Monthly Investment Report

September 2023

So far in 2023, fears of a recession, geopolitical issues, and rising interest rates have left the U.S. equity markets unfazed. August changed this. It was a disappointing month not only for U.S. but also for global equities. Stocks across all market capitalizations fell, but large-cap stocks fared better than mid- and small-cap stocks. Second-quarter results for companies in the S&P 500 showed positive sales but negative earnings growth. Despite the pullback, U.S. markets outperformed both developed and emerging markets. Investment-grade bond prices fell for the month. Even with significantly higher mortgage rates, mortgage applications for home purchases and refinancings have increased. In commodities, crude oil prices rose but prices of metals and grains fell. Although the Fed Fund futures market anticipates a pause in policy rate hikes, future hikes cannot be ruled out as inflation remains above the Fed's 2.0% long-term target.

Markets

After rising for five straight months, the S&P 500 Index fell -1.6% in August. While energy stocks rose, the other S&P 500 market sectors all dropped. Large-cap stocks outperformed small-cap and mid-cap stocks, while growth stocks across all market capitalizations outperformed value stocks. Overall, large-cap growth stocks performed best while small-cap value stocks performed worst. Most S&P 500 companies have reported their second-quarter results. The average sales for the S&P 500 companies grew a scant 1%, while earnings decreased by -5.8%. About 65% of the S&P 500 companies reported positive sales growth and 57% reported positive earnings growth. The Financials sector registered strong sales growth (12.1%), but earnings grew at a more moderate rate (5.8%). Strength was seen in the Consumer Discretionary sector as sales advanced 10.6% with earnings growing 35.2%. Conversely, sales and earnings growth for the Energy sector was sharply negative, at -29.1% and -52.0%, respectively.

Internationally, both developed and emerging markets underperformed the U.S. markets. The MSCI-Developed World ex U.S. Index and the MSCI-Emerging Market Index lagged behind the U.S. market and fell -3.9% and -6.2%, respectively. The MSCI-China Index fell -9.0%, giving back its July gains. The MSCI-Europe ex-UK and the MSCI UK each fell -4.0%, while the MSCI-Japan fell -2.4% in USD terms.

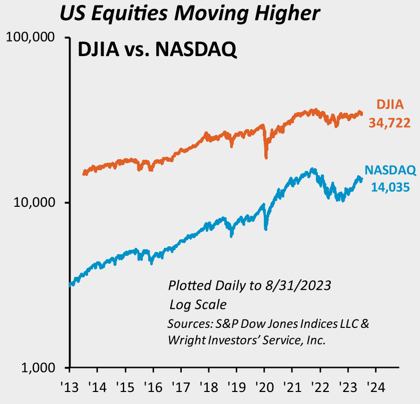
The Bloomberg U.S. Aggregate, a comprehensive index of investment-grade, taxable, dollar-denominated bonds, declined -0.6% in August though it is up 1.4% year-to-date. The Bloomberg U.S. High Yield Bond index fared better, rising 0.3% for the month. Non-U.S. Dollar bonds, as represented by the Bloomberg Global Aggregate ex US Index, fell -2.0%. Treasury yields rose generally across the yield curve, with longer rates rising more than short-dated issues. Treasury Inflation Protected Securities' yields rose more than Treasury yields resulting in a drop in breakeven inflation expectations.

Commodities posted mixed performance for the month. The S&P GSCI Index ended the month slightly lower (-0.3%). Crude oil and natural prices rose, while precious and industrial metals fell, as did corn and wheat. Elsewhere, the S&P United States REIT Index declined by -3.2% for the month.

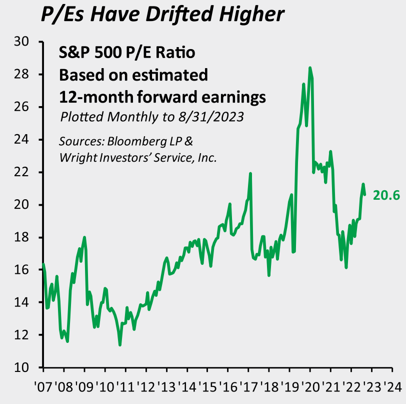
U.S. Economy

Slowing business activity in August sparked concerns over the strength of U.S. economic growth in the third quarter. The S&P Global Composite Output index ended at 50.4, down from 52.0 in July, signaling the weakest upturn in activity since February. Economic growth, while still evident, has largely been driven by the service sector, and has diminished in the current quarter, concurrent with a decline in factory output. Additionally, higher prices and rising interest rates have put downward pressure on demand resulting in a contraction in new orders. U.S. consumer confidence dropped with the Conference Board Consumer Confidence Index falling to 106.1 after two straight monthly increases. The downward revision of the second quarter GDP to 2.1% from 2.4% indicates slower growth in the U.S. The labor market remains robust with the unemployment rate at 3.8%. However, job openings,

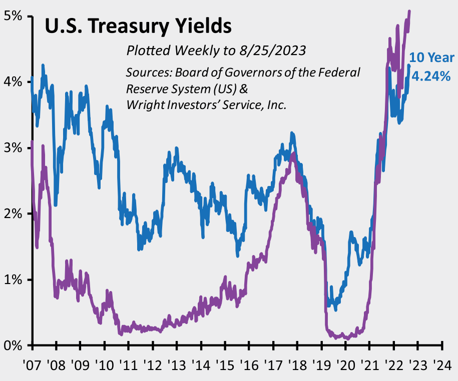
US Equities Moving Higher



P/Es Have Drifted Higher



2 Year & 10 Year Yields Resume Rise



Total Investment Returns—8.31.2023

	August	Last 12 Mos.
Dow Jones Industrial Average	-2.0%	12.6%
Nasdaq Composite	-2.1%	19.8%
S&P 500 Composite	-1.6%	15.9%
S&P MidCap 400	-2.9%	10.7%
S&P SmallCap 600	-4.1%	5.5%
MSCI World ($)	-2.4%	15.6%
MSCI World ex U.S. ($)	-3.9%	16.4%
Bloomberg U.S. Aggregate	-0.6%	-1.2%
90-Day Treasury Bills	0.5%	4.4%
Consumer Price Index NSA* (Jul 2023)	0.2%	3.2%

*NSA: Not Seasonally Adjusted
Sources: Bloomberg LP & Wright Investors' Service, Inc.

a measure of labor demand, were down 338,000 to 8.8 million at the end of July, the lowest level since March 2021. This indicates that the job market may finally be softening after years of tightness.

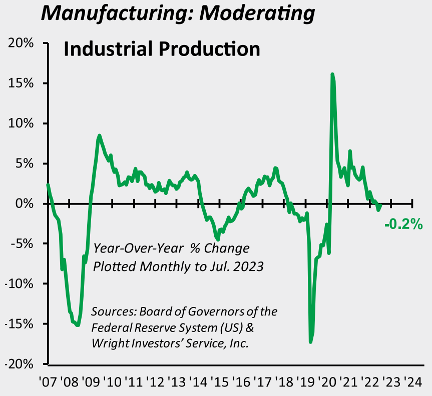
Core PCE, the Fed's preferred gauge of inflation, rose 4.2% year-on-year in July, slightly higher than the 4.1% increase in June. On a month-on-month basis, core PCE grew 0.2%, matching June gains. At the Jackson Hole Symposium, Fed Chair Jerome Powell noted that inflation remains higher than what policymakers are comfortable with suggesting that easing may not start anytime soon. The Fed is prepared to raise rates further if needed. The Fed Funds futures pricing data suggests that the market expects an immediate pause in the Fed Funds rate hikes. This anticipated pause is expected to last until March 2024, after which the rate is projected to decrease and reach a level of just under 4.0% by 2025. Consumer spending surged 0.8% in July. Slowing inflation and a still-tight labor market are keeping wage gains higher, and consumer spending remains strong.

The 30-year mortgage rate stood at 7.2%. Home prices continue to surge in part due to historically low levels of available inventory. After a lull, mortgage applications for home purchases and refinances are reviving. Purchase applications also increased; however, they were still 27.0% lower than the previous year due to high mortgage rates and limited housing inventory, which continue to constrain home-buying activity.

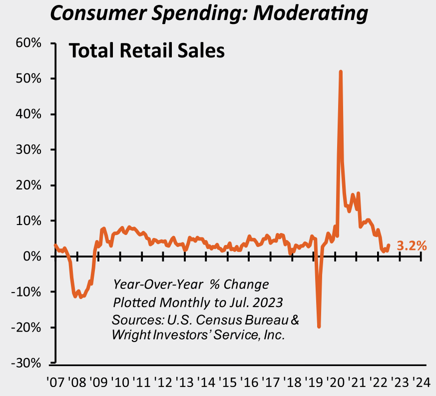
Investment Outlook

A drop in job openings, a downward revision of Q2 GDP growth estimates, and stagnant business activity indicate a considerable shift in economic indicators. Based on these, it is likely that the Fed may choose to skip a rate hike in September. It may want to wait and observe the impact of the already-implemented rate hikes as these permeate through the economy. On the flip side, inflation remains above the Fed's long-term target of 2.0%. The job market, even with signs of weakening, remains historically tight. Likewise, GDP growth remains stronger than the 1.0% that some policymakers were predicting for 2023. In uncertain times like these, our fundamental belief remains that reliable returns can be generated by investing in a diversified portfolio of high-quality securities held for the long term.

Manufacturing: Moderating



Consumer Spending: Moderating



Core Inflation: Moderating