Current Investment Strategy and Themes

- ***U.S. economic growth surprises on the upside, led by solid household consumption. Higher GDP growth and steady wage growth suggest elevated interest rates longer than the market expected.***
- ***Headwinds remain for the global economy and capital markets with high interest rates, high debt levels, and sticky service sector inflation.***
- ***High real interest rates and high stock market valuations warrant less equity risk and a bias toward quality and downside protection.***

Markets Review and Outlook: September 2023

- August was a difficult month for most financial assets except for cash and cash equivalents. Investors fled risk assets in favor of 5%+ short-term yields in 30-90 Treasury Bills. Bond yields, especially short-term instruments, have a higher yield than earnings yield on stocks (3-month T-Bill yield is 5.31% vs. a 4.26% earnings yield for the S&P 500).

- The global economy and capital markets are exhibiting the characteristics of a late-stage cycle where the current headwinds ranging from high debt levels to stock inflation and a slowing jobs market will slow GDP growth. Whether the US moves into recession sooner or later, the likelihood is that it will not be averted.

- The Fed faces a conundrum with a still elevated economic growth rate, stubbornly higher than the target inflation rate, and a nearly fully employed labor force. The lasting effects of the extraordinary stimulus to combat the lasting effects of the economic shutdown of Covid are now presenting another challenge to both monetary and fiscal policies.

- This monetary and fiscal challenge could likely put the brakes on continued above-trend economic growth, placing constraints on financial returns that have been elevated for an extended period of time. We believe a premium should be placed on managing portfolio risk through proper diversification, emphasizing quality investments in equity and bond markets, and using short-term momentum measures to address the expected higher volatility ahead.

- Investors have recently defined quality as holding the largest five technology companies along with cash. We believe quality should be diversified across profitable, superior cash flow operating dominant companies with low debt to equity levels across the economic spectrum. We also believe that the risk of equity drawdowns has risen due to the characteristics of this late-stage cycle and propose a momentum overlay to protect prices on the downside with the potential for upside for our riskiest holdings.

- The spotlight on risk is crucial. Daily volatility has increased dramatically over the last year and a half due to economic and geopolitical uncertainty. Evidence has been the sharp rise of Zero Day Expiry option trading, which accounts for nearly half of the daily stock market trading volume.

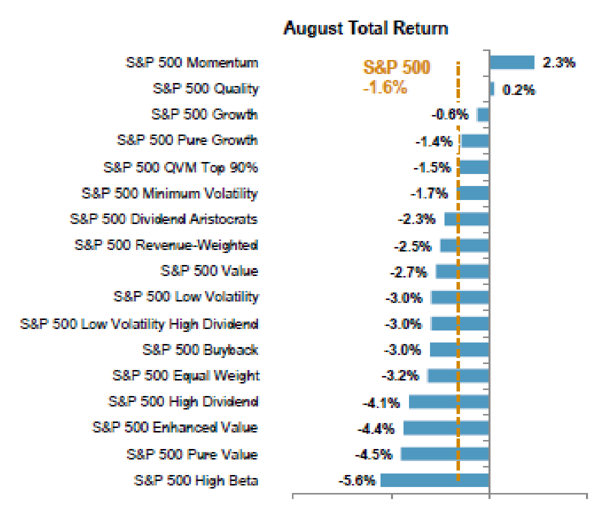
Key Market Indicators

Bullish | Favorable | Neutral | Cautious | Bearish

Equities	Aug 2023	Year to Date	Last 12 Months	Current View
U.S. Large Cap	-1.59%	18.73%	15.94%	Cautious
U.S. Small Cap	-5.00%	8.96%	4.65%	Cautious
International Developed	-3.83%	10.87%	17.92%	Neutral
Emerging Markets Equity	-6.16%	4.55%	1.25%	Cautious
Fixed Income				
U.S. Aggregate	-0.64%	1.37%	-1.19%	Neutral
U.S. Government	-0.50%	0.74%	-2.00%	Neutral
U.S. Corporate	-0.72%	2.70%	0.85%	Neutral
U.S. High Yield	0.28%	7.13%	7.16%	Cautious
Non-U.S. Developed	-2.23%	-0.13%	-0.24%	Cautious
Emerging Market Debt	-2.43%	7.40%	10.45%	Bearish
Alternatives				
REITs	-3.11%	5.00%	-2.95%	Cautious
Commodities	-0.54%	0.06%	-0.05%	Neutral
Managed Futures	-1.56%	-5.88%	-5.61%	Favorable
Hedge Funds	0.33%	1.48%	0.69%	Favorable

Source: Morningstar, data as of 8/31/2023

S&P 500 Factor Returns August 2023



Source: S&P Dow Jones

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Index definitions:

“U.S. Large Cap” represented by the S&P 500 Index.
“U.S. Small Cap” represented by the Russell 2000 Index.
“International” represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.
“Emerging” represented by the MSCI Emerging Markets Net Return Index.
“U.S. Aggregate” represented by the Bloomberg U.S. Aggregate Bond Index.
“U.S. Government” represented by the Bloomberg U.S. Government Bond Index.
“U.S. Corporate” represented by the Bloomberg U.S. Credit Bond Index.
“U.S. High Yield” represented by the Bloomberg U.S. Corporate High Yield Index.
“Non-U.S. Developed” represented by the S&P International Treasury ex U.S. Index.
“Emerging Market Debt” represented by the JP Morgan GBI-EM Global Core Index.
“REITs” represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.
“Commodities” represented by the Dow Jones Commodity Index .
“Managed Futures” represented by the Credit Suisse Managed Futures Index.
“Global Macro” represented by the Credit Suisse Global Macro Index

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