this adds further credence to our view that a "soft landing" is off the table and that recession – albeit a shallow one – remains the most likely scenario; we continue to look for this to materialize over the second half of 2023.

Of course, if there is a silver lining to be found, it is that – as a result of both the temporary financial market instability and more durable tightening of credit conditions – the Fed's tightening campaign is likely nearing an end. Market expectations have gyrated wildly around the issue but even the most aggressive forecasts we have seen out there only look for a single additional hike from current levels – a view not unlike our own – before the Fed enters a renewed period of sitting on its hands before looking to actually begin cutting rates late in the year.

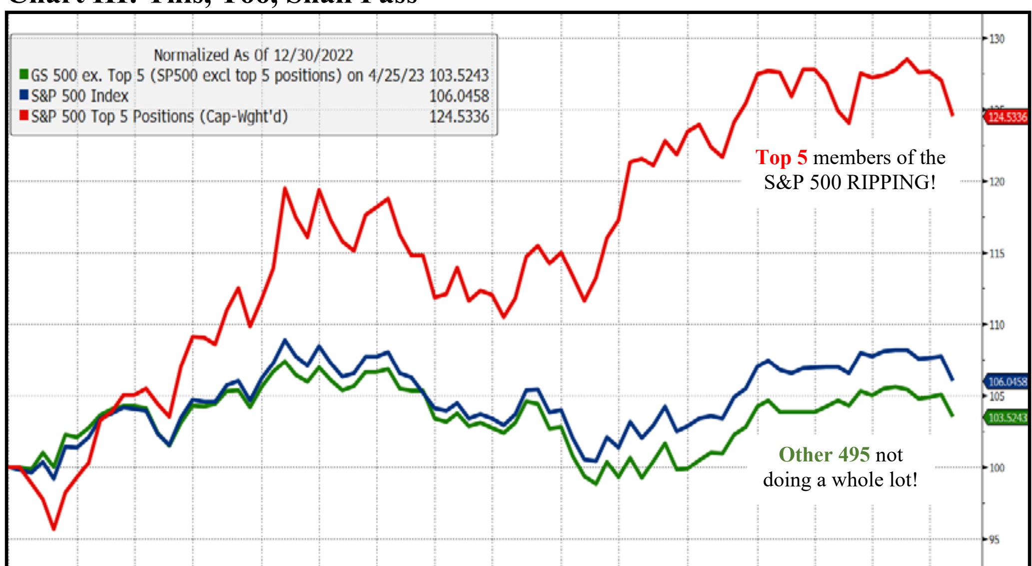
Better Three Hours Too Soon Than A Minute Too Late

I'm not sure if Shakespeare would have been a boy scout even if they had existed way back when but, in my mind, I choose to read the above quote as his interpretation of "Be prepared!" And so we must. To this point, the narrator has provided us a rich and informative tapestry; from here, however, we get to write all our own lines as we "choose our own adventure" in this grand investment saga. The fault, therefore, – if any – will not be in our stars, but in ourselves, in the decisions we choose to implement (or not) in our portfolios, and in the discipline with which we do so. Against the above economic backdrop, we will need to pull from what is commonly known around Wall Street (yes, I know) as the "Late-cycle Playbook" – in other words, armed with the knowledge that economic growth is dwindling and believing it will likely turn negative within the next few quarters, knowing that inflation is easing and should continue to do so, if only gradually, what should we do to prepare ahead of time instead of waiting to react once the turn is already upon us? How should we begin to position ourselves today in order to better navigate the financial market conditions that such developments may soon produce?

First and foremost, this scene should call to mind our old friend and ally, diversification – and not just because we think you should always remain diversified either, but because investors should once again find themselves facing much more familiar and more hospitable relationships between asset classes that often drive the lion's share of the diversification "dividend." Whereas last year rising interest rates penalized both stocks and bonds, this year, as both economic growth and inflation ease lower, the Fed will – as noted above – not only stop hiking but eventually start to cut interest rates in an attempt to prop up (or turnaround) the US economy, producing tailwinds for both asset classes.

Depending on the timing of the Fed's (eventual) pivot, fixed income markets could be the first to experience the "boost" from a rate cut, should equity markets still be

Chart III: This, Too, Shall Pass



If nothing else can convince you not to get too clever trying to time your investments and allocations, let this past quarter serve as a warning. To be blunt, it made precious little sense: despite continued high inflation, despite continued interest rate hikes in both January and March, growth stocks trounced virtually everything else during the period. Not only that, but it was once again the biggest of the big caps – the Apples, Microsofts, Amazons, etc. – that led the charge, with the top 5 positions in the S&P 500 rising an astounding 27.5% on average through March 31. As can be seen in the chart above, it is particularly since the regional banking dustup in early March that this group has broken away, reflecting perhaps a more decisive turn in the market's expectations for recession in response to the inevitable tightening of credit conditions this is producing. Even so, the extremity of the move appears both disproportionate and unsustainable to us. Overall, we would look for a fairly balanced market going forward, particularly once we are past what we expect to be the last rate hike and move inexorably closer to recession.

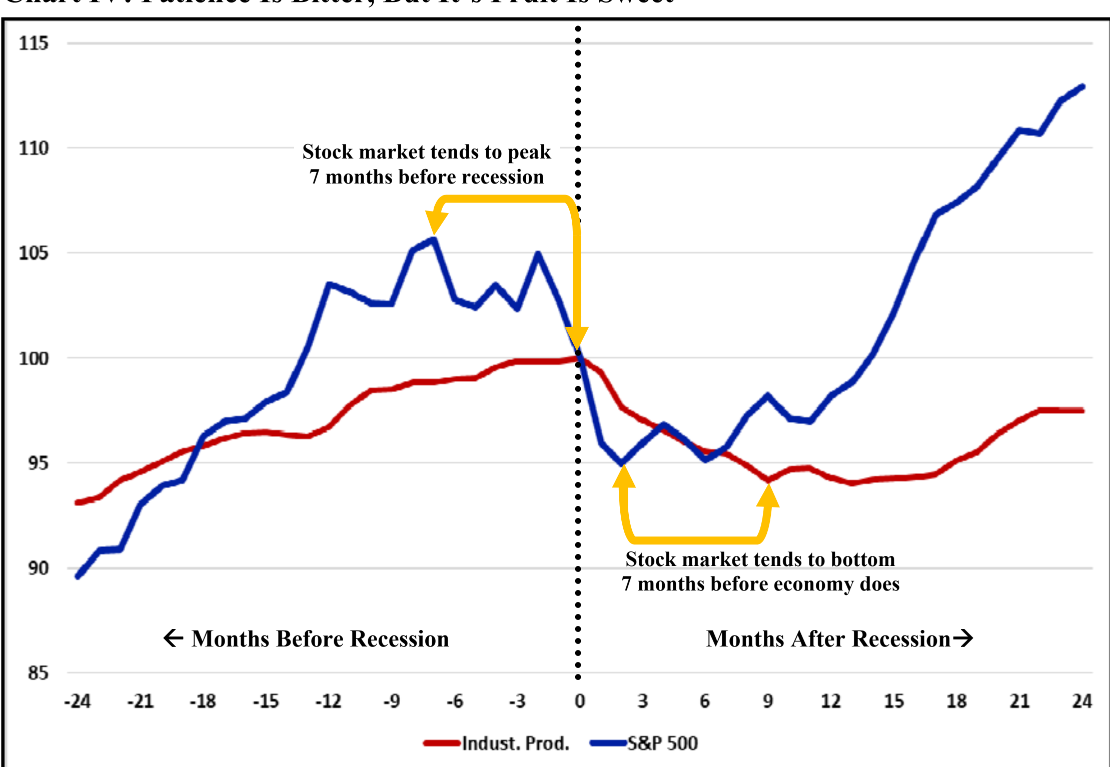
more concerned – as they have appeared to become recently – with the prospect of recession itself, which tends to weigh heavily on corporate earnings. As a result, we believe that within equities a bias towards higher-quality companies and more defensive stocks – say, those with a history of stable dividends – or industries – such as those with less sensitivity to the economy is both prudent and desirable.

From a style perspective, value stocks are typically better able to benefit from inflation and tend to be less susceptible to the pressures of rising interest rates than their growthier counterparts, many of which have earnings far out in the future. We have seen good benefit from a bias to value over the past 12-18 months and would clearly have expected that to have continued over the course of 1Q 2023. Such was not the case – and in quite spectacular fashion – in Q1, as large-cap growth stocks almost single-handedly drove markets forward. Not only that but the overall breadth of the market narrowed dramatically and it was once again a small handful of "horsemen" stocks, those mega-cap, high growth titans that led the way through 2021 (they go by so many names these days: FANG, FAANG, FAAMG, and who knows what else) that have once again forged the path higher so far this year. We will be looking to gradually adopt a more neutral posturing on the style front as we move closer to and through the final Fed rate hike which should take place in May.

From a market capitalization perspective, tighter credit should tilt the scales in favor of larger-capitalization stocks over smaller ones. This is consistent with our view, above, to favor quality and defensive exposures; although we have a standing bias towards small-cap stocks relative to the market benchmark, this is not so pronounced as to present a material risk to performance in the short run and has tended to be one of the risks investors get paid well to assume over the long run.

Geographically speaking, as you no doubt know, we are long-term strategic GLOBAL asset allocators. It is our view (one well-supported by long-term capital market data) that, even though US stocks clearly dominated over the several years leading up to the 2022 bear market, having exposure to foreign developed large- and small-cap stocks as well as emerging markets enhances the efficiency of a portfolio – an elegant way of saying that it allows for the potential to reduce risk without sacrificing return – over time. Even on a more timely basis, however, we also believe

Chart IV: Patience Is Bitter, But It's Fruit Is Sweet



Unless you happen to believe that the US economy is already in recession – and you would have your work cut out for you trying to convince me of that! – then you have to take in the above graph with the view that we are already operating somewhat outside the "norm". On average, the stock market peaks 7 months before the economy goes into recession but the all-time and cycle high for the S&P 500 occurred in January 2022, roughly 16 months ago. As a result, the stock market – a well-respected LEADING indicator of the economy – may not be as predictive this cycle. Nonetheless, there are some useful takeaways to be gleaned from the data. First of all, stocks tend to experience some meaningful deterioration in the few months immediately prior to recession; thus, we should not be surprised by a pickup in volatility and a move towards the lower end of the recent trading range (though not necessarily a new low) as the next recession looms closer. Even with that in mind, however, this chart also highlights a key component of "market lore," that is that the market will bottom and turn higher long before any good news is actually visible on the horizon, making it notoriously difficult and likely a losing proposition to attempt to time the recession and hop in and out of the market at the "right" time. When further observing that the stock market tends to be making new highs within 12-15 months after the recession begins, I would conclude that patience is, indeed, a virtue in investing, one that can enable investors to look past shorter-term roadblocks to better keep long-term goalposts in sight.

foreign stocks are poised to retain the relative performance tailwind they have experienced recently, as the rest of the world catches up with the fading interest rate hiking campaign in the US, which should help put the US Dollar in check and keep it from further eroding the US-based investors' returns on foreign stocks. Combined with meaningfully more attractive valuations abroad and significantly better growth prospects within emerging markets, we are currently even more "constructive" than usual on foreign equity exposure (codespeak for "we like it a lot!") and are taking a modestly overweight tactical position to the space (overweight to our strategic target, though we still retain a "home country bias" to the US relative to the global stock market index, which has a split between US and foreign stocks of roughly 60%-40%).

Returning to the bond market, meanwhile, duration risk (aka interest rate risk) – the bogeyman that spooked markets for well over a decade before finally making itself seen in the flesh last year – is, as a result of the market's painful transition in response to Fed policy, now something we view as "much ado about nothing!" Despite expectations for an additional rate hike, we expect the impact on market-determined interest rates in the bond market to be negligible and consider the risk on interest rates to be weighted decisively to the downside. We are not only more comfortable with duration risk but, in fact, are seeking to add to it in anticipation of interest rate cuts when the Fed goes back to accommodation mode in response to a US economic recession and are, as a result, directing proceeds from existing tactical positions in very short-term T-bills back into intermediate-term bonds as they mature to give our fixed income exposure an overall duration roughly one year longer than the index. Meanwhile, although retaining some exposure to credit, our view is that credit risk may not carry the same degree of benefit it has in recent years and that higher-quality fixed income could hold the advantage until we move into, if not entirely through, the upcoming recession.

All's Well That Ends Well

This has been a fun piece to write; much like many of Shakespeare's plays, however, the introduction of some humor does not necessarily dispel the dark clouds gathered on the horizon. We remain in a period of heightened uncertainty (how many times have I said that over the past 15 years?!) that is going to take time to resolve. The good news is that this will, indeed, all resolve itself at some point – at least the issues on the market's radar screen at this point. The economic cycle will run its course, whether the central bankers of the world like it or not and, whether they like to admit it or not, policymakers are actively doing their part to make it so. It's unclear if a recession will manifest itself prior to year-end – although we continue to consider it very likely – or somehow get kicked down the road into next year but we are not currently willing to entertain any more talk of a "soft landing": tighter monetary conditions will eventually tip the scale on economic growth and, with that, help bring inflation back down to earth in the process.

We continue to anticipate a fairly shallow recession; there's certainly nothing obvious out there right now to make one think we would be facing anything along the lines of the crisis-induced recessions to which we have all become far too accustomed. Households look to be in reasonably good shape; despite the burden of high inflation and sagging expectations, consumers continue to spend, while debt levels and delinquencies remain relatively low. Corporations, meanwhile, appear to have been spooked by the pandemic-induced shutdown and have kept a fairly tight rein on debt levels since then; with the growth that US GDP has seen since that time, the load of their debt relative to the economy has shrunk considerably. Turning slowly and carefully toward the banking sector, we would suggest – and forgive as we hold our breath in doing so – that the worst of the "crisis" (a term used most loosely in this instance) is behind us and that the unrealized losses on money-good US government bonds was never in a position to be systemic à la toxic CDO debacle back in 2008.

Even a mild recession, however, inevitably will weigh on corporate earnings, something investors appear to be getting more in tune with recently. This may keep a lid on the amount of upside they can expect from the stock market near-term – at least in the US, as some other pockets of the global market may continue to buck the trend – and constrain stocks to the trading range in which they have been meandering since they bottomed in October of last year. A return to the lower end of that range, which would be a daunting -10% drop from current levels, is certainly not off the table should the recession come on strong but that would require a break below the (extremely short-term) rising trend line stocks have exhibited over the past couple of quarters; as a result, that probably need not be taken as a "base case," even though it would offer the opportunity to test the lows, something we generally like to see in order to flush weak hands out of the way ahead of a more material and sustainable market advance.

With more subdued "line-of-sight" returns on stocks, the recently-enriched yields available within fixed income are more your friend now than they have been in years (and night and day to what they were for you last year!). As we

noted not long ago, the demise of the "60-40" portfolio – more of a sweeping condemnation of diversified asset allocation in general – had been greatly exaggerated. In fact, with the bear market having taken some of the froth out of the stock market and fixed income yields at their highest levels in years – in some cases more than a decade – the prospects for a globally-diversified investor actually look relatively good to us. Make no mistake: low-correlation diversifying asset classes like Alternatives will retain their place in a well-diversified, risk-managed portfolio, as they continue to smooth out the bumps – or sinkholes – in the road.

This is not a time for improv, but one in which sticking with the script offers the best chance of your portfolio getting rave reviews from the critics. Provided your objectives remain the same and unless your tolerance for risk has undergone a material change, don't break character; you have your libretto (aka your investment plan) – don't be afraid to refer to it when things get hairy in order to refresh your memory as to where you are headed. Our Investment Committee will continue to make adjustments – not wholesale, but at the margin – as we move forward to better navigate the changing scenery. In the interim, we encourage you to reach out to your advisor, our CEO, Larry Hood, or me should you have questions on our outlook or your portfolio or if you wish to review your strategy; we look forward to hearing from you!

-Jim Ayres, CIO

1ST QUARTER 2023 CAPITAL MARKET PERFORMANCE

Index (as of 3/31/2023)[1]	1 Qtr	1 Year	3 Year	5 Year	10 Years
FTSE 3-month T-Bills	1.12%	2.61%	0.95%	1.40%	0.85%
Bloomberg Barclays Gov't/Credit Int.	2.33%	-1.66%	-1.28%	1.40%	1.32%
ICE BofAML US High Yield	3.68%	-3.47%	5.84%	3.07%	4.02%
Bloomberg Barclays Multiverse	3.02%	-7.90%	-3.06%	-1.24%	0.22%
S&P 500	7.50%	-7.73%	18.60%	11.19%	12.24%
Russell 1000 Value	1.01%	-5.91%	17.93%	7.50%	9.13%
Russell 1000 Growth	14.37%	-10.90%	18.58%	13.66%	14.59%
Russell Mid Cap	4.06%	-8.78%	19.20%	8.05%	10.05%
Russell 2000	2.74%	-11.61%	17.51%	4.71%	8.04%
Russell 2000 Value	-0.66%	-12.96%	21.01%	4.55%	7.22%
Russell 2000 Growth	6.07%	-10.60%	13.36%	4.26%	8.49%
MSCI EAFE	8.62%	-0.86%	13.52%	4.03%	5.50%
MSCI EAFE Small Cap	5.05%	-9.39%	12.52%	1.27%	6.25%
MSCI Emerging Markets	4.02%	-10.30%	8.23%	-0.53%	2.37%
MSCI Frontier Markets	3.18%	-17.23%	8.25%	-2.56%	3.09%
Wilshire US REIT	3.25%	-21.33%	11.03%	5.66%	5.89%
DJ Global Select RESI	1.49%	-20.72%	8.54%	1.88%	3.44%
Bloomberg Commodity Index	-5.36%	-12.49%	20.82%	5.36%	-1.72%
IQ Hedge Multi-Strategy	3.05%	-2.81%	2.89%	1.32%	2.38%
Domestic Balanced	5.43%	-4.96%	10.61%	7.57%	8.02%
Global Balanced	5.40%	-4.54%	9.02%	5.35%	5.89%

[1] The Bloomberg Barclays U.S. Government Credit Intermediate and Multiverse indices are registered service marks of Bloomberg Finance LP. Barclays is a service mark of Barclays Bank Plc, used under license; the ICE BofAML US High Yield index is a registered service mark of Intercontinental Exchange; BofAML is a service mark of BofA Merrill Lynch, used under license; the S&P 500 Index is a registered trademark of the McGraw-Hill Companies, Inc.; the Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell Mid Cap, Russell 2000, Russell 2000 Value, and Russell 2000 Growth indices are registered trademarks of the Frank Russell Company; the MSCI EAFE and MSCI Emerging Markets indices are registered trademarks of MSCI or its subsidiaries; the Wilshire REIT index is a registered trademark of Wilshire Associates Incorporated; the DJ global Select RESI index is a registered trademark of Dow Jones Trademark Holdings LLC; the Bloomberg Commodity Index is a service mark of Bloomberg Finance L.P.; the IQ Hedge Multi-Strategy index is a trademark of New York Life Investment Management LLC. The Domestic Balanced benchmark represents a blend of 60% S&P 500 and 40% Bloomberg US Intermediate Government/Credit, rebalanced monthly, while the Global Balanced benchmark represents a blend of 60% MSCI ACWI and 40% Bloomberg US Intermediate Government/Credit, also rebalanced monthly.