UA 11-16-2012 Congregational Investment Trust Corp for NACCC of The US

Quarterly performance report

Period ended March 31, 2023

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Market commentary

For the quarter ended March 31, 2023

Stocks Begin 2023 With a Positive Quarter

Despite stubbornly high inflation, interest rate volatility and stress in the US and European banking sectors, US equities[1] ended the quarter up 7.2%, after an up-and-down quarter amidst heightened economic uncertainty. Large-cap stocks[2] returned 7.7% for the quarter compared to 3.9% for mid-caps[3] and 3.7% for small-caps[4]. Over the 1-year period, results were still meaningfully negative, with large-cap stocks down -8.6% compared to -9.8% for mid-caps and -9.4% for small-caps.

International equities[5] returned a positive 6.4% for the quarter but remained down -5.7% over the last year. Emerging markets[6] posted a positive return of 2.9% for the quarter but trailed developed markets'[7] return of 7.6%. Over the 1 -year period, emerging markets trailed developed markets, with a -5.7% result compared to -4.1%, respectively.

In a reversal from 2022, growth[8] equities outpaced their value[9] counterparts during the first quarter, returning 13.9% compared to 0.9%, respectively. However, over the 1-year period, growth, at -10.9%, continues to trail value, with a return of -6.3%. Communication Services, Information Technology, and Consumer Discretionary were the best performing sectors in the US market, all with double-digit gains for the quarter. Energy, Health Care and Financials were the worst performing US market sectors, all with single-digit losses for the quarter.

Fixed Income Markets Continue Their Rebound Amidst Lower Interest Rates and Slower Inflation Growth

US and International fixed income generated positive returns in the first quarter, a stark contrast to 2022 where all fixed income sectors finished in the red. During the first quarter, the Federal Reserve (Fed) increased rates twice (+25bps each in February and March), and data indicated that inflation is in the process of cooling, leading to expectations that rate hike patterns may have plateaued. Further, year-over-year growth in the CPI decreased from 7.14% in November 2022 to 5.99% in February 2023, results seen as positive developments for the financial markets. The collapse of Silicon Valley Bank in mid-March helped quell concerns over accelerating inflation and helped spark a rally in safe haven assets. Despite the two Fed rate hikes, the 2, 5, 10 and 30-year key rates declined by an average of 35bps, which was the primary driver of broadly positive fixed income returns for the quarter. After lagging all bond sectors in 2022, long-duration Treasury Strips led fixed income sectors in Q1 2023 (+8.2%). Indexes representing longer duration government and credit bonds also generated strong returns for the quarter (+5.3%). Short-term US corporate bonds, a relatively strong performer for fixed income investments in 2022, lagged all bond sectors, but still produced positive results for the quarter (+1.6%).[a]

Aside from favorable rate movements, investment-grade and high-yield credit bonds received positive interest from investors as evidenced by stabilizing outflows followed more recently by marginally increasing inflows.[b] Further, the high-yield market is expecting a large increase in new issuance in April following substantial outflows during the quarter.[c] Corporate bonds produced solid returns in Q1 2023 with US long corporate (+5.0%), intermediate corporate (+3.5%) and high-yield bonds (+3.1%) all participating. [d]

Persistent inflation has remained more of a concern outside of the United States as UK, Japan and Eurozone core inflation growth remained close to recent highs compared to the aforementioned US deceleration.[e] This is one factor as to why global bond returns (close to 3.0%) lagged US bond returns in the first quarter. Also, despite relative dollar weakness, the flight to quality into US Treasuries during March helped US bond returns relative to global bonds. Primary risks to global fixed income markets in the coming quarters include continued strength in both wage growth and the labor market. If unemployment remains at low levels and wage growth remains strong, central banks may accelerate future rate hikes; a move that could hinder bond returns in the short-term.[f]

Economic Outlook

In the U.S., March headline CPI of 0.1% came in slightly under the consensus expectation of 0.2%, and annualized headline CPI of 5.0% also came in below estimates. Annualized core inflation, which excludes volatile items such as energy and food prices, was 5.6%, in line with consensus estimates. March CPI represents the lowest rise in CPI in nearly two years; however, inflation is still well above the

[a] FactSet
[b] Nuveen.com
[c] Nuveen.com
[d] FactSet
[e] Goldman Sachs Q2 2023 Fixed Income Outlook
[f] JP Morgan Global Fixed Income Views 2Q 2023

Market commentary (continued)

For the quarter ended March 31, 2023

Fed's stated target. Continuing high inflation and a strong labor market indicate the Fed may need to continue their cycle of rate hikes once the fallout from collapsing banks has settled. Members have reiterated they will stay the course until they make significant progress in getting inflation down to its 2% target and will be data-dependent during that process. Our proprietary model, the Vanguard Leading Economic Indicators Index (VLEI), created to infer developing economic trends, shows that the most interest-rate-sensitive indicators, such as construction and manufacturing, have started reacting to the Fed's changes in the policy rate. Core areas are still showing resilience, implying the impact of rate changes has not fully worked its way through the economy at this point. It is Vanguard's view that we will continue to see inflation decline over the coming year at the cost of slowing economic growth and reduced employment levels in the United States and other developed markets around the world.

Despite slower growth and heightened recessionary fears, the US labor market has remained very strong. The number of unemployed persons increased slightly from 5.7 million at the beginning of the year to 5.8 million and remains low by historical standards. The unemployment rate dropped to 3.5 percent in the first quarter of 2023, consistent with the levels in the final two quarters of 2022 and represents one of the strongest US labor markets in more than fifty years.

The International Monetary Fund forecasts that the widely anticipated economic slowdown will be exacerbated in part by more restrictive bank lending triggered by recent bank failures. It estimates the reduction in lending is likely to shave 0.44% off U.S. GDP growth in 2023. Additionally, US credit and debit card spending slowed to their weakest pace in two years, underscoring a weakening in consumer demand. Some of this is thought to be attributable to a slowdown in wage growth, which peaked in mid-2022 and has since moderated. Most notably, persistently high inflation has eroded household purchasing power, and consequently, consumer spending**.**

European countries continue to see persistently lower economic growth rates with high inflation. In the U.K, GDP fell from 7.4% in 2021 to 4.1% in 2022. GDP for the first quarter of 2023 was 0.6%. Similarly, France saw GDP growth of 2.6% in 2022, with just a 0.2% increase in the third quarter of 2022 and 0.1% in the fourth quarter. Estimated first quarter GDP growth in France in 2023 was 0.5% on an annualized basis, coupled with inflation of 5.8% versus a year ago, underscoring a deceleration in growth.

The Chinese economy, having grown 8.1% in 2021, slowed to only 3% in 2022. The International Monetary Fund projects an acceleration to 5.3% in 2023, partly due to an anticipated rebound in exports. Chinese exports rose by 14.8% in March from a year earlier, reversing the 6.8% decline reported in the first two months of 2023. In the first quarter of 2023, the Chinese economy advanced an estimated 1.8% year over year.

Monetary Policy Highlights

As highlighted earlier, The Federal Reserve continued raising interest rates, but slowed the pace of tightening, with 25 basis point increases in both February and March. This brought the federal funds rate to a range of 4.75-5.00%. At this point, Vanguard expects a terminal policy rate ending in a range of 5.50% - 5.75%, reached by the July FOMC meeting, with policy then remaining on hold until 2024.

The European Central Bank (ECB) raised interest rates by 50 basis points in both February and March. The latest hike increased the ECB's Deposit Facility rate to 3%, the highest level since September 2008. Eurozone inflation declined to a one-year low in March but is projected to remain "too high for too long." Consumer prices rose by 6.9%, down from 8.5% in February. However, core inflation (excluding food and energy costs) rose to 5.7% from 5.6%.

The BoE's Monetary Policy Committee (MPC) voted to continue raising interest rates, to 4.25% at the end of March, despite banking turmoil, as inflation remained the primary concern. The MPC also flagged changes to their near-term forecasts, pointing to "stronger than expected employment growth in Q2 2023", "a flat rather than rising unemployment rate" as well as the February CPI print, which came in 0.6% higher than the MPC expected. In a development that might reduce inflation levels, the MPC also stated that "wage growth is likely to fall back somewhat more quickly than projected in the February report".

Final Thoughts

While fears of a recession have remained persistent, Vanguard's views do not pinpoint when a recession might occur, how long it would last, or exactly how financial markets would fare. To showcase the current level of uncertainty and lack of predictability, most asset classes produced solid results during the first quarter, despite multiple rate hikes and slowing year-over-year economic growth. In addition, the labor market remains strong, the unemployment rate is near post-financial crisis lows, and the labor force participation rate has climbed back toward post-COVID levels. Even when faced with this mix of economic signals, we remain confident that investors armed with well-considered investment plans and realistic expectations can navigate the current period of uncertainty and continue to make progress toward their long-term goals.

Past performance is not a guarantee of future returns. Indexes are unmanaged; therefore direct investment is not possible.
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Market commentary (continued)

For the quarter ended March 31, 2023

Index Returns

1) CRSP US Total Market Index, 2) CRSP US Large Cap Index, 3) CRSP US Mid Cap Index, 4) CRSP US Small Cap Index, 5) FTSE Global All-Cap ex US Index, 6) FTSE Emerging Index, 7) FTSE Developed All Cap ex US Index, 8) Russell 3000 Growth Index 9) Russell 3000 Value Index, 10) Bloomberg US Agg Float Adjusted Index, 11) Bloomberg US Treasury Index, 12) Bloomberg US Treasury Inflation Protected Index, 13) Bloomberg US Credit Index, 14) Bloomberg US Corp High Yield Index, 15) Bloomberg Global Agg Index ex USD 16) Bloomberg GA ex-USD Float Adjusted RIC Hedged

Sources:

Vanguard, US Treasury, Trading Economics, FactSet, Bureau of Economic Analysis, Wall Street Journal, Nuveen, Goldman Sachs, JP Morgan and the St. Louis Fed Economic Database.

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Client and investment activity

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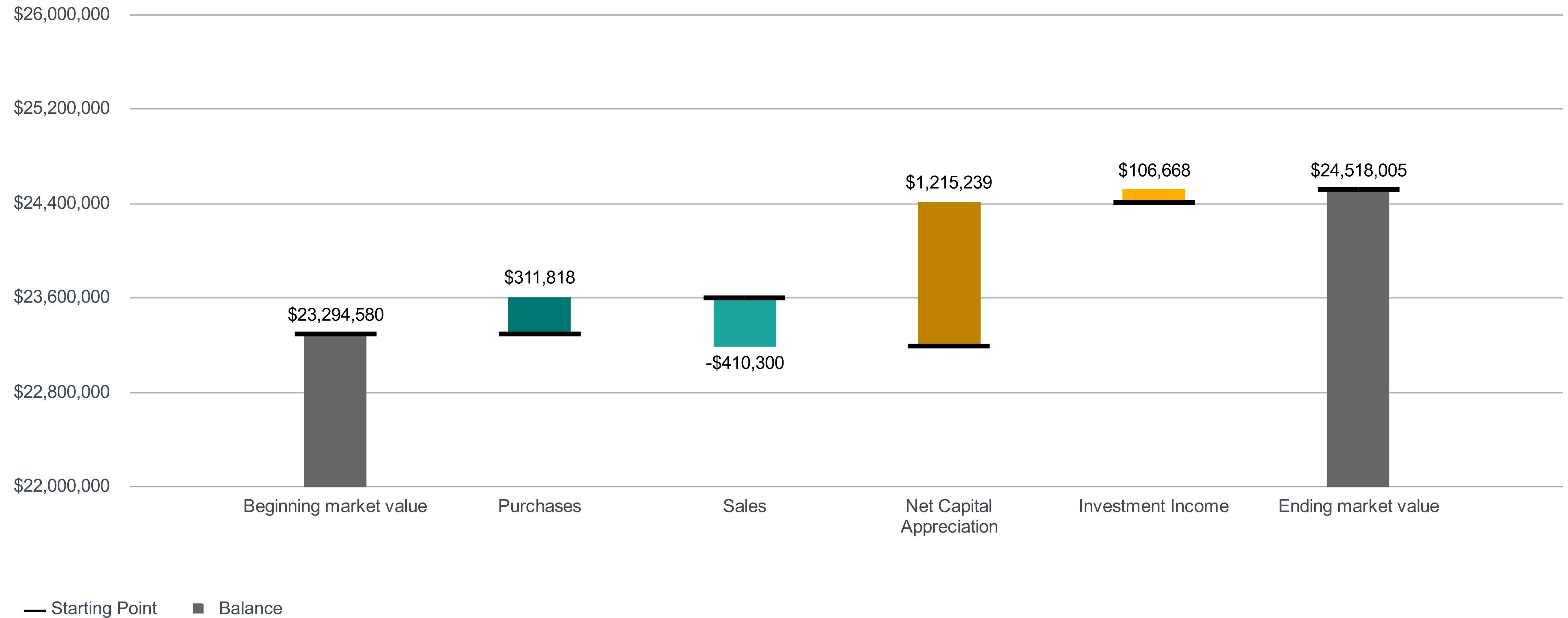

Beginning and ending portfolio market values are net of all advisory fees and trading expenses. Purchases represent all new purchases and exchanges to securities within the plan, less any trading expenses. Sales represent all new sales and exchanges from securities, less any advisory fees and trading expenses.

Performance attribution by sub-asset class

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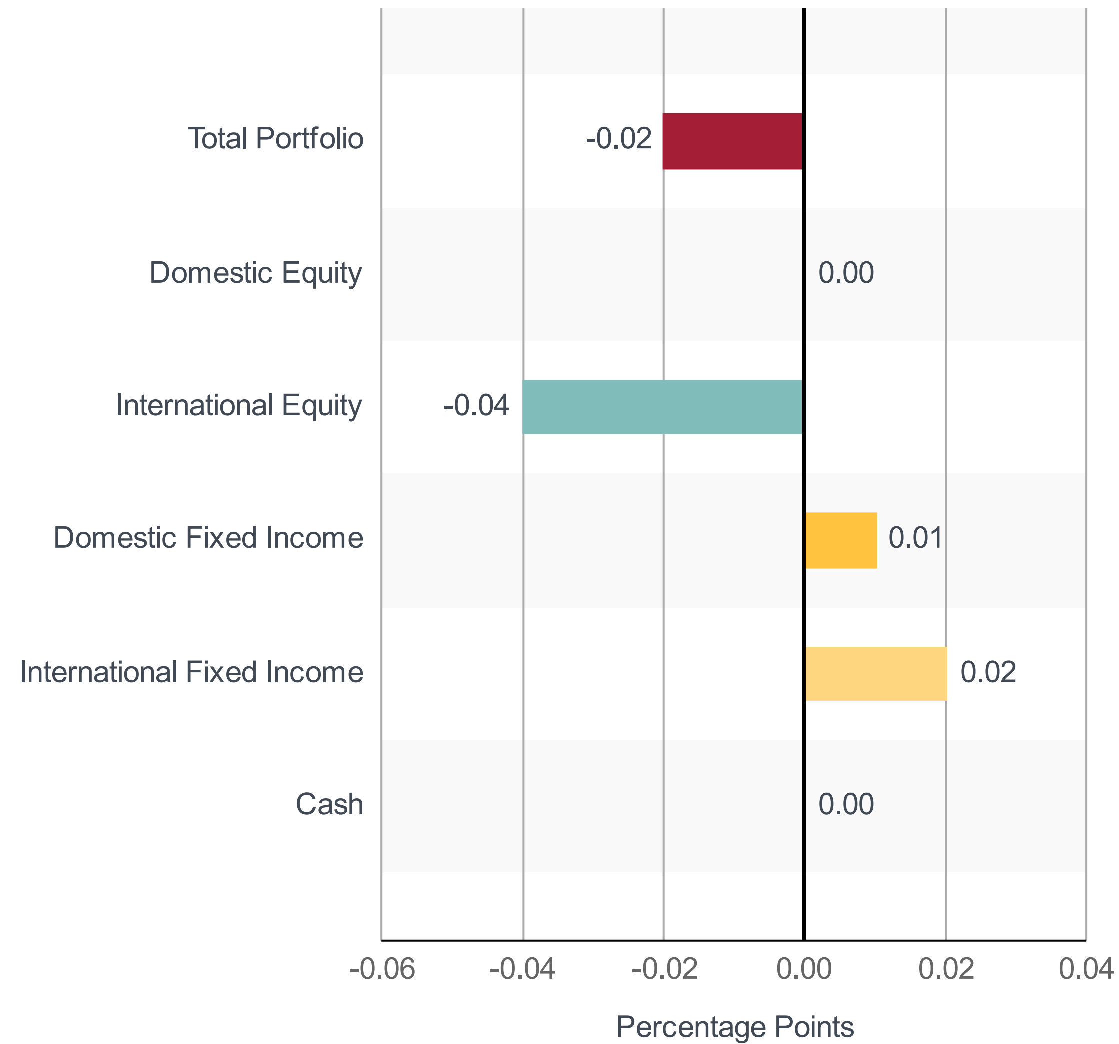
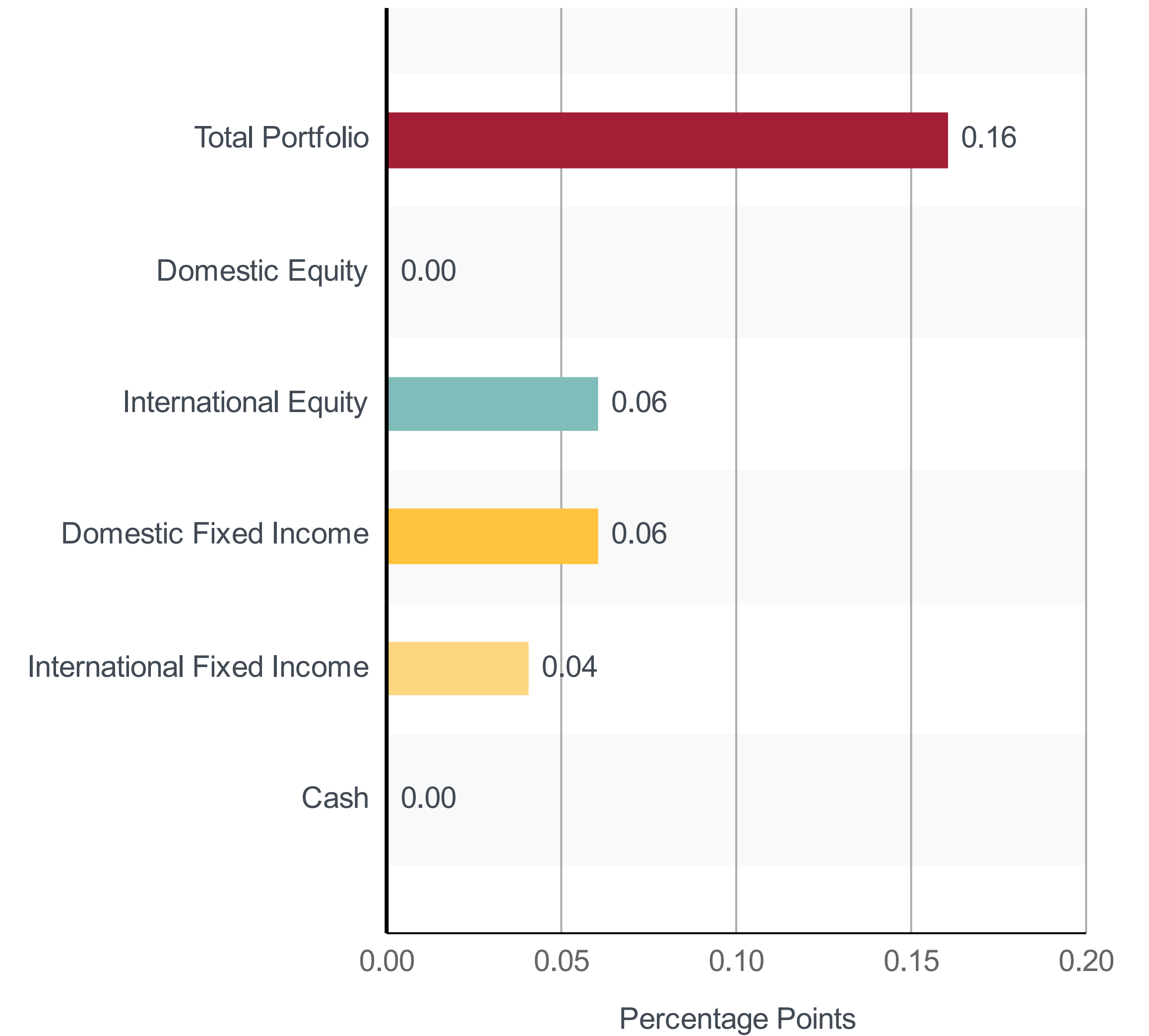
Broad Allocation Impact



Fund Selection Impact



The standard Brinson-Fachler method is used, and explains portfolio performance against its overall benchmark. See Benchmark allocation history for description of what the policy benchmark represents. Returns used are gross of advisory fees and are time-weighted. **Past performance is not a guarantee of future results.** Diversification and asset allocation can not ensure profit or prevent loss.

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Excess returns by time periods

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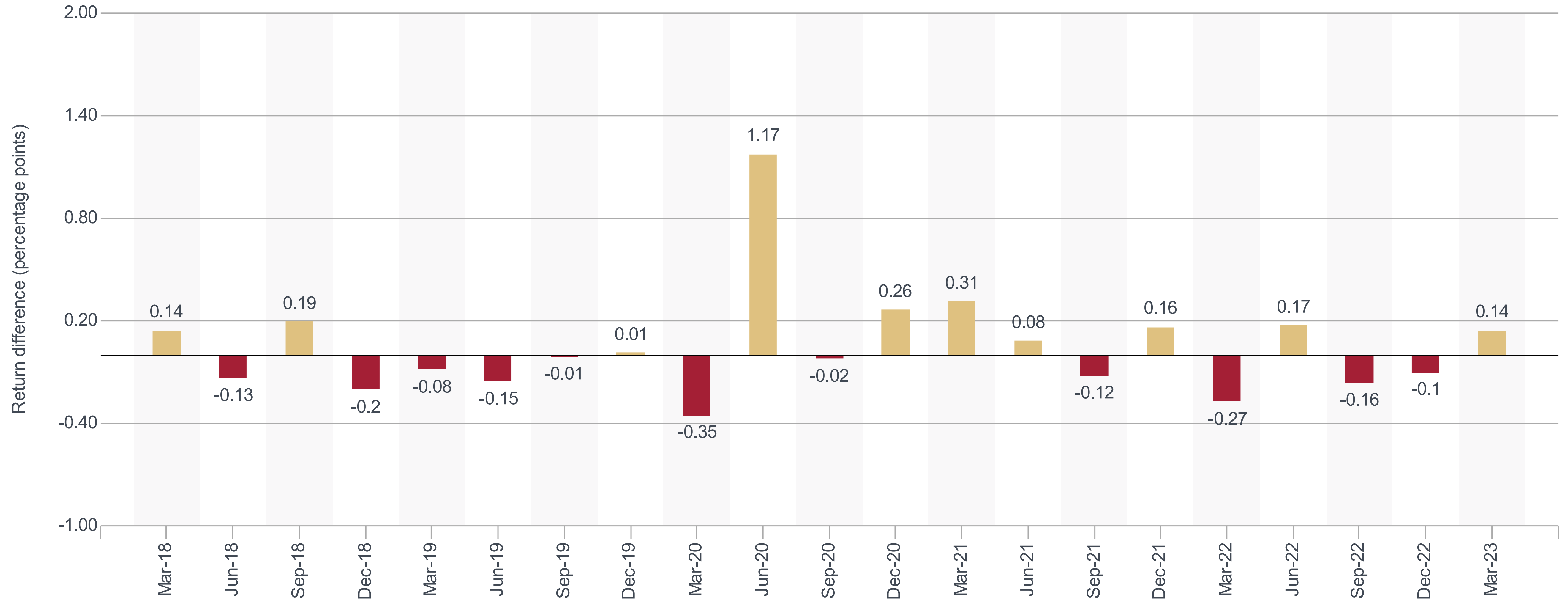
For the periods ended March 31, 2023

Quarterly calendar excess returns



Each time period in the Quarterly calendar returns chart represents one quarter of performance as of that date. Each time period in the Quarterly rolling 5-year returns chart represents 60 quarters of annualized performance as of that date. Returns used are gross of advisory fees and are time-weighted. Excess returns are the arithmetic return difference between the Total Plan versus Policy Benchmark. See Benchmark allocation history for description of what the policy benchmark represents. **Past performance is not a guarantee of future results.**

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Excess returns by time periods

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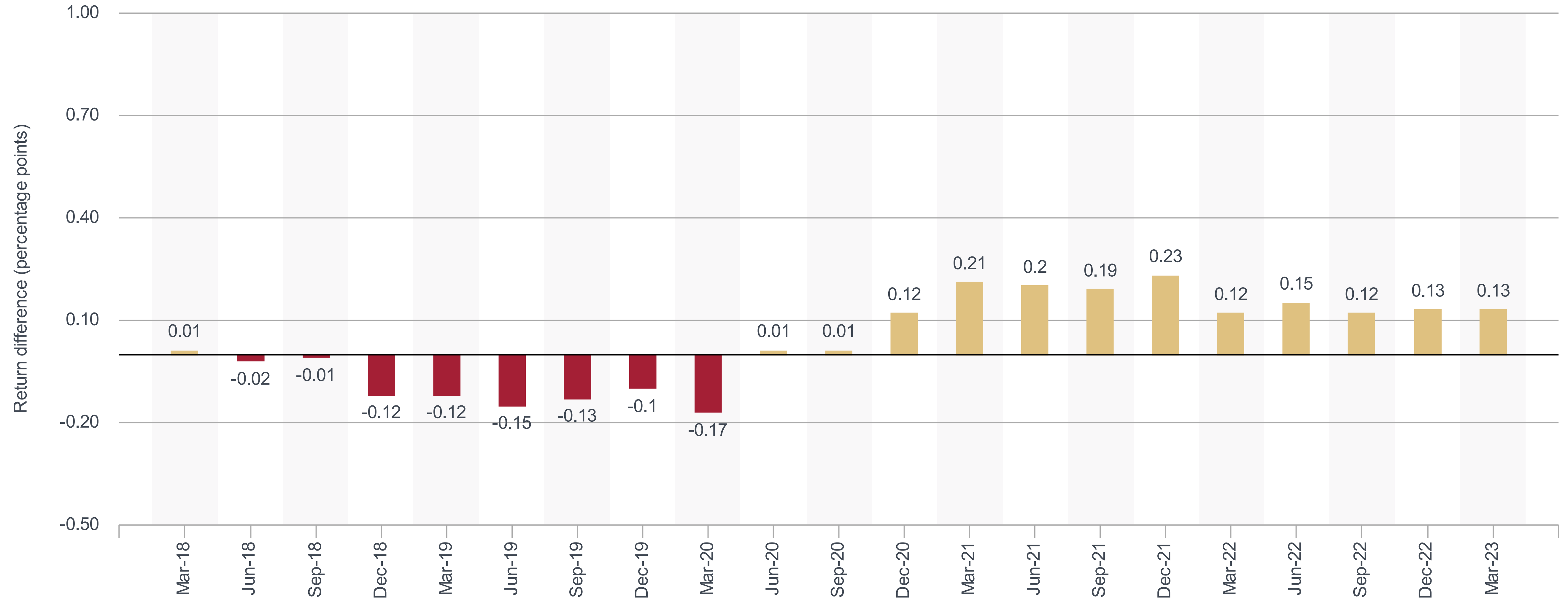
For the periods ended March 31, 2023

Quarterly rolling 5-year annualized excess returns



Each time period in the Quarterly calendar returns chart represents one quarter of performance as of that date. Each time period in the Quarterly rolling 5-year returns chart represents 60 quarters of annualized performance as of that date. Returns used are gross of advisory fees and are time-weighted. Excess returns are the arithmetic return difference between the Total Plan versus Policy Benchmark. See Benchmark allocation history for description of what the policy benchmark represents. **Past performance is not a guarantee of future results.**

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Risk control - rolling quarter returns

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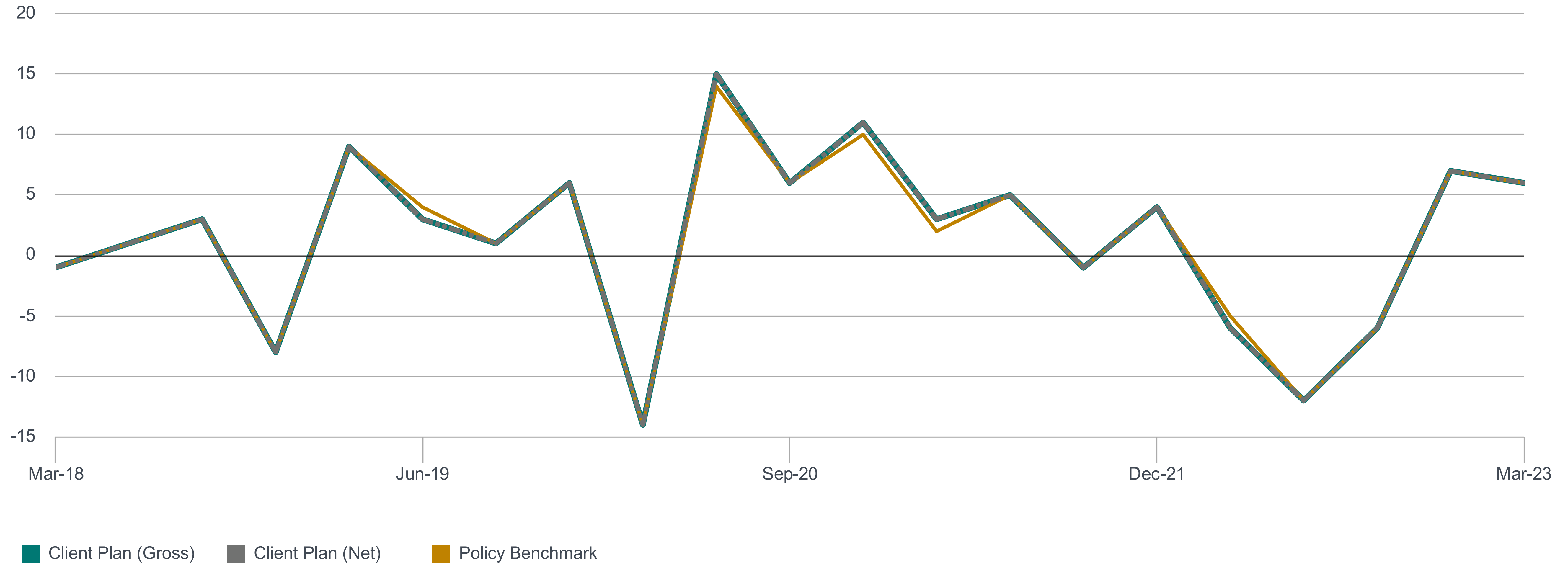
Client plan versus policy benchmark



This charts show how the portfolio has performed against its benchmark in up and down markets. See Benchmark allocation history for description of what the policy benchmark represents. Returns included on this page are Time-Weighted Returns (TWR) and net of Vanguard Institutional Advisory Services (VIAS) advisory fees, fund expense ratios, and other expenses unless otherwise indicated. A client cannot invest directly in a benchmark. **Past performance is not a guarantee of future results.**

Benchmark allocation history

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Policy benchmark allocations up to March 31, 2023

Policy Benchmark is a weighted set of indices that align to the Investment Management Agreement Schedule B which sets forth the strategic asset allocation for the client portfolio. The Policy Benchmark is rebalanced monthly. Allocations may change overtime as the investment strategy changes. The most recently policy benchmark composition is in the top row. Neither asset allocation nor diversification can guarantee a profit or prevent loss. Indexes are unmanaged; direct investment is not possible. **Please read additional information in Benchmark and Disclosure sections.**

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