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MARKET REVIEW
MARCH 2023

RCB BANK
Trust & Wealth Management

TECH LAYOFFS DIVERGE FROM STRONG LABOR MARKET

– The technology sector is downsizing its workforce after overhiring during the pandemic.

– Technology has a limited impact on U.S. employment given it accounts for a mere 2% of the labor market.

– Labor shortages in some industries and businesses hoarding workers have helped the labor market's resilience.

The last several months have seen a sizeable wave of layoff announcements from technology companies, which has garnered substantial media attention. According to the technology-focused news website Crunchbase, technology layoffs have surpassed 94,000 this year, on top of 140,000 last year. The spike in technology layoffs has led some investors to wonder whether this is a harbinger for trouble in the overall labor market. The sector's large job cuts are likely not a sign of impending widespread labor market pain for a few reasons. First, many technology companies hired aggressively during the pandemic amid rising demand and appear to now be digesting some overhiring as demand softens. Second, technology accounts for a much smaller percent of the labor market compared to the sector's weight in stock indexes and disproportionate media coverage. Third, employment data suggests the overall labor market is still strong.

Employee headcount at many technology companies soared to arguably bloated levels during the pandemic as their businesses saw more demand from consumer and business activity shifting online while the physical economy largely shut down. Goldman Sachs equity analysts estimate technology companies' headcount grew 41% on average during the pandemic. On the more extreme side, the number of employees at Amazon (AMZN), Facebook's parent company Meta Platforms (META), Google's parent company Alphabet (GOOGL), and Microsoft (MSFT) skyrocketed 103%, 94%, 60%, and 54%, respectively, compared to the end of 2019. The rapid pace of hiring followed by a return to pre-pandemic consumer and business spending patterns and a softer economy appears to have taken some air out of a swollen technology workforce.

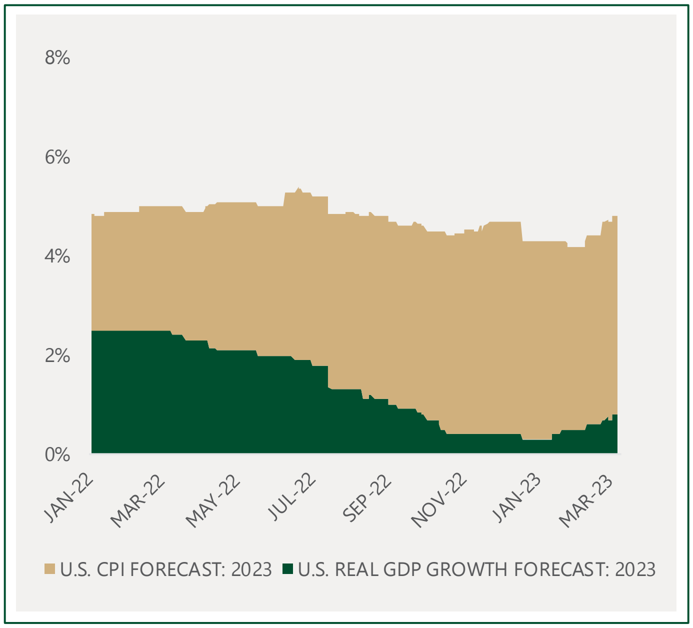
Despite the large absolute number of layoffs in technology, the impact on the overall labor market is less consequential. According to payroll services firm ADP, the sector's workforce accounts for a mere 2% of the U.S. labor market. The technology sector and tech-adjacent stocks such as GOOGL, META, and AMZN comprise over a third of the S&P 500 index's weight, so their heavy media coverage is reasonable. However, technology's prominence in the news can provide a misleading view of the sector's influence on the overall economy and labor market. The health care and leisure and hospitality sectors both have over five times the number of employees as technology (around 11% of the U.S. labor market each). Both industries have been adding workers at a healthy pace, which more than offsets technology job losses. These two services sectors are still facing labor shortages since they were among the hardest hit industries during the pandemic and lost a lot of former workers to other industries for a variety of reasons including better flexibility.

The U.S. labor market has been remarkably resilient so far in the face of softer economic growth and the Federal Reserve's aggressive interest rate hikes. The Fed's preferred measure of labor market tightness, job openings to unemployed workers, has remained close to a record level with nearly two job openings per unemployed worker. In addition to labor shortages in some industries, many companies are reluctant to lay off staff because they struggled to find workers over the last three years combined with fear that it will be difficult to fill vacancies again when the economy improves. CEO Jonas Prising of ManpowerGroup, a global staffing agency with over 400,000 clients, said he expects companies to "absorb a drop in demand for their products and services but maintain their workforces." Fed officials have echoed this sentiment, including Cleveland Federal Reserve Bank President Loretta Mester saying, "business contacts are telling us that they plan to keep workers even as the economy slows because it was just so difficult to attract them and retain them over the last few years."

> "TECHNOLOGY COMPANIES' HEADCOUNT GREW 41% ON AVERAGE DURING THE PANDEMIC "

Some employment data might be signaling the labor market is modestly softening. A moderation in the quit rate from a historic high may be an indication that employees are becoming less confident in finding a new position. Another potential sign of a softening labor market is negative year-over-year growth in temporary worker hiring in each of the last three months. Over the last 30 years, temporary worker growth has been a leading indicator for overall employment growth since its easier for companies to adjust their number of temporary workers than full time workers.

SLOWING GROWTH AND ELEVATED INFLATION
JANUARY 2022 THROUGH MARCH 2023



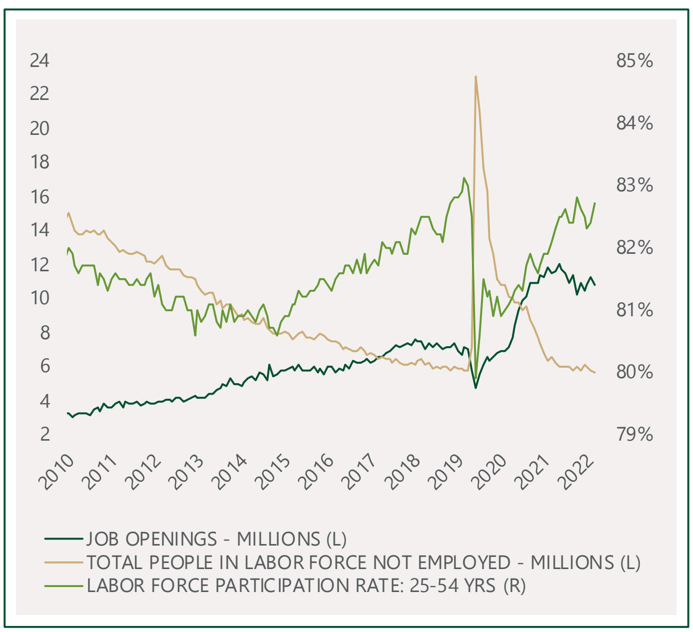
Source: Bloomberg. Past performance does not guarantee future results.

The median estimate of 73 economic forecasters for real U.S. GDP growth in 2023 surveyed by Bloomberg has ticked up to 0.8% from a low point of 0.3% several months ago. Expectations for domestic economic growth this year fell steadily from 2.5% at the beginning of 2022 to 0.3% in late December. A surge of consumer spending kept GDP above trend in 2022. As pent-up savings dwindle, however, Americans' spending patterns are likely to shift at some point in 2023.

The expected increase in the U.S. consumer price index (CPI) in 2023, shown in the dark green shaded region of the adjacent chart, has doubled to roughly 4% over the last 15 months. In recent weeks, many Federal Reserve officials have suggested interest rates will likely stay higher for longer than previously expected amid the ongoing battle to subdue elevated inflation.

China's emergence from its zero-COVID policy along with contained energy prices could provide a tailwind for both global and U.S. growth in 2023.

TIGHT LABOR MARKET
2010 THROUGH JANUARY 2023



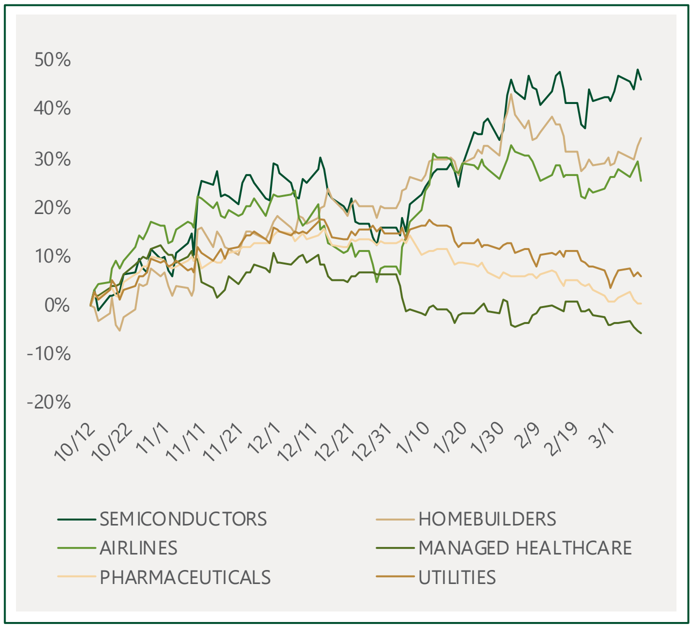
Source: Bloomberg. Past performance does not guarantee future results.

Data from the U.S. Bureau of Labor Statistics showed the number of job openings in the U.S. declined from 11.01 million in December to 10.82 million in January. Job openings unexpectedly increased in December to the highest level since July after falling in October and November, but nonetheless remain at historically high levels.

The labor force participation rate for those aged 25-54 years old increased to 82.7% in January from 82.4% in December. This figure has increased steadily over the last several months to approach the high-end of the range between 80.6% and 83.0% from 2010 to 2019.

The number of unemployed people actively looking for a job in the U.S. dropped to 5.6 million in January from 5.7 million the prior month. The ratio of job openings to total unemployed persons has been near two since late 2021.

SELECTED S&P 500 INDUSTRY INDEX RETURNS
OCTOBER 12 THROUGH MARCH 9



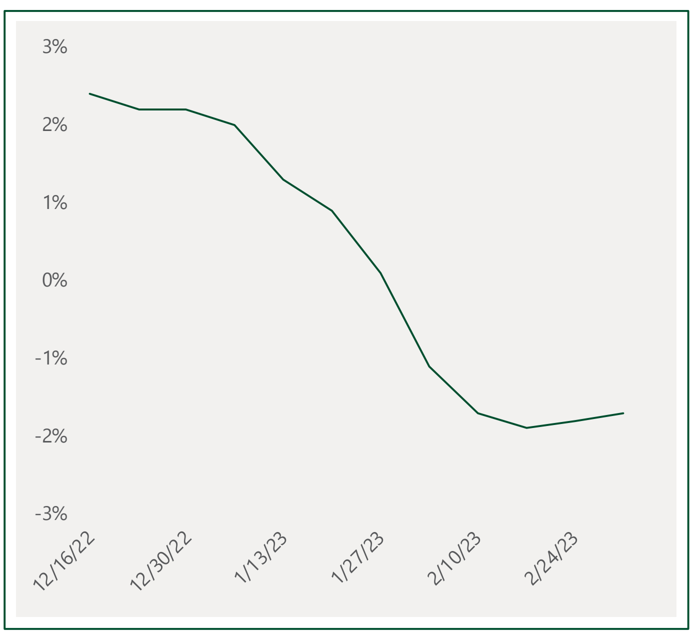
Source: Bloomberg. Data as of 3/9/23. Past performance does not guarantee future results.

Several key cyclical S&P 500 industry groups, including semiconductors, homebuilders, and airlines, have significantly outperformed the broad market thus far in 2023 against a backdrop of better-than-expected economic data. Strong recent returns in shares of homebuilders are particularly interesting given a substantial deceleration in housing activity and a doubling of 30-year fixed mortgage rates over the last 12 months.

Most defensive industry groups have grinded lower over the last 10 to 12 weeks after holding up nicely in 2022. The S&P 500 pharmaceuticals, managed healthcare, utilities, household products, packaged foods, and beverages industry indexes all declined between 5% and 12% year to date through March 9.

Managed healthcare and pharmaceutical stocks have experienced pressure in recent weeks driven by concerns about the potential for increased congressional and regulatory oversight over drug pricing and pharmacy benefit manager business practices.

S&P 500 2023 EARNINGS GROWTH REVISED LOWER
2023 YEAR-OVER-YEAR EARNINGS GROWTH FORECAST



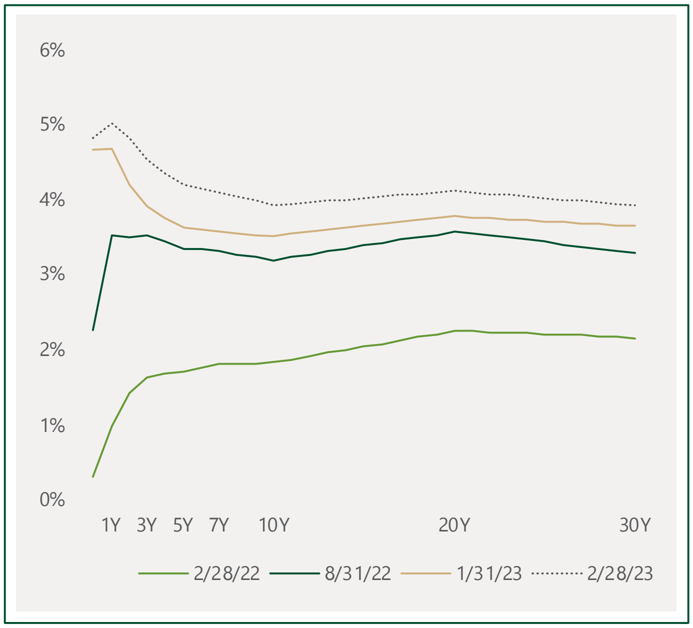
Source: Bloomberg. Past performance does not guarantee future results.

S&P 500 earnings declined 2.50% in the fourth quarter, surpassing analysts' forecast for a 3.26% contraction. Excluding outlier growth in the energy sector driven by higher oil prices, earnings posted a third consecutive quarterly contraction with a 6.34% decline. Seven sectors reported earnings contractions, led by double-digit declines communications, materials, financials, and technology. A total of 69% of companies beat analysts' earnings estimates, which is below the ten-year average beat rate of 74%.

Sales are holding up better than earnings with 5.57% growth versus analysts' estimate for 4.07% growth. However, net income and operating margins missed estimates and declined year over year as higher costs pressure margins.

Expectations for weaker sales growth and continued margin pressure have led analysts to reduce their 2023 earnings forecast to a 1.7% contraction from positive 2.2% growth forecast at the end of last year.

SELECTED U.S. TREASURY YIELD CURVES
FEBRUARY 2022 THROUGH FEBRUARY 2023



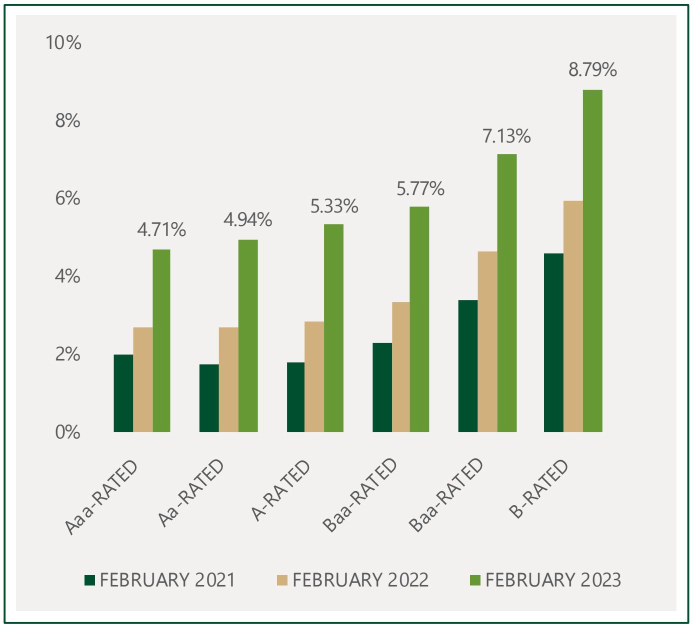
Source: Bloomberg. Data as of 2/28/23. Past Performance does not guarantee future results

The entire U.S. Treasury yield curve shifted higher in February amid stronger-than-expected economic data and expectations that the Federal Reserve's benchmark lending rate will remain "higher for longer." Yields on the policy-sensitive two-year U.S. Treasury note surged 61 basis points from 4.20% on January 31 to 4.82% on February 28. The 10-year note yield climbed 41 basis points to 3.92% over the same period.

In the first week of March, fed fund futures indicated market participants expected the Federal Open Market Committee would lift its policy rate to a peak of roughly 5.6% by September. In the last week of January, expectations were for a peak policy rate of 4.9% by June.

Most parts of the U.S. Treasury yield curve are inverted, with shorter-dated yields generally eclipsing their longer-dated counterparts. Yield curve inversions are typically interpreted as the collective bond market discounting an economic slowdown and a subsequent easing of monetary policy. In the first week of March, the 2-year-to-10-year portion of the yield curve inverted by 1.00% for the first time since 1980.

U.S. CORPORATE BOND SEGMENTS: YIELDS TO WORST
FEBRUARY 2021 THROUGH FEBRUARY 2023



Source: Bloomberg. Data as of 2/28/23. Past performance does not guarantee future results

The increase in corporate bond yields compared to one year ago has mostly mirrored the rise in U.S. Treasury yields. Credit spreads, or the extra yield investors require on top of a similar maturity Treasury security, have narrowed substantially from levels reached in the first half of 2022.

Although most U.S. banks have tightened lending standards and increased loan loss provisions in recent months, the credit cycle has not shown any clear signs of turning over. The U.S. corporate default rate of 2.2% remains historically low, supported by healthy corporate sector leverage and interest coverage.

Over the next several quarters, investors will be closely watching trends in corporate profits to gauge the likelihood of a deterioration in leverage and interest coverage. Weakness in these two balance sheet metrics has historically correlated with increased credit defaults and downward ratings migration.