Market Commentary for Q1 2023

Q1 Market Environment

The first quarter of 2023 was one for the books and will likely be one that gets remembered in years to come. Biden, in the first veto of his presidency, rejected a proposal to prevent pension fund managers from basing investment decisions on factors such as the risks of climate change. In the wake of national debate across the US about incorporating the environment into investment decisions, President Biden's veto sent a strong message to the investment industry that environmental, social and governance (ESG) issues are material and matter for prudent portfolio management.

Also in March, we all watched and felt the effects of the Silicon Valley Bank meltdown, with ripple effects across the economy. Investors may also mark this quarter as the winter that spurred sustainable solutions investing. Dramatic weather across the globe brought to light the need for mitigating solutions to climate change within the economy.

Emerging from one of the worst December market performances on record, the broader market leaped out of the gate in January with a strong rally. Followed by a downswing in February and a small bounce in March, U.S. equity markets in the first quarter of 2023 continued to see-saw between investors feelings of optimism and pessimism with traders being influenced by the Federal Reserve Board's (the "Fed's") interest rate increases, rising inflation, and the overall economic outlook. The yield curve inversion that began in late 2022 persisted into 2023 at levels not seen

since the early 1980's, reflecting an increased probability that the U.S economy would experience a recession.

While many economic factors signaled a downturn, the Fed's policy to seek demand destruction through rate increases lead to headwinds and tailwinds for public equities. At the same time, significant inflationary pressures from both demand side and also from production costs (such as cost of raw materials and transportation) in international markets prompted rate increases by central banks worldwide. Both developed and emerging market countries implemented interest rate increases throughout 2022, with many continuing in the first quarter of 2023.

Here in the U.S., data released in January continued to provide a mixed view on inflation and the economy, and yet the market reaction was positive, providing a bounce back from the December market low. US Core Personal Consumption Expenditures (PCE), one of the Fed's preferred inflation measures, edged up, pointing to easing inflation. And while employment numbers remained strong, other metrics indicated consumer weakness. Perhaps most concerning was the sharp rise in consumer debt, a reflection of both inflation and the effects of COVID era government assistance programs coming to an end.

And while employment and labor market data remained resilient, other consumer related metrics like rising household debt balances and credit card delinquencies increasingly painted a picture of an overextended consumer.

Fourth quarter earnings reports revealed slightly higher revenues than previous quarters (due to higher prices more than unit increases) and a decline in year-over-year profitability (due to higher costs). A frequent theme on earnings calls was the sharing of a cautionary outlook and concerns about the overall economy.

March brought the banking crisis, the largest U.S. bank failure since 2008. Representatives from the Federal Reserve and the U.S. Treasury, together with representatives from the Systemically Important Banks (SIBs), acted quickly to prevent further contagion, calm depositors, and bolster faith in the banking system. While questions about systemic stability remain, these efforts appear to have been largely successful in preventing further knock-on crises for now.

Meanwhile, the February Institute for Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI) report reflected the fourth consecutive month of contraction after a twenty-eight-month period of expansion. On the positive side, the Consumer Price Index (CPI) indicated small progress toward the Fed's goal of containing inflation. Interestingly, indices were broadly up in March, perhaps due to reemerging hope for a possible pause in interest rate hikes, with the strongest performance in large cap technology and international developed markets.

Macroeconomic Outlook

Years of loose fiscal and monetary policy over multiple U.S. administrations have led to inflated asset prices, inflation, and a distortion between risk and return. In 2021, these forces, along with supply side constraints, sparked inflation, which had sat at historically low levels for decades. Because inflation can cause disruption to people and businesses, the Fed's objective is to tame inflation through demand destruction, i.e., increasing short term rates to increase the cost of borrowing money and decrease inflationary demand.

With the market already reflecting traders expectations for rate cuts in the latter half of 2023, pressure on the Fed to shift their policies and prevent further downturn is high.

While a dovish interest rate and balance sheet policy pivot by the Fed would help businesses and home purchasers, lower interest rates could create different stresses on our economy, from untamed inflation to the potential of dollar devaluation. With record national debt in relation to Gross Domestic Product (GDP), the U.S. is testing new limits which may include a lower global appetite for U.S. treasuries, further weakening of the dollar's role in flights-to-safety and as a reserve currency.

Whether the path forward includes a market correction or a soft landing, we can safely say that the U.S. and most international markets are progressing through an economic slowdown. China's re-opening has boosted demand less than anticipated and many raw materials pricing appears to reflect expectations for a global recession. Geopolitically driven friend-shoring could act as a counterbalance, requiring significant investment and re-alignment of supply chains.

Businesses with critical products and services, such as those within the Nia portfolios, including those with long-term projects and relatively secure funding, will be best positioned. Decreased access to financing will also play a larger role in company performance. Innovative companies with resilient cash flow and manageable leverage will have the advantage. Those with diverse, inclusive and innovative teams will be able to work together to shift and pivot as needed in the months ahead.

Closing Thoughts

In times of severe market corrections, the importance of underlying company fundamentals increases. The market reflects investors' increased focus on the underlying components related to business strength, and specific drivers of value creation. These include both traditional financial metrics indicative of quality, as well as sustainability and ESG factors. Nia's focus on solutions, sustainability, and employee

friendly, social justice practices presents an opportunity to invest in value creation rewarded in the equity markets. The Nia team is at work carefully and strategically considering each portfolio holding for its strengths through these potentially challenging economic scenarios.

We do expect to see solutions focused companies gaining market share prior to the economic indicators and company reports reflecting a recovery. Companies providing products and services that solve the most pressing problems of our times adds to their resilience in all market environments.

Performance/Attribution

Nia Global Solutions (NGS), a global all cap fossil-free strategy, with a focus on companies with products and services that provide sustainable solutions for our world returned 8.26% gross (7.88% net of fees) as compared to 7.08% for the MSCI ACWI IMI and 7.5% for the S&P 500.

For the first quarter, Industrial sector holdings, led by First Solar, Inc., was the top contributor to positive relative performance. Several companies in the Consumer Non-Cyclical sector were the next largest source of relative performance, followed by the Technology sector, driven by STMicroelectronics NV and Palo Alto Networks, Inc.

Holdings in Non-Energy Materials detracted from relative performance. The Healthcare sector followed in 2nd place, with AMN Healthcare Services Inc. and Moderna Inc. placing as two of the three largest detractors in the quarter. And while the regional bank, Amalgamated Financial Corp., detracted the most as a holding, Nia's low relative exposure to Financials was a positive in this period. Our lack of exposure to Consumer Cyclicals was a drag on relative performance, while absence of exposure to the fossil fuel Energy sector was a positive.