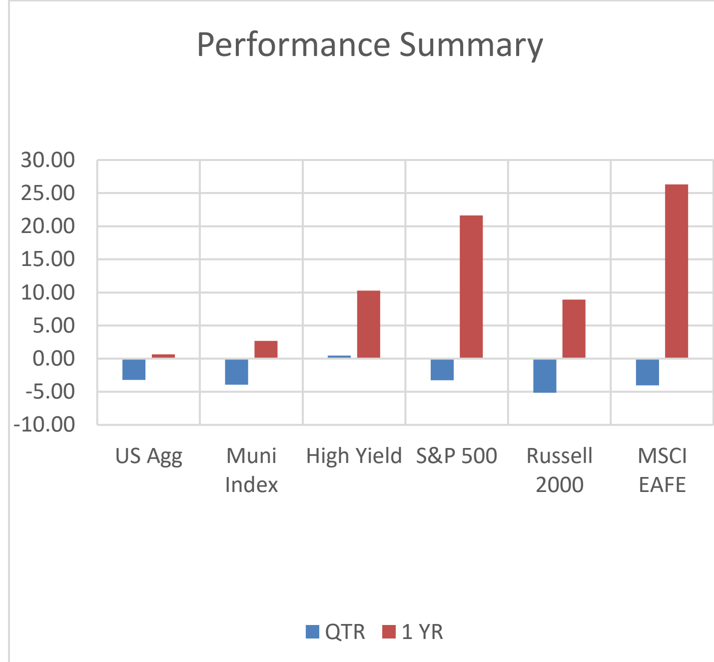
U.S. stocks declined for the quarter as the Federal Reserve maintained a hawkish (restrictive) policy on interest rates and Treasury yields jumped to multiyear highs. Foreign stocks were down a similar amount for the quarter. U.S. bonds were also down for the quarter as higher yields weighed on returns.



- Stocks saw a second-consecutive monthly decline in September as investors dealt with ongoing inflation news, rising interest rates, and the potential for a “higher-for-longer” rate environment. The S&P 500 was down (3.3%) for the quarter.
- Energy stocks were the best performers as oil topped $90 per barrel, up 12.7%. Dividend-paying stocks outperformed for the first time since late 2022, while several big tech stocks lost steam and declined for the quarter.
- Foreign developed and emerging market stocks declined for the quarter, although emerging stocks held up a little better.
- Inflation in the U.S. rose to 3.7% in August yet continues to show signs of moderating in the year ahead. Inflation cooled in Europe and the U.K. but remained well above central bank targets.
- After hiking in July, the Fed Paused from raising rates in September. The European Central Bank lifted rates to a 22-year high, while the Bank of England paused for the first time in nearly two years.
- US Treasury yields rose for the quarter, and the broad bond market declined (3.2%).

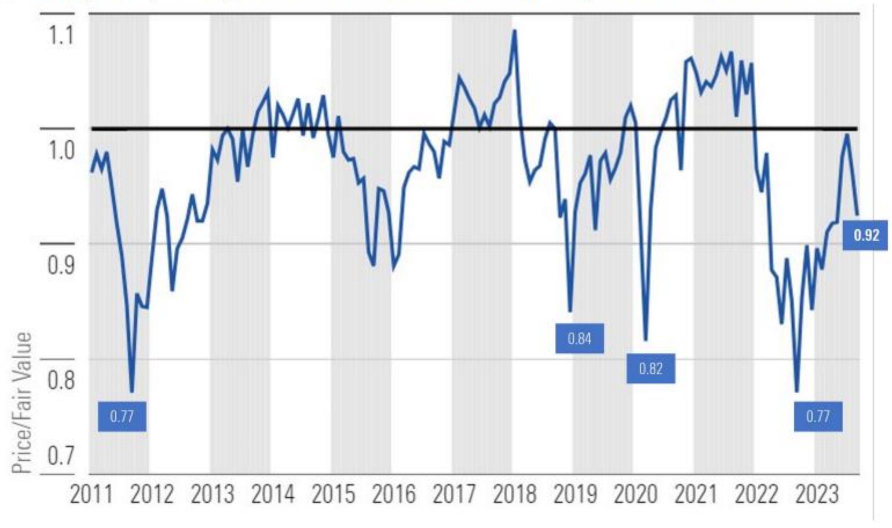
Topics in this quarter’s commentary: we take a closer look at valuations in the stock market and highlight the investment lessons we’ve learned over the past 30+ years.

A Closer Look at Valuations

One of our favorite stock market valuation tools that we have followed for decades is the Morningstar research price to fair value estimate, shown on the next page. Like most valuation tools, it is not perfect, however, it does provide a good and consistent measure of value in the broad stock market. Looking at the chart, you can see it did a good job of showing the market’s overvaluation at the end of 2021 and the extreme undervaluation in October of 2022. At quarter end, the indicator showed the broad U.S. market as slightly undervalued at a price to fair value of 0.92% (8% undervalued).

Historical Morningstar U.S. Equity Research Coverage Price/Fair Value Estimate at Month's End

After briefly touching fair value, the U.S. stock market retreats and is now trading at a discount to our fair valuations.



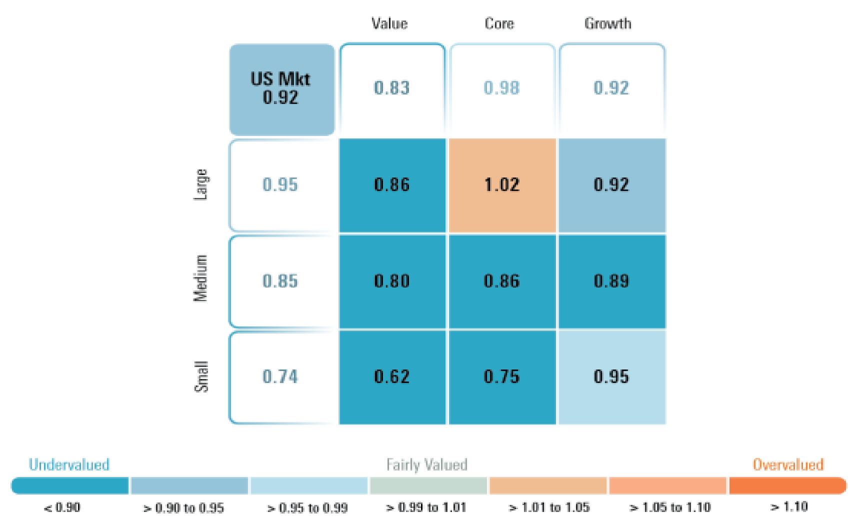
Source: Morningstar. Data as of Sept. 25, 2023. For Illustrative Purposes Only.

The Morningstar valuation indicator is helpful when looking at the stock market in its entirety, however, it doesn't tell you much about which parts of the market may be trading at very high valuations and which are undervalued. This is where taking a closer look at valuations can be helpful. Below is another valuation tool from Morningstar that separates the stock market by size (large-cap, mid-cap, and small-cap), as well as by investment style (Value, core or blend, and growth). Looking at the stock market this way allows us to take a closer look at valuations and can reveal the best long-term investment opportunities. Based on quarter-end valuation estimates, large-cap stocks look fully valued while mid-cap, small-cap, and value stocks look more attractive.

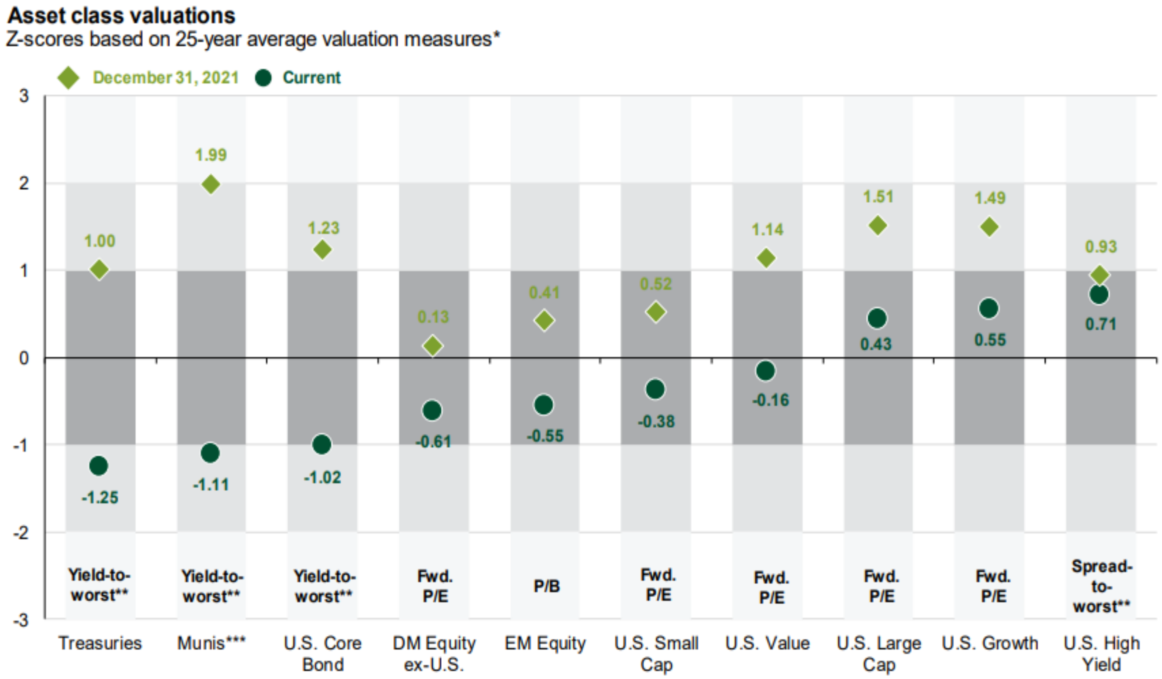
For a last look at valuation, we wanted to share a chart from JPMorgan that shows the current valuation of several asset classes relative to their valuation of the past 25 years. To compare the valuation of the different asset classes to their average over the past 25 years they used something called a 'Z-score.' Which can simply be read as the lower the number (Z-score) the lower the valuation in that asset class compared to the past 25 years, and the higher the number the higher the current valuation is. The chart on the next page does a good job of illustrating how highly valued most asset classes were at the end of 2021. However, valuations for several asset classes have improved substantially since then, especially in the fixed-income (bonds) asset classes.

U.S. Stock Market Trading at 8% Discount to Composite of Fair Value Estimates

Valuations of Morningstar's equity research coverage by Equity Style Box.



Source: Morningstar. Data as of Sept. 25, 2023. For Illustrative Purposes Only.



Source: Bloomberg, BLS, CME, FactSet, MSCI, Russell, Standard & Poor's, J.P. Morgan Asset Management.

A few things stand out on the chart. First, the valuation for bonds has changed significantly from very overvalued at the end of 2021 to undervalued today, based on the past 25 years of history. As a reminder, the current yield on bonds is a reasonable proxy for future returns. At the end of 2021, yields were significantly lower than they are today. Second, the valuation of U.S. large-cap stocks was very high at the end of 2021, and although they have come down, valuations are still towards the higher range of the past 25 years. Lastly, the valuations for asset classes such as foreign stocks, emerging market stocks, and small-cap stocks have improved over the past couple of years. This bodes well for long-term returns; however, they tend to perform best when the economy is improving, and investors are optimistic. In the short term, uncertainty about the economy, the Federal Reserve, inflation, and geopolitical risks may weigh on these asset classes.

Investment Rules

As a student of financial history and having been an investor for over 30 years we have been exposed to many different economic environments and investment cycles. To navigate the challenges of different investment environments we have developed a set of timeless investment rules able to guide us to long-term investment success. We frequently review the rules and find them extremely helpful to keep us focused on the big picture and what matters, while tuning out the day-to-day noise that is simply a distraction. Below are the 12 rules in a bullet point format and for a couple of the rules most relevant to today's market we've added some additional comments:

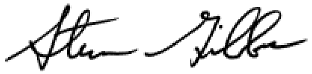
1. **Focus on executing your process, not short-term results**
    a. We know from experience that trying to predict short-term investment results is a losing endeavor. Some investors may occasionally make a 'right-call' but to consistently make short-term investment calls is impossible. Instead, investors should focus on implementing their investment process in a disciplined fashion. For us, that means building well-constructed portfolios and buying quality investments at reasonable prices.

2. **Asset allocation is the most important decision**
3. **Markets will tend to revert to their mean over time**
   a. This simply means that trends that get overextended in one direction or another, based on fear or greed, tend to return to their long-term average.
4. **Volatility is a friend to the long-term investor**
5. **Contrarianism works when markets are at extremes**
   a. A lot of investors are tempted to always take a contrarian view of the market, thinking that if they do the opposite of what most investors are doing, they will be more successful. Our experience has taught us that being 'contrarian' usually only works when the markets are at extremes. Either when the market is extremely overvalued or undervalued, at these turning points a contrarian strategy can be well rewarded.
6. **Don't be emotional, know your strengths & weaknesses, and have a plan**
   a. **Our investors that have completed a financial plan tend to be better investors.**
7. **Admit mistakes- sell your losers and let the winners grow**
8. **Valuation wins in the long run**
   a. Valuation is a terrible market timing tool in the short term. However, in the long term, it is by far the best predictor of future returns. Long-term investors should avoid the short-term noise and focus on good value in their investments, disciplined investors have a much greater success rate and generate better returns.
9. **Costs matter**
10. **Risk cannot be avoided, be decisive when opportunities arise**
11. **Wall Street is not your friend- avoid hype and complexity**
12. **Avoid intellectual arrogance, it is the enemy of good decision-making**

If you have any questions about this commentary or your investment strategy don't hesitate to give us a call.

Best regards,

Steve Giacobbe, CFA, CFP®



Asset Class		* ↔ Neutral weight ↓ Underweight ↑ Overweight
Equities	***View****	***Comments***
U.S. Large Cap	↓	Large-cap stocks have corrected since the end of July; however, valuations are still relatively expensive. Especially on the largest growth stocks. We favor high-quality, low leverage, and reasonable valuations over growth momentum.
U.S. Small/Mid Cap	↔	Valuations for small-cap stocks relative to large-cap have fallen to historically low levels. At current valuations, we expect small-cap stocks to outperform on a long-term basis, 3–5-year time horizon. However, near-term they may be pressured based on potential recession fears. Similar to large cap, focus on higher quality, low leverage, and reasonable valuations.
International Developed	↔	The valuation of foreign stocks is attractive relative to US stocks and investors with a longer time horizon should be overweight. Relative performance is never a straight line so stay patient in your asset allocation to this asset class.
Emerging Markets	↔	Valuations are attractive for the long term. Emerging markets tend to be volatile and are always susceptible to further selloffs, but over a multi-year time frame, they should outperform. Risk-tolerant investors should be overweight for the L/T.

Fixed Income		
Investment Grade	↔	Interest rates have risen to a level that bonds should provide good risk protection, returns, and diversification in balanced portfolios. Investors should be allocated close to their benchmark in this asset class. Cash is an attractive alternative for some investors, with yields over 5% and positive real returns, it can be a safe haven in challenging markets.
High-Yield Bonds	↓	We don’t believe they have priced in the risk of a potential recession in the next year. We would stay on the sidelines for now and look for opportunities to buy into this asset class on further selloffs.
Municipal Bonds	↑	With higher yields, municipal bonds continue to be attractive, especially for high tax bracket investors.
TIPS	↔	TIPs are a hedge against higher inflation, we would hold positions in tax-deferred accounts as a long-term hedge against inflation hedge. Positive real yields make this asset class more attractive than it has been in a while.
Floating-Rate Loans	↓	Similar to HY bonds, FRLs have a significant risk in a recessionary environment. We would avoid this asset class for the remainder of this cycle.
Emerging Markets	↔	EM bonds are trading at a level that should provide solid returns relative to other global bonds. However, given the complexity of this asset class, our default is to leave it to the pros, as several of our bond managers have the flexibility to add to this asset class when attractive.

Alternatives		
Absolute-Return/Alternatives	↔	We like alternative funds as a way to hedge volatility, provide real returns, and improve the risk vs reward in portfolios. We favor simple and low-cost strategies like hedged equity, real return, clean energy transition, and global macro. Over a full market cycle, they should add value to portfolios. With the increase in bond yields and positive real returns available in bonds, we have been reducing exposure to this asset class and replacing it with higher-quality bonds.
REITs	↔	We remain neutral on REITs due to improved valuations from 2022’s sell-off. There are diversification benefits from owning REITs, however, we recognize REITs may be structurally impaired in the future as a result of secular trends and valuations are only fair. Small positions are appropriate for diversification in global portfolios, we are watching for opportunities to buy.
Commodities/Gold	↔	We view small exposure in this area as an effective way for long-term investors to diversify their portfolios and hedge against higher inflation. These positions can be volatile in performance but may provide some relief over a full market cycle.

U.S. Stocks
Market Performance, Third Quarter 2023

Index	Q3 2023	1 YR
S&P 500	(3.27%)	21.62%
Russell 1000	(3.15%)	21.19%
Russell 1000 Value	(3.16%)	14.44%
Russell 1000 Growth	(3.13%)	27.72%
Russell Midcap	(4.68%)	13.45%
Russell 2000	(5.13%)	8.93%

Source: Morningstar

- Stocks were down across the board as investors adjusted to Fed policy and economic uncertainties.
- Growth and value posted similar returns.
- Small and mid-cap stocks lagged for the quarter.

International Stocks
Market Performance, Third Quarter 2023

Index	Q3 2023	1 YR
MSCI EAFE	(4.05%)	26.31%
MCSI EME	(2.79%)	12.17%
MSCI BRIC	(0.63%)	7.97%

Source: Morningstar

- Foreign developed stocks were down for the quarter, similar to U.S. stocks.
- Emerging market stocks held up a little better.

Fixed Income
Market Performance, Third Quarter 2023

Index	Q3 2023	1 YR
Vanguard Total Bond Index	(3.11%)	0.62%
Bloomberg Muni Bond	(3.95%)	2.66%
Bloomberg US High-Yield	0.46%	10.28%
iShares TIPS Bond	(2.62%)	1.09%
BofA Merrill Lynch 3-month Treasury Note	1.34%	4.50%

Source: Morningstar

- The yield on Treasury bonds rose and core bonds were down for the quarter. Looking forward, interest rates have reached a level where bonds can generate reasonable returns and offer a decent alternative to stocks.
- High-yield bonds have not fully priced in recession risks. We would stay on the headlines for now but look for opportunities to buy on sell-offs.
- EM bonds have attractive yields relative to other global bond markets. However, given their volatility, we suggest leaving any direct investments to the pros.

Alternative Assets
Market Performance, Third Quarter 2023

Strategies	Q3 2023	1 YR
AQR Diversified Arbitrage	1.69%	3.54%
BNY Mellon Global Real Return	(1.25%)	(0.67%)
JPMorgan Hedged Equity	(2.87%)	17.42%
PIMCO All Asset	(2.20%)	9.09%
Vanguard REIT	(8.55%)	(1.32%)

Source: Morningstar

- We remain optimistic about alternative assets as a way to diversify portfolios and improve risk-adjusted returns. We believe alternatives can add value to portfolios over a full market cycle and are a nice complement to traditional asset classes.
- We view the real return, commodity, precious metal, and alternative strategies in general as an effective way to hedge against higher inflation.

Appendix:

Benchmark Definitions

U.S. Equity		Description
S&P 500	Index	The index includes 500 leading US companies and captures approximately 80% coverage of available market capitalization.
Russell 1000	Index	The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities. The Russell 1000 represents approximately 92% of the U.S. market.
Russell 1000 Value	Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
Russell 1000 Growth	Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell Midcap	Index	The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.
Russell 2000	Index	The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
International Equity		**Description**
MSCI EAFE	Index	The EAFE (Europe, Australasia, Far East) index consists of 21 developed market country indexes, excluding the US & Canada. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets.
MCSI EME	Index	The index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of emerging markets and includes 23 emerging market countries in the index.
MSCI BRIC	Index	The index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of the following four emerging market country indexes: Brazil, Russia, India, and China.

Fixed Income		Description
Vanguard Total Bond Index	Index Fund	This index measures a wide spectrum of public, investment-grade, taxable, fixed-income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.
Bloomberg Aggregate Bond	Index	The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through bonds), ABS, and CMBS sectors.
Bloomberg Muni Bond	Index	The U.S. Municipal Indices cover the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Bloomberg US Corp High-Yield	Index	The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market and excludes Emerging Markets debt.
JPM GBI- EM Global Divers	Index	The index tracks returns for actively traded external debt instruments in emerging markets. Included in the index are US-dollar-denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities.
iShares TIPS Bond	ETF	The iShares TIPS Bond ETF seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds.
BofA Merrill Lynch 3-month Treasury Note	Index	The 3-month US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Alternative Assets		**Description**
PIMCO All Asset All Authority	Mutual Fund	The investment seeks a maximum real return, consistent with the preservation of real capital and prudent investment management. The primary benchmark for the fund is the S&P 500, with a secondary objective of the Consumer Price Index +650 basis points.
AQR Diversified Arbitrage	Mutual Fund	The investment seeks long-term absolute (positive) returns. It invests in a diversified portfolio of instruments, including equities, convertible securities, debt securities, loans, warrants, options, and other types of derivative instruments.
JPMorgan Hedged Equity	Mutual Fund	The investment seeks to capture the majority of the returns associated with equity market investments while exposing investors to less risk than other equity investments. The fund invests in a broadly diversified portfolio of common stocks, while also selling index call options and purchasing index put options.

Alternative Assets		Description
Vanguard REIT	ETF	The investment seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs.
BNY Mellon Global Real Return	Mutual Fund	The fund allocates its investments among global equities, bonds, and cash; and generally, to a lesser extent, other asset classes, including real estate, commodities, currencies, and alternative or non-traditional asset classes and strategies, primarily those accessed through derivative instruments.