



SWS Capital Management

City of St. Louis

June 30, 2023

Disclosure

Portfolio Inception Date: April 1, 2023

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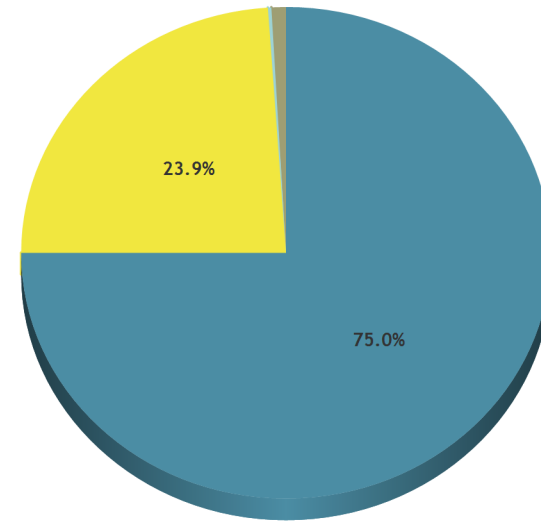
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Weighted Averages

Average Yield	4.61
Average Maturity	0.25
Average Coupon	0.02
Average Duration	0.25
Average Moody	Aaa
Average S&P	AA+
Average Fitch	Not Rated

Fixed Income Allocation



Fixed Income Totals

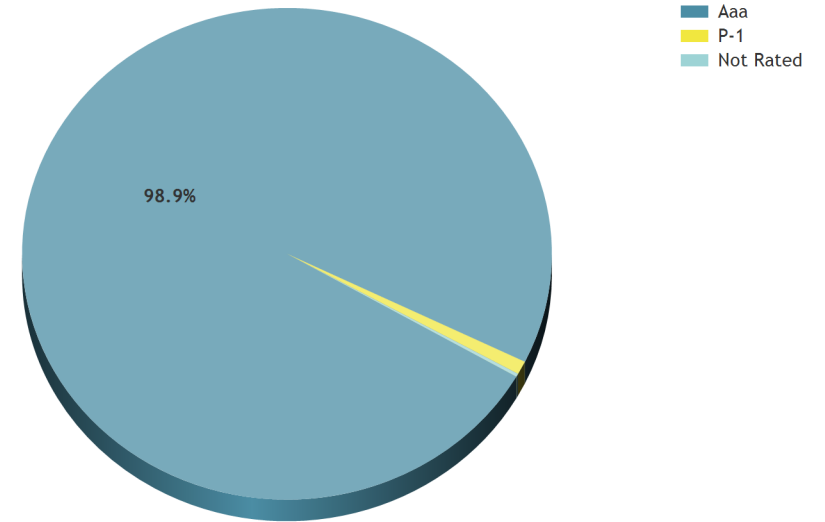
Par Value	56,636,000
Market Value	55,928,704.82
Total Cost	55,814,786.47
Net Gain/Loss	113,918.35
Annual Income	9,017.50
Accrued Interest	3,130.70

Security Type	Market Value	% Fixed Income	% Assets
TREASURY BILLS (USD)	41,951,324.10	75.0	60.7
GOVERNMENT AGENCY (USD)	13,364,921.99	23.9	19.3
CERTIFICATES OF DEPOSIT (USD)	117,824.97	0.2	0.2
COMMERCIAL PAPER (USD)	494,633.75	0.9	0.7
Fixed Income Total	55,928,704.82	100.0	80.9

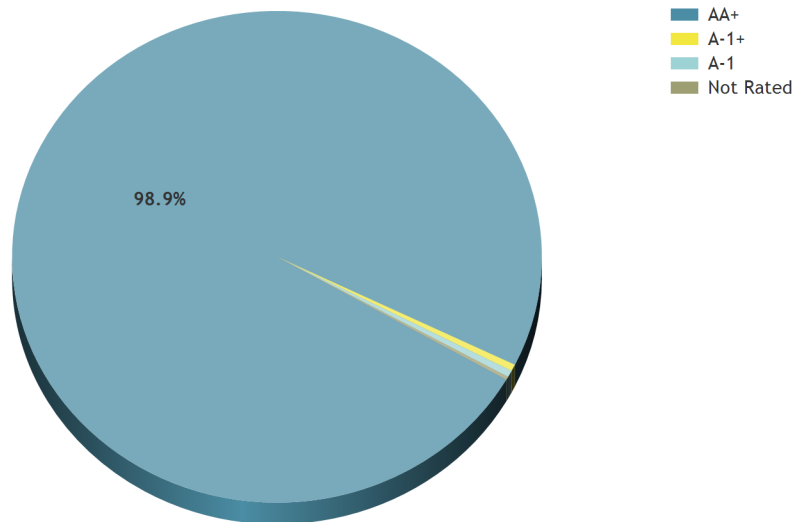
Distribution by Maturity

Maturity	Number	Market Value	% FI Holdings	Average Curr. Yld	Average Coupon	Average Duration
Under 1 Mth	7	13,106,281.58	23.4	0.0	0.014%	0.0
1 Mth - 2 Mths	9	6,203,881.13	11.1	0.1	0.095%	0.1
2 Mths - 3 Mths	6	14,128,186.97	25.3	0.0	0.003%	0.2
3 Mths - 4 Mths	3	7,488,617.35	13.4	0.0	0.000%	0.3
4 Mths - 10 Mths	5	15,001,737.80	26.8	0.0	0.006%	0.5

Distribution by Moody Rating



Distribution by S&P Rating



Distribution by Coupon

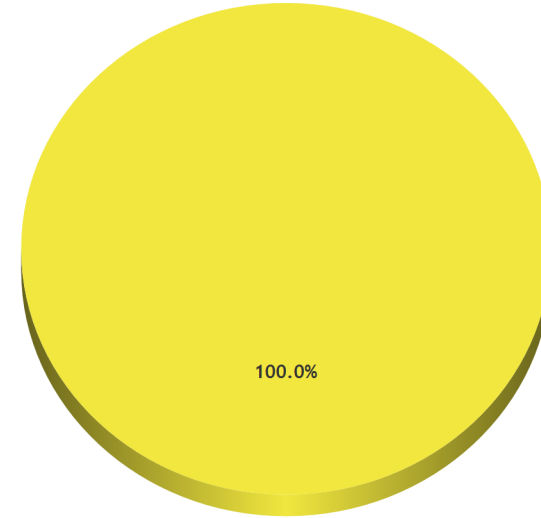
Coupon	Number	Market Value	% FI Holdings	Average Curr. Yld	Average Coupon	Average Duration
Under 1%	25	55,810,879.85	99.8	0.0	0.010%	0.2
1% - 2%	1	25,048.88	0.0	2.0	1.950%	0.1
3% - 4%	4	92,776.09	0.2	3.1	3.076%	0.1



Weighted Averages

Average Yield	4.57
Average Maturity	0.13
Average Coupon	0.00
Average Duration	0.13
Average Moody	Aaa
Average S&P	AA+
Average Fitch	Not Rated

Fixed Income Allocation



Fixed Income Totals

Par Value	2,046,000
Market Value	2,034,111.16
Total Cost	1,987,275.99
Net Gain/Loss	46,835.17
Annual Income	0.00
Accrued Interest	0.00

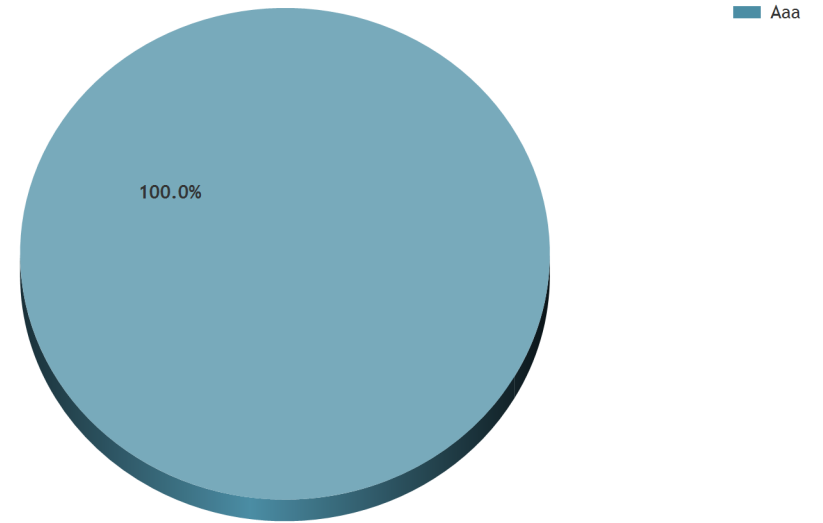
Security Type	Market Value	% Fixed Income	% Assets
GOVERNMENT AGENCY (USD)	2,034,111.16	100.0	100.0
Fixed Income Total	2,034,111.16	100.0	100.0



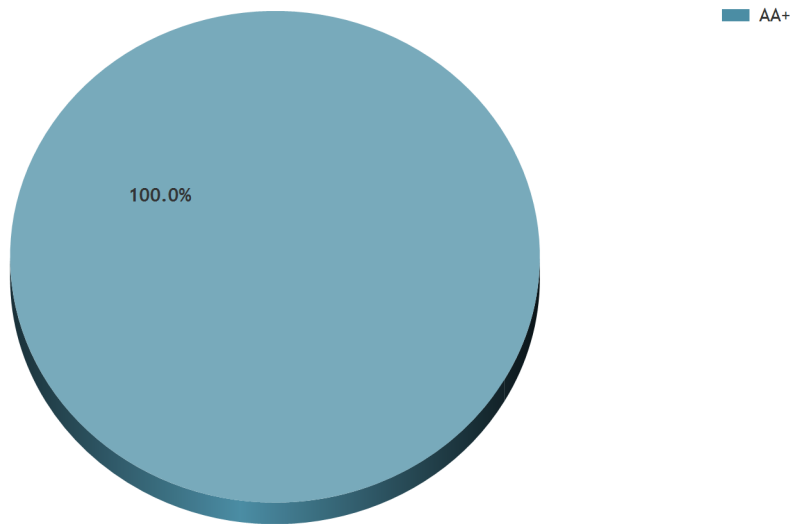
Distribution by Maturity

Maturity	Number	Market Value	% FI Holdings	Average Curr. Yld	Average Coupon	Average Duration
1 Mth - 2 Mths	1	2,034,111.16	100.0	0.0	0.000%	0.1

Distribution by Moody Rating



Distribution by S&P Rating



Distribution by Coupon

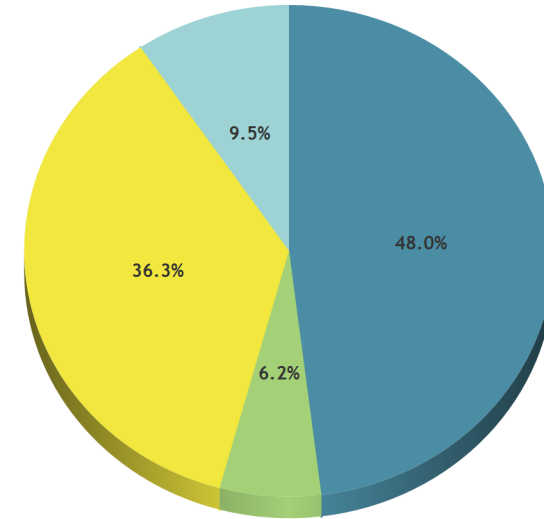
Coupon	Number	Market Value	% FI Holdings	Average Curr. Yld	Average Coupon	Average Duration
Under 1%	1	2,034,111.16	100.0	0.0	0.000%	0.1



Weighted Averages

Average Yield	4.94
Average Maturity	0.17
Average Coupon	0.63
Average Duration	0.17
Average Moody	Aaa
Average S&P	AA+
Average Fitch	Not Rated

Fixed Income Allocation



Fixed Income Totals

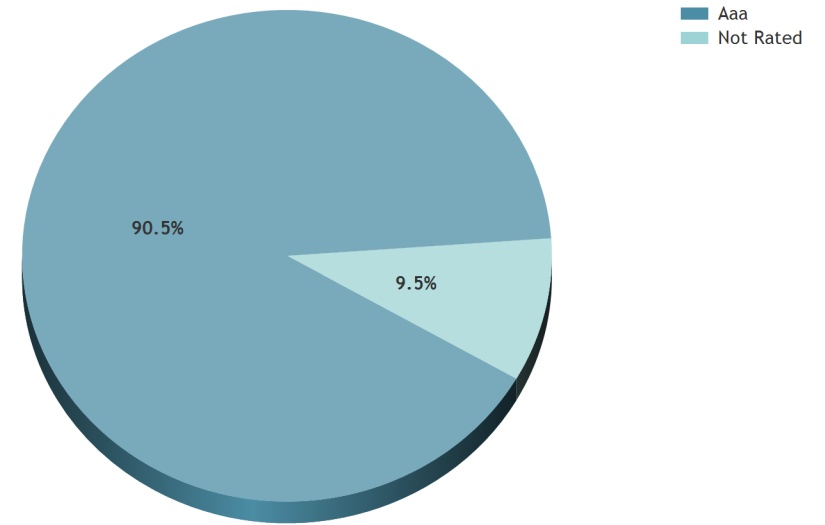
Par Value	809,000
Market Value	804,488.70
Total Cost	763,927.20
Net Gain/Loss	40,561.50
Annual Income	5,046.00
Accrued Interest	1,823.31

Security Type	Market Value	% Fixed Income	% Assets
TREASURY BILLS (USD)	386,530.08	48.0	47.5
GOVERNMENT BONDS (USD)	49,720.39	6.2	6.1
GOVERNMENT AGENCY (USD)	292,015.75	36.3	35.9
CERTIFICATES OF DEPOSIT (USD)	76,222.49	9.5	9.4
Fixed Income Total	804,488.70	100.0	98.9

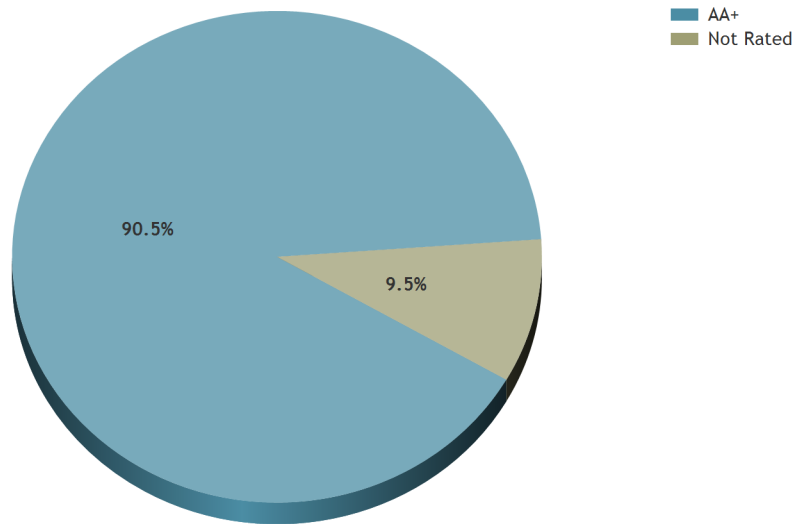
Distribution by Maturity

Maturity	Number	Market Value	% FI Holdings	Average Curr. Yld	Average Coupon	Average Duration
Under 1 Mth	4	130,399.76	16.2	1.0	0.982%	0.1
1 Mth - 2 Mths	9	343,688.29	42.7	0.6	0.611%	0.1
2 Mths - 3 Mths	5	228,274.92	28.4	0.7	0.671%	0.2
3 Mths - 4 Mths	1	49,219.25	6.1	0.0	0.000%	0.3
4 Mths - 10 Mths	1	52,906.47	6.6	0.3	0.250%	0.4

Distribution by Moody Rating



Distribution by S&P Rating



Distribution by Coupon

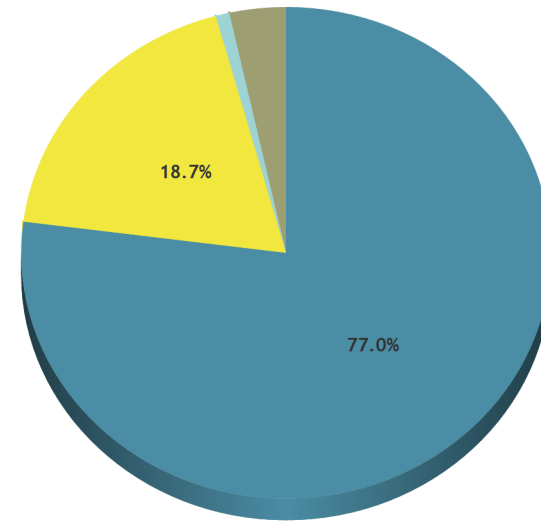
Coupon	Number	Market Value	% FI Holdings	Average Curr. Yld	Average Coupon	Average Duration
Under 1%	14	678,092.53	84.3	0.1	0.062%	0.2
2% - 3%	1	50,173.67	6.2	2.9	2.875%	0.2
3% - 4%	1	5,128.34	0.6	3.0	3.000%	0.1
4% - 5%	4	71,094.15	8.8	4.3	4.337%	0.1



Weighted Averages

Average Yield	4.97
Average Maturity	0.26
Average Coupon	0.16
Average Duration	0.25
Average Moody	Aaa
Average S&P	AA+
Average Fitch	Not Rated

Fixed Income Allocation



Fixed Income Totals

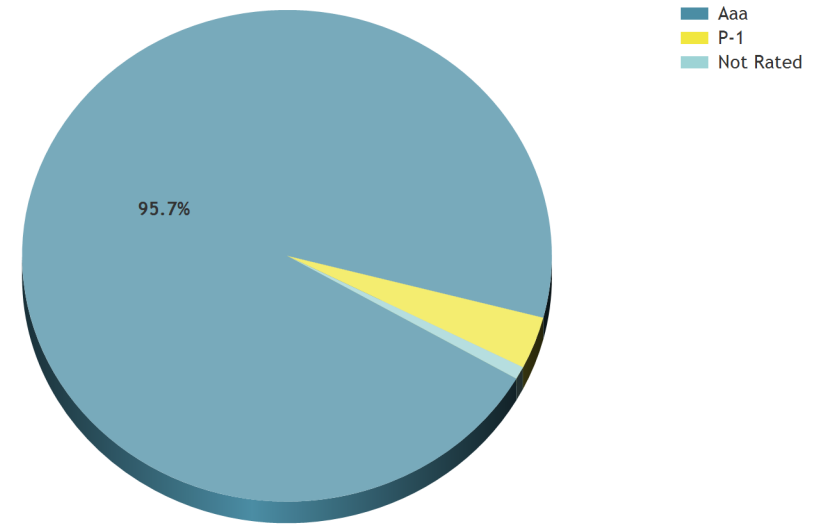
Par Value	7,260,000
Market Value	7,171,014.39
Total Cost	7,158,112.03
Net Gain/Loss	12,902.36
Annual Income	11,775.00
Accrued Interest	3,802.15

Security Type	Market Value	% Fixed Income	% Assets
TREASURY BILLS (USD)	5,523,760.05	77.0	66.7
GOVERNMENT AGENCY (USD)	1,340,357.47	18.7	16.2
CERTIFICATES OF DEPOSIT (USD)	60,192.63	0.8	0.7
COMMERCIAL PAPER (USD)	246,704.25	3.4	3.0
Fixed Income Total	7,171,014.39	100.0	86.6

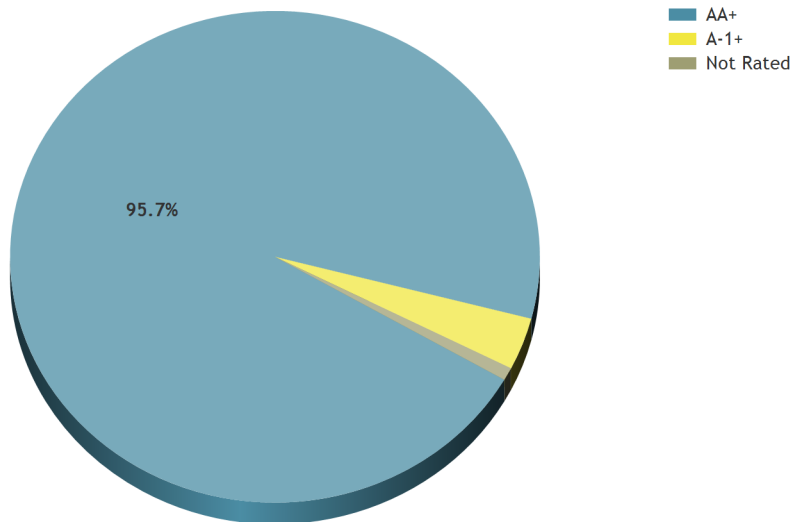
Distribution by Maturity

Maturity	Number	Market Value	% FI Holdings	Average Curr. Yld	Average Coupon	Average Duration
Under 1 Mth	3	1,346,944.26	18.8	0.0	0.028%	0.1
1 Mth - 2 Mths	3	845,064.64	11.8	0.1	0.115%	0.1
2 Mths - 3 Mths	6	2,240,830.27	31.2	0.5	0.464%	0.2
3 Mths - 4 Mths	1	786,901.42	11.0	0.0	0.000%	0.3
4 Mths - 10 Mths	3	1,951,273.81	27.2	0.0	0.000%	0.5

Distribution by Moody Rating



Distribution by S&P Rating



Distribution by Coupon

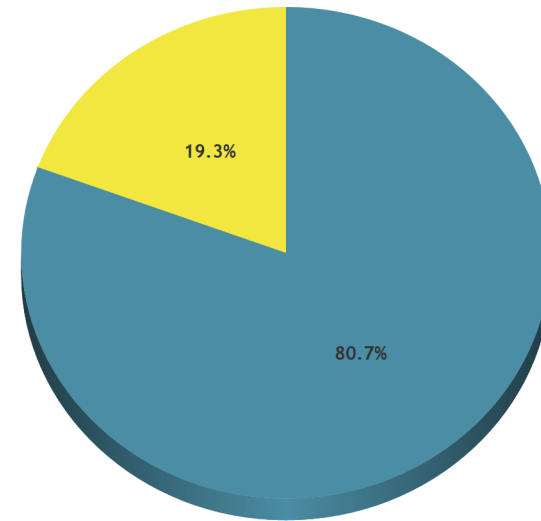
Coupon	Number	Market Value	% FI Holdings	Average Curr. Yld	Average Coupon	Average Duration
Under 1%	13	6,808,829.06	94.9	0.0	0.006%	0.3
1% - 2%	1	50,097.77	0.7	2.0	1.950%	0.1
3% - 4%	2	312,087.56	4.4	3.4	3.363%	0.2



Weighted Averages

Average Yield	5.07
Average Maturity	0.32
Average Coupon	0.03
Average Duration	0.32
Average Moody	Aaa
Average S&P	AA+
Average Fitch	Not Rated

Fixed Income Allocation



Fixed Income Totals

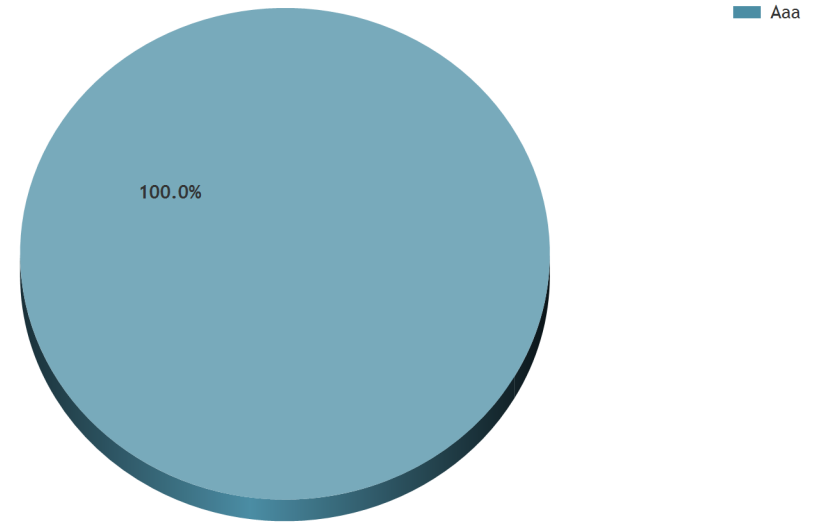
Par Value	8,429,000
Market Value	8,292,244.41
Total Cost	8,288,836.56
Net Gain/Loss	3,407.85
Annual Income	2,785.00
Accrued Interest	228.60

Security Type	Market Value	% Fixed Income	% Assets
TREASURY BILLS (USD)	6,689,344.45	80.7	58.4
GOVERNMENT AGENCY (USD)	1,602,899.96	19.3	14.0
Fixed Income Total	8,292,244.41	100.0	72.4

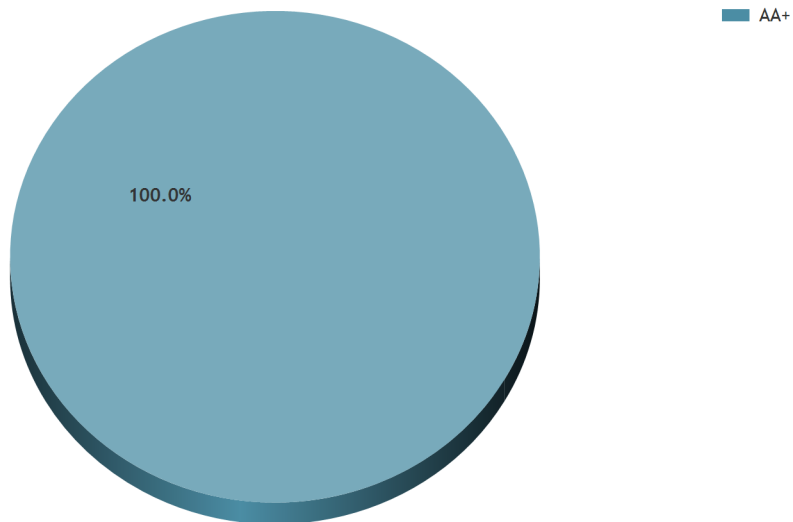
Distribution by Maturity

Maturity	Number	Market Value	% FI Holdings	Average Curr. Yld	Average Coupon	Average Duration
Under 1 Mth	1	1,131,539.75	13.6	0.0	0.000%	0.1
2 Mths - 3 Mths	3	2,241,262.74	27.0	0.0	0.000%	0.2
3 Mths - 4 Mths	1	1,111,498.25	13.4	0.0	0.000%	0.3
4 Mths - 10 Mths	5	3,807,943.67	45.9	0.1	0.072%	0.5

Distribution by Moody Rating



Distribution by S&P Rating



Distribution by Coupon

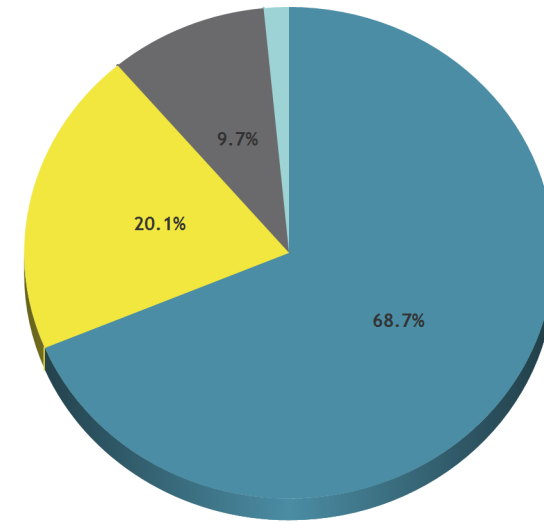
Coupon	Number	Market Value	% FI Holdings	Average Curr. Yld	Average Coupon	Average Duration
Under 1%	10	8,292,244.41	100.0	0.0	0.033%	0.3



Weighted Averages

Average Yield	4.85
Average Maturity	0.28
Average Coupon	0.71
Average Duration	0.27
Average Moody	Aa1
Average S&P	AA+
Average Fitch	Not Rated

Fixed Income Allocation



Fixed Income Totals

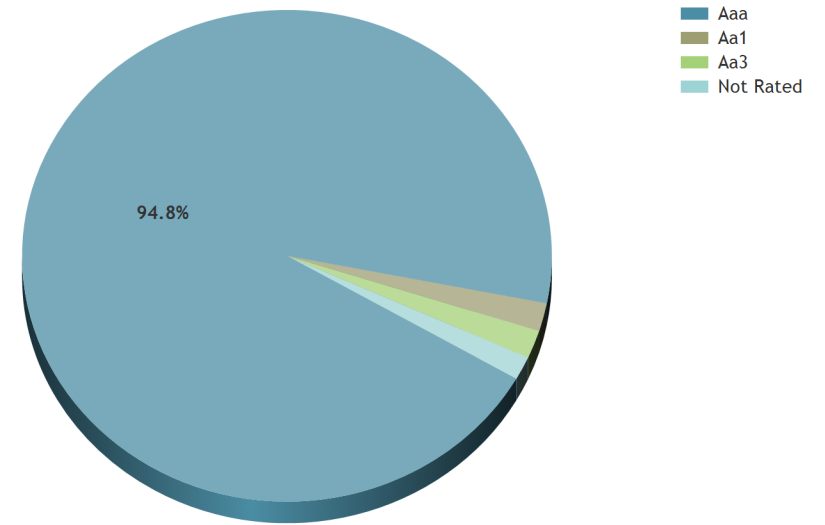
Par Value	2,254,000
Market Value	2,234,525.59
Total Cost	2,226,462.70
Net Gain/Loss	8,062.89
Annual Income	15,721.75
Accrued Interest	6,128.69

Security Type	Market Value	% Fixed Income	% Assets
TREASURY BILLS (USD)	1,534,654.83	68.7	46.0
GOVERNMENT AGENCY (USD)	449,622.24	20.1	13.5
MUNICIPAL BONDS (USD)	215,956.70	9.7	6.5
CERTIFICATES OF DEPOSIT (USD)	34,291.81	1.5	1.0
Fixed Income Total	2,234,525.59	100.0	67.0

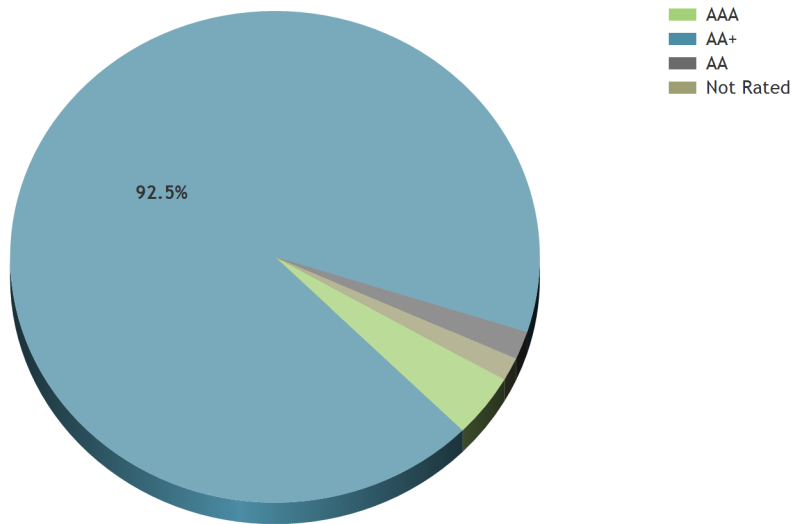
Distribution by Maturity

Maturity	Number	Market Value	% FI Holdings	Average Curr. Yld	Average Coupon	Average Duration
Under 1 Mth	4	363,176.74	16.3	0.1	0.102%	0.1
1 Mth - 2 Mths	11	390,756.15	17.5	1.8	1.775%	0.1
2 Mths - 3 Mths	5	480,697.76	21.5	0.3	0.325%	0.2
3 Mths - 4 Mths	1	206,561.62	9.2	0.0	0.000%	0.3
4 Mths - 10 Mths	8	793,333.31	35.5	0.9	0.879%	0.5

Distribution by Moody Rating



Distribution by S&P Rating



Distribution by Coupon

Coupon	Number	Market Value	% FI Holdings	Average Curr. Yld	Average Coupon	Average Duration
Under 1%	16	1,883,461.20	84.3	0.0	0.032%	0.3
1% - 2%	1	6,009.73	0.3	1.8	1.750%	0.1
3% - 4%	5	119,031.38	5.3	3.4	3.432%	0.2
4% - 5%	2	10,066.58	0.5	4.5	4.500%	0.1
Over 5%	5	215,956.70	9.7	5.0	5.000%	0.4

Economic Commentary – June 2023

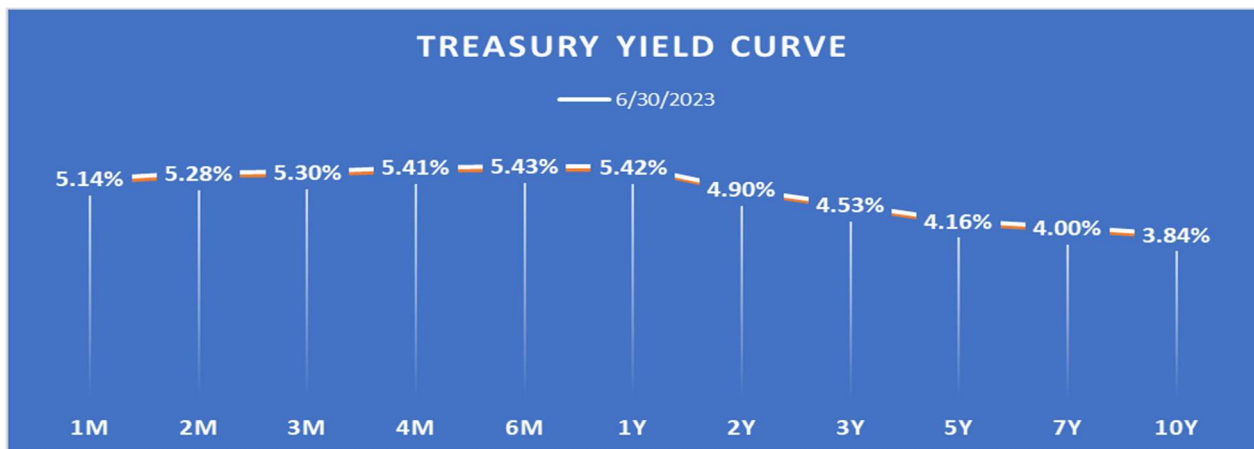
On June 1, the day following the vote by the House of Representatives (314-117) to settle the debt ceiling impasse, the Senate also obliged, ratifying the bipartisan legislative pact 63-36, ultimately suspending the federal statutory debt limit at \$31.4 trillion until January 1, 2025, while also imposing two years of spending cuts appropriated to federally funded programs. On June 3, President Biden signed the bill into law, resolving months of partisan political rancor and animosity, but most importantly thwarting a potentially perilous U.S. debt default.

Continuing 2023’s trend of the rates market accurately assigning a static rate hike probability ahead of a pivotal Fed decision, the result was once again spot on. On June 14, the FOMC unanimously voted to undertake a hawkish hiatus on its aggressive rate hiking crusade, a tenure that has seen the Committee raise its target benchmark rate at the conclusion of ten consecutive meetings dating back to March 2022. In its decision to pause, the FOMC left the federal funds target rate range unchanged at 5.00% - 5.25%. However, in the FOMC statement and Chair Powell’s post-meeting press conference, Fed policymakers and the Chairman hinted at additional rate increases in 2023. In fact, all FOMC participants expect to enact one more 25 basis point rate hike in 2023, and all but two members anticipate there will be two 25 basis point upward adjustments in the policy rate before the completion of the year.

While not overlooking the verdict to maintain the target rate range for now, the Fed’s newly released Summary of Economic Projections provided deeper insights into the Committee’s assumptions and forecasted trajectory for the remainder of 2023. Revised from March’s projections, the federal funds terminal rate was revised up to 5.6% from 5.1%, the change in real GDP was revised up to 1.0% from 0.4%, core PCE inflation was revised up to 3.9% from 3.6%, and the unemployment rate was revised down to 4.1% from 4.5%.

In short, the U.S. economy has sustained its resiliency despite the Fed’s efforts to rein in economic activity aimed at stifling inflationary pressures. The labor market continues to display impeccable resolve amidst an enduring supply/demand imbalance, consumer spending has remained robust, GDP has consistently seen upward revisions, and inflation (especially components in the services sector) is still approximately twice the Fed’s 2.00% objective. These factors constitute an impetus for the Fed to embark on further restrictive monetary policy.

The entire U.S. Treasury yield curve sustained its overall inversion, further emboldening practitioners in the impending recessionary camp. The 2-year/10-year spread widened its inversion to 106 basis points, but the 3-month/10-year pair abridged its inversion to 146 basis points.



U.S. Treasury Yield Curve Source: Bloomberg

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June 2023 Macroeconomic Highlights

Inflation, Expectations, and Consumer Sentiment¹:

CPI: 4.0% year-over-year (0.1% month-over-month); **Core CPI:** 5.3% year-over-year (0.4% month-over-month)
PCE: 3.8% year-over-year (0.1% month-over-month); **Core PCE:** 4.6% year-over-year (0.3% month-over-month)
PPI: 1.1% year-over-year (-0.3% month-over-month); **Core PPI:** 2.8% year-over-year (0.2% month-over-month)
Core PPI less trade services: 2.8% year-over-year (0.0% month-over-month)
Inflation Expectations: 1-year horizon: 4.1%, 3-year horizon: 3.0%, and 5-year horizon: 2.7%
Consumer Sentiment: 64.4 vs. 59.2 in May; **Current Conditions:** 69.0 vs. 64.9 in May
Consumer Expectations: 61.5 vs 55.4 in May

Labor Market²: U.S. economy added 339,000 nonfarm payrolls in May vastly outstripping the 195,000 expected by economists surveyed by Bloomberg. Notable job gains occurred in professional and business services (+64,000), government (+56,000), health care (+52,000), leisure and hospitality (+48,000), and construction (+25,000).

- U-3 **official** unemployment rate: 3.7% vs. 3.5% expectation: +0.3% from April 2023.
- U-6 unemployment rate (marginalized, part-time workers for economic reasons): 6.7%.
- Labor force participation rate: 62.6% (unchanged), Employment-to-population ratio: 60.3% (-0.1%).
- Average hourly earnings for private nonfarm payrolls rose 11 cents to \$33.44 (+0.3% month-over-month, 4.3% year-over-year).
- Employment revisions: April 2023 bumped up 41,000 to 294,000; March 2023 boosted 52,000 to 217,000.

Gross Domestic Product (GDP)³: According to the **third and final** estimate, real GDP increased at annual rate of 2.0% in the first quarter of 2023 vs. 2.6% in the fourth quarter of 2022.

- **First Quarter 2023:** GDP Price Index: +4.1%; PCE Price Index: +4.1%; Core PCE Price Index +4.9%.
- Real disposable personal income: +8.5% vs. +5.0% in the fourth quarter of 2022.
- Personal savings rate as a percentage of disposable income: 4.3% vs. 4.0% in the fourth quarter of 2022.
- Average of Real GDP and Real GDI: +0.1% vs. -0.4% in the fourth quarter of 2022.

Housing Market⁴: Existing-home sales marginally increased 0.2% (month-over-month) from April to a seasonally-adjusted annual rate of 4.30 million in May. Month-over-month sales in the Midwest and Northeast dwindled 2.9% and 2.0%, respectively, while sales in the West and South rose 2.6% and 1.5%, respectively.

- Year-over-year sales plunged 20.4%, down from 5.40 million in May 2022.
- Total housing inventory registered 1.08 million units, +3.8% from April, but -6.1% from one year ago (1.15 million units).
- The median existing-home price for all housing types was \$396,100, -3.1% from May 2022, as prices climbed in the Northeast and Midwest, but receded in the South and West.
- Average commitment rate for a 30-year, conventional, fixed-rate mortgage: 6.71%.
- New Home Sales: 763,000 (+12.2% month-over month).

¹Source: Federal Reserve Bank of New York – Survey on Consumer Expectations, and University of Michigan Consumer Sentiment Index

²Source: Bureau of Labor Statistics

³Source: Bureau of Economic Analysis (BEA)

⁴Source: National Association of Realtors (NAR), U.S. Census Bureau, and The Department of Housing and Urban Development

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Quarterly Commentary – Q2 2023

The quarter began with the second largest U.S. bank failure as regulators seized First Republic Bank and engineered a sale to JPMorgan. The failure followed the collapse of Silicon Valley Bank and Signature Bank in the first quarter. The sale ended a period of initial panic due to a banking crisis that threatened the economy, but was largely contained to regional banks.

The second major concern in the quarter was the uncertainty pertaining to the U.S. debt ceiling. However, with “time running out”, Congress approved a deal, which raised the debt ceiling and included spending concessions, avoiding a default.

The Federal Reserve raised the Federal Funds Overnight Rate 25 basis points in May, but did not raise the reference rate in June. The “Hawkish Pause” did not signal an end to the rising rate cycle. Current Fed Dot Plot projections indicate that rates will likely close 2023 50 basis points higher than the current target range of 5.00% to 5.25%.

Economic growth surprised to the upside as GDP was revised to 2% for the first quarter annually from the prior estimate of 1.3% growth. Inflation continued to moderate as CPI continues to trend down. The unemployment rate for May was 3.7%, which historically is considered full employment.

The fixed income markets have continued to accept that rates will likely remain higher for longer and the inverted yield curve continues to reward higher yields toward shorter maturity investments over longer maturity investments.

SWS Capital Management’s [SWSCM] philosophy is based on a value-oriented, active management style which emphasizes liquidity and risk management. This philosophy is woven into all our strategies. Security selection, sector allocation, and yield curve positioning are based upon interest rate anticipation as well as our fundamental economic outlook.

SWSCM continues to position strategies shorter duration to benchmark. This quarter we increased portfolio duration closer to benchmark. Opportunistically, we continue to add credit exposure to many of our strategies.

As always, we are available to answer any questions on the economy or your portfolios, and we thank you for your business.

Disclosure

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