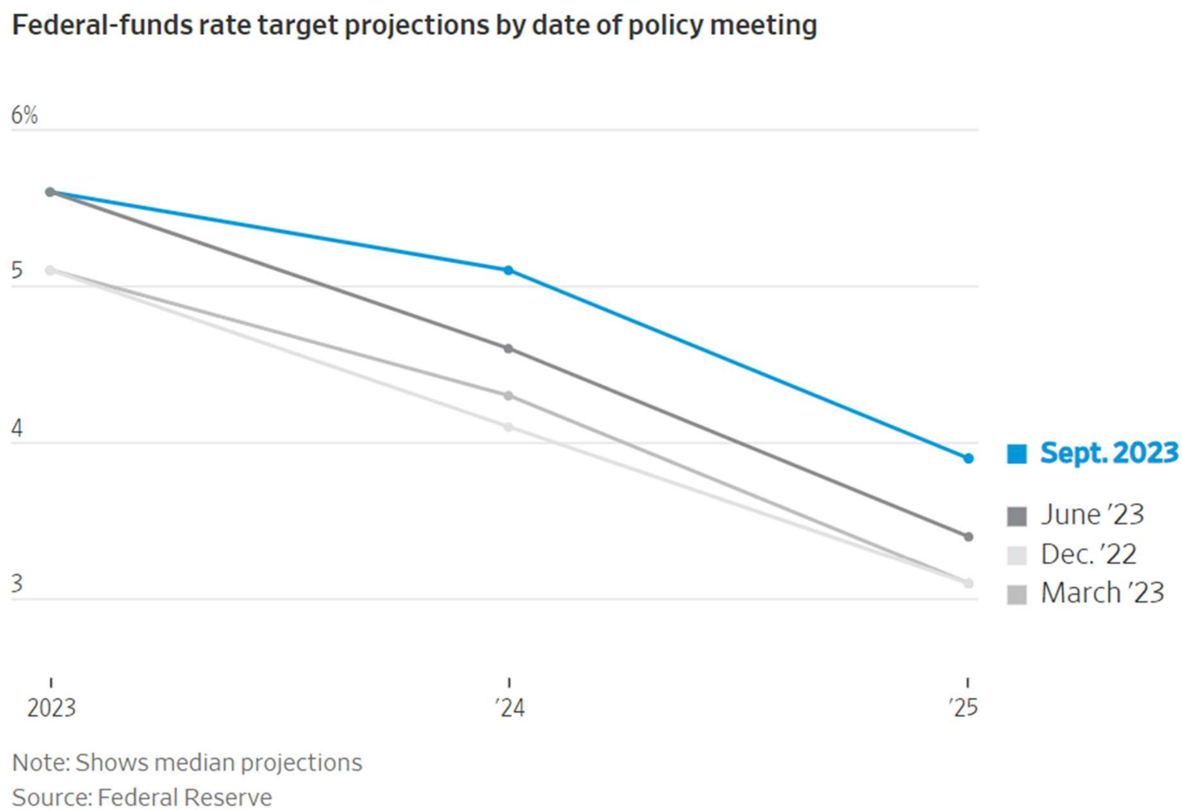
Good afternoon,

The phrase "higher for longer" can mean a lot of things when it comes to the economy and investments. On the surface it refers to the Federal Reserve's recent announcement that they are prepared to continue raising rates and holding them at higher levels until inflation comes back down to their target of 2%. It is currently running at a 3.7% annual rate.

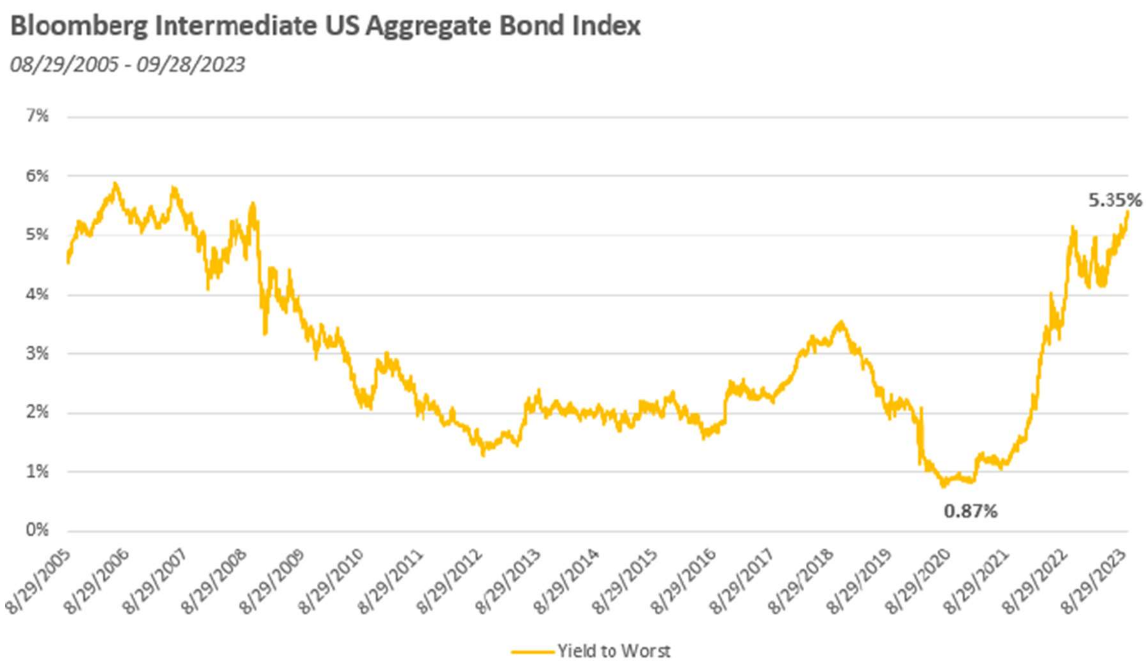
As the chart below shows, the Fed expects to start lowering rates in 2024. But the projection of that decrease continues to be revised higher. In practical terms this means short-term bonds continue to be attractive, and there will be pressure on stock returns while rates stay at elevated levels.



Highest yield on bonds in almost two decades

The current yield on high-quality bonds is once again attractive, representing a rarity in the past decade.

Attached below is a yield chart of the Bloomberg Intermediate US Aggregate Bond Index. As of September 28, 2023, the yield for the Bloomberg Intermediate US Aggregate Bond Index stands at 5.35%. To provide context, these same bonds were yielding less than 1% at the outset of 2021. Consequently, an investor today stands to receive over five times the income of the bond's lifespan compared to an investor who acquired these bonds in early 2021.



Source: Bloomberg

Strengthening U.S. Dollar

While I was encouraged for the prospects on international stocks at the start of the year, high interest rates in the U.S. have contributed to a continued rise in the U.S. dollar versus a basket of global currencies. As a result, U.S. stocks continue to outperform their global counterparts.

Source: Wall Street Journal

A resilient stock market

Since 2018, there have been 3 official Bear Markets, or declines in the S&P 500 of 20% or more. These occurred in 2018, 2020 and 2022: one every two years. And yet, over that same period the S&P 500 has seen 11.5% average annual returns.

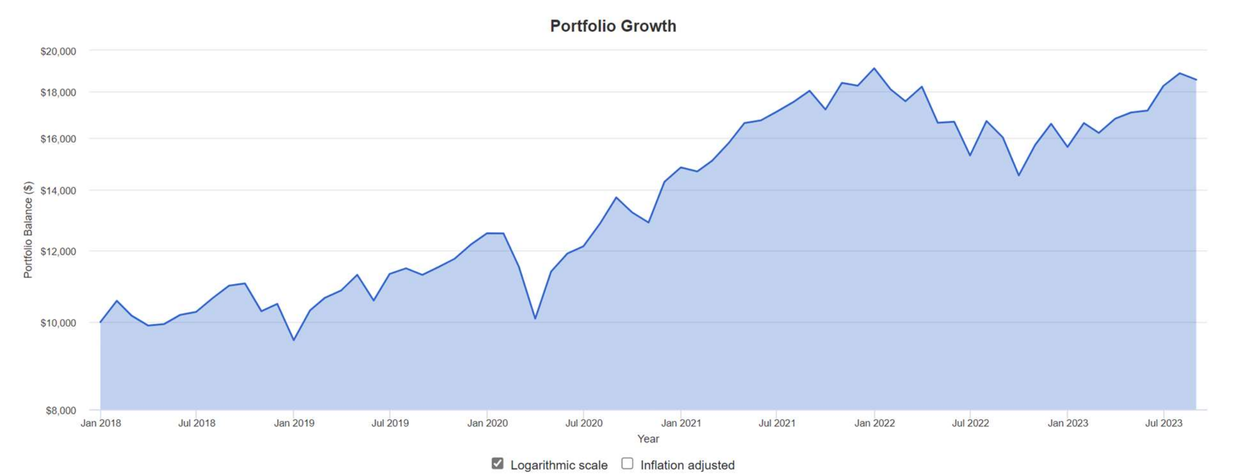
While “higher for longer” doesn’t mean the market will be making new highs every year, it can be applied to expected future returns. Since 1945, the S&P 500 has risen 21% on average in the two years after the release of data showing a peak in consumer-price inflation.

The economy continues to grow, and earnings estimates are rising as well. When we get another dip, we will be buying, albeit in a thoughtful manner.

Performance Summary

Portfolio	Initial Balance	Final Balance	CAGR	Stdev	Best Year	Worst Year	Max. Drawdown	Sharpe Ratio	Sortino Ratio
Vanguard S&P 500 ETF	$10,000	$18,562	11.53%	17.96%	31.35%	-18.19%	-23.91%	0.61	0.91

Portfolio Growth



Source: Portfolio Visualizer

Portfolio Updates:

1. With income tax rates at a 52-year low in the U.S. and set to expire in 2026, Jennifer is examining whether it makes sense to do conversions to a Roth IRA now. Please contact her for more details.
2. I added structured loans to the fixed-income portfolio. Middle market loans benefit from high interest rates by producing high income. We are using the Cliffwater Corporate Lending fund for exposure to this asset class. The current yield of this fund is 9.5%.
3. Although they showed signs of becoming more attractive earlier this year, international stocks are underperforming the U.S. due to the rising dollar. We remain underweight.

4. I do not view the rumblings of a government shutdown as a cause for any lasting concern for investment returns. Even if a shutdown occurs, looking at the past 10 shutdowns of 10 days since the 1970's, history shows that while the market typically declines in the days leading up to the event, it recovers quickly once the shutdown ends.

On a personal note, as I sat down to write this update, I read my horoscope (I'm a Virgo). It said, "What you've been trained to do may not be the reaction to the problem that is presented today." Good introspection. It also reminded me of another saying, "The more things change, the more they stay the same." Yes, there are investment actions we are taking in response to the current investment environment, but we are also keeping the longer-term picture in mind. For the record, I do not consult the stars in making investment decisions!

As always, please feel free to call or email me directly if you'd like to discuss the markets or your investments in greater detail.

Very truly yours,

Jim

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