



Market insights

Oklahoma Center for Non-Profits



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Alternative Investments

Comprehensive alternative services

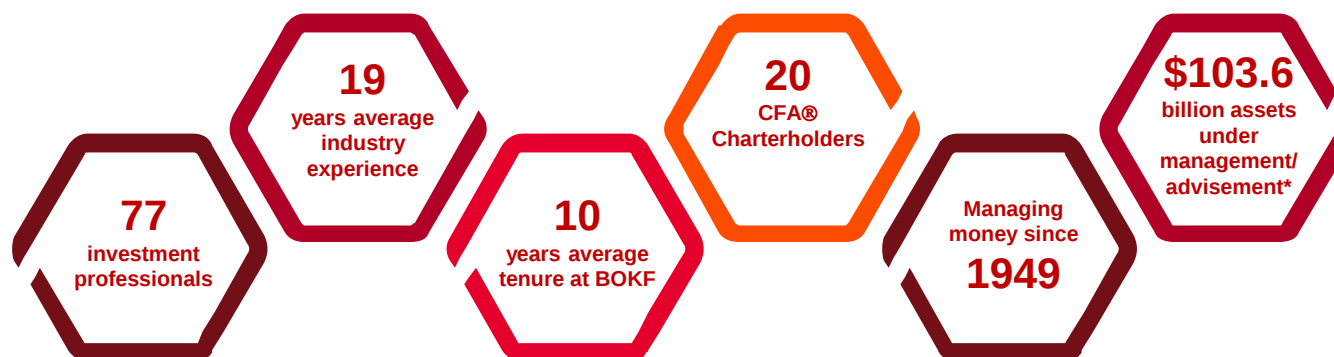
Provides access to a variety of non-traditional asset classes and strategies delivered through limited partnerships.

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Investment Management Communication

A dedicated team providing education and insight into the BOK Financial Investment Management process as well as current economic and market conditions for both internal and external audiences.

- Regular market commentary.
- Timely response to changing market conditions.



*The Investment Management team is part of the BOK Financial Wealth Management division, which had \$102.3 billion in assets under management and custody as of 6/30/2023.

Key points

1

Economic growth remains resilient in the face of significant tightening from the Federal Reserve.

2

U.S. consumers continue to support the economy as they benefit from a strong job market and higher wages as headline inflation eases.

3

Financial markets have consistently underestimated the stickiness of core inflation. The Federal Reserve will likely hold financial conditions tight to ensure inflation slows.

4

Equity markets appear to be pricing in a soft landing, or the near miraculous no-landing, despite growing signs of a continued firm Fed hand.

5

For equity markets to maintain their momentum, companies will likely need to deliver on earnings expectations. High quality fixed-income markets seem to provide better risk-adjusted return potential.

Base case outlook



Economy

Economic recession odds have been pushed out.

Risks: Tighter lending standards and higher unemployment slow growth significantly.



Policy

The Federal Reserve has slowed its pace of rate increases. Ongoing fiscal outlays are supporting demand.

Risk: Persistent inflation takes rates higher than expected.



Markets

Bond markets offer attractive yields but low spreads. Current equity valuations are high relative to historical norms.

Risk: Recession risk leads to earnings collapse.



A look at the domestic economy

1

Consumer

2

Government

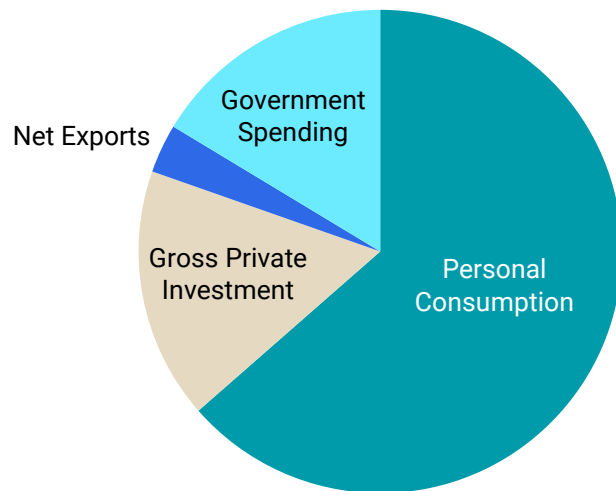
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Business

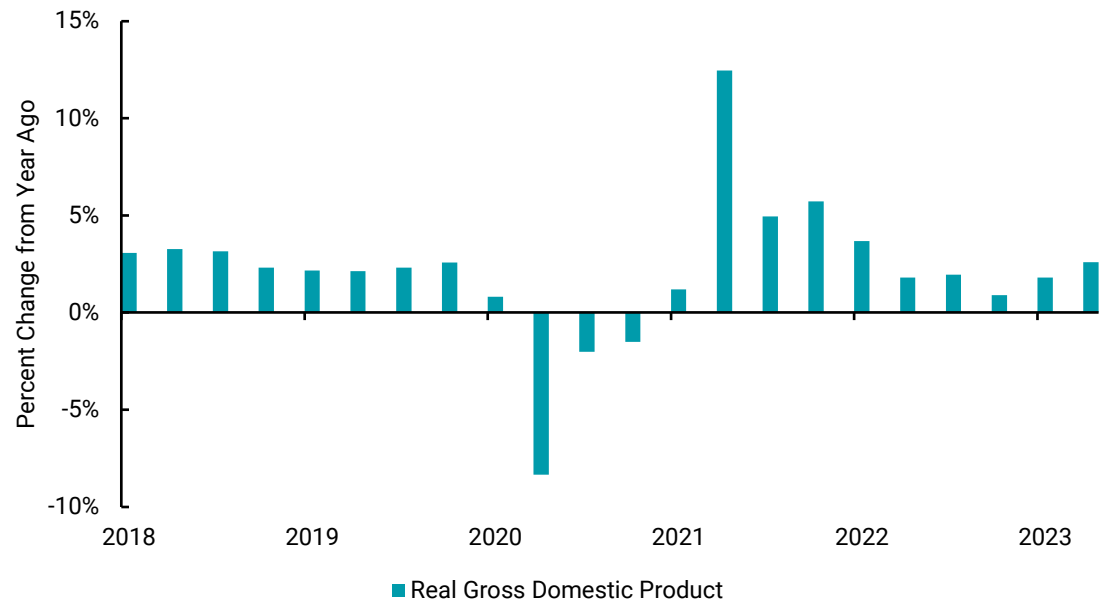
GDP - Cool the economy to stop inflation

- Growth has re-accelerated despite Federal Reserve rate increases.
- A strong job market, wage gains, and fiscal spending are supporting growth.
- GDP growth could decelerate as we move into 2024 as Fed tightening impacts the economy with a lag.

Composition of GDP



Real Gross Domestic Product



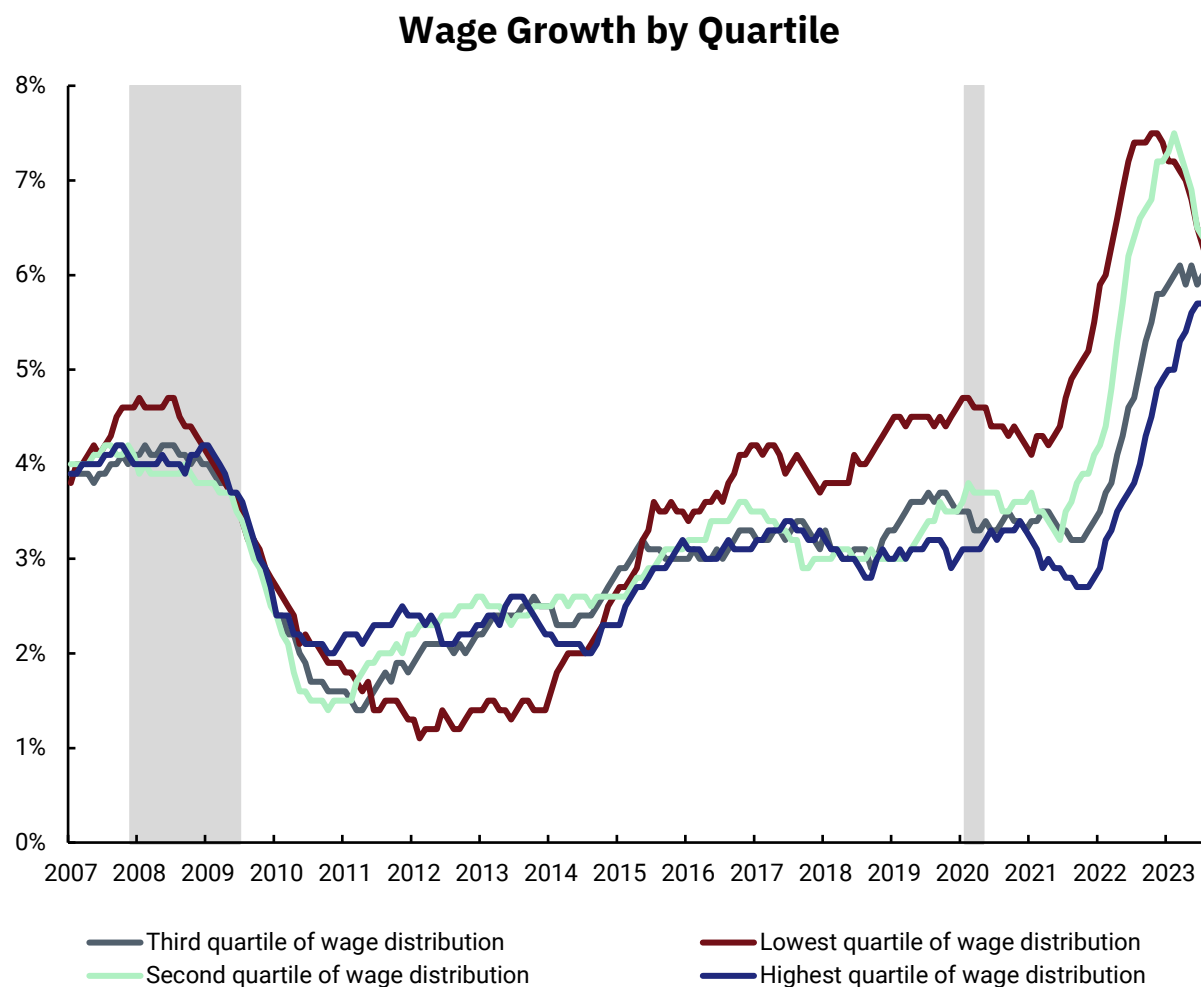
Consumer - Real Wages are on the rise

- Although unemployment and wage support provided by the government during the pandemic have receded, real wages are once again on the rise.
- With several large union negotiations taking place in 2023, wage gains have resumed their ascent.
- The boost in real wages should continue to provide stability for the consumer.



Consumer - Wage gains by income quartile

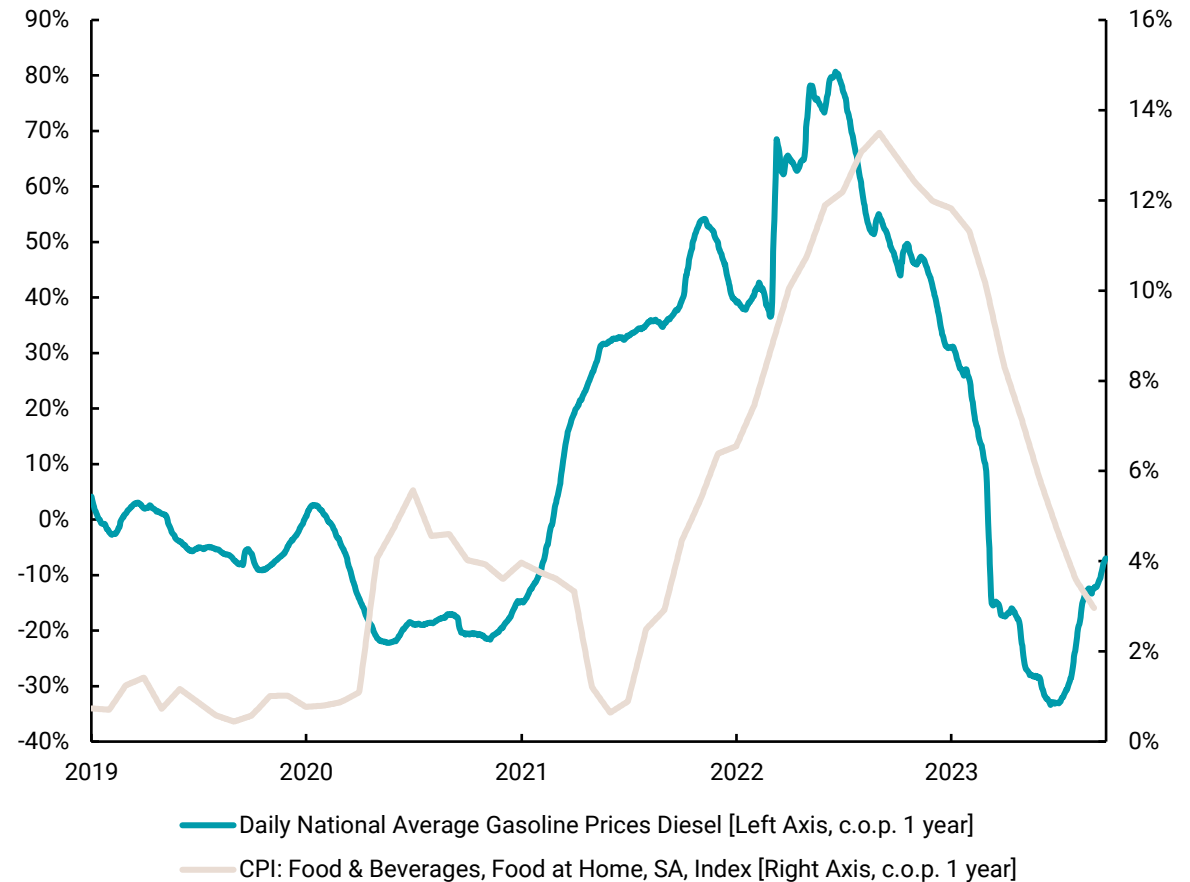
- The largest wage gains have been within the lower half of income earners.
- As headline inflation declines, these higher wages support consumer spending.
- Companies will have to deal with narrowing margins as inflation slows real unit growth.



Consumer - Cost of food

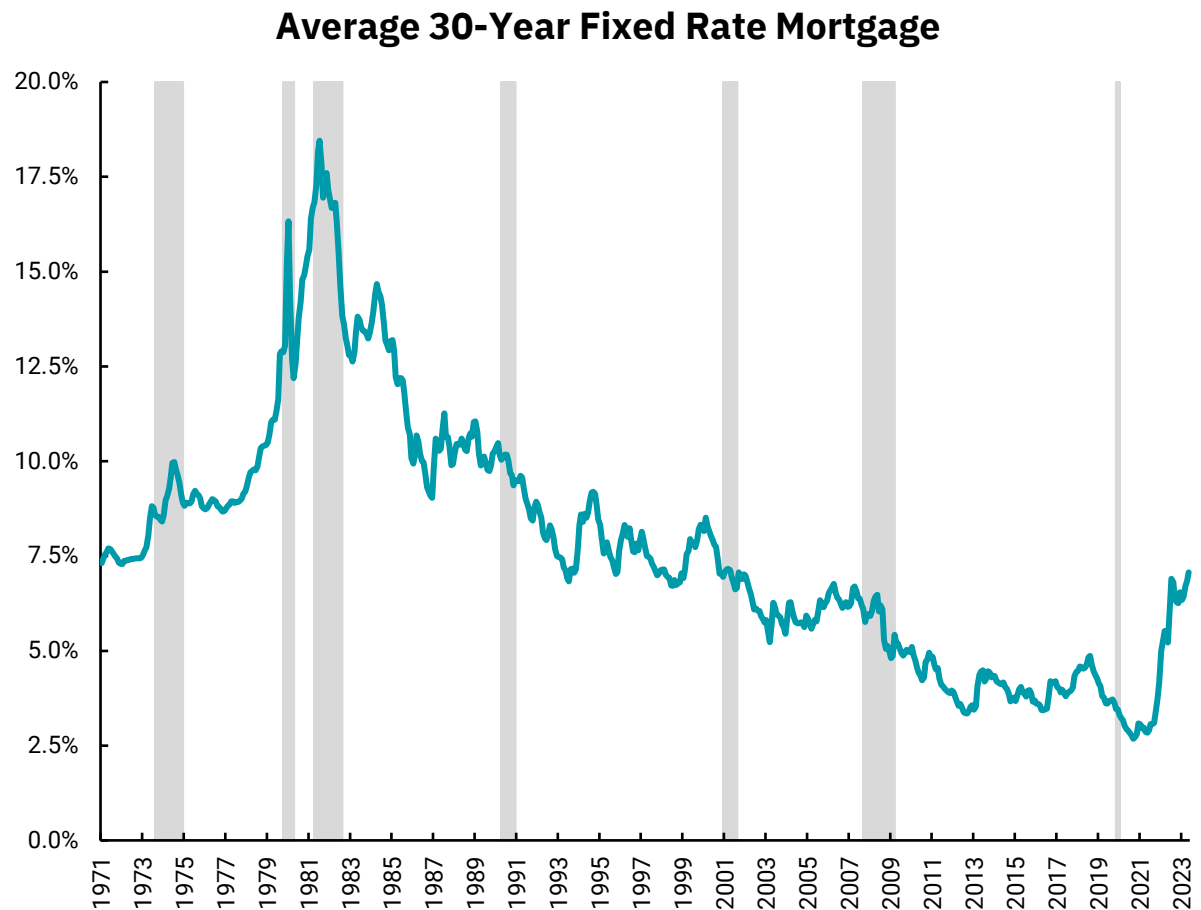
- Diesel price changes lead to the cost of food, as reflected in the headline CPI gauge.
- The price of diesel began to climb again starting this summer. This increase in diesel prices is likely to bring a resurgence in food inflation.
- Food is a significant component of headline CPI and represents a significant portion of the monthly budget for many households.

Diesel Leads Food Prices



Consumer - Mortgage rates

- The cost of a new mortgage has risen significantly as the Federal Reserve has raised interest rates.
- As housing is the largest monthly expense of many households, it is an important variable in determining consumer spending power.
- Rising interest costs have also made many Americans hesitant to move houses, as they have locked in mortgages at lower interest rates.

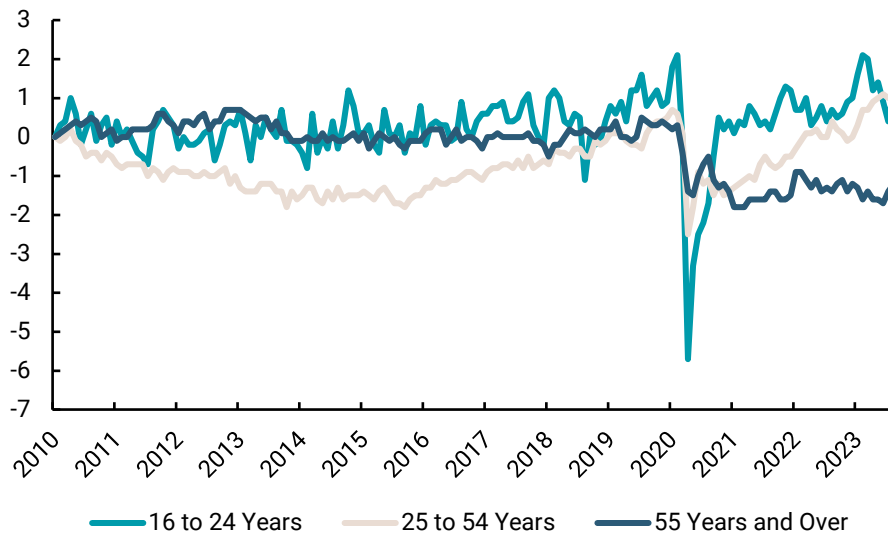


Consumer - Savings and Labor Force Participation

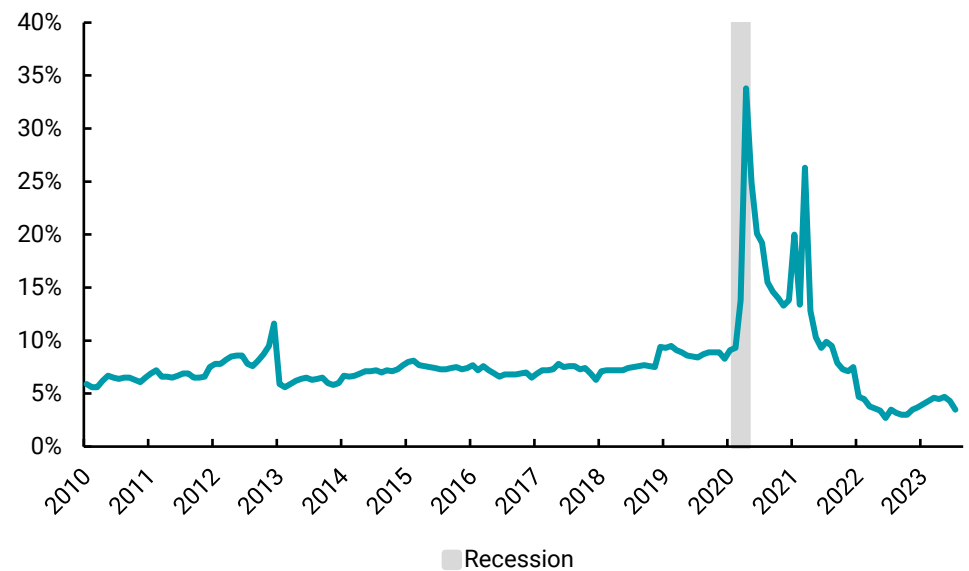
- Prime-age workers represent an increasing percentage of the labor force.
- Older workers are dropping out of the labor force and have begun spending their retirement assets down.
- This reduction in retiree savings is reflected in the decrease in the overall savings rate and may continue to put upward pressure on inflation and interest rates.

Labor Force Participation Rate

(Change since 2010)

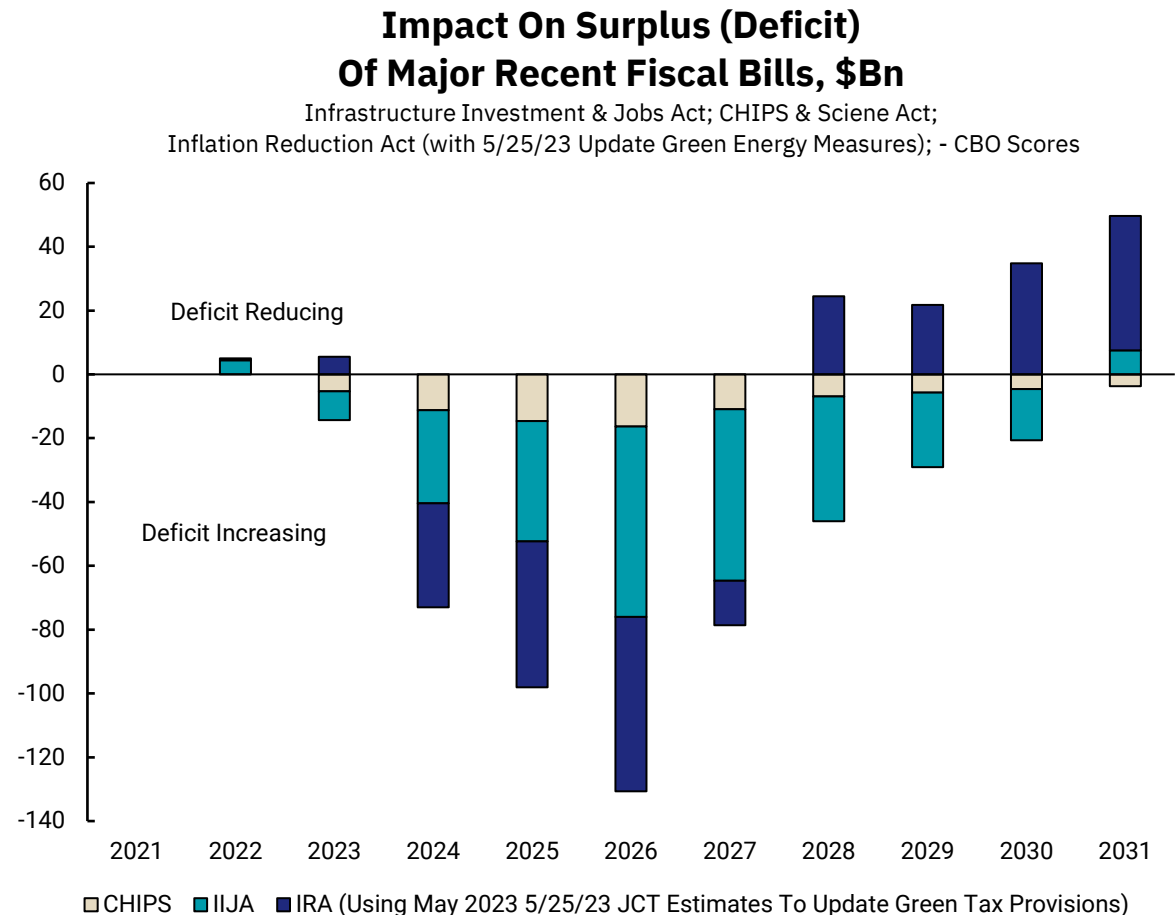


Personal Savings Rate



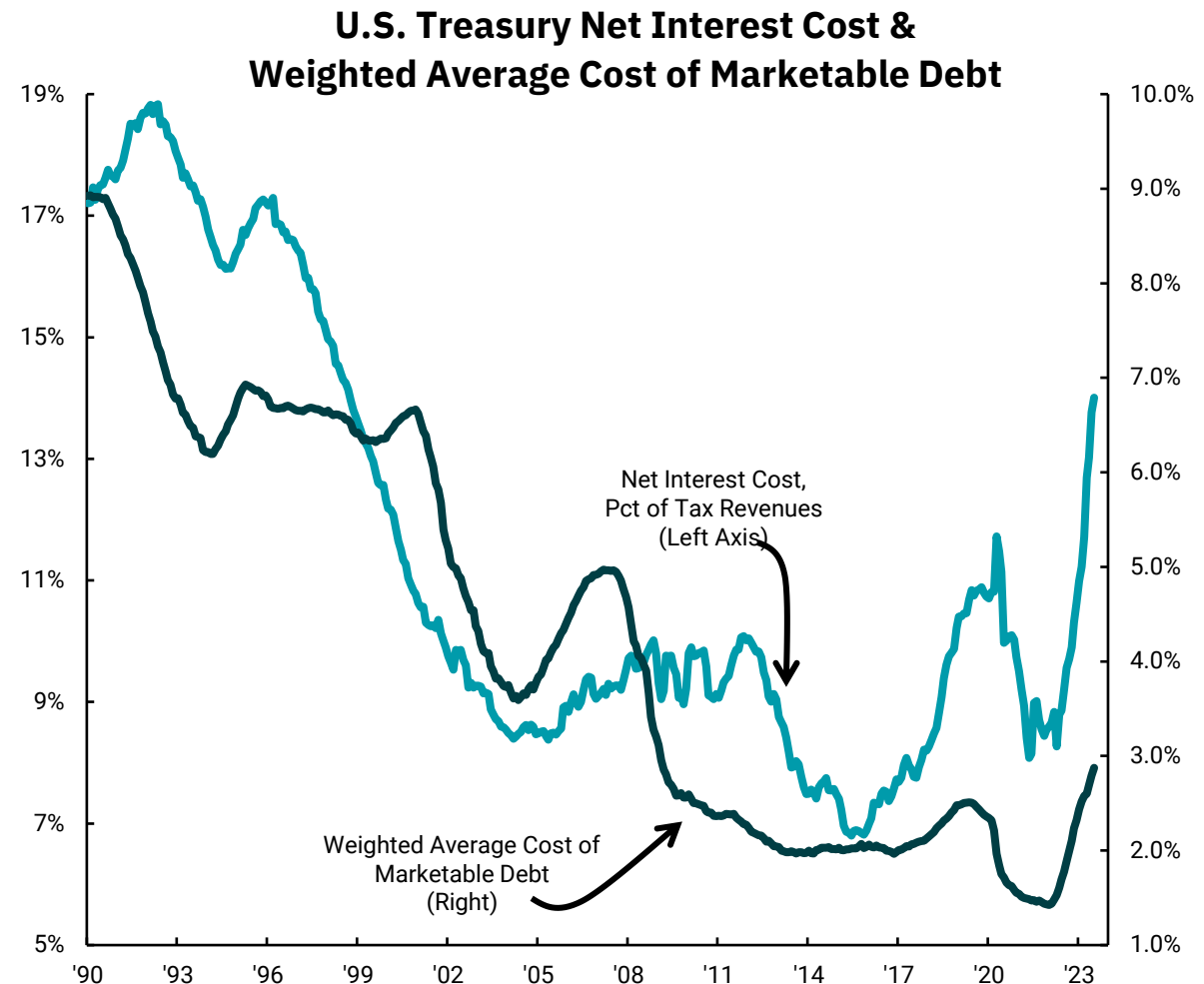
Government - Impact of Major Recent Fiscal Bills

- Deficit spending is set to increase through 2026 due to legislation passed in recent years.
- This uptick in spending should provide a boost to economic growth in the short run but has repercussions for both inflation and interest rates.
- Moving forward, we believe agreements involving spending cuts and/or tax increases would relieve some of the pressure on inflation and interest rates.



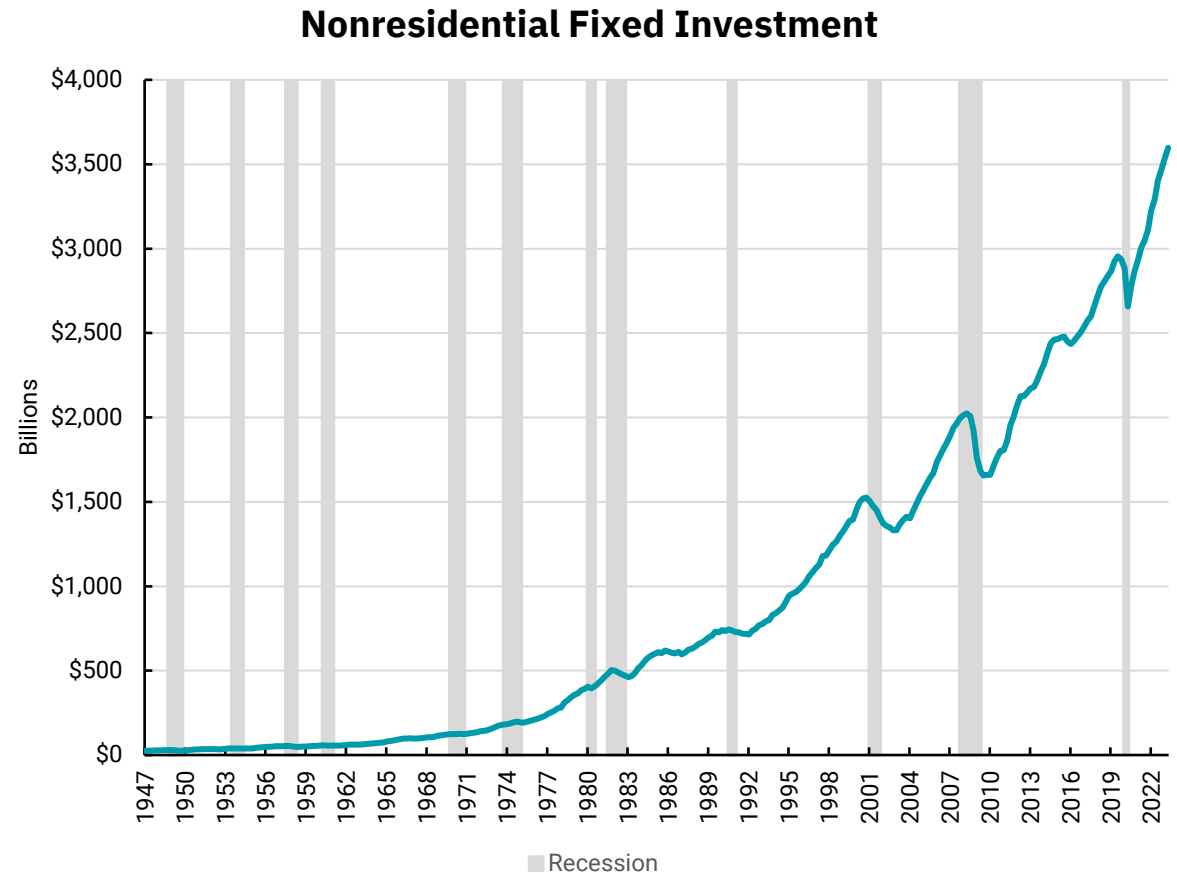
Government - Rising rates on government debt

- As interest rates fell and remained low, the federal government could borrow money with little budgetary impact.
- Higher inflation has changed this environment. About fifty percent of the outstanding debt will re-price over the next three years.
- This very short maturity schedule helped hold down interest costs when rates were low but now threatens an explosive increase in debt service going forward.



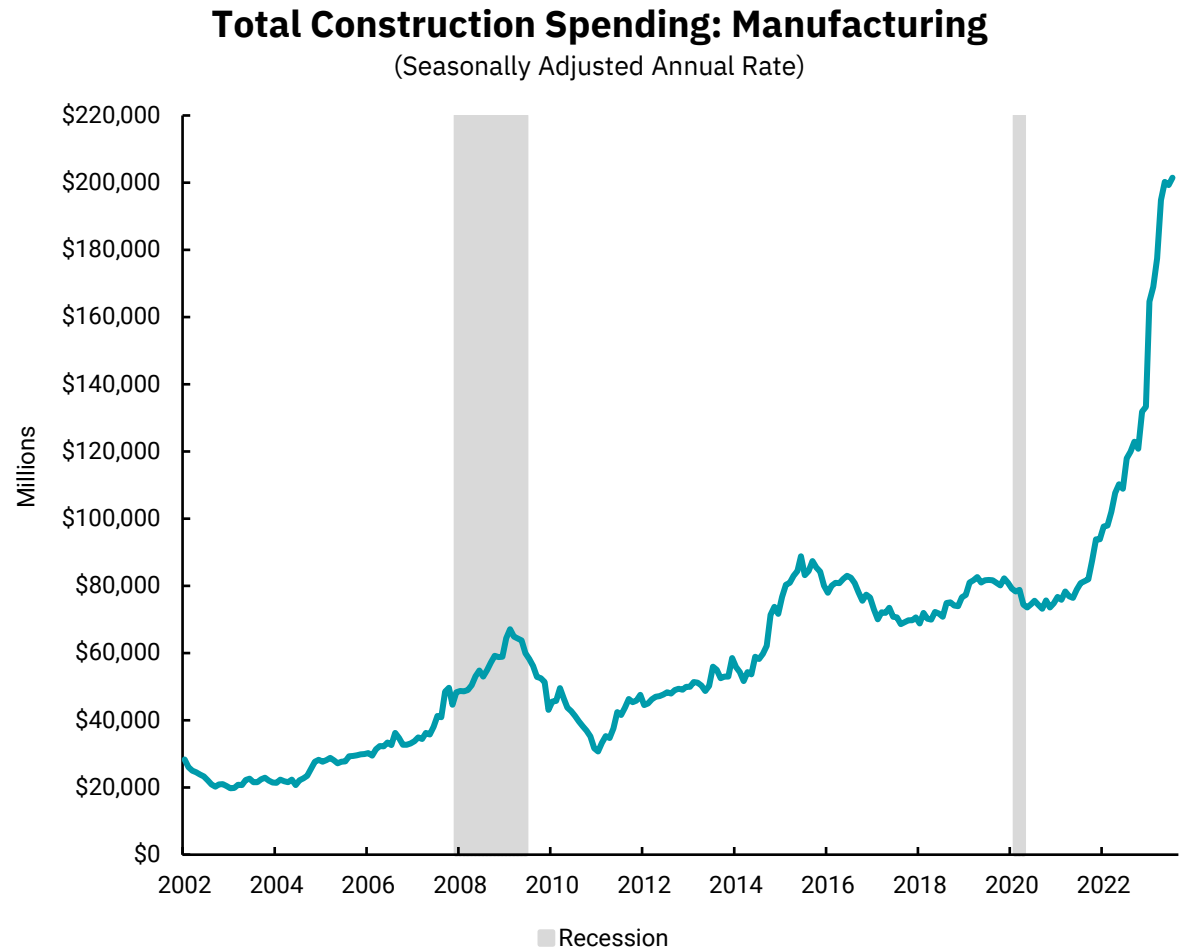
Business - Nonresidential fixed investment

- Nonresidential Fixed Investment, which measures business spending on structures, equipment and intellectual property, continues to expand.
- Most recent contractions in business spending happen during recessionary periods.
- Broadly speaking, business spending continues expanding, contributing to economic growth.



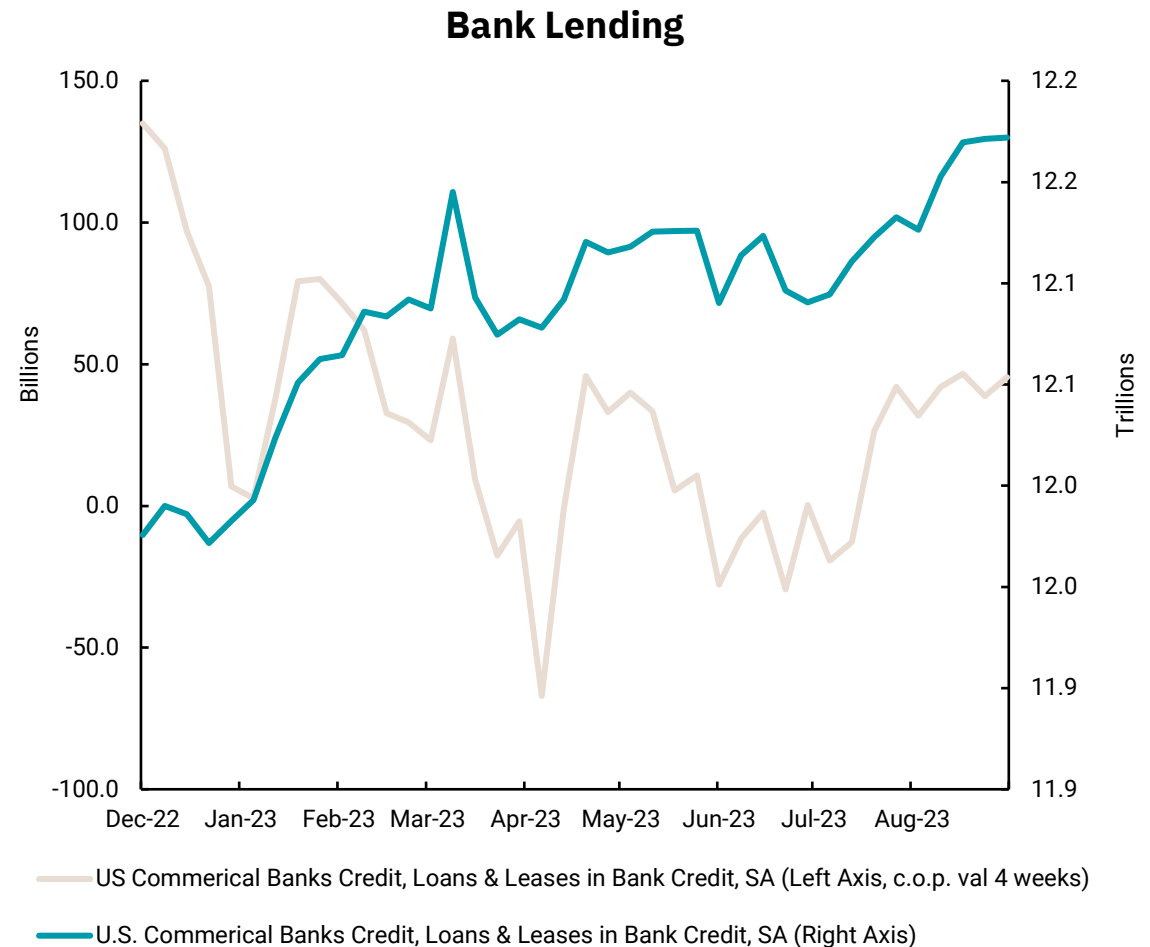
Business - Total Construction Spending: Manufacturing (US)

- The U.S. production capacity for physical goods is largely dependent on the facilities to create and manufacture them.
- Construction of manufacturing facilities in the U.S. has seen a significant uptick since 2022.
- Increased production capacity may allow the U.S. to produce more physical goods and contribute further to economic growth.
- The deglobalization and the re-shoring of U.S. production can potentially raise the cost of our production and add to inflationary conditions.



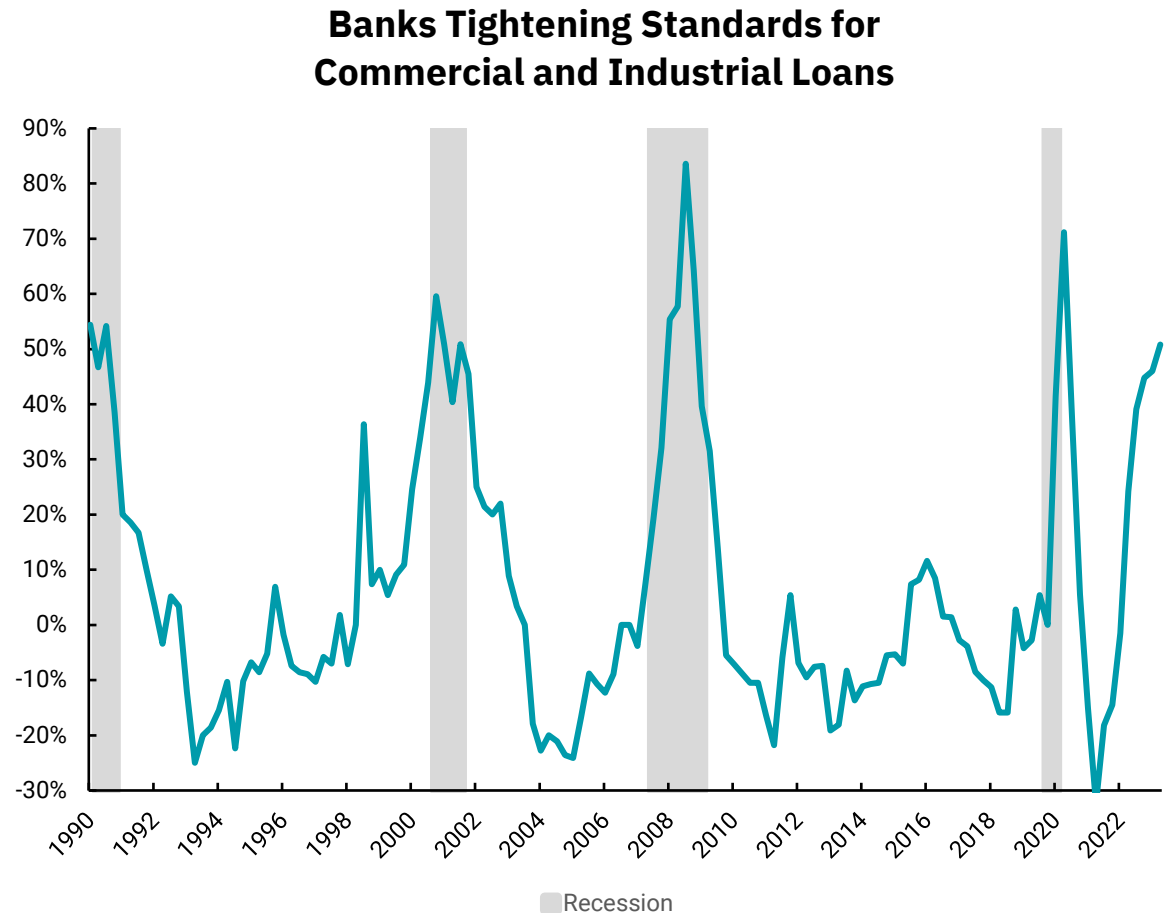
Business - Bank Lending

- Despite the failure of some banks earlier this year, bank lending itself remains healthy.
- In the face of higher interest rates, bank lending has increased and recently broken out to a new high for 2023.
- If the demand for loans remains solid, this means businesses and consumers are continuing to spend and invest capital. This is a net positive for the overall economy and should support the economy.



Business - Tightening Lending Standards

- Banks have begun to tighten lending standards prior to providing credit to businesses.
- Less credit being issued by banks would result in less spending by businesses and consumers and can result in an economic contraction.
- Supply and demand for credit will be critical in the coming quarters and will help determine whether economic growth continues to be positive.



Business - Maturity Profile of Debt for Large Companies

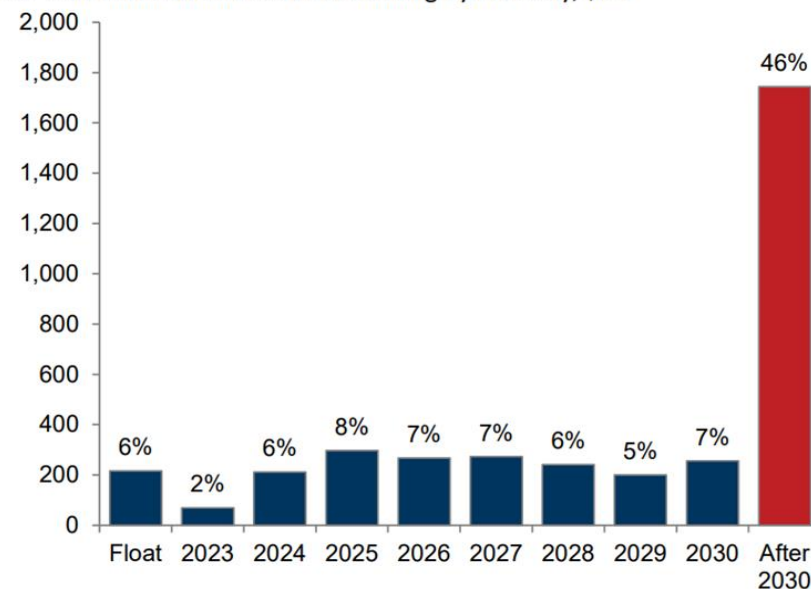
- Not only is the typical interest rate being paid by large companies low, but large companies have also extended the maturity profile of their debt obligations.
- Nearly half of the debt incurred by large companies does not become due until after 2030.



Source- Bberg, GS

Nearly half of S&P 500 debt is set to mature after 2030

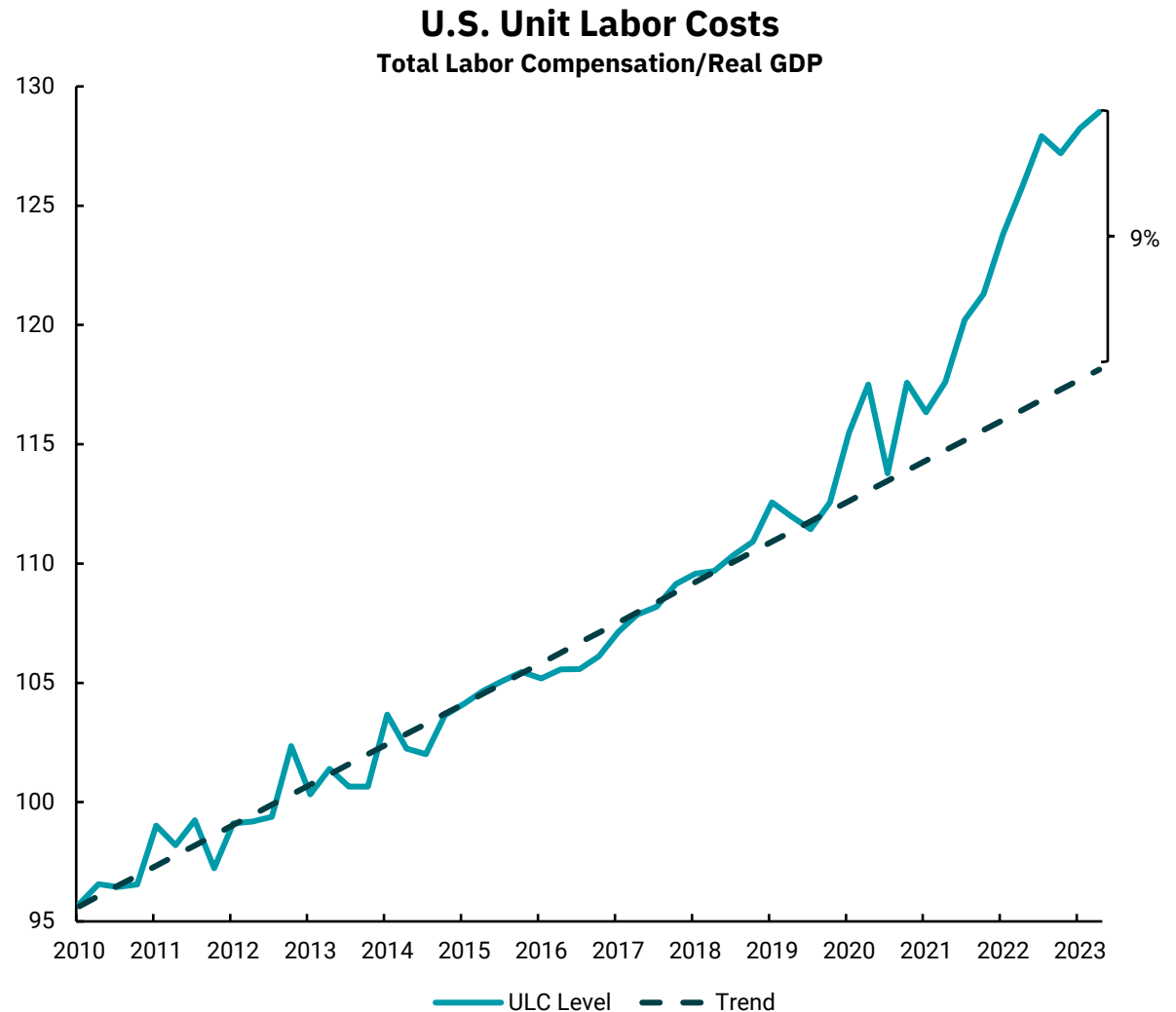
S&P 500 ex. financials debt outstanding by maturity, \$bn



Source: Bloomberg, Goldman Sachs GIR.

Business - Inflation (Wages are a driver)

- Competition for workers in the job market has led to significant wage increases.
- Recent higher unit labor costs mean companies raise prices or reduce margins, either of which is a drag on economic growth.
- If productivity were to pick up, this would put downward pressure on unit labor costs.
- The Federal Reserve will likely maintain tight financial conditions to stop a wage-price spiral.





Policy response

1

Core CPI remains high

2

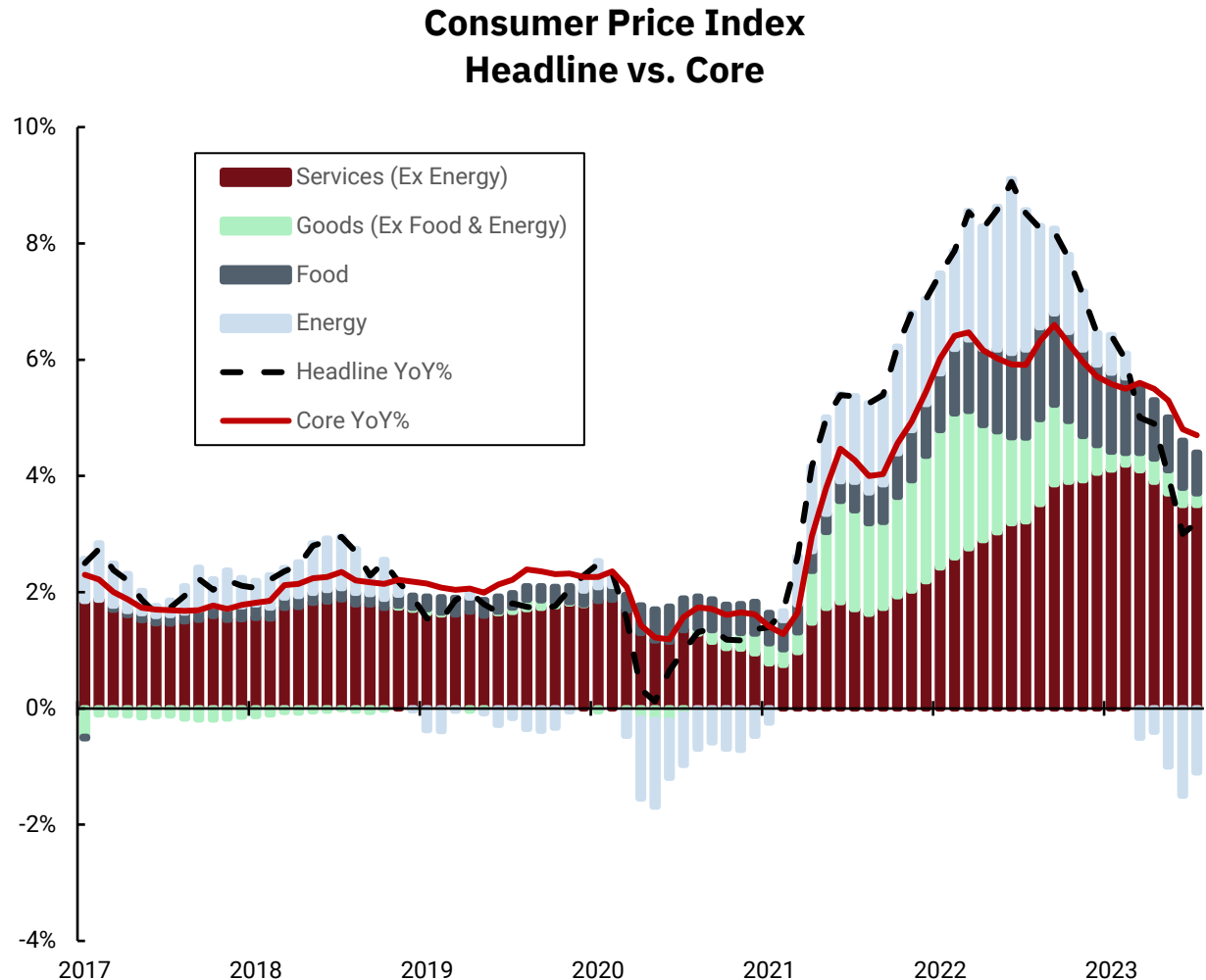
Tight monetary policy

3

Yield curve inversion

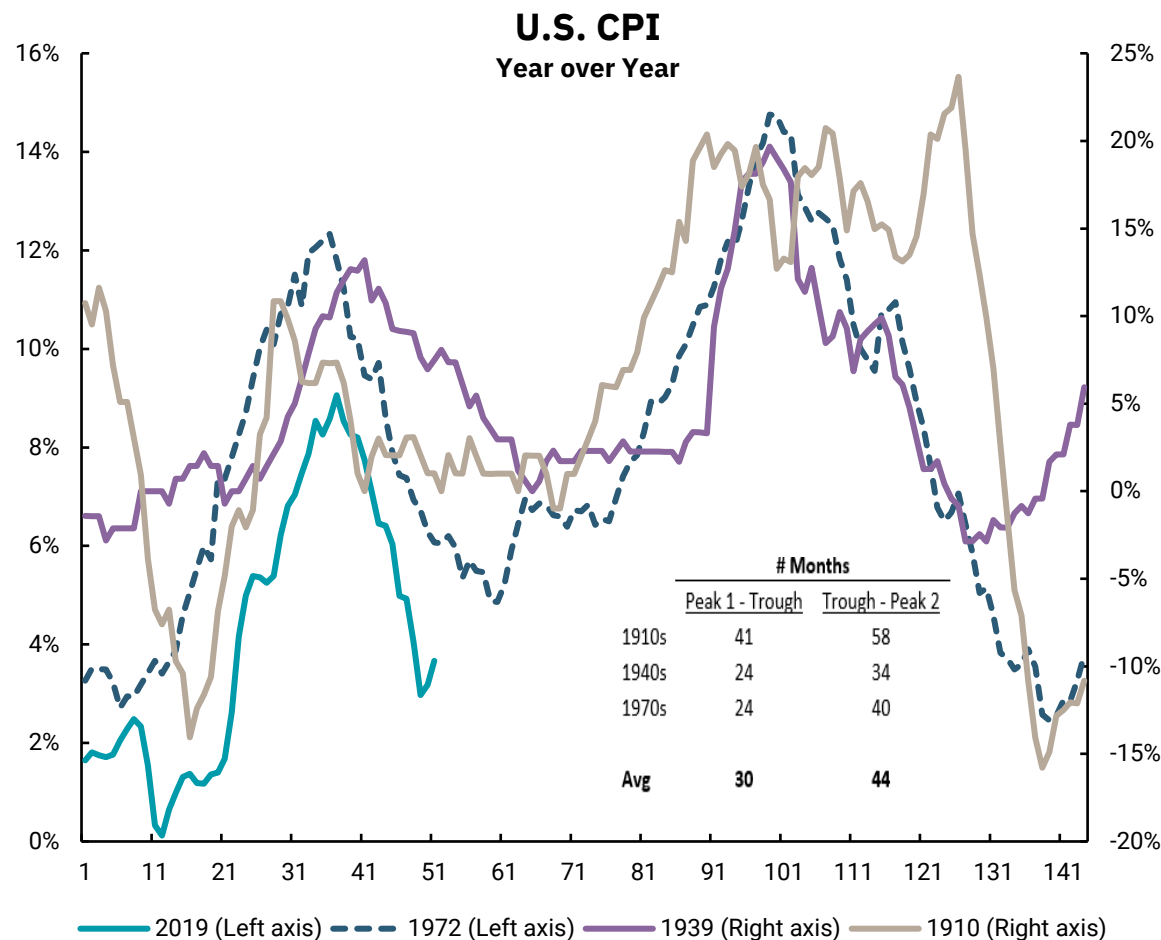
CPI remains elevated

- Headline inflation is moderating rapidly but remains above prior peaks in the past 30 years.
- Core inflation remains elevated, with wage pressure driving higher prices.
- The Federal Reserve remains committed to its 2% inflation target, and rates are running well above that level.
- The Fed will maintain its hawkish view until both current inflation abates and inflation expectations cool.



Inflation waves 1910s, 1940s and 1970s

- We have experienced many waves of inflation historically in the U.S.
- Overlaying some of the prior cycles of inflation show that initial peaks and drawdowns are on the beginning of the cycle.
- Recent data are showing an additional tick upward in inflation similar to prior inflationary cycles.



Inflation expectations are key metric

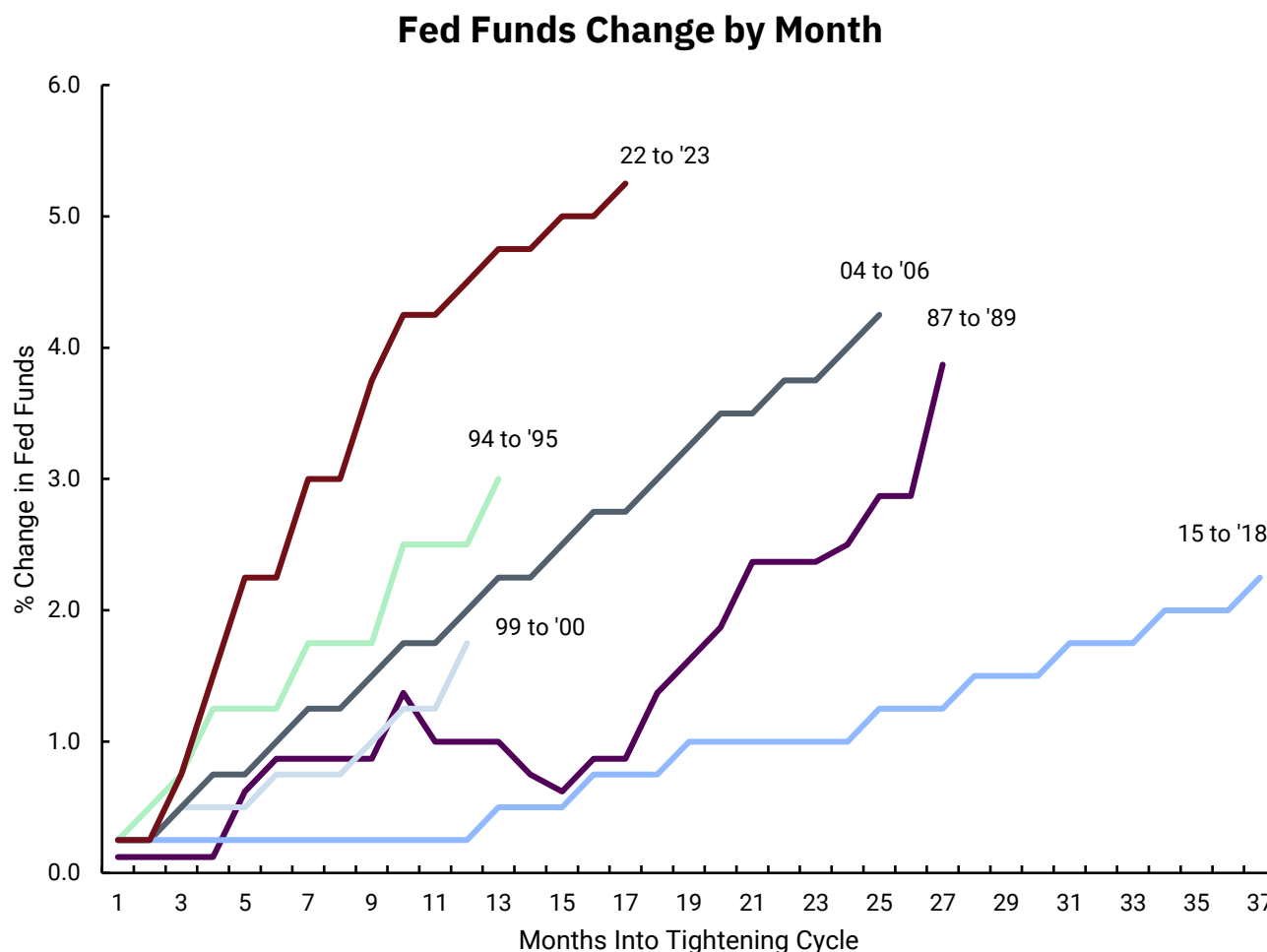
- As the Federal Reserve began its tightening cycle, inflation expectations turned lower.
- Recent data on expectations has been volatile.
- The Fed fears losing control of inflation expectations as that would create a significant monetary challenge.

**10-Year U.S. Treasury Inflation Protected Security
(Implied Inflation Breakeven Rate)**



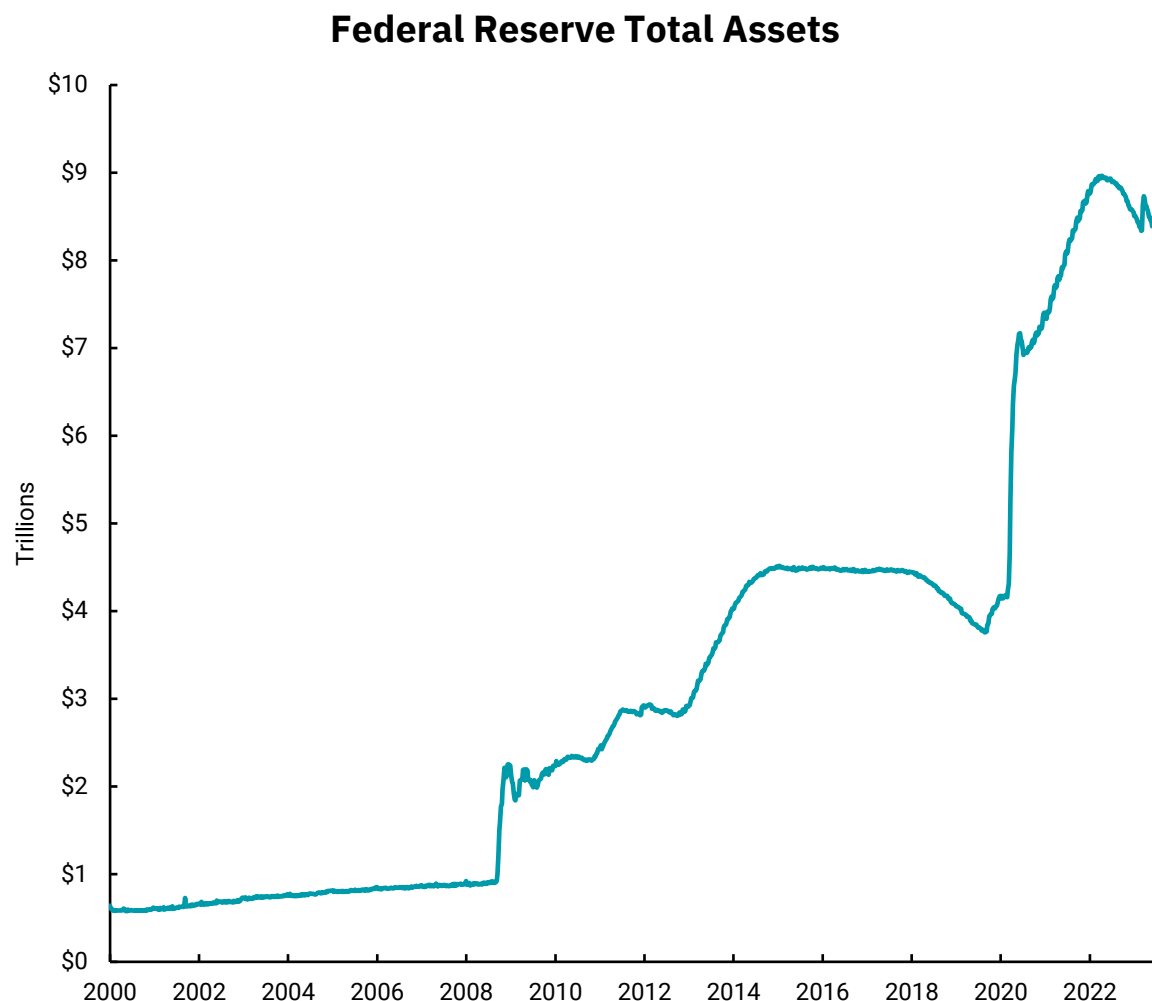
Rising rates may stifle demand

- Financial conditions have tightened faster than they have in 40 years.
- The Federal Reserve has now raised rates to 5.25-5.50%
- Despite rate increases, economic growth remains positive, and inflation remains above target.
- Additional rate increases might still be possible.



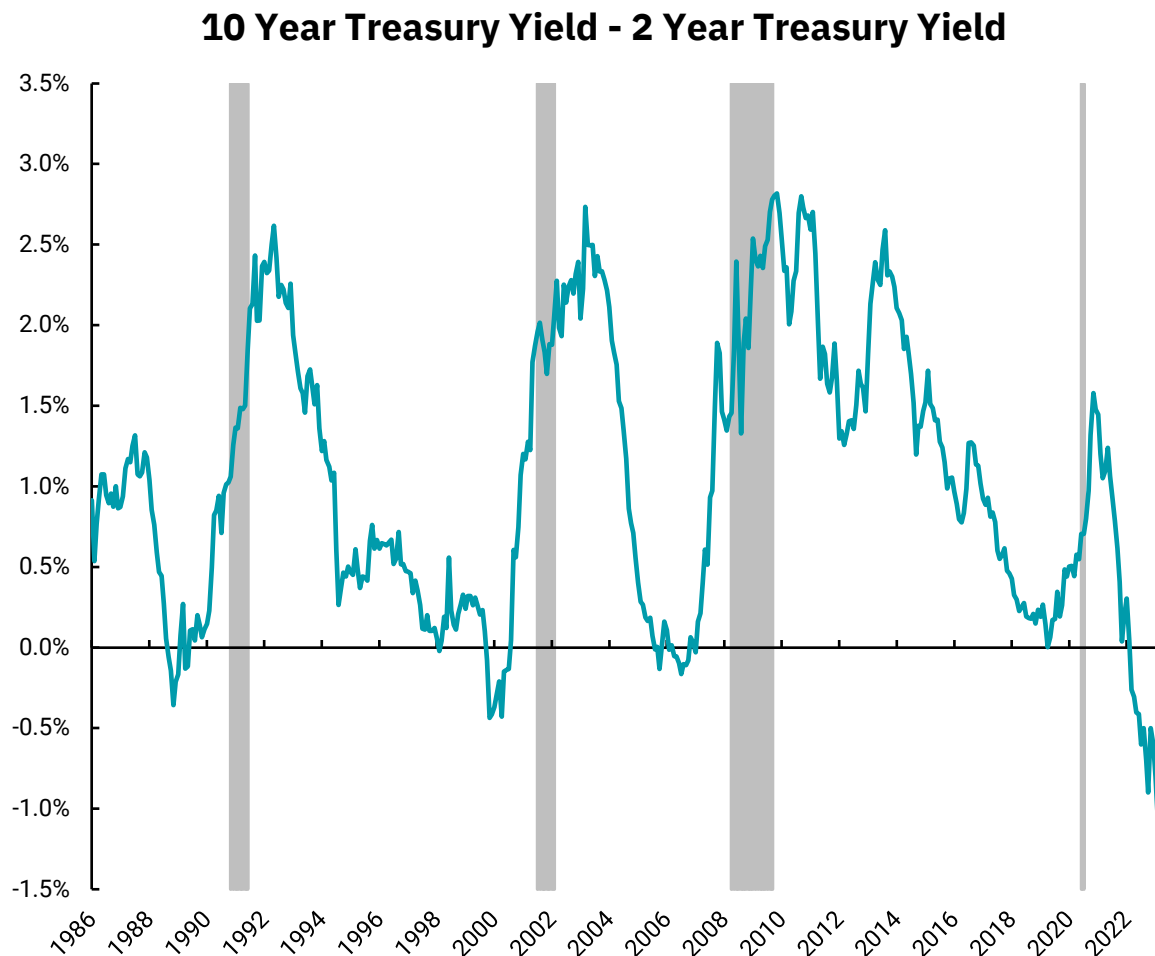
The Fed balance sheet has peaked

- After years of balance sheet expansion, the Federal Reserve is shrinking its balance sheet.
- In response to a bank run in March 2023, the Fed increased its lending of reserves, reversing some of its balance sheet declines.
- If inflation remains firm, the Fed may accelerate its balance sheet reduction via bond sales.
- Reducing the size of the Fed's balance sheet is an added risk to financial asset prices.



Yield curve inversion is significant

- The 2 year -10 year yield curve has inverted, meaning near-term rates are higher than longer-term rates.
- Inversions often indicate a recession, and we haven't seen an inversion of this magnitude in decades.
- It's always dangerous to say things are different this time, so an inverted yield curve is something we are watching with great interest, given the possibility of an economic slowdown.





Market pulse

1

Higher fixed income yields

2

Equity market valuation

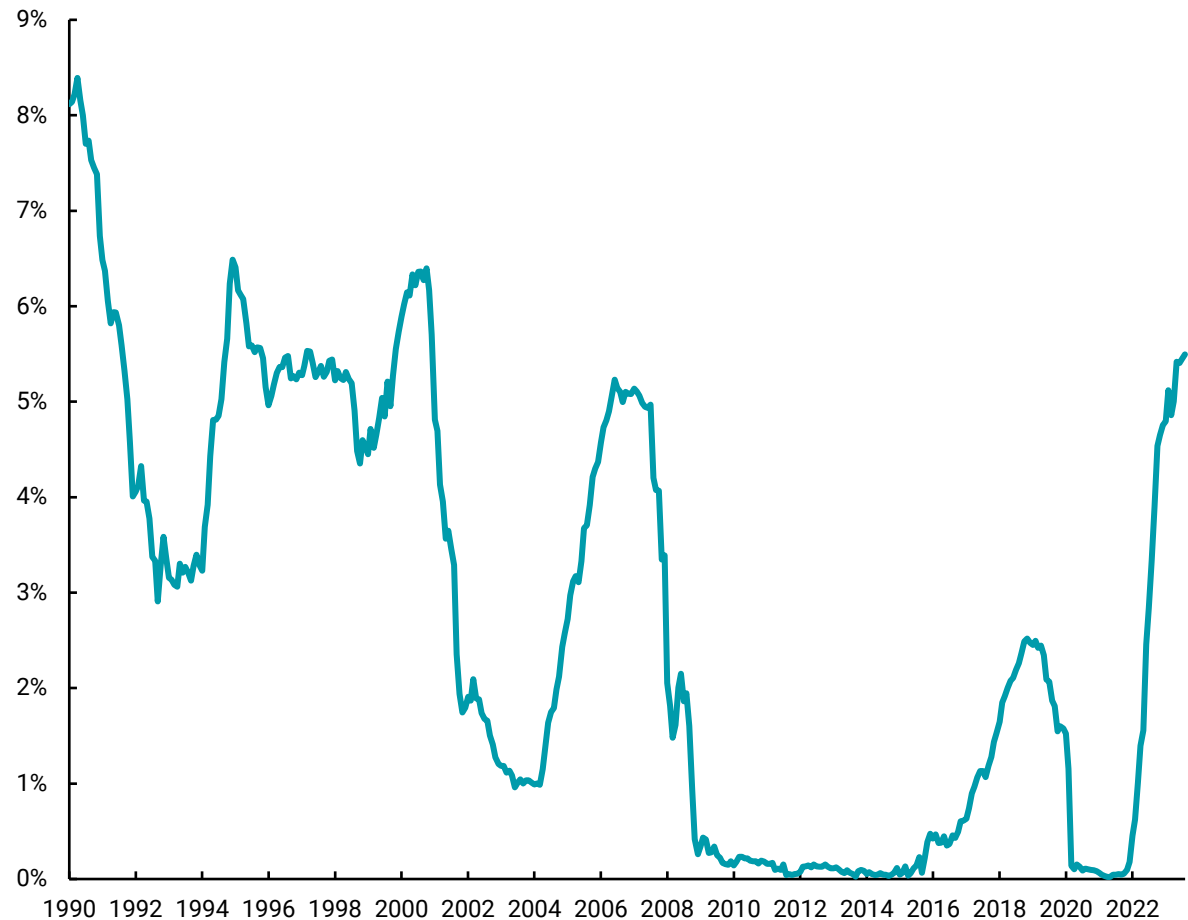
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Alternative investments

Bond market yields increased

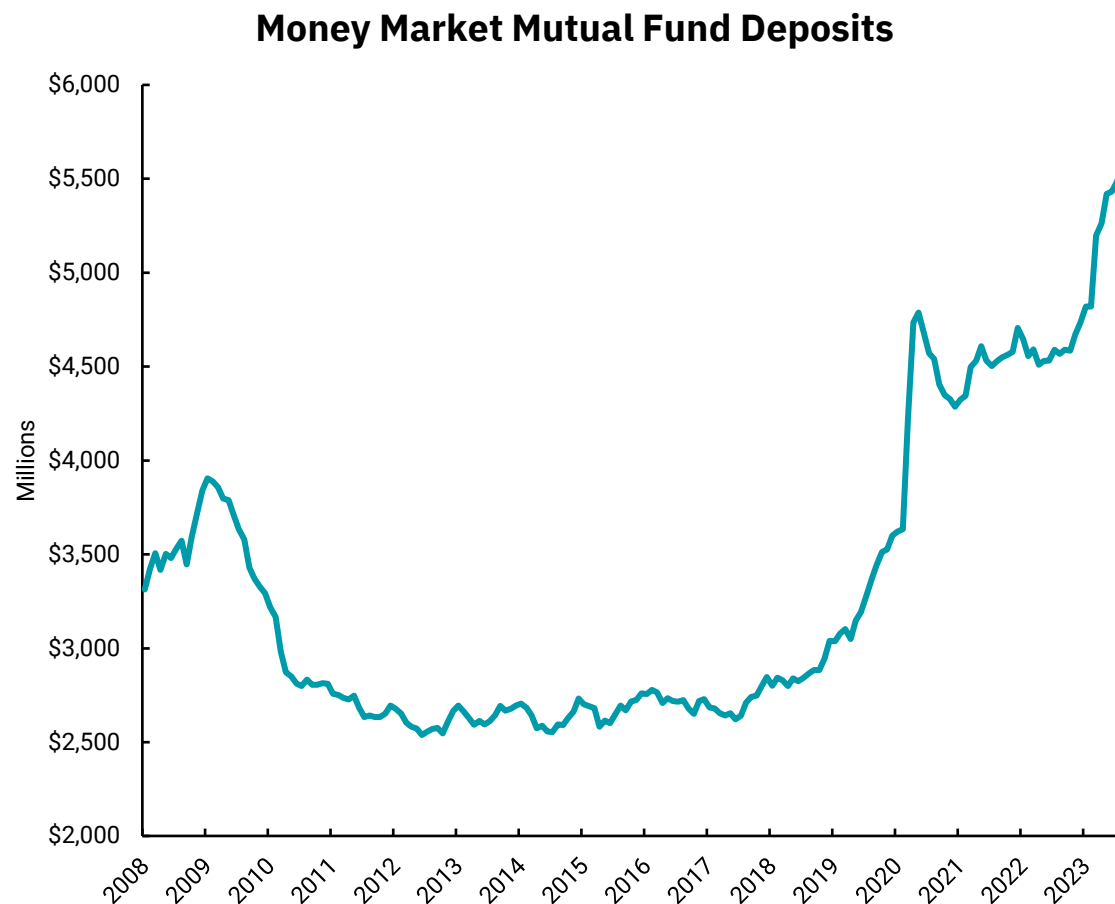
- Government bond yields are trading near the highest yields since the 2008 financial crisis.
- Investment-grade bond yields are beginning to appear attractive as rates approach 20-year highs.
- Bonds may represent attractive value at these levels if inflation continues to subside from recent levels, as we expect.
- One note of caution is that credit spreads remain subdued and may have the potential to widen if a recession does occur.

Short Term Government Bond Yields



Yield is everywhere now

- With short yields near 5%, investors are flocking to money market mutual funds, Treasury bills and CDs.
- System wide, domestic bank deposits have stabilized.
- M2 growth has turned negative but the “stock” of money in the economy is still very high.



Industry concentration

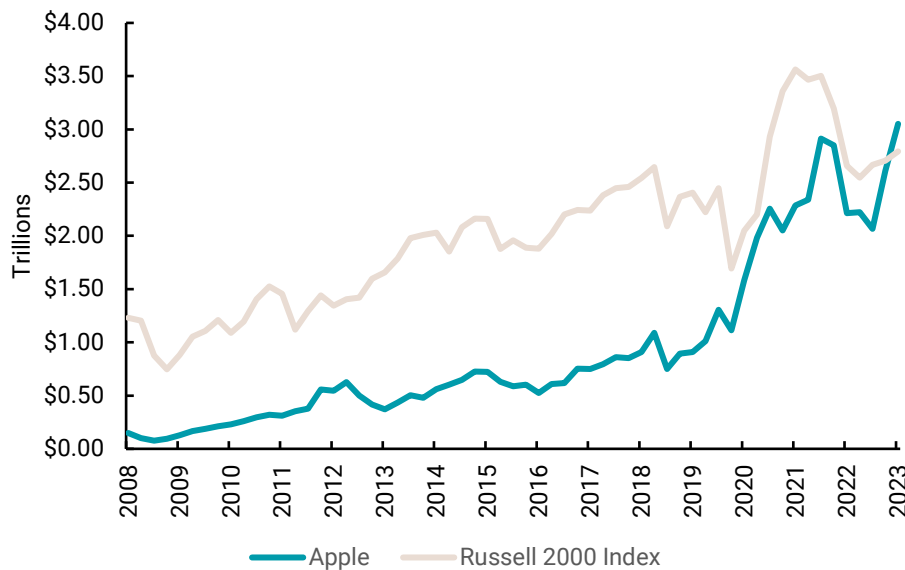
- S&P 500 index returns are largely driven by the highly weighted components of the index.
- Over 75% of the S&P 500 market cap gains this year have been driven by just 10 companies, with five stocks accounting for over 50%.
- The level of performance dispersion between the Dow Jones, the S&P 500 and the NASDAQ is material.

Megacap Tech Stocks	1 Month Total Return	3 Month Total Return	YTD Total Return
AAPL	-4.24%	6.13%	45.21%
MSFT	-2.22%	0.02%	37.60%
NVDA	5.62%	30.47%	237.82%
AMZN	3.24%	14.46%	64.30%
META	-7.13%	11.77%	145.88%
TSLA	-3.50%	26.55%	109.51%
GOOG	3.19%	11.33%	54.80%
GOOGL	2.60%	10.82%	54.34%
AVGO	2.70%	14.84%	67.15%
AMD	-7.59%	-10.57%	63.22%
NFLX	-1.21%	9.73%	47.07%

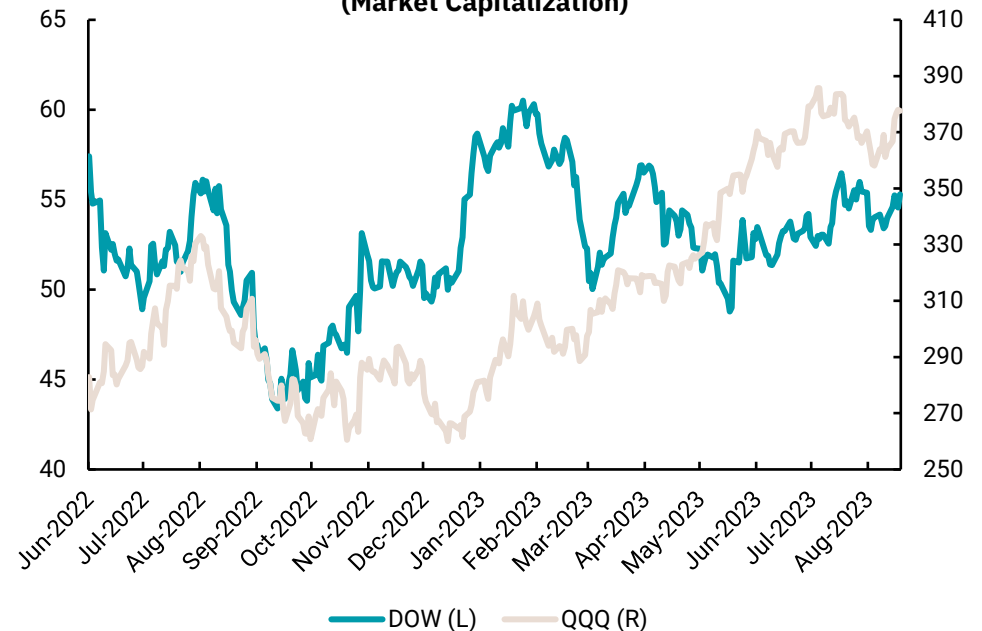
Market narrowness

- As the market continues its rise, much of the returns have been driven by mega-cap tech stocks.
- Apple now has a market cap of \$3 trillion, exceeding the entire market cap of the Russell 2000.
- Artificial intelligence has lifted technology stocks in hopes of strong uptake and massive productivity improvement.

Apple Stock vs. Russell 2000 Index
(Market Capitalization)

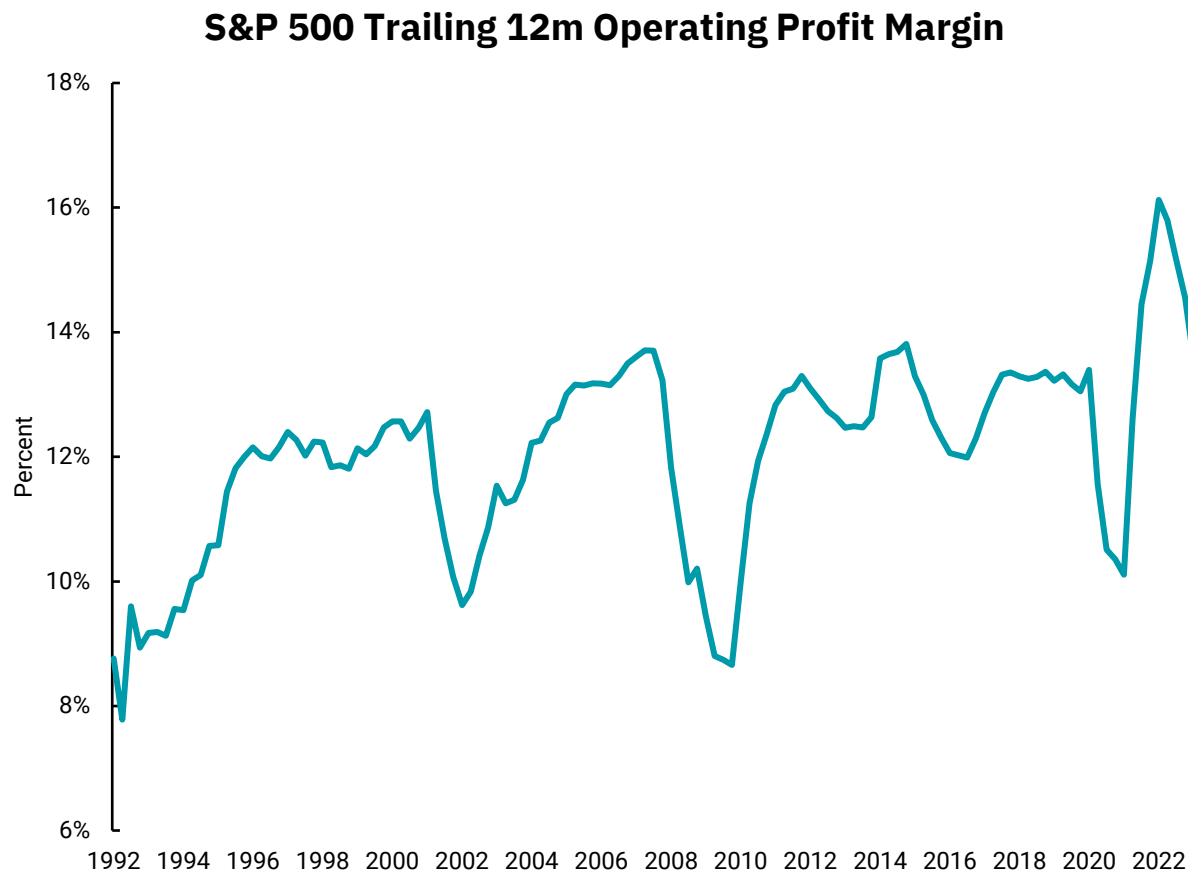


Dow Jones Industrial Average vs. QQQ Index
(Market Capitalization)



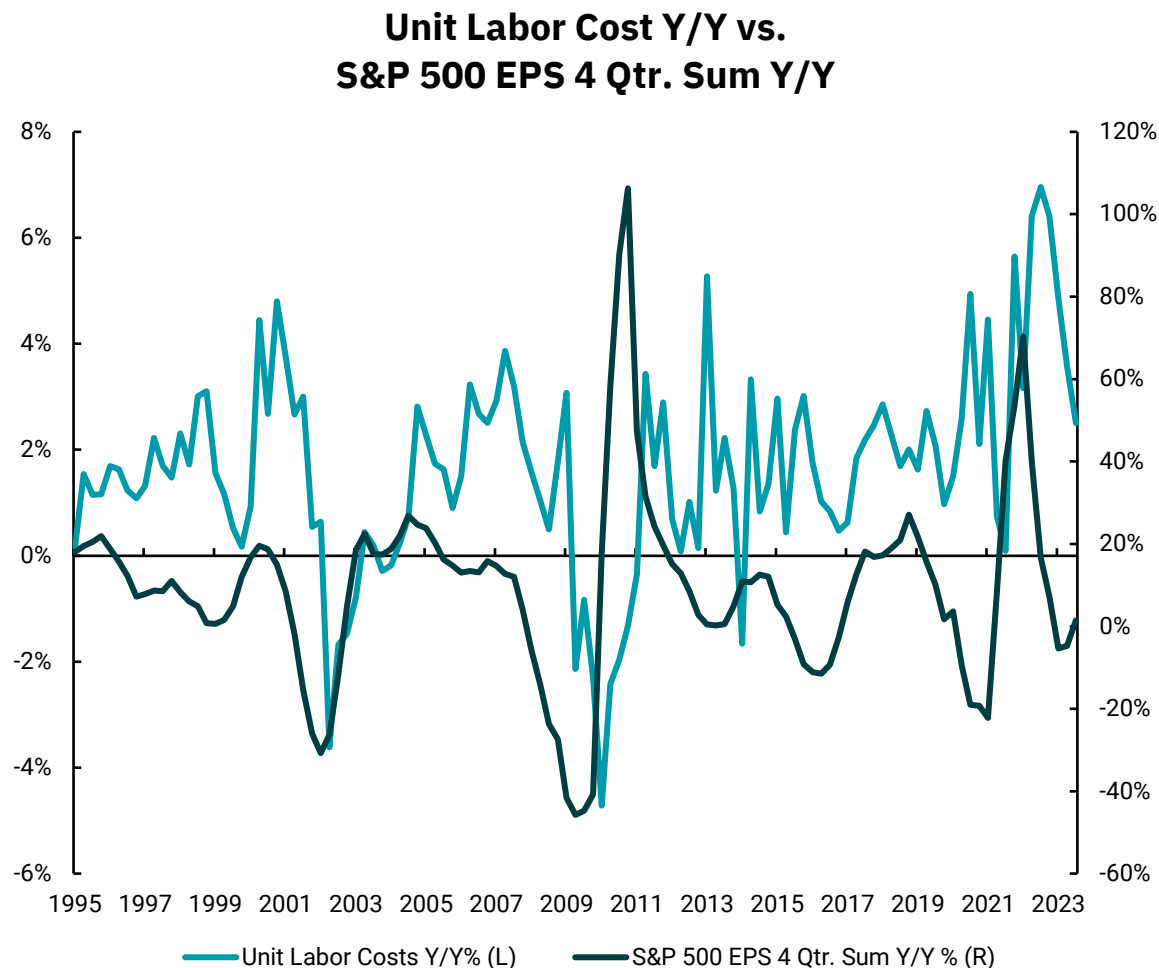
Operating margins falling from COVID peak

- Corporate margins expanded as we worked our way through the pandemic.
- As real demand has slowed, the ability to pass higher costs to consumers has diminished, impacting margins.
- If margins return to more normal levels, earnings for companies will be under pressure.
- A recession would likely drive margins substantially lower, negatively impacting corporate earnings.



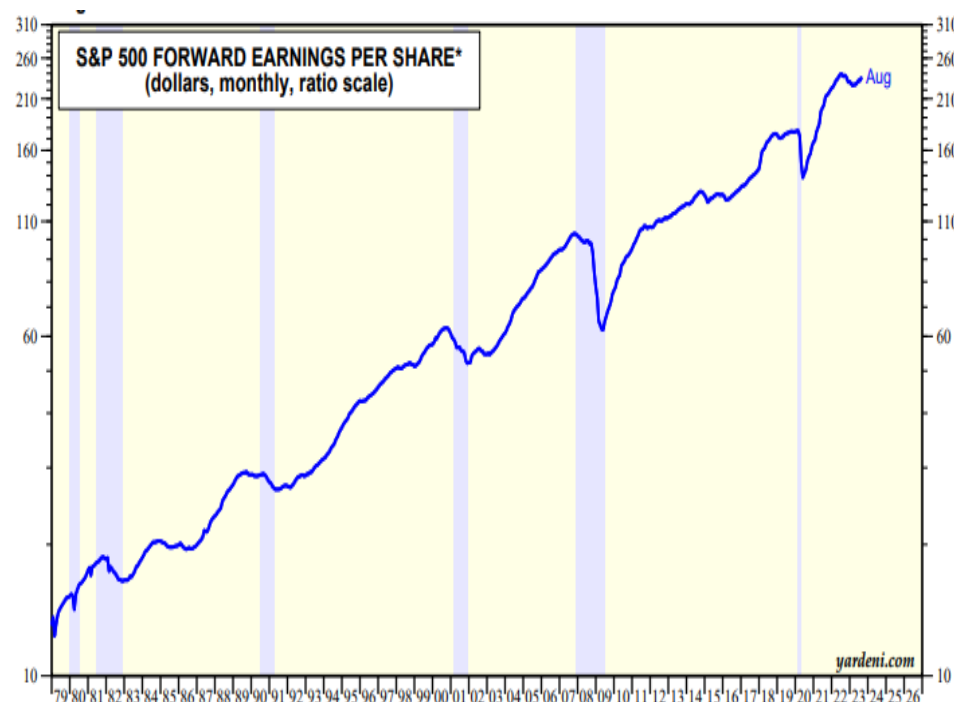
Wage pressure remains high

- Wages continue to increase, and historically, earnings growth has declined as wages rise.
- With unit labor costs increasing and consumer spending slowing, margins are at risk for most operating businesses.
- Lower margins would, of course, impact earnings.
- The market is not priced for a decline in earnings, as estimates remain for earnings growth in 2023 and 2024.



S&P 500 forward earnings per share

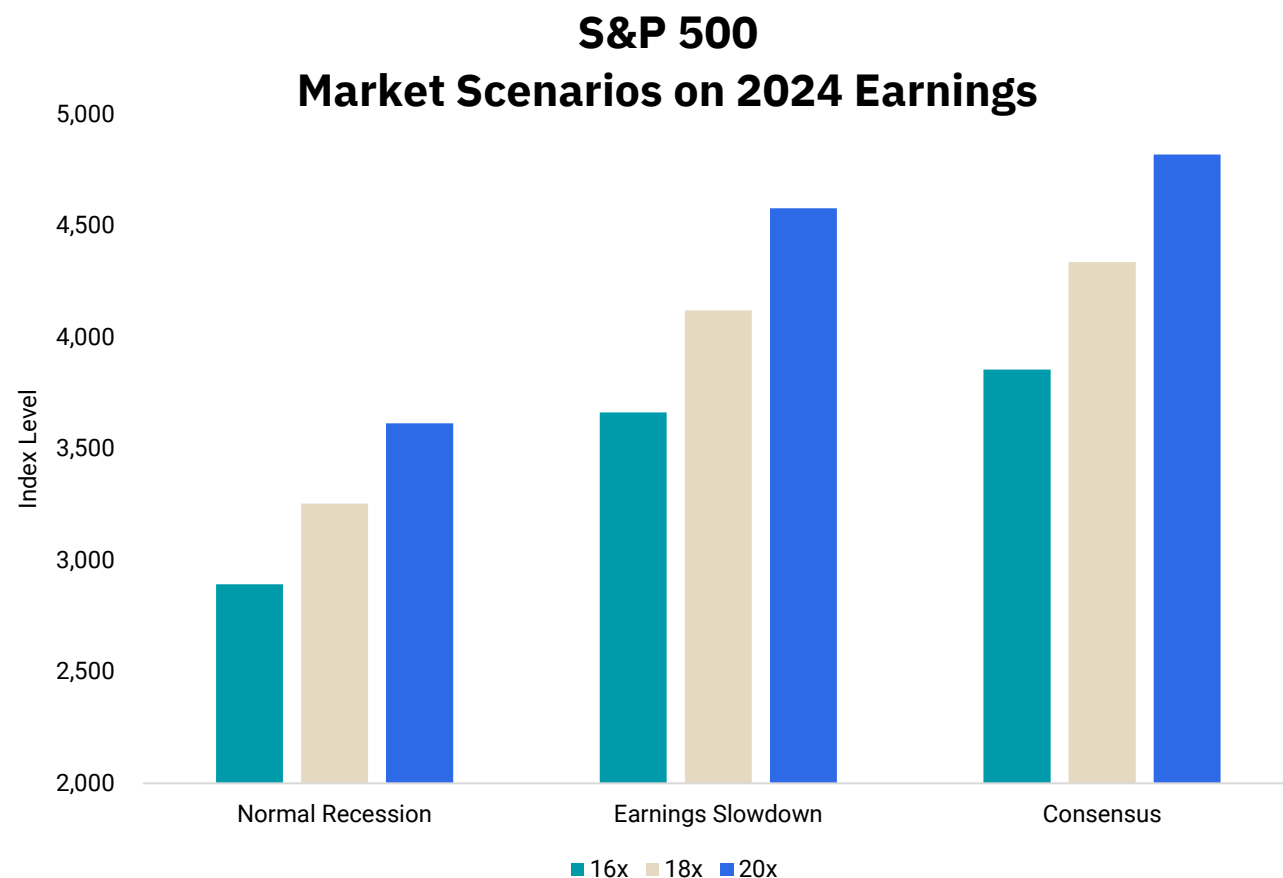
- Surprisingly, earnings for 2023 have held up. And now, we have begun turning our heads toward 2024 earnings.
- Currently, expectations are for S&P 500 companies to deliver approximately \$240 per share in earnings for next year.
- Standalone earnings expectations are important, but where does that put the markets from a valuation perspective?



* Time-weighted average of analysts' consensus estimates for S&P 500 operating earnings per share for current year and next year.
Note: Shaded areas are recessions according to the National Bureau of Economic Research.
Source: I/B/E/S data by Refinitiv.

U.S. equity market scenarios

- Looking at 2024 earnings, the consensus appears to be pricing in a soft landing, or the fabled no-landing, as earnings expectations are 10% higher than 2023.
- In a normal recession, where earnings drop 25%, equity markets would suffer further losses.
- Higher taxes due to the expiration of R&D tax credits also does not appear to be reflected in estimates.



Market pulse summary

1

As interest rates rise, we see pockets of opportunity emerging in the U.S. investment-grade bond market.

2

Equity valuations are somewhat elevated when compared to historical norms, such as the Price-to-Earnings ratio.

3

One of the keys to determining the outlook for the equity markets is earnings and whether companies can hold the line on their revenue and profit margins.

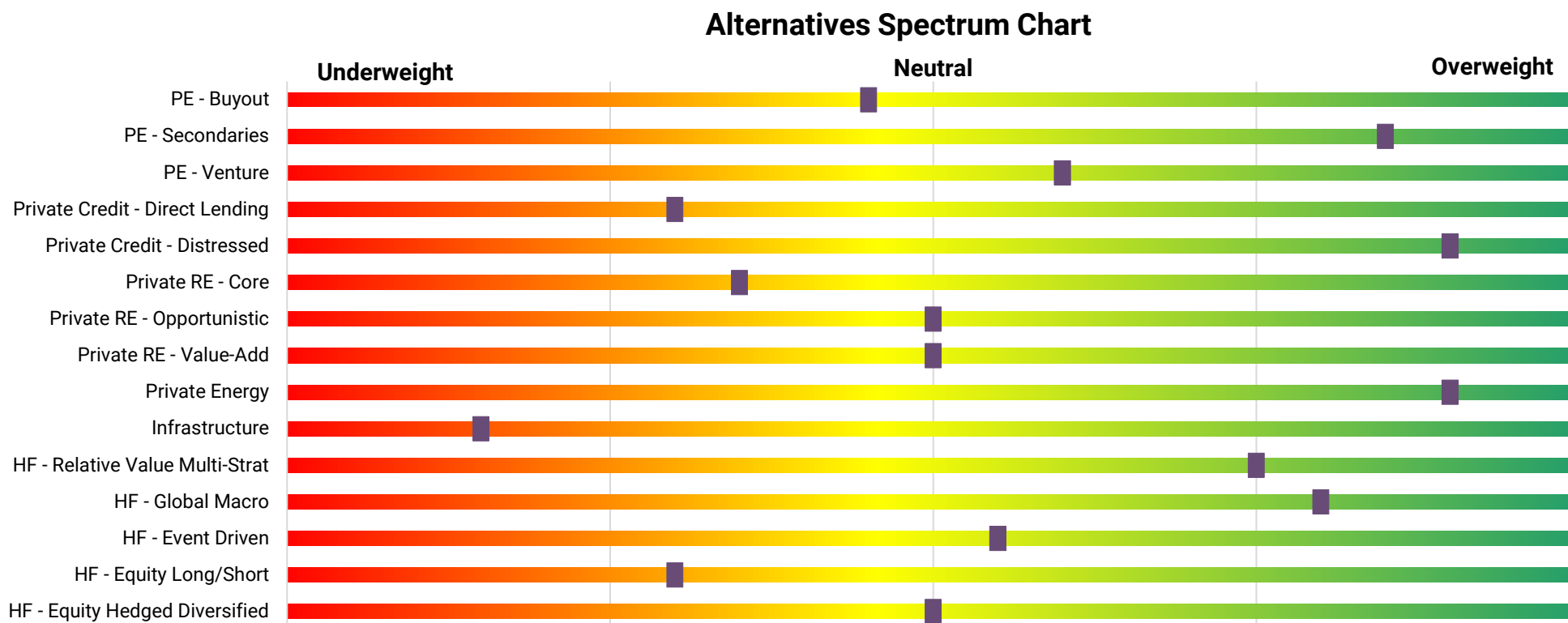
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The federal debt may begin to crowd out some investments and is a growing risk to financial market stability.

5

Alternative investments remain a potential opportunity for investment as distressed assets often provide attractive returns for talented managers.

Alternatives: Our 2023 outlook



Market expectations

- Deal activity in the private market is slowing.
- Private equity facing downward fair market value adjustments.
- Key identified risks include inflation, aggressive Fed, COVID variants, and China/U.S. relations.

Areas of emphasis

- In private equity, we favor opportunistic credit and PE secondaries.
- High current income secured by assets is attractive
- For hedge funds, we favor uncorrelated returns across multiple strategies.

Broad market overview

Returns (%)	1 Mo.	3 Mo.	YTD	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.
Capital Markets							
DJ Industrial Average TR USD	-2.01	3.97	6.37	14.23	12.31	9.59	11.26
NASDAQ 100 TR USD	-1.50	15.39	42.53	33.13	15.25	17.66	19.23
Russell 3000 TR USD	-1.93	8.39	18.01	18.95	13.90	11.39	12.34
S&P 500 TR USD	-1.59	8.74	18.73	19.59	14.61	12.31	12.86
Domestic Large Cap Equities							
Russell 1000 TR USD	-1.75	8.58	18.58	19.36	14.10	11.92	12.65
Russell 1000 Value TR USD	-2.70	4.07	5.88	11.54	14.31	8.11	9.22
Russell 1000 Growth TR USD	-0.90	12.81	32.17	27.11	13.74	15.14	15.75
Domestic Mid Cap Equities							
Russell Mid Cap TR USD	-3.47	4.76	9.40	14.92	12.51	8.46	10.33
Russell Mid Cap Value TR USD	-3.54	3.86	5.93	10.50	15.05	6.84	9.03
Russell Mid Cap Growth TR USD	-3.30	6.23	15.51	23.13	7.63	9.72	11.53
Domestic Small Cap Equities							
Russell 2000 TR USD	-5.00	5.21	8.96	12.31	10.83	4.21	8.26
Russell 2000 Value TR USD	-4.81	3.18	4.94	6.01	15.44	3.54	7.29
Russell 2000 Growth TR USD	-5.21	7.05	12.68	18.53	6.10	4.22	8.83
International Equities							
MSCI EAFE NR USD	-3.83	2.95	10.87	18.77	8.94	4.39	5.41
MSCI EAFE Value NR USD	-2.96	3.15	10.86	17.40	11.34	2.93	4.15
MSCI EAFE Growth NR USD	-4.69	2.77	10.96	20.20	6.28	5.44	6.43
MSCI ACWI Ex USA NR USD	-4.52	2.44	8.78	12.72	7.23	3.52	4.75
MSCI EM NR USD	-6.16	0.90	4.55	1.75	2.32	0.93	2.95
Cash & Fixed Income							
FTSE Treasury Bill 3 Mon USD	0.46	1.25	3.33	3.75	1.33	1.57	0.98
Bloomberg US Agg Bond TR USD	-0.64	-0.84	1.37	-0.94	-3.97	0.77	1.52
Bloomberg Gbl Agg Ex USD TR Hdg USD	0.28	0.73	3.98	1.51	-2.15	0.95	2.48
Bloomberg US Corporate High Yield TR USD	0.28	1.75	7.13	9.06	3.14	3.36	4.43
Alternatives							
MSCI US REIT GR USD	-3.03	2.66	5.19	-0.09	8.89	4.55	6.39
Bloomberg Commodity TR USD	-0.77	-2.56	-2.77	-9.61	17.83	4.73	-0.99

Asset class quilt

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	
38.82%	13.69%	5.67%	21.31%	37.28%	3.17%	36.39%	38.49%	28.71%	-7.54%	32.17%	Best Performing ↑ ↓ Worst Performing
34.76%	13.45%	1.38%	17.34%	30.21%	0.01%	31.49%	19.96%	27.60%	-9.76%	18.73%	
33.48%	13.22%	1.36%	17.13%	25.03%	-1.51%	30.54%	18.40%	25.16%	-11.19%	10.87%	
32.53%	13.05%	0.55%	13.80%	21.83%	-2.08%	26.54%	18.31%	22.58%	-13.01%	9.40%	
32.39%	8.79%	-0.81%	11.96%	18.52%	-4.38%	25.52%	17.10%	14.82%	-14.45%	8.96%	
22.78%	5.97%	-2.44%	11.19%	14.65%	-8.27%	22.01%	7.82%	11.26%	-17.32%	7.13%	
7.44%	4.89%	-3.83%	7.08%	13.66%	-9.06%	18.44%	7.51%	5.28%	-18.11%	5.88%	
1.18%	2.45%	-4.41%	4.90%	7.50%	-11.01%	14.32%	7.11%	-1.40%	-20.09%	4.55%	
-2.02%	-2.19%	-4.47%	2.65%	3.54%	-13.79%	8.72%	3.94%	-1.54%	-20.44%	3.98%	
-2.60%	-4.90%	-14.92%	1.00%	2.48%	-14.58%	7.57%	2.80%	-2.54%	-29.14%	1.37%	

S&P 500
Large Cap Value
Large Cap Growth

Mid Cap Blend
Small Cap Blend
Foreign Bonds

Foreign Stocks
Emerging Markets
High Yield

Bonds

Equity returns across periods

1 Month

	Value	Core	Growth
Large	-2.7	-1.6	-0.9
Mid	-3.5	-3.5	-
Small	-4.8	-5.0	-5.2
Int'l	-3.9	-4.5	-5.1

1 Year

	Value	Core	Growth
Large	8.6	15.94	21.9
Mid	5.65	8.4	13.0
Small	-	4.7	6.8
Int'l	14.6	11.9	9.3

3 Year

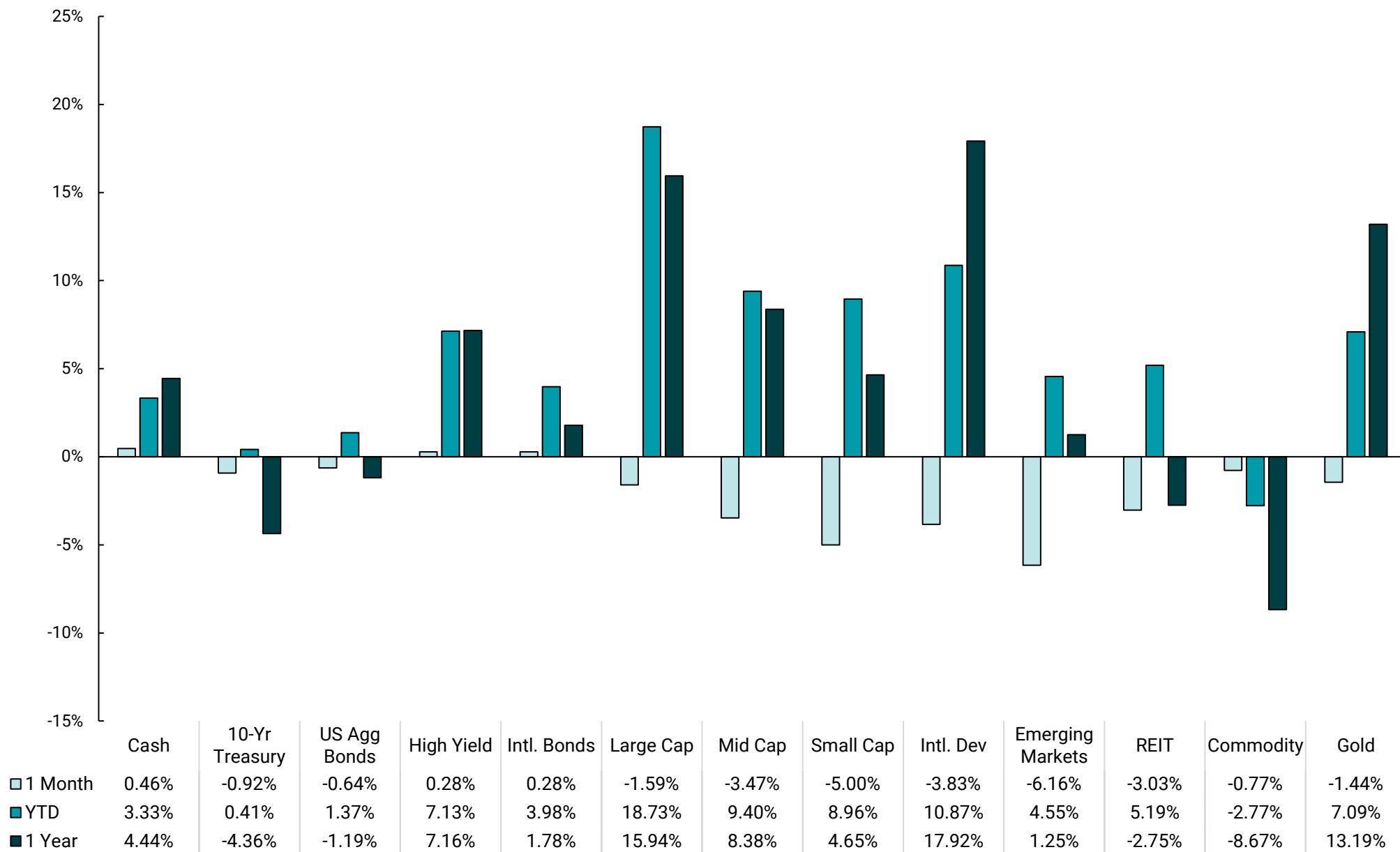
	Value	Core	Growth
Large	11.6	10.5	8.3
Mid	12.1	9.3	3.8
Small	13.5	8.1	2.7
Int'l	8.4	4.0	-0.4

5 Year

	Value	Core	Growth
Large	-	11.1	-
Mid	6.1	7.3	8.0
Small	-	-	2.5
Int'l	2.9	3.3	3.5

Source: Morningstar. Returns in the style boxes are represented by the Russell indexes and the S&P 500 for the Large Cap Core space. Returns in the international boxes are represented by the MSCI ACWI Ex USA indexes. Boxes shown in red represent returns below 0%. Purple boxes represent returns between 0% and 10%. Returns above 10% are shown in violet. Data shown as of Aug. 31, 2023.

Market summary



Source: Morningstar. Data shown as of Aug. 31, 2023.

How does this apply to the Nonprofit Sector?

1

Mission Delivery

The organization's board and leadership maintains a responsibility and duty of loyalty to the preservation of organization's mission. Recognize how the capital markets and economic outlook apply to/impact the delivery of the mission of the organization.

2

Financial Sustainability

Market and economic information should be considered during the budgeting process; crafting and reviewing the investment and spending policies of the organization; and recognizing how the global, national, and local economies could impact donor giving.

3

Fiduciary Responsibility

Organizations are responsible for having individuals on their governing boards, finance, and investment committees who have qualifications and backgrounds in finance and investments. Governing boards and committees must look at market and economic information through an objective lens. Organization decisions must never be based on emotion, or how they would manage their personal investments or budget. Furthermore, due diligence should be done when considering outside counsel; ensuring they have the background and experience in working with nonprofit institutional clients.

Best Practices

1

Investment Policy Statement

With your Institutional Advisor, review your investment policy statement at least once a year; with a more comprehensive review occurring every 3 years.

2

Spending Policy

With your Institutional Advisor, review your spending policy regularly. It is here that you have the greatest control over the stress on your portfolio, as well as your ability to sustain the buying power of the distributions.

3

Education of Board and Committee Members

It is imperative to orient new board and committee members and provide regular education for existing board members on their fiduciary responsibility, as well as the finances and investment portfolios of the organization.

4

Transparency and Communication with Donors

The leadership and governing board of the organization must recognize donors as investors in their organization and mission. Therefore, intentional, proactive communication and transparency of the current financial health organization, as well as the board's long term financial sustainability plan is integral in the donor cultivation and stewardship strategy.

Action Steps for Nonprofits

1

Review and Measure Revenue Sources

Who are your biggest donors how much of your revenue do they account for annually?
Are your donors giving annually and do they demonstrate a history of increasing their giving over time?
Do you regularly engage in a meaningful way with your donors?
Are you measuring how you are growing and diversifying your donor base?

2

Budget Review

Anticipate and budget for increased costs.
Create a habit of annually setting a surplus budget .
Include budget items to fund operating and emergency reserves.

3

Sustainability Analysis of your Endowment

Test your asset allocation against the spending policy for the organization. Will your portfolio keep up with inflation?
Recognize opportunities to fundraise for your endowment by sharing your analysis with your donors.
Evaluate your donor restricted endowments. Are the beneficiary programs still an integral part of your mission?

4

Engage with your Stakeholders

Do your board members fully understand the financial reports for the organization? If not, a review might be in order.
Remind board members of the appropriate person to reach out to regarding gifts to the organization.
Create and implement a regular and thoughtful communication plan for your donors.

5

Be Prepared

Have a documented plan for the unexpected major gift.
Develop a relationship with trusted partners, i.e. attorneys, accountants, investment advisors.
Regularly review your documented gift acceptance policy and endowment contracts.

Questions ?



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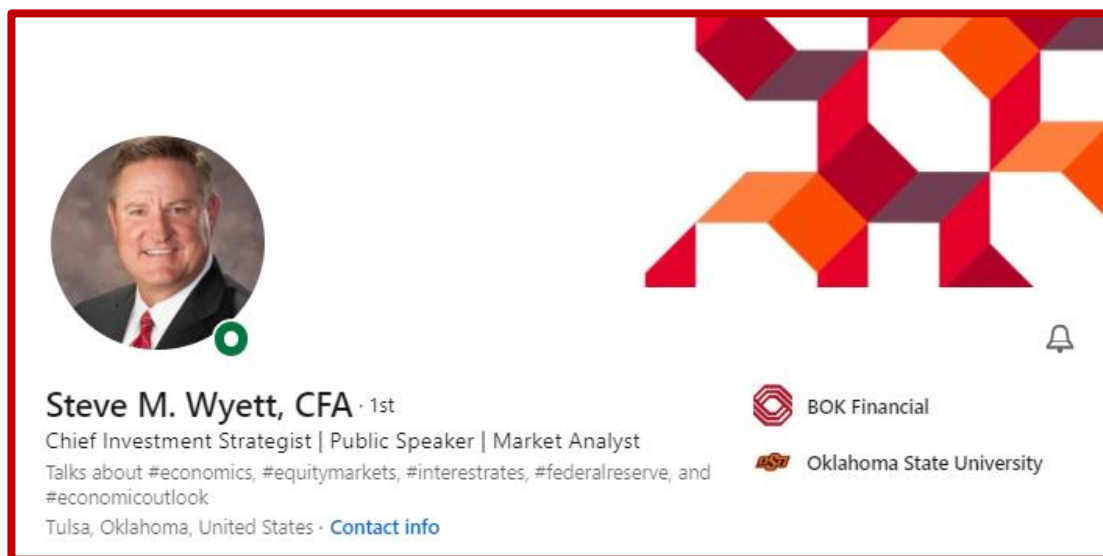
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