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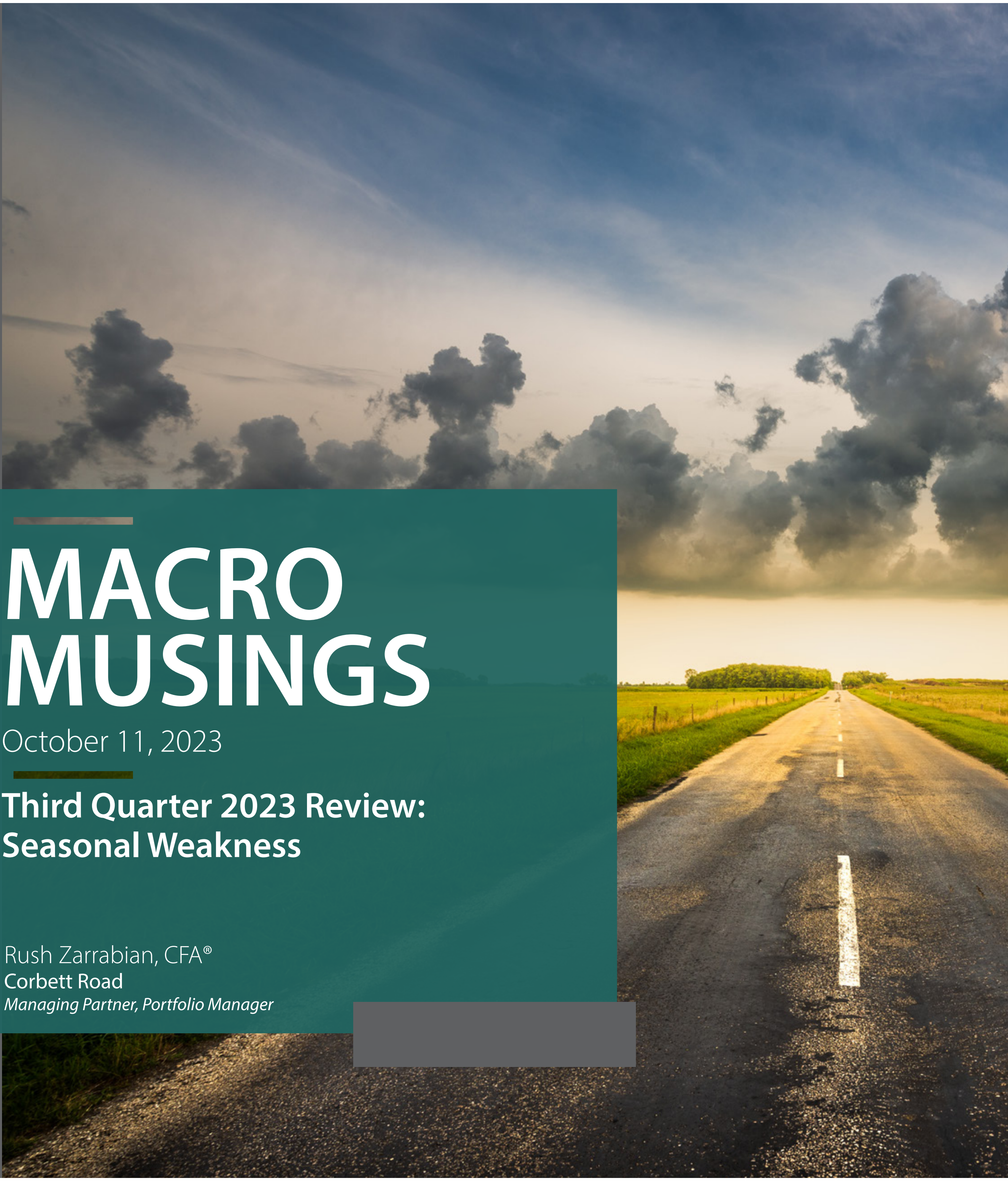
WEALTH MANAGEMENT



MACRO MUSINGS

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Third Quarter 2023 Review: Seasonal Weakness

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SUMMARY

- While the **macro**cast™ score hints at the looming possibility of a recessionary bear market, the aggressive stance of **micro**cast™ paints a more optimistic picture of market conditions. This juxtaposition of risk models underscores the prevailing market uncertainty.
- In Q3, equity markets started strong before rolling over, resulting in negative returns across all major asset classes. Bonds faced challenges as well, with rising rates pushing both the 2-year and 10-year Treasury bond yields to levels not seen since 2007.
- Although the S&P 500 has posted strong year-to-date returns, major asset classes have largely stagnated over the past two years. Since the beginning of 2022, major equity and bond indices have declined between 4% to 20%. However, over the long term, both stocks and bonds have historically exhibited positive real returns, and we expect that will continue to be the case going forward.
- Despite the market setback in August and September, the S&P 500 is still up double-digits through the first nine months of the year. While Mega Cap Tech stocks have been the primary drivers of these gains, historical patterns suggest that similar performance typically leads to positive 4th quarter returns.

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THE MESSAGE FROM MACRO**CAST™** AND MICRO**CAST™**

As a reminder, **macro**cast™ and **micro**cast™ are Corbett Road's two proprietary investment models. **macro**cast™ measures the appeal of risk assets by looking at the **VITALS** of the market—**V**aluation, **I**nflation, **T**echnical Analysis, **A**ggregate Economy, **L**iquidity, and **S**entiment. By looking at multiple factors, we seek to better gauge market conditions and the probability of a major, sustained market decline. **micro**cast™ examines market price action, looking at **TUMS** —**T**rend, **U**nderlying Breadth, **M**omentum, and **S**entiment. While **macro**cast™ focuses on recession risks and how that might impact risk assets, **micro**cast™ focuses on market volatility, without regard for broader macroeconomic conditions.

macrocast™ has been consistently negative since last spring, weighed down by negative signals from leading economic indicators, high inflation, and tighter monetary policy. The negative **macro**cast™ score continues to reflect the elevated risk of a recessionary bear market, which is corroborated by the increased volatility observed in risk assets.

On the other hand, **micro**cast™ became more constructive earlier this year on improving market price action, and the model has recommended an aggressive allocation since early August as the market's longer-term trend improved. The more optimistic outlook from **micro**cast™ suggests a more positive stance is warranted as we enter the fourth quarter.

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ASSET CLASS REVIEW: **UNANIMOUS STRUGGLES**

The following table and chart highlight major asset class returns through September 30th:

	Q3 2023	Year to Date
Major Indices		
S&P 500	-3.27%	13.07%
Dow Jones Industrial Average	-2.10%	2.73%
Nasdaq Composite	-3.94%	27.11%
Russell 2000 Small Cap Index	-5.13%	2.54%
MSCI EAFE - International Developed	-4.11%	7.08%
MSCI Emerging Markets	-2.93%	1.82%
Bberg US Aggregate Bond Index	-3.23%	-1.21%
Sectors		
Consumer Discretionary	-5.06%	25.58%
Consumer Staples	-6.60%	-5.94%
Energy	12.27%	6.15%
Financials	-1.13%	-1.65%
Health Care	-2.65%	-4.09%
Industrial	-5.16%	4.50%
Information Technology	-5.55%	32.64%
Materials	-4.76%	2.61%
Real Estate	-8.90%	-5.45%
Communication Services	1.05%	37.82%
Utilities	-9.25%	-14.41%
Other Key Indices		
Bloomberg Commodity Index	4.71%	-3.44%
Gold	-2.18%	3.13%
US Dollar Index	3.22%	2.61%

Some additional insights:

Weakness across all major indices. In the third quarter, all major equity market indices declined, creating a challenging environment for investors. Small caps were hit the hardest, with a decline of over 5%. Bonds, traditionally seen as a safe haven investment, provided no relief. The Bloomberg US Aggregate Bond index declined over 3% in Q3 and is now showing negative returns for the year.

The primary culprit behind these disappointing results was the rise in interest rates. Treasury yields reached levels not seen since 2007—just before the financial crisis. The

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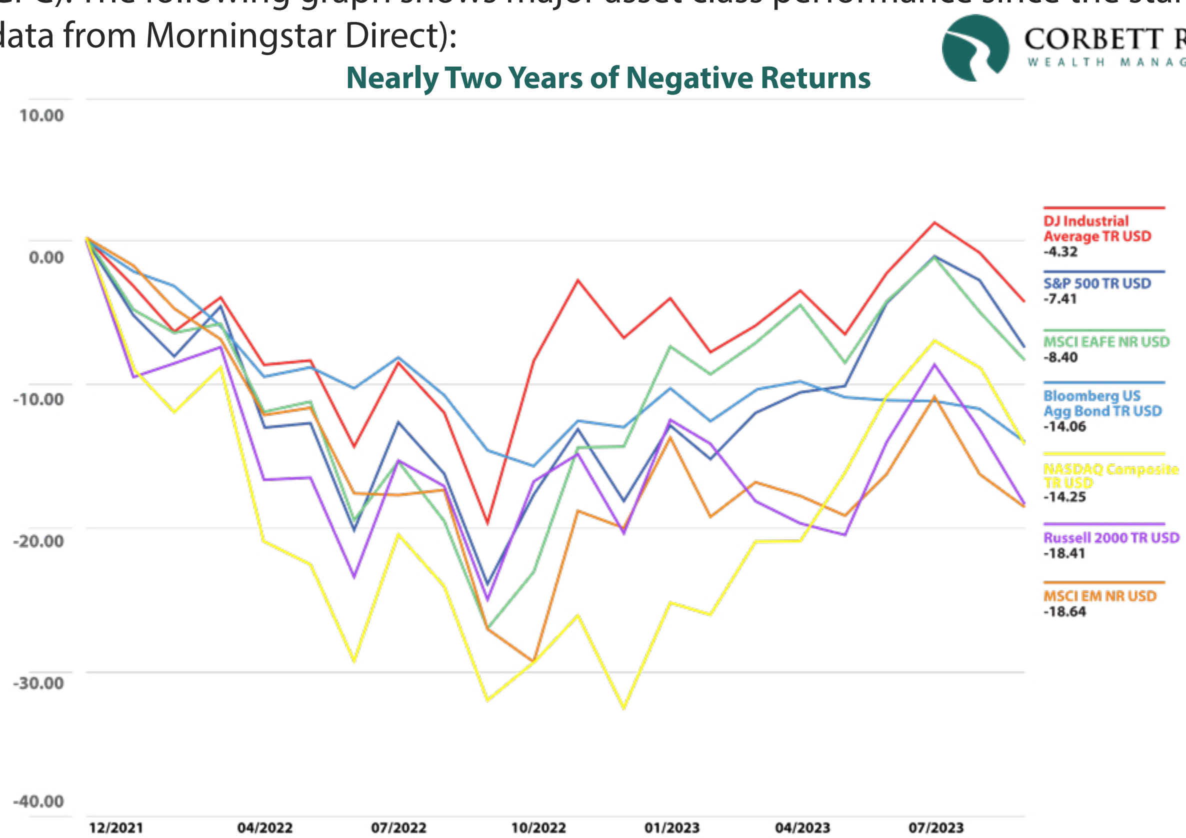
sharp increase in yields had a significant impact on the performance of various asset classes, putting downward pressure on returns.

Energy was the only sector to generate meaningfully positive returns. Thanks to a 20%+ spike in oil prices, the Energy sector rose double digits in the third quarter. Communication Services was the only other sector that ended the quarter positive, largely due to the relative strength of Alphabet and Meta Platforms. Despite the Q3 pullback, market leadership in 2023 remains largely unchanged. Outperformance from Mega Cap Tech stocks has driven outsized year-to-date returns in the Tech, Communication Services, and Consumer Discretionary sectors. Out of the 11 sectors, 5 have outright negative returns this year.

Treasury yields rose to multi-decade highs, sending bonds lower. As noted, bonds struggled in the third quarter, with Treasury yields hitting a decade-plus high. Given the robust economic growth and lingering inflation concerns, there's increasing worry about the Fed sustaining higher rates for a prolonged period.

REFLECTING ON NEARLY TWO YEARS OF **NEGATIVE MARKET RETURNS**

In the last two years, investors have faced challenges not seen since the Global Financial Crisis (GFC). The following graph shows major asset class performance since the start of 2022 (data from Morningstar Direct):



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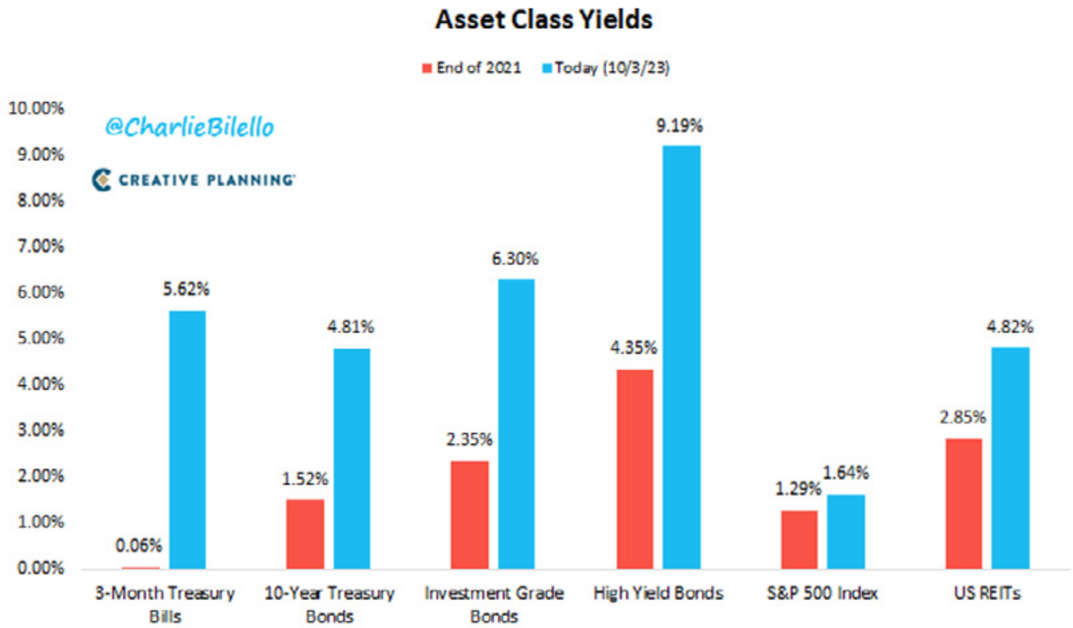
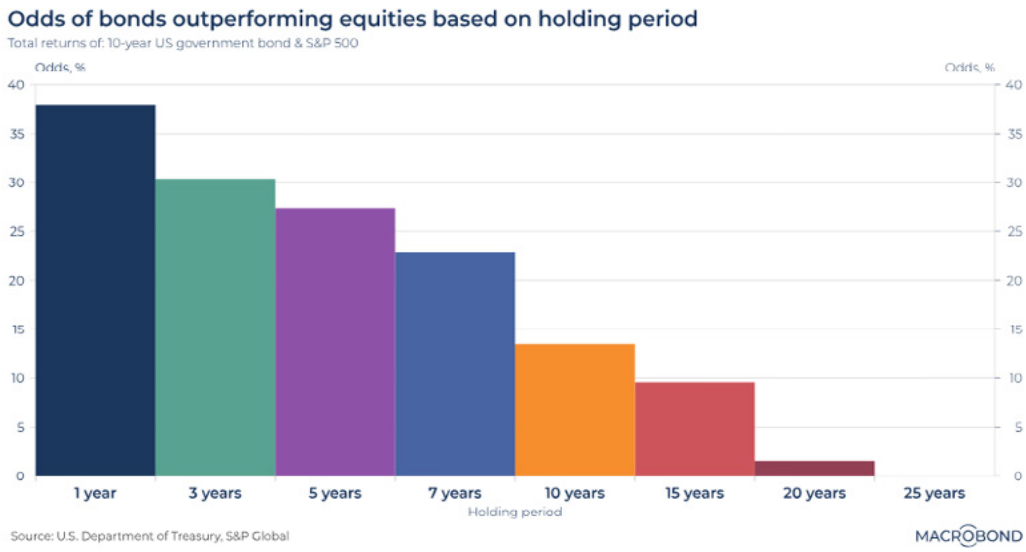
Major asset classes, from US Large Cap stocks (as represented by the S&P 500) to emerging markets (MSCI EM), are down between 4-20% since the start of 2022.

Contrasting the GFC era, the notable difference today is in bonds. Historically stable during periods of market unrest, bonds have shown unexpected volatility. The Bloomberg US Aggregate Bond index has underperformed, matching or trailing many major stock market indices during that timeframe.

While bonds have struggled mightily, yields across multiple categories of bonds have improved substantially since the end of 2021, providing investment opportunities not seen in many years to fixed income investors (Chart from Charlie Bilello):



While the rise in bond yields after a prolonged period of low rates is encouraging, it doesn't necessarily make bonds a superior long-term investment relative to stocks. Comparing the returns of the 10-year Treasury and the S&P 500 over different holding periods reiterates this point. While over a 1- and 3-year holding period bonds have outperformed stocks roughly 1/3rd of the time, the odds drop significantly over longer holding periods. Over a 10-year span, the likelihood falls below 15%, and notably, bonds have never outperformed equities over a 25-year period (Chart from Macrobond).



While the past two years have been a challenging period for investors, recent asset class performance is a testament to the inherent uncertainties and volatility that come with investing. Market performance will ebb and flow over the short term, but it's crucial to remember that markets have a historical precedent of rewarding investors over longer-term time periods (Chart from Truist):

A diversified portfolio tends to rise over intermediate-to-long time horizons

Past performance does not guarantee future results. Data as of 12/31/2022.

Data sources: Truist IAG, Morningstar. 60/40 portfolio represented by 60% S&P 500/40% core bonds with monthly rebalancing. Core bonds = 5-year Treasury from 1955-1975; thereafter, Bloomberg U.S. Aggregate Bond Index

MARKET STILL UP DOUBLE DIGITS DESPITE **NEGATIVE AUGUST AND SEPTEMBER**

Despite declining in both August and September, the S&P 500 is still up double-digits year-to-date (YTD). Similar historical instances led to consistently positive returns in the fourth quarter (Table from Brown Technical Insights):

Undefeated

If S&P 500 is up at least 10% through July, but down in August & September, Q4 has never been lower

Year	Return at end of July	August & September	Q4 Return
1961	14.2495	-0.0064	7.0896
1975	27.2426	-5.5716	7.4843
1985	13.6587	-4.6718	15.2631
1986	11.8158	-1.4246	4.7918
1997	26.3189	-0.4292	2.584
1998	14.8618	-8.3401	19.5796
2013	17.0788	-0.1549	9.6208
2019	18.1932	-0.0911	8.3069
2021	16.0267	-1.8578	10.4423
2023	18.3683	-6.6436	?
		Average	9.46
		Higher	9
		Lower	0

Source: Brown Technical Insights, Optuma, September 29, 2023

While consecutive monthly declines after a strong rally may be unnerving, this study highlights the fact that similar pullbacks haven't derailed the market. In fact, positive momentum tends to persist, leading to further gains in the final quarter of the year.

In summary, while **macro**cast™ continues to produce a negative score that reflects elevated recessionary risks, **micro**cast™ has offered a more constructive view of the market since August. Excluding commodities and energy stocks, the third quarter was characterized by negative returns across asset classes, with notable underperformance from bonds that suffered from another sharp uptick in yields and unexpected volatility. Despite the headwind from higher yields, the S&P 500 has remained resilient. Although Mega Cap Tech stocks have been the key contributor to the index's double-digit YTD gains, positive momentum tends to persist through the end of the calendar year while higher yields are creating more attractive investment opportunities for longer-term investors.

Overall, the investment landscape over the past two years has been challenging, and a multi-year period of weak returns across asset classes underscores the inherent uncertainty that comes with investing. During these periods, it's helpful to review history over longer time horizons to remind ourselves of the resilience of markets.

Don't forget to take your RMD by December 31st!

If you have not started taking your Required Minimum Distribution for this calendar year, please contact your Corbett Road Wealth Manager or Service Team to create a distribution plan. It is important that you establish a plan soon in order to ensure your distribution is made before the end of the year.

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Use of Indicators
Corbett Road's quantitative models utilize a variety of factors to analyze trends in economic conditions and the stock market to determine asset and sector allocations that help us gauge market movements in the short- and intermediate term. There is no guarantee that these models or any of the factors used by these models will result in favorable performance returns.

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