Orcas Island Community Foundation

Investment Committee Notes Q1 2023

Market & The Economy

The first quarter of 2023 saw prices for both stocks and bonds bounce back after a very challenging year in 2022. Stronger-than-expected economic growth in the U.S. and Europe, the easing of COVID policies in China, and evidence of softer inflationary pressures all helped to boost asset prices in the first few months of the year. While market gains were widespread, the path higher was far from smooth as the collapse of Silicon Valley Bank and Signature Bank led to a sharp pullback in early March. However, the Fed quickly stepped in to provide liquidity and backstop depositors, which helped ease investor fears and spurred a rally into the end of the quarter. The markets were led higher by assets that were beaten down in 2022, including growth stocks as well as intermediate and longer duration bonds. Developed non-U.S. stocks, represented by the MSCI EAFE index, finished up 8.5% for the quarter and outperformed the S&P 500 for the second quarter in a row. U.S. small cap and Emerging Market stocks also generated positive, though more modest, returns for the quarter. Falling interest rates helped push bond prices higher, with most investment grade municipal and taxable bonds up 2-3%.

From a macroeconomic perspective, the global economy proved more durable than expected during the first quarter, chugging along at a slow but steady pace. Investors continued to focus heavily on the future path of inflation and interest rates. Inflation, as measured by CPI, continued to show clear signs of cooling but remains well above the Fed's 2% target rate. Now a year into the current rate-hiking cycle, short-term rates in the U.S. have been pushed to their highest level since 2007 (near 5%) and it is unlikely the full effects have filtered through to the broader economy. The labor market, one of the last remaining pillars of strength, is showing signs of weakness, with layoffs increasing over the last several months, particularly in the technology sector. Europe is facing many of the same headwinds, but its larger manufacturing and industrial base has rebounded strongly on the back of lower energy prices. China, on the other hand, is actively trying to stimulate its economy and reignite growth after finally lifting restrictive Covid policies. The reopening process has been gradual, but we are already seeing a pickup in activity in most of the major cities. Recent data is also indicating some stabilization in the real estate market, with both demand and prices moving higher in the new year. Stronger economic growth in China and the emerging markets could help counterbalance any potential slowdown in the U.S. and Europe in the back half of the year.

As we look forward to the rest of the year, we continue to believe that we are in the latter stages of this economic cycle and that the risk of a recession is elevated. Equity markets, however, have a much more optimistic view and are pricing in a far rosier outlook. While we hope that the Fed can help navigate a smooth landing in the U.S., we believe a better approach is to buckle up and be prepared.

Portfolio Overview

Approximate Funds; Year-to-Date Returns as of March 31, 2023, Net of Advisory Fees

Mid- to Long-Term Fund — $13.8 million, +3.0% YTD return net of fee

Most of OICF's corpus is invested in this diversified global strategic approach featuring a blend of active, passive and private investment funds.

Short Term Interest — $4.2 million, +1.3% YTD return net of fee

OICF holds two short-term accounts invested in a short-term bond fund managed by Vanguard, currently yielding between 4.0-5.0% annually.

Blue Marble Fund — $2.6 million, +5.4% YTD return net of fee

A lower cost strategy comprised of ETFs and Mutual Funds focused on companies with best practices among environmental, social and governance attributes. This portfolio option incepted during the second-half of 2018 features a 60% stock, 40% fixed-income allocation.

OICF Index Fund — $702k, +5.3% YTD return net of fee

OICF provides this low internal-fund cost option for those who espouse the 'John C. Bogle' (founder of Vanguard) indexing approach to investing, characterized again by a 60% stock, 40% bond and other diversified asset allocation.

Short-Term — $1.8mil, +1.2% YTD return net of fee
