The first quarter of 2023 handed global investors much to digest. The year started with the erratic market performance of January and February, with the former witnessing broadly positive performance across most major asset classes and the latter generally the opposite. The U.S. banking system dominated financial media in March as the failures of Silicon Valley Bank (SVB) and Signature Bank rekindled fears of contagion within the U.S. banking industry. Across the pond, Credit Suisse’s longer-term operating struggles ended abruptly when Swiss authorities forced a merger with rival UBS.

In a world dominated by banking access at one’s fingertips and an abundance of real-time financial news flow, concerns about the soundness of an institution’s liquidity increased the risk of a digital bank run, in which depositors flock to larger and presumably more financially sound institutions to safeguard deposits.

By the time the quarter concluded, however, the markets had absorbed much of the negative news while posting strong gains across most major global financial indices. All this despite the lingering banking system concerns and a Federal Reserve (Fed) that reaffirmed its commitment to a continuation of aggressive rate hikes to keep inflation under control. Bond returns were overwhelmingly positive across both rate and credit-sensitive sectors, as interest rates declined sharply and credit risk premiums narrowed.

Across the equity markets, large growth-oriented, generated the most substantial total returns, while smaller cap and value-oriented companies struggled. This, as you may recall, is the opposite of how the markets performed in 2022, with growth sectors significantly struggling relative to value-oriented sectors.

Investors, for the past several years, have been faced with the challenge of TINA, or “There Is No Alternative” to stocks. While many investors recognized valuations on stocks were climbing to historic levels, the option of investing in bonds at such paltry yields didn’t look like a viable alternative. We are starting to see a decline in TINA. Bonds are providing meaningful yield (at least before we factor the impact of inflation), energy investment is expanding and could provide interesting opportunities, and both growth and value-oriented strategies have compelling stories. International investments have cheap enough valuations that they deserve to be considered as well.

This is a reminder of the importance of diversification in the portfolio, and QCCF was rewarded for patience and diversification. As I type this, the portfolio continues to rebound off a dismal 2022. Today the Foundation remains the steward of over $171mm, gaining over $17mm from the doldrums of 2022.

As always, it’s important to stress that the portfolio is positioned for long-term growth to benefit future generations and near-term yield to benefit current generations. The allocation for the Quad Cities Community Foundation remains valid and is positioned for long-term outperformance by stocks. Approximately 50% of the Foundation investments are allocated to US stocks with another 17% allocated to non-US stocks. Bonds total 25% and real estate, and cash total another 7%.
We’ve said recently that, unlike basketball, there is no “shot clock” when it comes to investing. The Foundation remains vigilant in overseeing the portfolio and markets and takes the smart shots. If we see a “lay up” then the Foundation will act but, until then, we remain patient and seek to add value wherever we can.

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