AVE MARIA MUTUAL FUNDS

MARKET COMMENTARY – Q1 2023

Economic Summary

Investors started 2023 with an optimistic view. Inflation was subsiding and economists were forecasting that the Federal Reserve (THE FED) was almost done with its restrictive monetary policies. Then came a hotter-than-expected inflation reading that sent stock and bond prices down at the prospect of continuing interest rate increases throughout the year. The largest shock of the quarter came in March when Silicon Valley Bank and Signature Bank collapsed and sent bank stocks tumbling. In response, the Fed implemented a series of programs to provide liquidity to prevent the fire-sale of long-term assets if depositors rapidly withdrew their deposits.

The Fed is now in a conundrum, as it's implementing contractionary (INCREASING SHORT-TERM INTEREST RATES) and expansionary (INCREASING ITS BALANCE SHEET – CHART 1) monetary policies at the same time. This will further complicate efforts to tame inflation, as monetary policy tools typically act with a 12–18 month lag. Thus, the door is open for inflation to make a comeback at a future date.

Overall, the economy has remained resilient (CHART 2), as the number of people employed, job openings, and participants in the labor force remain robust. The tight labor market will likely keep inflation elevated for the foreseeable future. On the radar is the political brinkmanship regarding the debt ceiling, as "extraordinary measures" have pushed the anticipated default date to late summer.

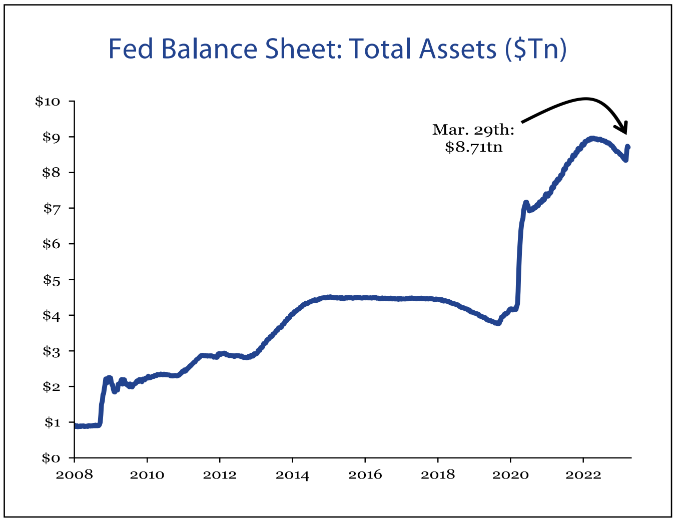

Chart 1

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" – APRIL 3, 2023

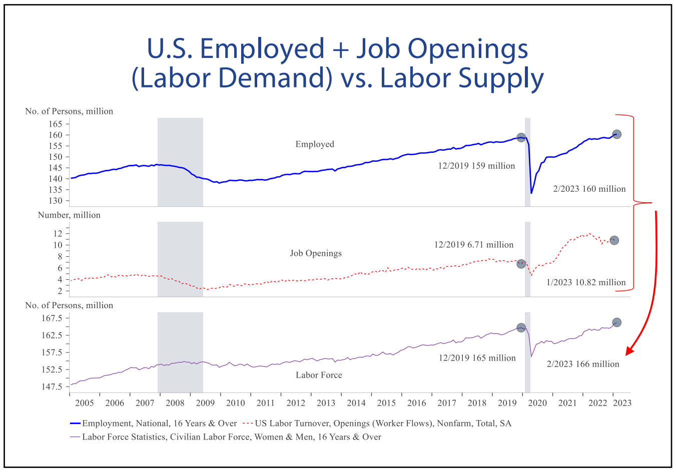

Chart 2

SOURCE: STRATEGAS RESEARCH PARTNERS
"ECONOMICS REPORT" – MARCH 27, 2023

Past performance does not guarantee future results.

The Stock Market

So far in 2023, equities are off to a strong start, led by the large-cap, technology-heavy NASDAQ and Russell 1000 Growth indices, up 17% and 14%, respectively (CHARTS 3 & 4). Both were down significantly in 2022 as rapidly increasing interest rates caused investors to shun growth stocks. Investors have witnessed a significant reversal from last year, as the sectors and indices that performed well then have underperformed this year, and vice versa.

Corporate earnings continued to be revised downward during the quarter, as companies and analysts see revenue remaining flat and margins decreasing due to inflation and a tight labor market (CHART 5). With equities up during the quarter, the market had apparently already priced in the bad news. From a valuation perspective, the S&P 500 is directly between the 5-year and 10-year average P/E ratio for the Index.

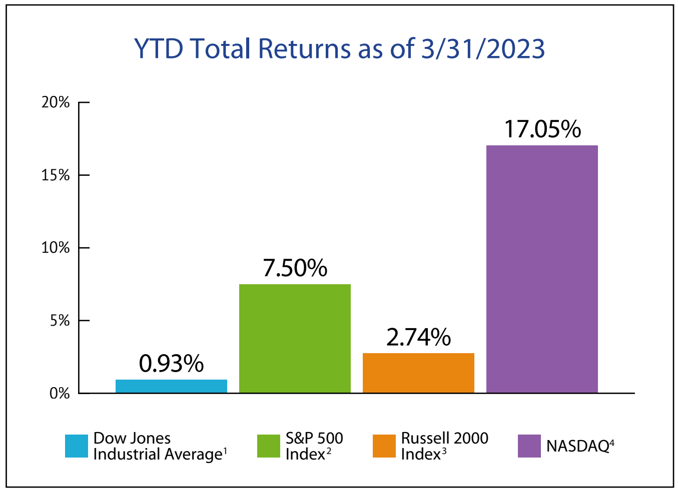

Chart 3

SOURCE: MORNINGSTAR DIRECT

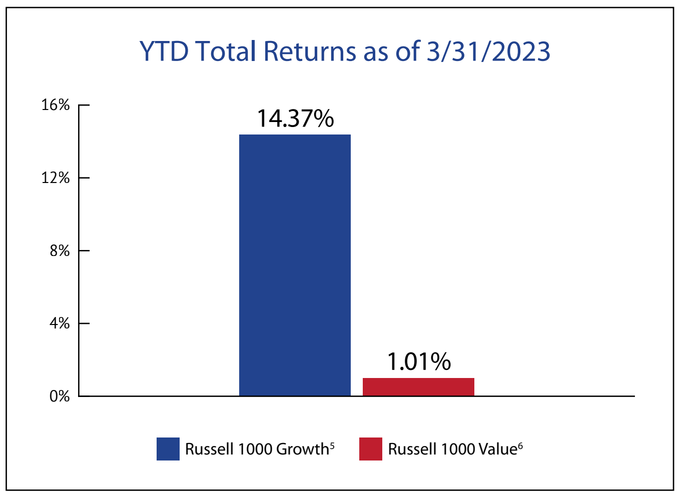

Chart 4

SOURCE: MORNINGSTAR DIRECT

Past performance does not guarantee future results. You cannot invest directly in an index.

[1] The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

[2] The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

[3] The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.

[4] The NASDAQ Composite is s a stock market index that includes almost all stocks listed on the Nasdaq stock exchange (more than 2500 stocks).

[5] The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.

[6] The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.

The Bond Market

The yield curve for U.S. Treasuries inverted further during the quarter. Short-term rates were increased twice by the Fed, and long-term rates declined due to investors' increasing concerns about the future. The 10-year U.S. Treasury Note started the quarter with a yield of 3.9% and fluctuated due to an unexpected inflation reading and the failure of two banks. It is now widely anticipated that the Fed will stop increasing rates in May, and rate cuts will occur in the second half of the year.

Corporate credit spreads tightened significantly in January, widened with the news on the banking sector in March, and ultimately finished the quarter where they started. From a historical context, spreads are right at the 20-year average and slightly above the 10-year average, making this a reasonable time to add exposure to select corporate credits.

Chart 5

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" — APRIL 3, 2023