Gould Asset Management®

Q3

Economic & Market Review

Third Quarter 2023

Economic Review

Third Quarter 2023

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US Economy Steady Amidst Headwinds

The US economy grew at a 2.1% annualized rate in the second quarter, a slight deceleration from the previous quarter but still a healthy clip.

The labor market proved resilient in the third quarter, adding 336,000 jobs in September, **the fastest pace in eight months.** Wage growth moderated to 4.2% year-over-year and the headline unemployment rate remained unchanged at 3.8%.

Manufacturing activity continued to contract in the third quarter, with the ISM Manufacturing PMI consistently below the neutral level of 50. September marked the eleventh straight month of contraction, the longest stretch since the Great Recession. Falling input prices and a rebound in hiring provided a glimmer of hope.

Housing market challenges continued this quarter, with new home starts and sales declining amid rising mortgage rates. Existing home sales also fell due to limited inventory and affordability issues. Despite these issues, demand for housing remains robust.

The Fed – Higher for Longer

The Federal Reserve maintained its federal funds rate at a range of 5.25% to 5.50% after a 0.25% rate hike earlier in the quarter. The pause indicates the Fed's cautious and data-driven approach to tightening monetary policy, allowing time to assess the cumulative effects of previous interest rate hikes on the economy.

Still, Fed Chair Jerome Powell delivered a sobering message for financial markets – **borrowing costs must remain higher for longer** against a backdrop of sticky inflation and renewed strength in the economy.

Updated Fed projections show a stronger economy and job market in 2023-24 than previously forecast in June. As a result, the Fed expects to maintain a hawkish stance, penciling in one more interest rate hike before year-end. The Fed also expects to make only two interest rate cuts of 0.25% next year instead of the four they were projecting a few months ago.

Economic Review

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Europe Growth Stagnates; Japan's Recovery Accelerates

The Euro area economy registered marginal growth of 0.1% in the second quarter, with expectations of more stagnation ahead. Household consumption was flat in the second quarter, as lingering inflation and tightening financial conditions weighed on consumers.

The European Central Bank (ECB) continued its tightening cycle in the third quarter, raising its key interest rate twice by 0.25%. The ECB also signaled it may be nearing the end of its hiking cycle as inflation continues to decline. However, ECB President Christine Lagarde stressed the job was not done on the inflation front and the ECB will hike rates further if needed.

Japan's economy grew by 1.2% in the second quarter, continuing its steady recovery from last year as it benefits from robust exports and increased tourism. It was the country's fastest quarterly growth since 2015 (setting aside some anomalous pandemic-era readings).

The Bank of Japan (BOJ) maintained its key interest rate at -0.10% in the third quarter. Despite inflation (3.2%) running above the central bank's target, BOJ Governor Kazuo Ueda **opted to continue monetary easing, apparently fearing future deflation more than continued inflation.**

Emerging Economies: China's Rebound, India's Surge, Brazil's Resilience

China reported 6.3% year-over-year growth in the second quarter, a significant rebound from previous quarters. However, the recovery faces challenges from sluggish consumer spending, a troubled property market, and rising local government debt.

India's economy grew 7.8% year-over-year in the second quarter, buoyed by a strong services sector and robust demand. A drier-than-normal monsoon season could hinder growth prospects later this year.

Brazil's economy grew 0.9% quarter-over-quarter through June, boosted by strong industrial output and robust services activity.

Market Review: Stocks

Third Quarter 2023

Stocks Slip in Q3 as Investors Weigh High Interest Rates, Slower Economic Growth

After a strong first half of 2023, **stocks retreated in Q3 as investors grew weary of additional Fed tightening, some signs of economic slowing, and higher energy prices.** The declines were relatively modest, however, and equities remain considerably higher than where they started the year.

US large cap stocks, as measured by the S&P 500 stock index, **fell 3.3% in the third quarter, reducing year-to-date returns through September to 13.1%.** Despite the decline, there was some positive news in the quarter, as inflation continues to show signs of moderating and corporate earnings proved better than expected. Mid and small cap stocks performed similarly to large caps in Q3 (down 3.1%), but still lag them year-to-date (up 9.2%).

Excluding the energy sector, **financials** (down 1.1%) **and health care** (down 2.7%) **were among the best performing sectors in Q3,** but both lag most market sectors year-to-date. **Utilities had a dismal quarter,** falling 9.3%, putting their year-to-date decline at 14.4%. The return on utilities comes in large part from their typically high dividend, making them vulnerable to higher long-term interest rates in much the same way as long-term bonds.

International developed and emerging markets stocks also declined, as risk assets fell out of favor with investors in the third quarter, while higher energy prices and interest rates added to the negative sentiment. In this environment, the MSCI EAFE index fell 4.1% (up 7.6% year-to-date) and the MSCI Emerging Markets index dropped 2.8% (up 2.2% year-to-date). A rally in the US dollar (up 2.4%) created additional headwinds for international returns in Q3.

The market decline led to an uptick in volatility, with the VIX volatility index rising from 13 to 17 over the quarter. This level is still below historical averages, suggesting investors were not overly alarmed by market developments in Q3, despite the modest selloff in stocks.

Returns for the Quarter (%)

Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	13.07	21.62	10.15	9.92
US Mid/Small Cap Stocks	9.21	15.05	7.37	5.99
International Developed Stocks	7.59	26.31	6.28	3.74
Emerging Markets Stocks	2.16	12.17	-1.34	0.94
Global Stocks	10.49	21.41	7.39	6.99

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of $1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Index) and Foreign Stocks (All Country World Index ex US).

Market Review: Bonds

Third Quarter 2023

Rising Yields and a Hawkish Fed Spelled a Challenging Q3 for Bonds

US Treasury yields continued their upward trajectory, reflecting the Federal Reserve's ongoing commitment to curbing inflation. The Fed's decision to raise rates by 0.25% in July led to a rise in both short and long-term yields, **putting pressure on bond prices in Q3.**

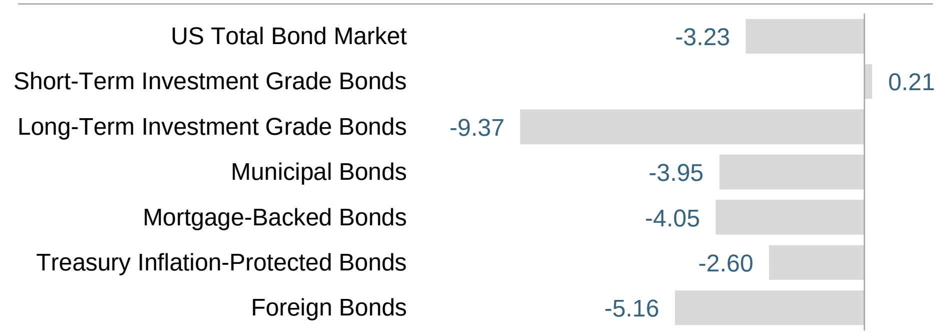
The 2-year Treasury yield fluctuated between 4.6% and 5.1% on the quarter, while **the 10-year yield saw a more significant increase from 3.9% to 4.6%,** levels not seen since 2007. The yield curve remained inverted, though less so with the larger rise in long-term bond yields.

This created a challenging backdrop for US bonds, with **the Bloomberg Aggregate Bond Index declining 3.2% on the quarter**. This put year-to-date returns in negative territory, with the index down 1.2% through September. Should it finish 2023 in the red, it would mark three consecutive calendar years of decline, a first for US bonds.

With yields on the rise, **short-duration bonds performed best in Q3, while long-term bonds were hardest hit.** High-yield bonds continued to perform well in 2023, rising 0.5% on the quarter and 5.9% year-to-date as investors continued to show an appetite for credit risk despite recession risks. Treasury Inflation-Protected Securities (TIPS) were down 2.6% on the quarter as inflation continued to moderate, however, they continue to serve as an excellent hedge against rising prices.

Municipal bonds had a challenging quarter, falling by 4.0%, but they remain ahead of taxable bonds on an absolute and tax-equivalent basis, having declined 1.4% year-to-date. Municipal bond yields can be somewhat volatile. However, for investors in the highest tax brackets, the tax-free interest rate is still quite attractive.

Returns for the Quarter (%)



Period Returns (%)

**Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	-1.21	0.64	-5.21	0.10
Short-Term Investment Grade Bonds	1.40	2.62	-1.62	1.14
Long-Term Investment Grade Bonds	-5.40	-2.93	-11.90	-1.21
Municipal Bonds	-1.38	2.66	-2.30	1.05
Mortgage-Backed Bonds	-2.26	-0.17	-5.09	-0.77
Treasury Inflation-Protected Bonds	-0.78	1.25	-1.98	2.12
Foreign Bonds	-3.72	2.55	-10.77	-4.34

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Market Review: Alternatives

Third Quarter 2023

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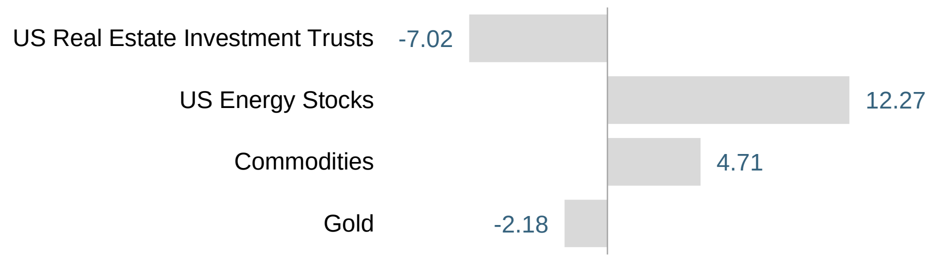
Energy Stocks and Commodities Rally; REITs and Gold Sink in Q3

US energy stocks had a robust quarter, posting a 12.3% return, **on the back of rising oil prices in Q3.** Russia and Saudi Arabia cut oil production, resulting in a sharp rise in the price of crude. Energy's strong quarter puts the sector back in positive territory for the year (up 6.2% through September). **Commodities also performed well, but returns were more modest** (up 4.7%), with the sector still in negative territory for the year (down 3.4%). After oil, the industrial metals component was the best performing commodities segment, with zinc, lead, and aluminum all posting gains.

Real estate investment trusts (REITs) had a difficult quarter, falling 7.0% and wiping out earlier gains on the year. The asset class is always vulnerable to higher interest rates, which increase borrowing costs and reduce what investors will pay for the future income stream from properties.

Gold declined by 2.2% **in the third quarter despite ongoing concerns about inflation,** but is up 3.2% for the year through September. Higher interest rates and the strong US dollar likely slowed gold's performance in Q3.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	-1.95	3.18	5.70	2.82
US Energy Stocks	6.15	30.41	50.93	9.02
Commodities	-3.44	-1.30	16.23	6.13
Gold	3.21	11.89	-0.29	10.01

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Market Summary

Index Returns

Q3 2023	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
	STOCKS				BONDS/DOLLAR	
	-3.27%	-3.13%	-4.05%	-2.79%	-3.23%	2.40%

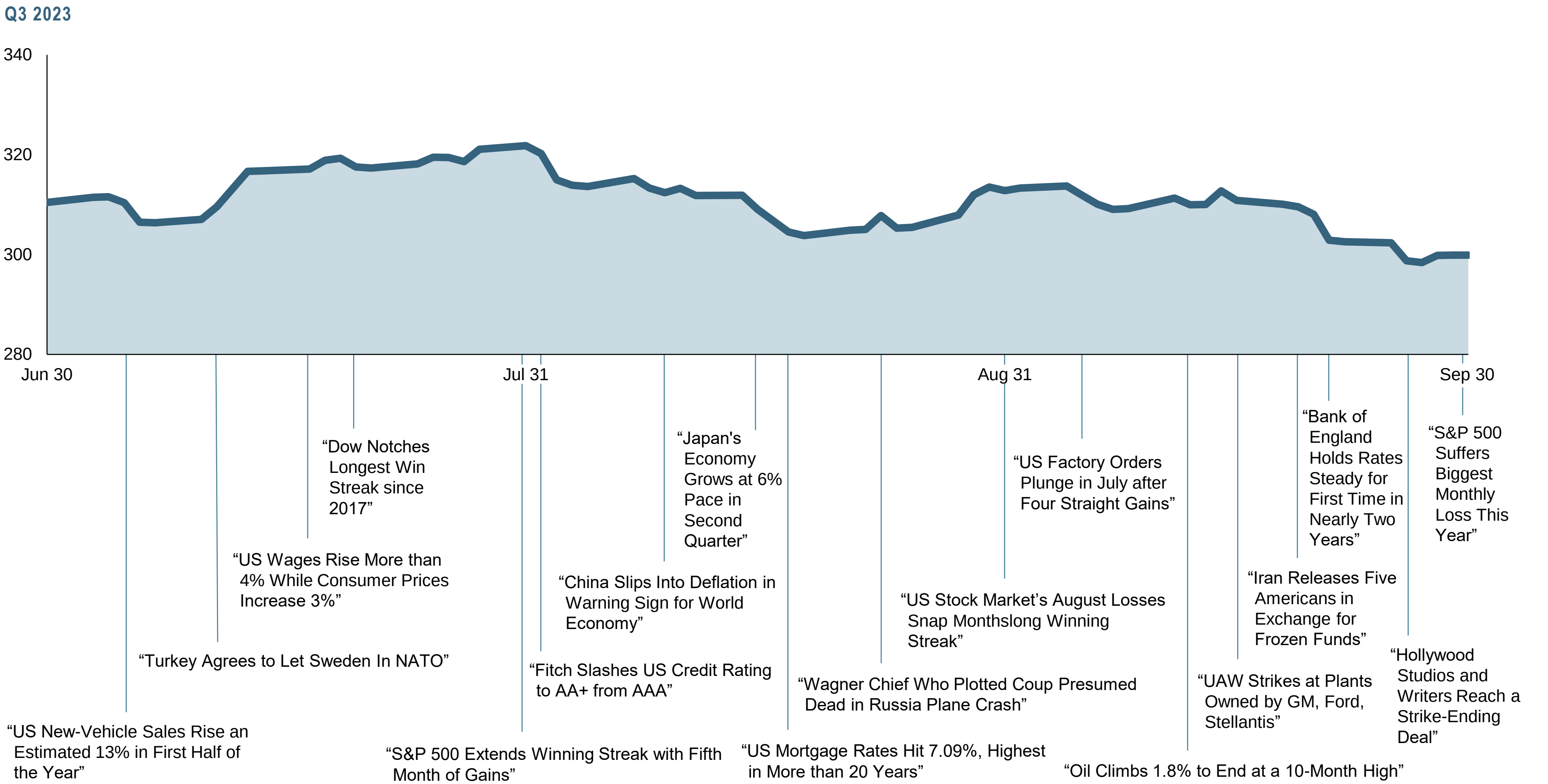
Since Jan. 2001	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
Avg. Quarterly Return	2.2%	2.7%	1.5%	2.3%	0.9%	0.4%
Best Quarter	20.5% **Q2 2020**	30.3% **Q2 2020**	25.8% **Q2 2009**	34.8% **Q2 2009**	4.6% **Q3 2001**	7.1% **Q1 2020**
Worst Quarter	-21.9% **Q4 2008**	-27.9% **Q1 2020**	-22.7% **Q1 2020**	-27.6% **Q4 2008**	-5.9% **Q1 2022**	-5.8% **Q2 2009**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2023, all rights reserved. Bloomberg data provided by Bloomberg.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2023

Gould Asset Management



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2001.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Labor Market

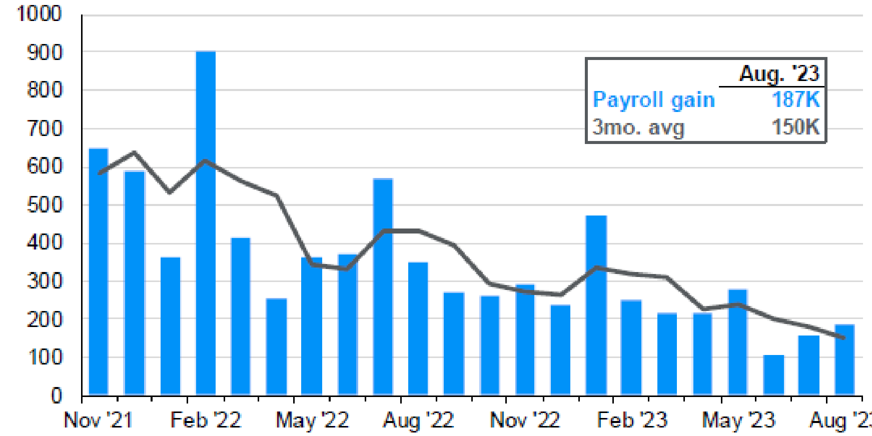
Third Quarter 2023

JOLTS job openings*

Total job openings, thousands, seasonally adjusted

Nonfarm payroll gains

Month-over-month change and 3mo. rolling average, SA



The chart to the left shows job openings; that is, unfilled positions. A higher number means it's harder to find workers to fill positions, suggesting an economy running hot. Openings peaked at over 12 million in March 2022, indicating a very tight labor market. Although they have since dropped to about 9 million, that level is still well above historical norms and reflects one source of inflation the Fed is watching carefully.

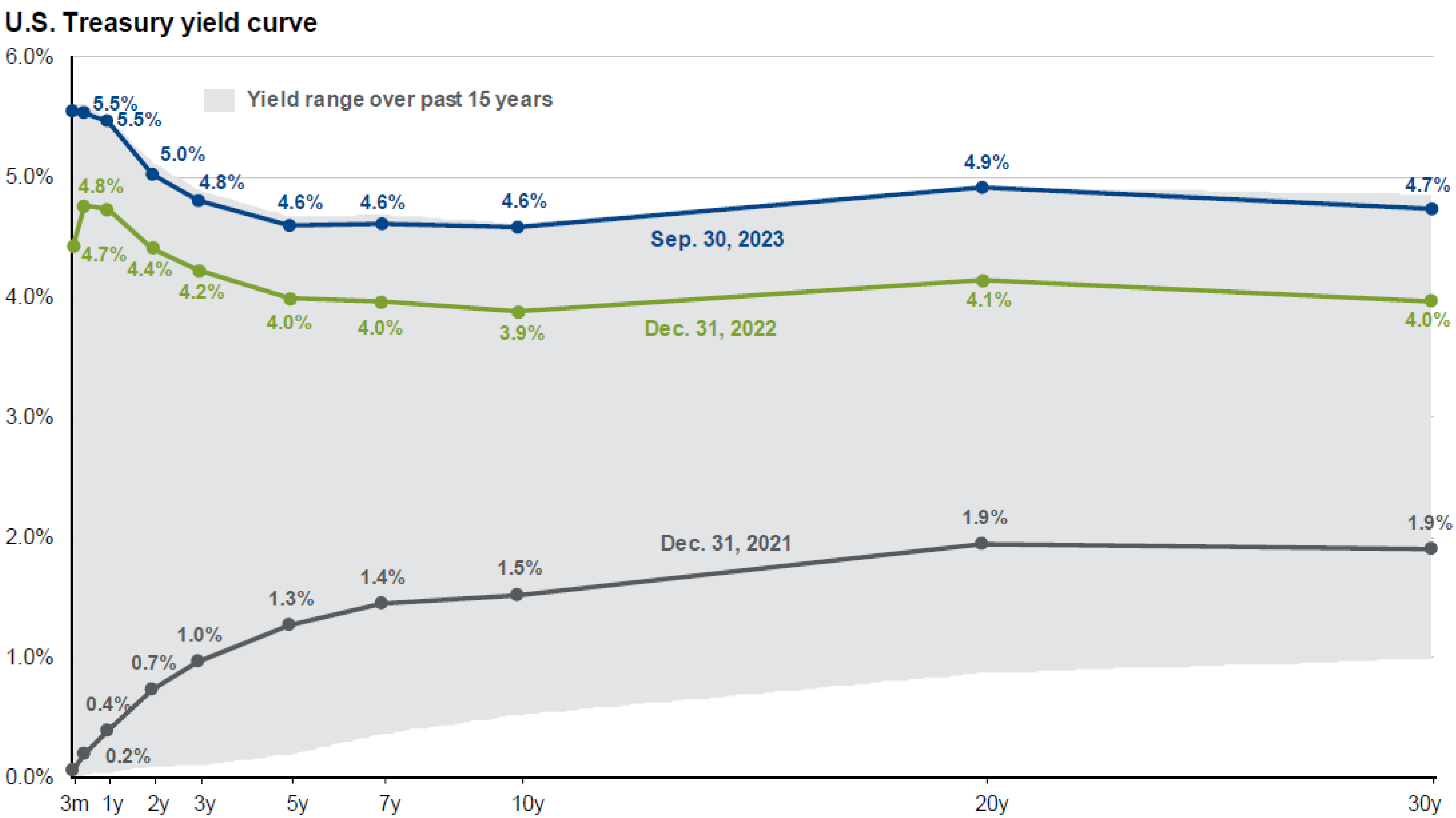
The chart above shows monthly nonfarm employment (about 80% of US workers) growth over the past two years. The downtrend suggests that economic growth is moderating. However, a 336,000 jobs jump in September (not on the chart) undoubtedly raises questions for the Fed about the course of economic growth and inflation.

Source: J.P. Morgan Asset Management. *JOLTS job openings from February 1974 to November 2000 are J.P. Morgan Asset Management estimates. *Guide to the Markets – US* Data are as of September 30, 2023.

Yield Curve

Third Quarter 2023

The chart below shows the US Treasury yield curve as of 9/30/23 (blue), 12/31/22 (green), and 12/31/21 (gray). Note how Federal Reserve monetary policy pushed up rates dramatically in 2022, most of all at the short end (left side), causing the curve to invert (i.e., short-term rates exceeding long-term rates). Rates at all maturities continued upward in 2023, though at a much slower pace. An inverted yield curve often portends recession, but the economy has proven more resilient than expected and many now expect rates to remain higher for longer.

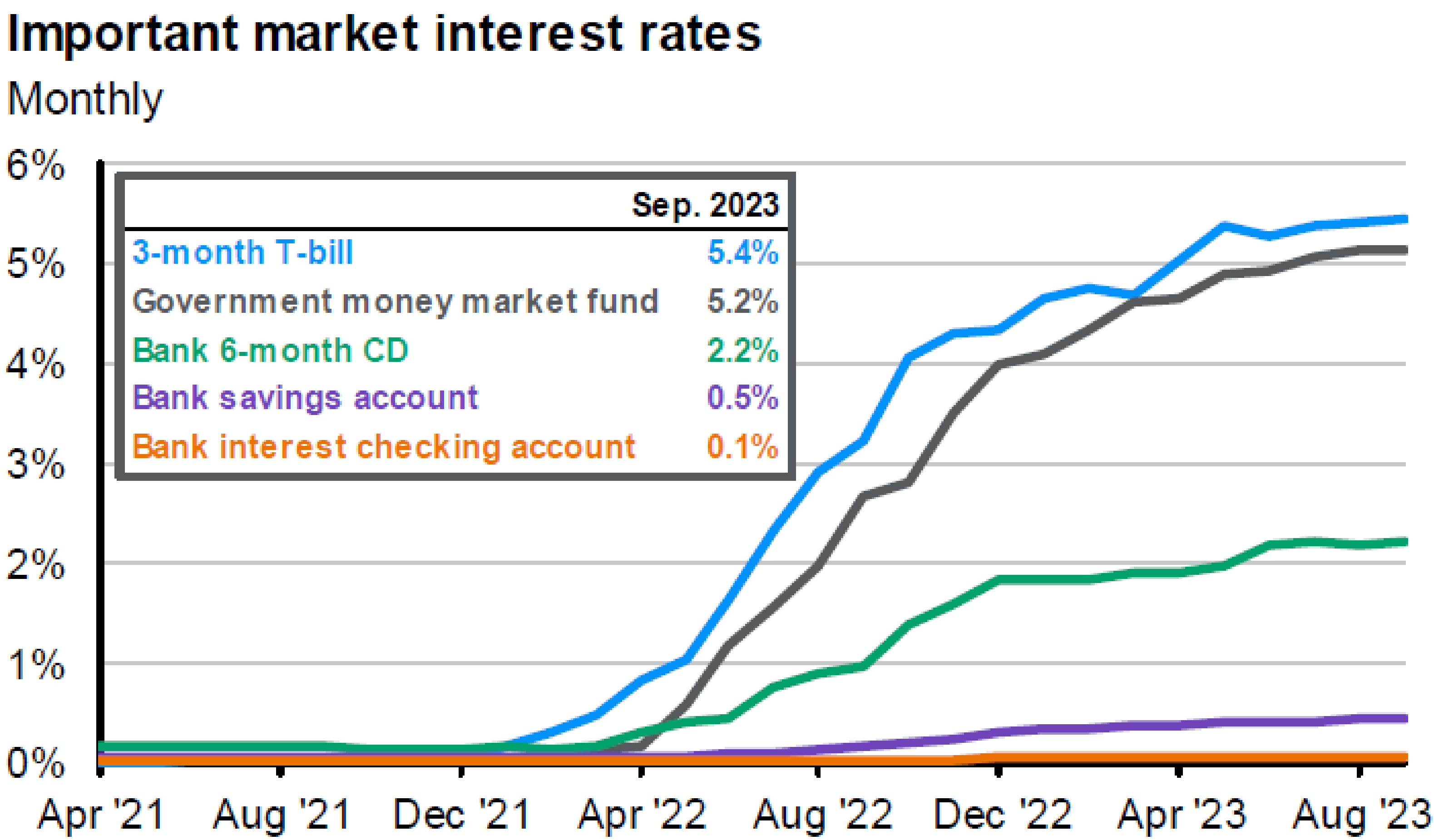


Source: J.P. Morgan Asset Management.. *Guide to the Markets – US* Data are as of September 30, 2023.

Important Market Interest Rates

Third Quarter 2023

The chart below shows the change in short-term interest rates over the last 2+ years. Note that T-bill and related US government money market fund yields have soared to over 5%. Meanwhile, banks in general have been much stingier with their interest rates on deposits. Checking and savings accounts pay barely more today than the near-zero level that prevailed for much of the last decade. Banks will continue to reap a windfall for as long as depositors continue to tolerate these paltry rates. In the meantime, smart savers will use US Treasury money market funds instead.



Source: J.P. Morgan Asset Management. Bank rates reflect FDIC national rates, which are defined as the average of rates paid by all insured depository institutions and credit unions for which data is available, weighted by each institution's share of domestic deposits. G*uide to the Markets – US* Data are as of September 30, 2023.