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

Quarterly performance report

Period ended June 30, 2023

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For the quarter ended June 30, 2023

Q2 Commentary

Low Volatility Boosts Equity Markets during the Second Quarter

Despite ongoing concerns with stubborn inflation and the anticipation of Fed rate decisions, equity markets experienced a significant drop in volatility, resulting in positive performance as fluctuations ebbed during the period. Accordingly, equity markets continued to remain resilient and rallied for a third straight quarter as U.S. equities[1] returned 8.4% and generated a one-year result of 18.9%. The second quarter saw positive performance across all size categories as large-cap[2] stocks returned 8.9%, ahead of both small-cap[3] and mid-cap[4] equities, which produced returns of 5.3% and 4.8%, respectively. It was a similar story over the 1-year period as large-cap stocks led with a 19.7% advance, followed by small cap stocks at 14.8%, and mid-caps at 13.7%.

Domestic returns were primarily driven by the outperformance in growth stocks on the back of enthusiasm regarding the development and use of artificial intelligence, or AI. In the second quarter, growth[5] stocks returned 12.5% while their value counterparts managed just a 4.0% return. The discrepancy between value and growth is even larger over a 1-year period as growth returned 26.6%, more than double the return of value equities at 11.2%. In line with the leadership of growth equities during the second quarter, Consumer Discretionary[7] stocks generated a 12.3% result and Information Technology[8] stocks, with a 15.0% return, led all sector returns, while Utilities[9] at -2.8% and Energy[10] at -0.4% were the only sectors in negative territory.

International stocks[11] were positive for the second quarter but trailed the performance of the broad U.S. equity markets with a modest return of 2.5%. Developed markets[12] returned 3.0% as they continued to outpace their emerging markets[13] counterparts, which returned 0.7%. The 1-year return for international stocks was a respectable 12.5%. Over the last 12 months, developed markets gained 16.5% as emerging market produced just a 1.0% result.

Fixed Income Markets Suffer from Debt Ceiling Standoff

After a slow start to the second quarter, fixed income markets turned negative as rates climbed midway through the quarter due to the uncertainty around the debt ceiling, stirring markets. The U.S. Treasury market began to sell off across the curve in May and June as the 2-year Treasury yield increased 81 basis points to 4.87% while the 10-year Treasury yield rose by 33 basis points to 3.81%. Due to higher interest rate sensitivity, longer-term Treasurys[14] suffered the most, falling -2.3% while intermediate-term Treasurys[15] fell -1.7% and short-term Treasurys[16] lost-0.9%. The overall U.S. Treasury Index[17] fell by -1.4% in the second quarter and was down -2.1% over the 1-year period. The U.S. Federal Reserve (Fed) paused their historic rate hiking cycle after a dramatic rise to 5.0% over 15 months. Due to rising yields, the broad U.S. bond market[18] was down -0.9% for the quarter and -0.9% over the 1-year period.

After a string of bank failures constricted the credit environment to start the second quarter, investment-grade and high-yield credit bonds fared better than safer Treasury options. The U.S. Credit Index[19] was down slightly at -0.3% while remaining positive over the one-year period with an advance of 1.4%. The U.S. Corporate High Yield Index[20], displaying a reasonably high correlation to equity markets relative to investment grade bonds, was up 1.8% on the quarter and 9.1% for the one-year period.

Overall, bonds in developed markets saw their yields finish lower and prices higher. USD-hedged international bonds[21] gained 0.4% in the second quarter and the one year return outperformed U.S. fixed income markets by 1.3%. As currency markets continue to remain volatile, unhedged international bond[22] returns continued to struggle, falling -2.2% in the second quarter, driving down the one-year return to -1.8%.

Economic Outlook

June headline CPI came in slightly below expectations at 0.18% month-over-month (MoM) and 3% year-over-year (YoY), the lowest since March 2021. Annualized core inflation, which excludes volatile items such as energy and food prices, grew at a slower pace but was still up 4.8% for the prior 12 months. This was driven by slowing goods inflation, whereas services inflation remained steady at 0.3% MoM. A look at the underlying broad drivers

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Market commentary (continued)

For the quarter ended June 30, 2023

shows a continuation of the three major trends Vanguard is focusing on for future inflation data. The first is a slowdown in core shelter towards a 0.4% MoM rate heading into the second half of the year. The June data reflected a 0.45% MoM rate. Second, disinflation to mild deflation in goods as new car prices were flat whereas used car prices reversed course to –0.4% MoM. The trend is expected to remain negative for the next few months. The household furnishings category also led to deflation in goods prices with a reading of –0.1% MoM. Lastly, inflationary pressure in services ex-shelter continues to moderate. Overall, the June inflation report should signal some relief for the Fed as inflation demonstrates a downward trend, but this may not be enough to stop additional hikes in the coming months.

The U.S. labor market continued to remain very strong. The number of unemployed persons increased slightly from 5.8 million at the beginning of the quarter to nearly 6 million by the end, but the unemployment rate finished the quarter at 3.6%, indicating a tight labor market. The labor market continues to be a key focus and will likely be the gauge the Federal Reserve relies on if it continues to raise interest rates in its battle to reduce inflation. The labor force participation rate remained unchanged at 62.6%, its highest level since March 2020.

The S&P Global U.S. Manufacturing Purchasing Managers' Index came out at a six-month low in June 2023, indicating a decline in the health of the manufacturing sector amid a renewed fall in output and a sharp downturn in new orders. Combined with a sharp drop in backlogs of work, a shortage of new orders led manufacturers to continue their efforts to reduce inventories, indicating a downward trend in the sector. On the positive side, consumer sentiment increased to a four-month high in June, reflecting a positive reaction from consumers over softening inflation as well as relief from the debt ceiling crisis.

The UK is suffering from the worst of both sides of the Atlantic with a U.S.-style labor supply shock as well as a Eurozone-style energy and food shock, contributing to stickier-than-expected inflation. As a result, Vanguard expects their Bank Rate to peak at 5.5-5.75% and for it to remain at that level until at least mid-2024. With Europe having entered a technical recession based on two consecutive negative quarters of GDP growth (in Q4 2022 and Q1 2023), the second quarter of 2023 is expected to mark the end of the Euro Area recession while another, possibly deeper recession could begin as the effects of policy tightening take hold.

Turning to China, where the recovery has been uneven and slower than expected, exports fell by -7.5% on a year-over-year basis in May, reversing the 8.5% growth rate in April. This was the first decline since February as global demand was insufficient to sustain a recovery in outbound shipments. Exports to the U.S. and EU plunged 18.2% and 26.6%, respectively, from a year earlier, but shipments to Russia surged 114%, driven by energy shipments. The People's Bank of China cut its 1-year medium-term lending facility rate by 10 basis points, from 2.75% to 2.65%, in June as modest policy support is injected in an effort to boost growth levels.

Monetary Policy Highlights

The Federal Reserve continued raising interest rates, but slowed the pace of tightening, with a 25-basis point increase in May followed by a pause in June. This brought the federal funds rate to a range of 5.00 – 5.25%. At this point, Vanguard believes an additional 50 basis points of tightening may be necessary by the end of 2023, resulting in a federal funds rate in the range of 5.50% - 5.75%.

The European Central Bank (ECB) raised interest rates by 25 basis points in both its May and June meetings. The latest hike increased the ECB's Deposit Facility rate to 3.5%, the highest level since September 2001, reflecting its "updated assessment of the inflation outlook, the dynamics of underlying inflation, and the strength of monetary policy transmission". We foresee the ECB raising its rate target by an additional 25 to 50 basis points in the coming months for a terminal rate of 3.75%–4.00% and no rate cuts until mid-2024.

The Bank of England's Monetary Policy Committee (MPC) voted to continue raising interest rates, to 5% at the end of June. The decision to raise 50 basis points in June was based on "significant upside news in recent data which indicates more persistence in the inflation process", as well as a "tight labor market and continued resilience in demand". We've recently raised our forecast for the Bank of England's terminal rate to 5.5% - 5.75%. We maintain our view of no rate cuts until mid-2024 at the earliest.

Market commentary (continued)

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Final Thoughts

At the midyear point of 2023, our outlook remains intact. The Federal Reserve remains focused on driving down inflation through monetary policy and tighter financial conditions. We continue to anticipate economic growth to slow, and believe the unemployment rate should start rising, albeit at the cost of a recession. We project that a recession is extremely likely and that whether it is declared later this year or in 2024 will be based on a holistic view of the economic variables and completed in hindsight. As we enter the second half of the year, Vanguard remains committed to our long-term investment principles: diversification, low costs, and disciplined investing. Markets will inevitably experience ups and downs but staying focused on your long-term portfolio goals is key to prudent investing.

References (Index Returns)

1. CRSP U.S. Total Stock Market Index
2. CRSP U.S. Large Cap Index
3. CRSP U.S. Small Cap Index
4. CRSP U.S. Mid Cap Index
5. Russell 3000 Growth Index
6. Russell 3000 Value Index
7. MSCI U.S. IMI ConsDiscretionary25/50
8. MSCI U.S. IMI Info Technology 25/50
9. MSCI U.S. IMI Utilities 25/50
10. MSCI U.S. IMI Energy 25/50
11. FTSE Global All Cap ex U.S. Index
12. FTSE Developed All Cap ex U.S. Index
13. FTSE Emerging Index
14. Bloomberg U.S. Long Treasury Index
15. Bloomberg U.S. 5-10 Yr Treasury Index
16. Bloomberg U.S. 1-5 Year Treasury Idx
17. Bloomberg U.S. Treasury Index
18. Bloomberg U.S. Agg Float Adj Index
19. Bloomberg U.S. Credit Index
20. Bloomberg U.S. Corp High Yield Index
21. Bloomberg GA ex-USD FlAdjRIC Cp Hgd
22. Bloomberg Global Agg Index ex USD

Sources:
Vanguard, U.S. 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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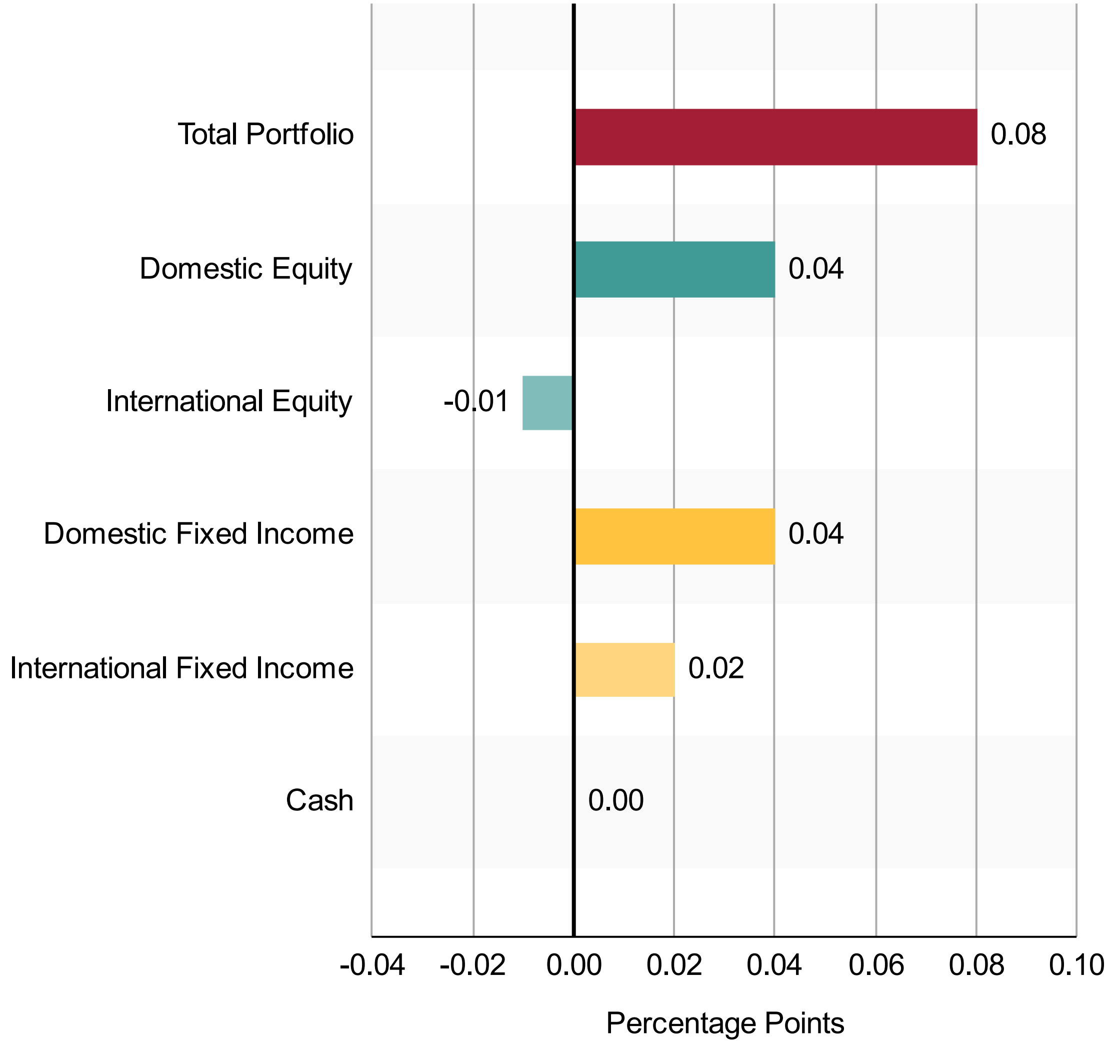
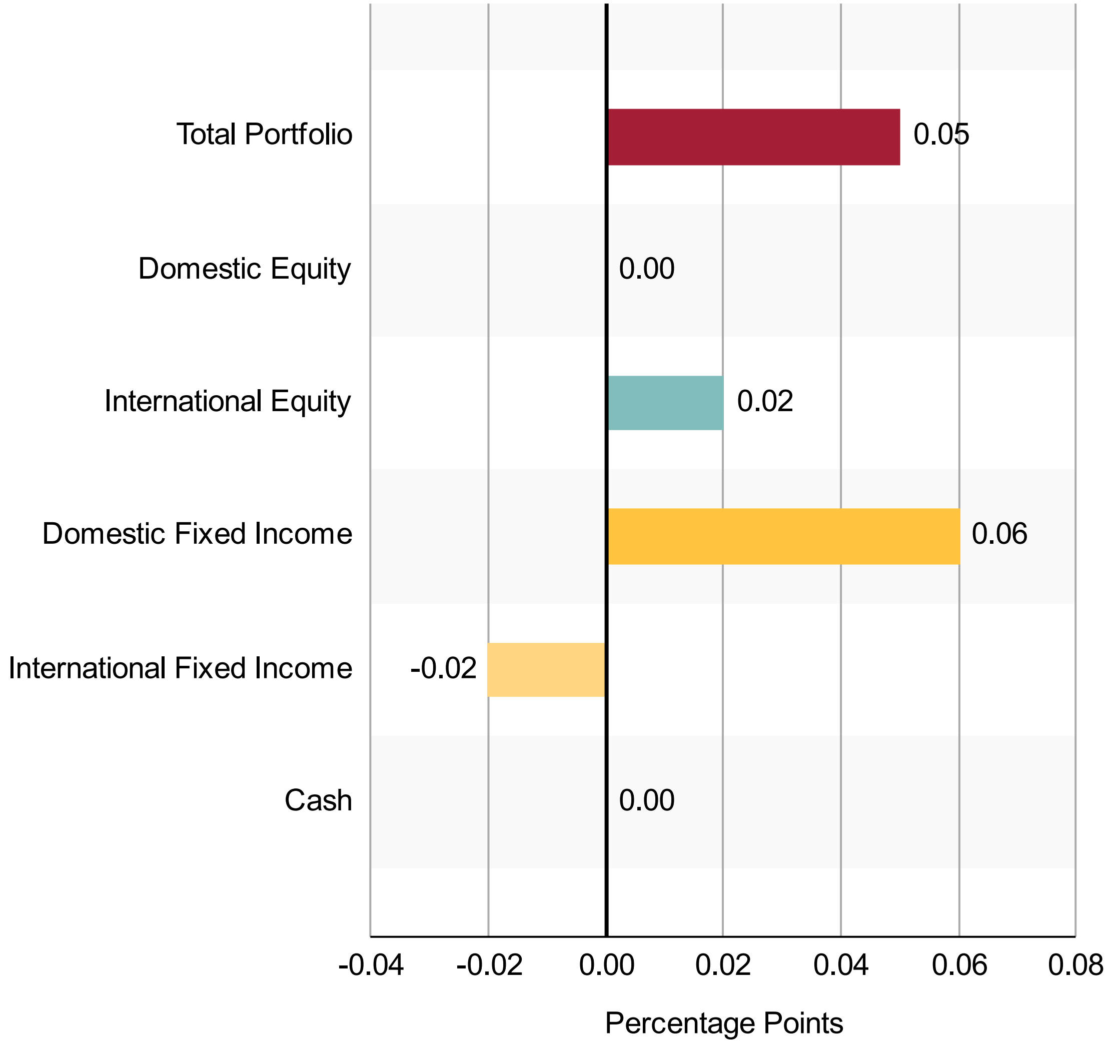
Broad Allocation Impact



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.

Excess returns by time periods

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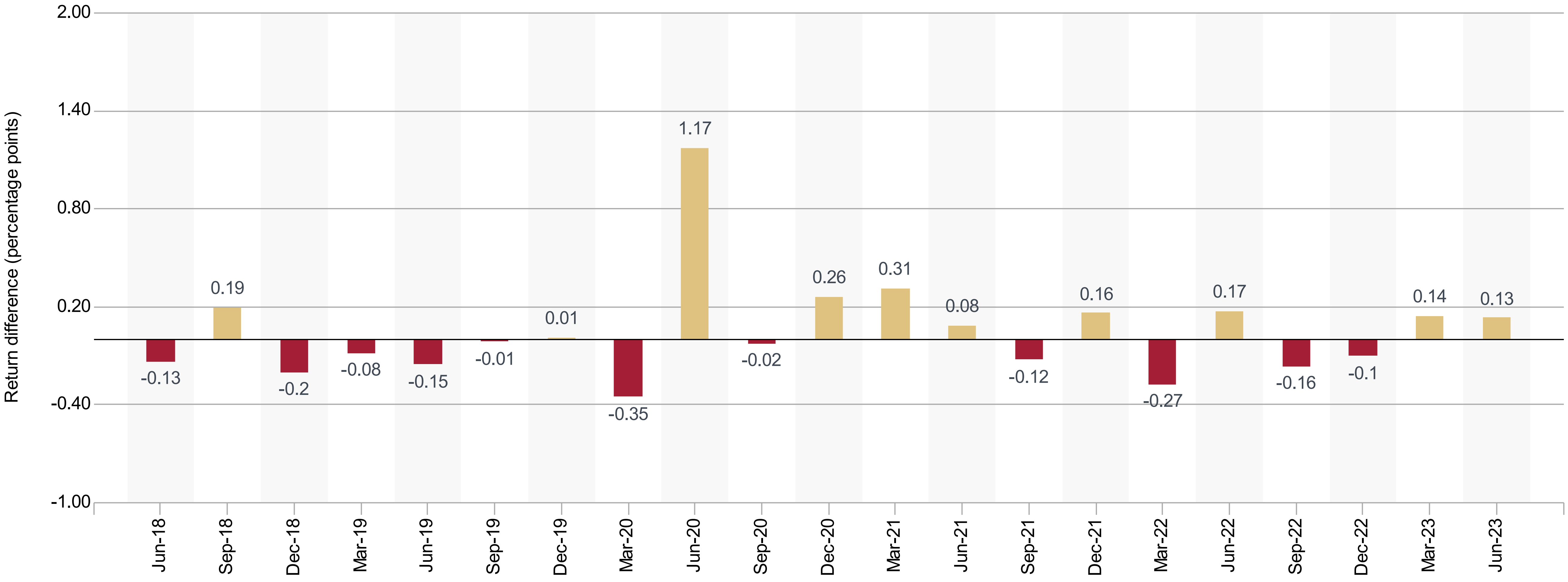
Quarterly calendar excess returns



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.**

Excess returns by time periods

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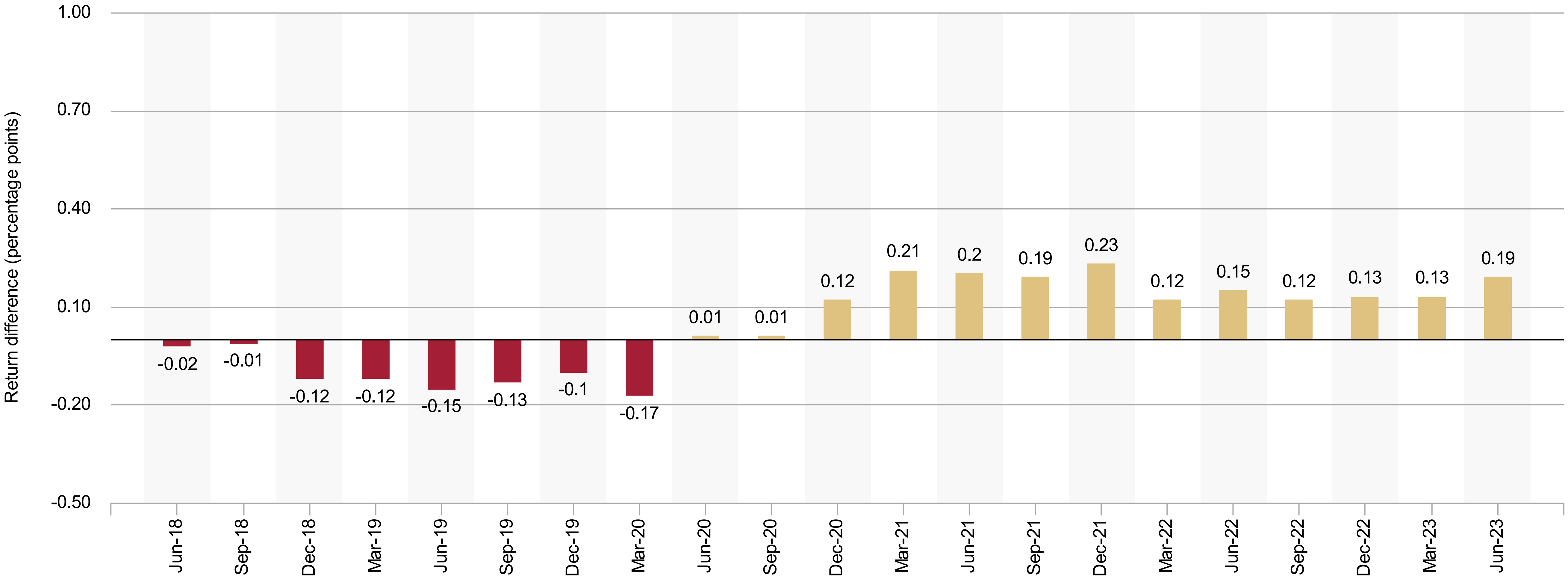
Quarterly rolling 5-year annualized excess returns



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.**

Risk control - rolling quarter returns

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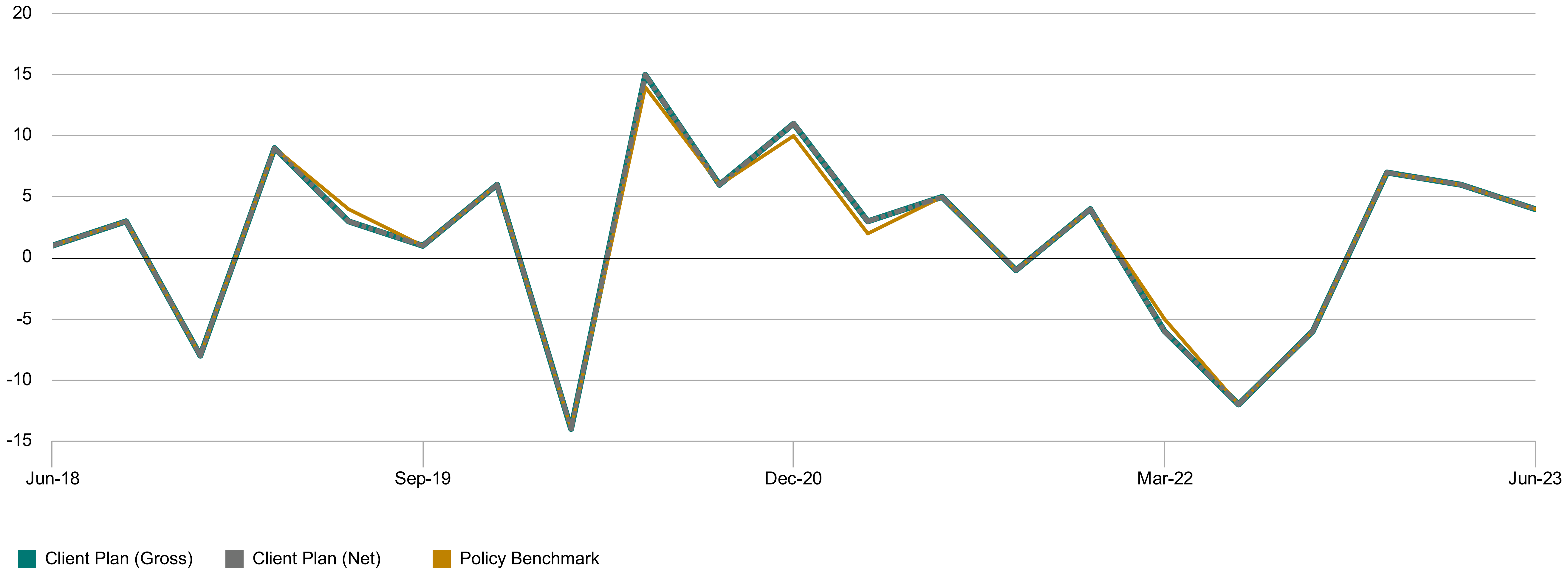
Client plan versus policy benchmark



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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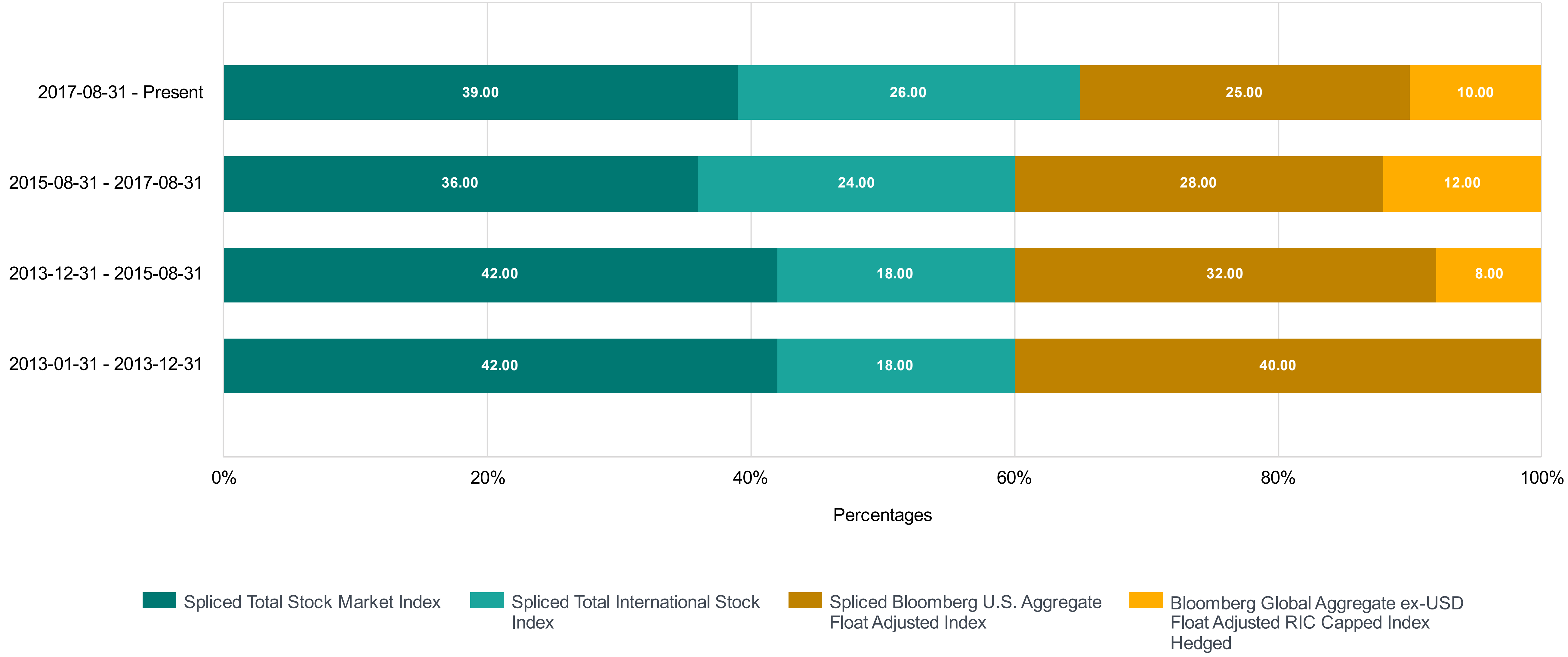
Policy benchmark allocations up to June 30, 2023



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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