QUARTERLY MARKET REPORT

THIRD QUARTER 2023

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Third Quarter Highlights

Amid mixed economic data, a shift to a "higher for longer" outlook shook markets

Financial Markets

- The positive momentum in global equity markets continued in July. However, markets were pressured in August and September. Sentiment shifted away from a soft landing scenario to worries about an economic and profit slowdown from tight monetary conditions as major central banks pointed to higher interest rates for longer than previously expected to combat higher than target inflation rates. Also, the artificial intelligence (AI) rally eased.
- Bond yields surged, and prices fell due to the "higher for longer" expectations. U.S. Treasury bond yields hit 15+ year highs. A high level of new issuance of U.S. government bonds also pushed rates up.
- Oil prices increased sharply due to production cuts by Saudi Arabia and Russia making the fight against inflation more difficult. The price of West Texas Intermediate crude oil rose almost 30% during the quarter. The price of gold fell as the U.S. dollar rose.

Overview of the Economy

- Earnings reports for the second quarter were better than expected with a majority of companies beating analyst forecasts but some, particularly retailers, warned about rising costs and shifting consumer spending trends.
- The U.S. economy showed resilience with a 2.1% annualized growth rate in the second quarter due in large part to a jump in business investment. The labor market remains tight with 1.4 jobs open for every unemployed person and new unemployment claims hovering near historical lows which helped retail sales grow more than expected. However, the housing market is slowing due to high prices and the highest mortgage rates in 20 years.
- Surveys showed weak manufacturing activity around the world but services activity is still in expansion.

Notable Events

- The Federal Reserve Open Market Committee (Fed) raised its policy rate in July but paused in September and adjusted its projections showing "higher for longer" interest rates. Actions by other central banks were mixed.

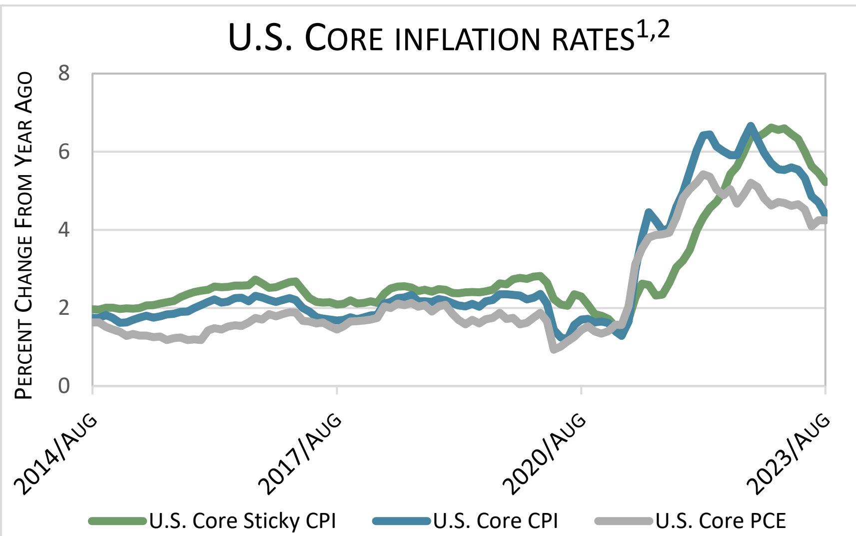
Third Quarter Highlights

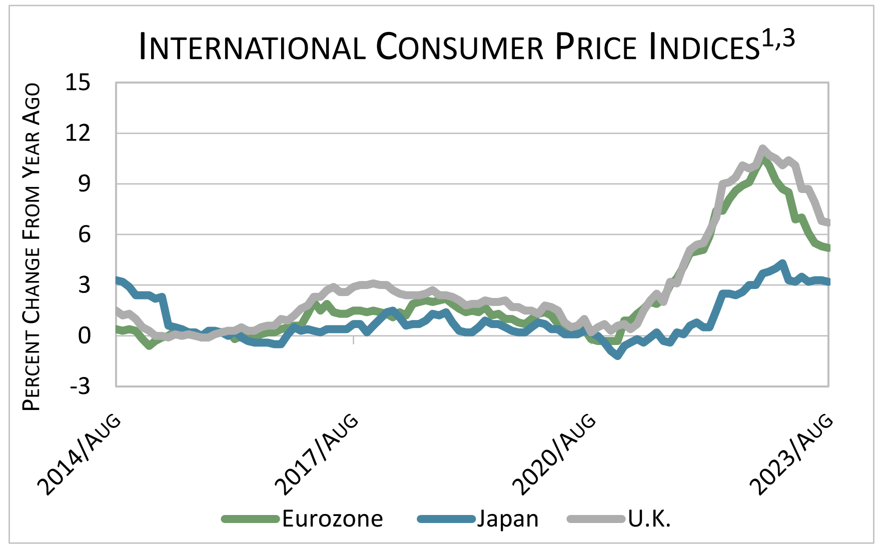
More central banks paused rate hikes as inflation rates eased

Inflation rates continued to slow globally. The consumer price index (CPI) for the U.K. eased to the lowest rate since February 2022 and the Eurozone CPI fell to the lowest since October 2021. In the U.S., the CPI ticked up in July and August due to energy prices, but the core CPI hit the lowest level since September 2021. The downtrend in inflation enabled various central banks to slow the pace of rate hikes with some banks pausing to wait for more data. However, inflation is still above targets so central banks remain hawkish.

Select Central Bank Actions

Bank	Action
U.S. Fed	Hiked rate in July to highest in 22 years. Steady in Sept.
Bank of England	Hiked in Aug. In Sept. left rate steady for first time since Nov. 2021
European Central Bank	Hiked in July and Sept. but indicated it could be done.
Swiss National Bank	Surprised by holding steady in Sept.

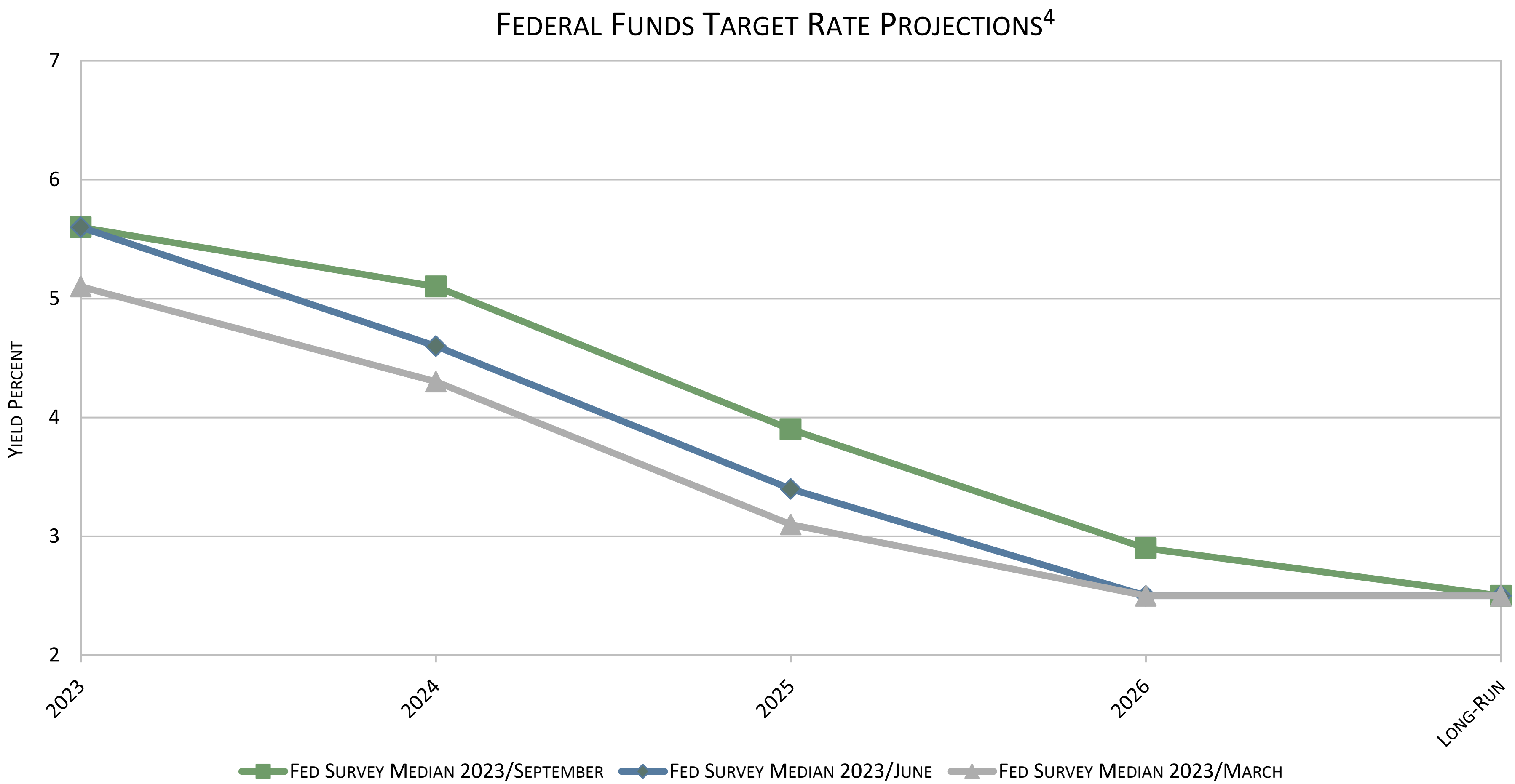




Third Quarter Highlights

New Fed projections point to higher interest rates for longer

The end of the Fed rate hiking cycle may be near with perhaps one more hike in 2023. However, the Fed's new projections point to fewer cuts than in previous forecasts and fewer than some investors were expecting which sent bond yields higher and equity prices down.

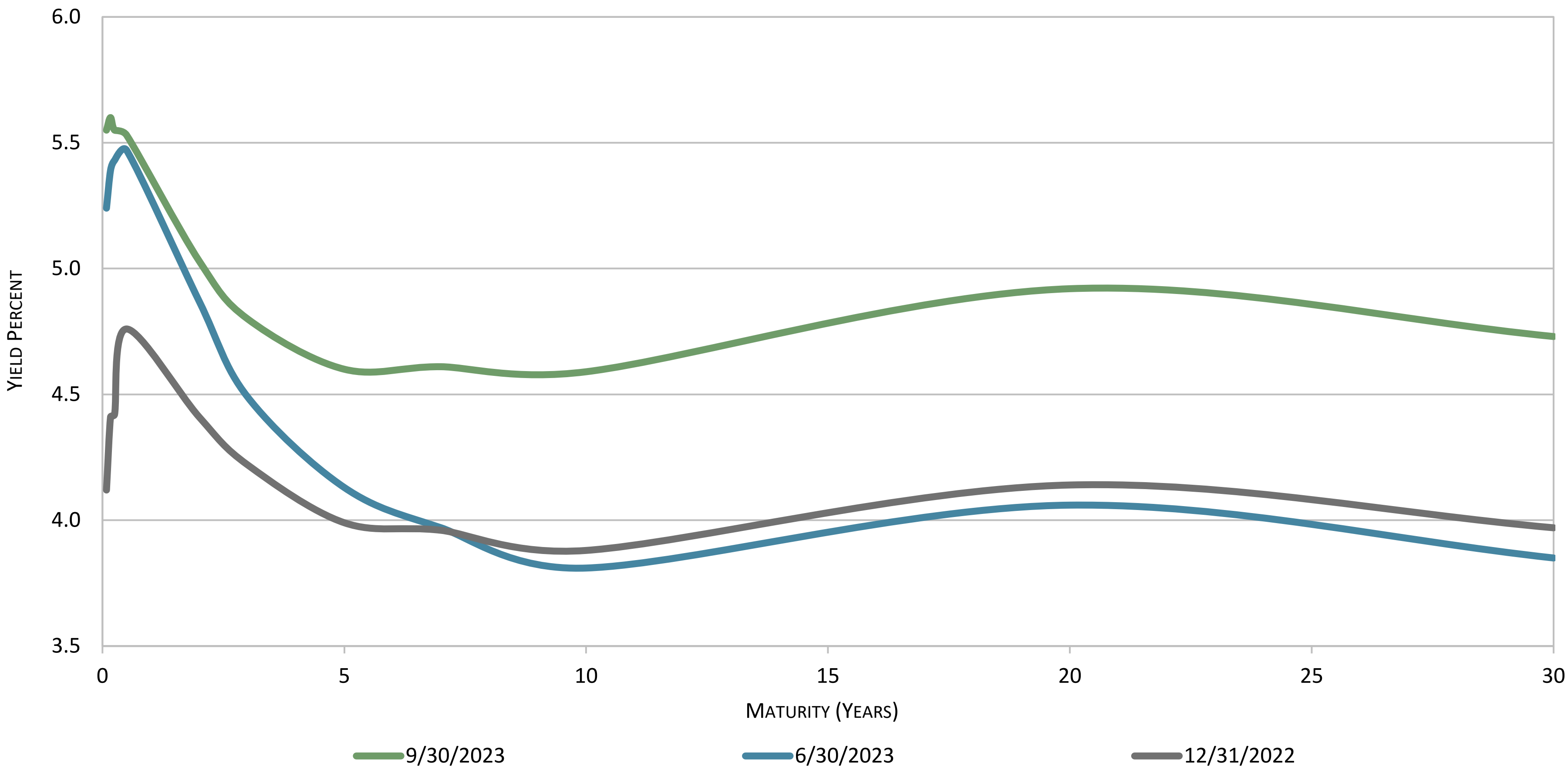


Third Quarter Highlights

Bond yields rose in reaction to the "higher for longer" view

Yields moved higher during the quarter on the hawkish tone from the Fed and some stronger than expected economic data. In September, the 2-Year Treasury yield reached the highest level since July 2006 and the 10-Year yield rose to the highest level since September 2007.

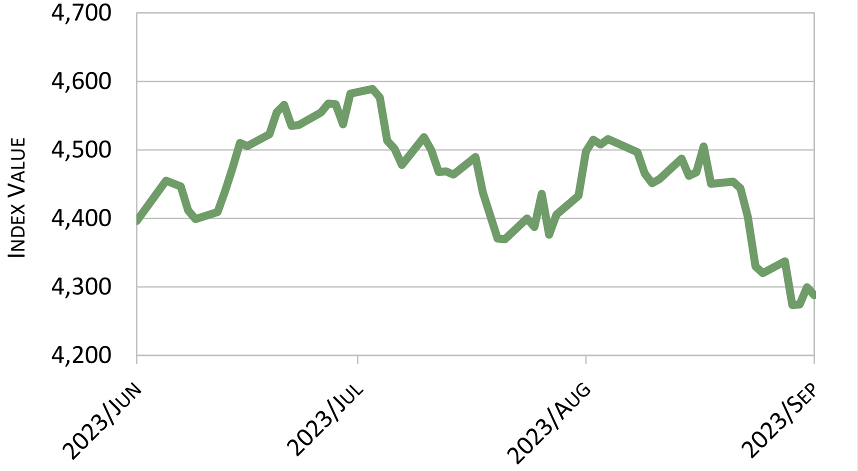
U.S. Treasury Yields[5]



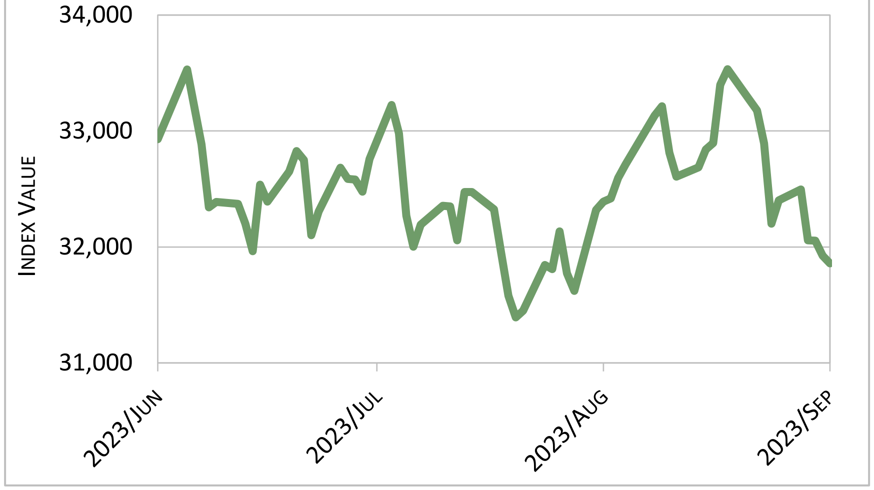
THIRD QUARTER HIGHLIGHTS

EQUITY MARKETS CHANGED COURSE AFTER A STRONG JULY AS SENTIMENT SHIFTED

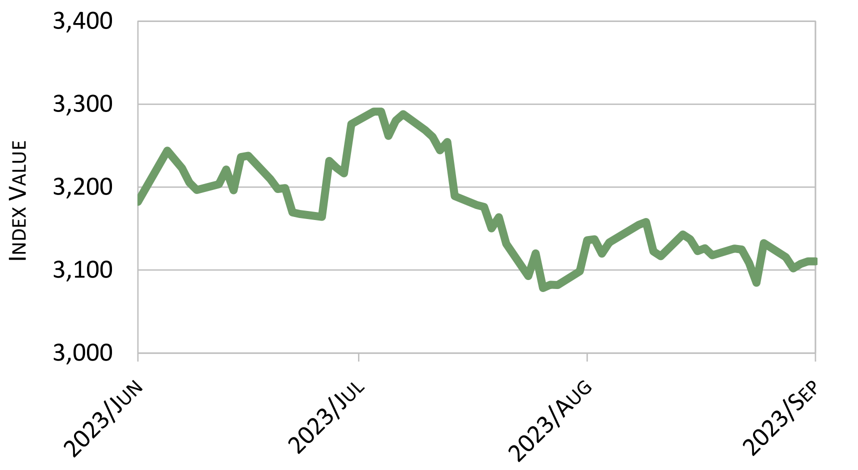
S&P 500 INDEX[1]



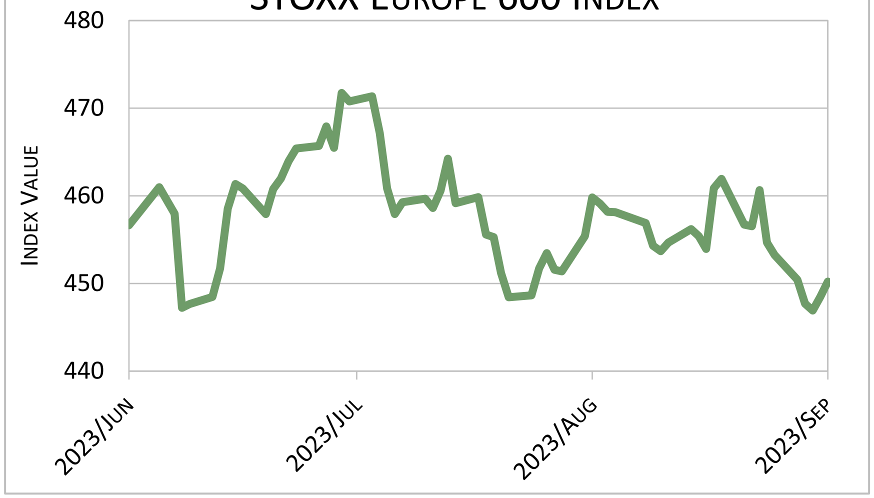
NIKKEI 225 INDEX[1]



SSE COMPOSITE (CHINA)[1]



STOXX EUROPE 600 INDEX[1]



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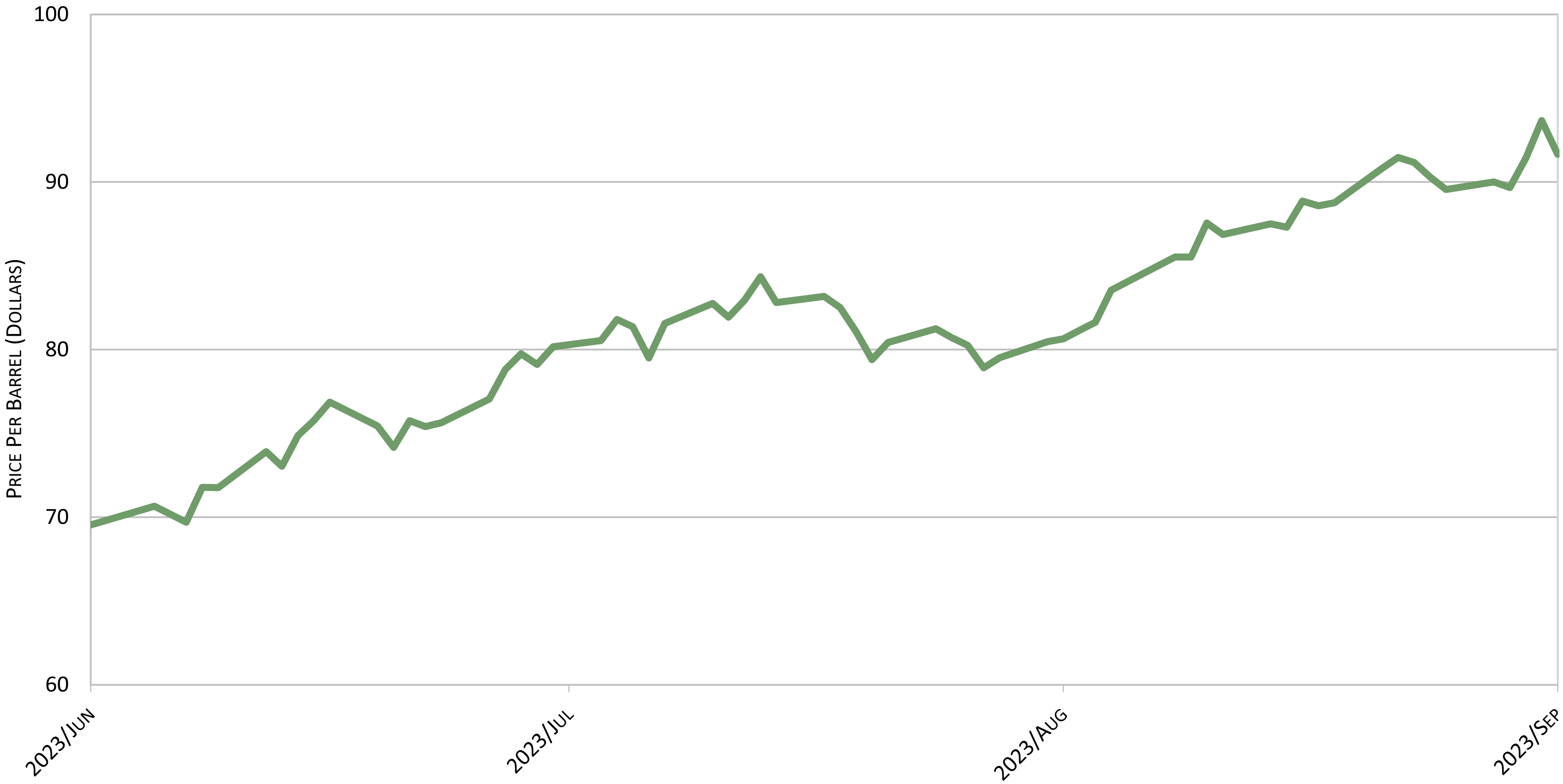
Third Quarter Highlights

Oil prices rose sharply during the quarter

Production cuts by Saudi Arabia and Russia drove oil prices to 10-month highs in September. This raised prices for gasoline as well as diesel, jet, and marine fuel resulting in profit warnings from transportation companies.

West Texas Intermeditate Crude Oil Spot Price[1]



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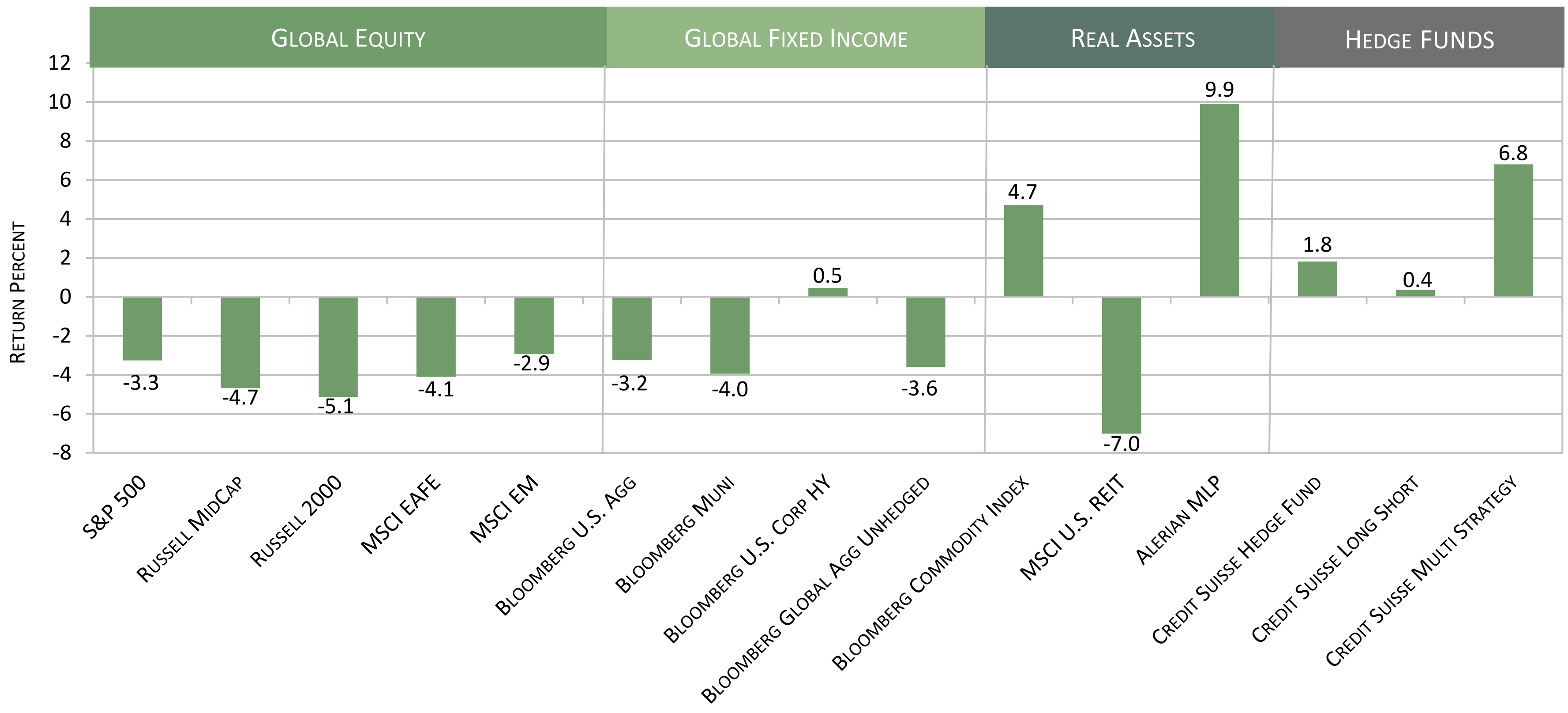
Third Quarter Highlights

Few asset classes escaped the negative impact of rising rates during the quarter

The commodity and MLP indices were performance leaders for the quarter boosted by the surge in oil prices. Equity market indices were down across the board with small capitalization stocks bearing the brunt of the downturn. The income advantage kept the high yield bond index in positive territory, but other bond sectors declined as resilient economic data shifted the outlook to "higher for longer" rates.

Market Returns: Third Quarter 2023[6]



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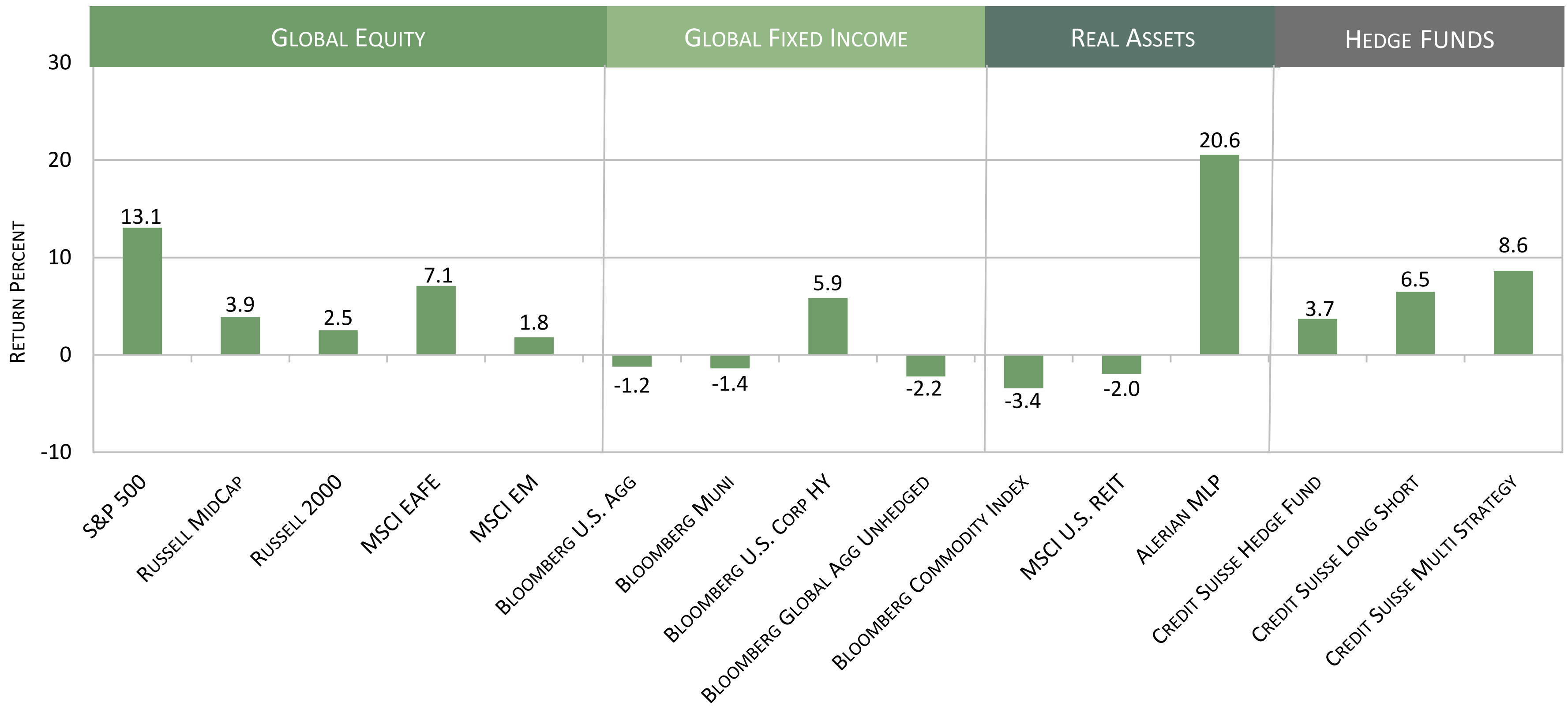
Third Quarter Highlights

There was a wide dispersion of return by asset class for the first nine months of 2023

The MLP sector was the top performer due to rising oil prices. The S&P 500 also had a double-digit gain in large part because of the surge in AI related stocks. The return for developed international stocks got a lift from AI plus the boom in travel and leisure related stocks. Weakness in the Chinese economy hurt the emerging markets equity index and the commodity index.

Market Returns: First Nine Months 2023[6]



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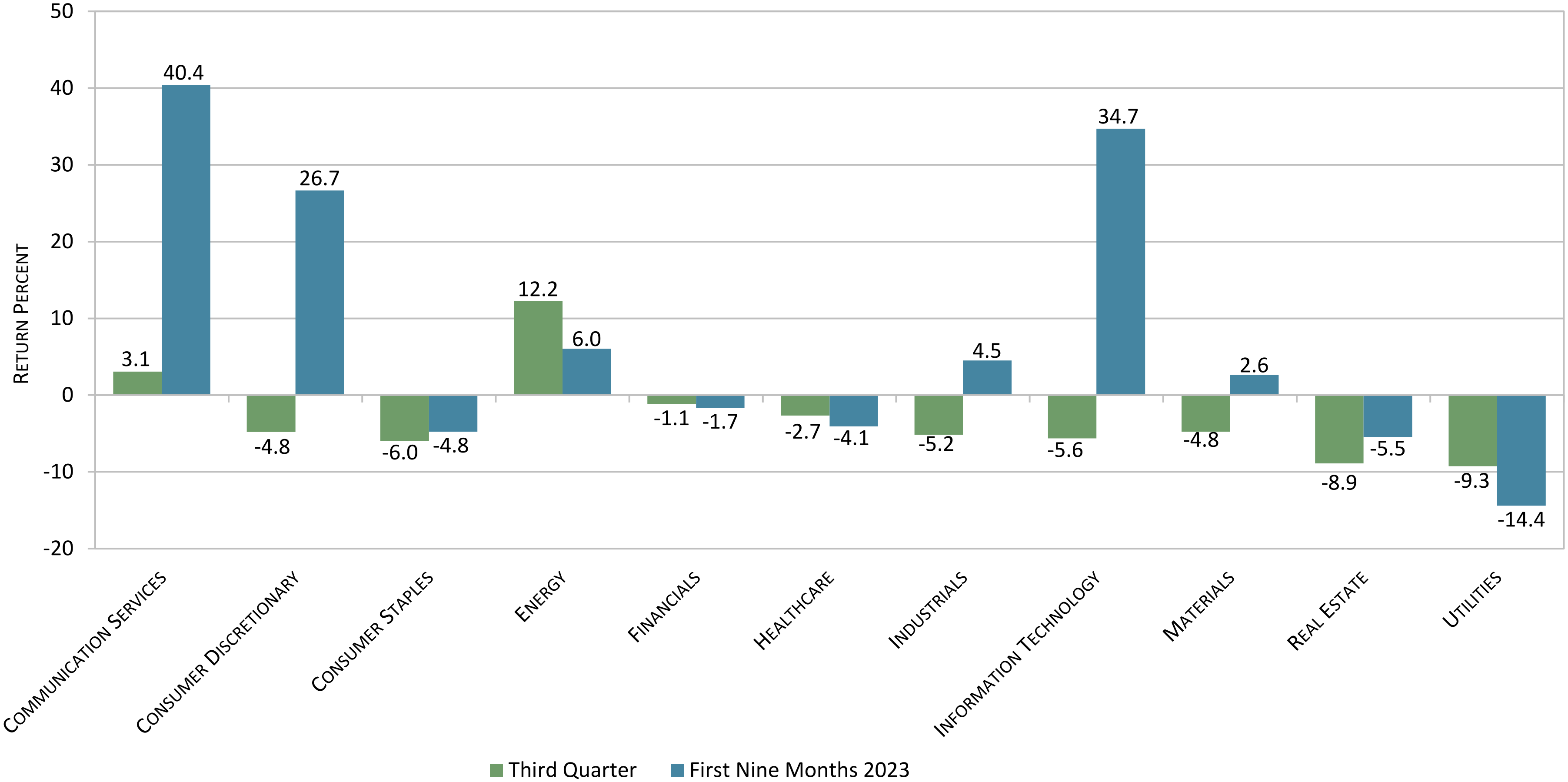
Third Quarter Highlights

Only two sectors had a positive return for the quarter. Six are positive for the year-to-date.

For the quarter, energy stocks rose as oil prices increased but stocks in most sectors posted negative returns since higher interest rates and slowdown worries weighed on valuations. Higher dividend paying sectors were particularly pressured as bond yields became more attractive to income investors.

S&P 500 Sector Returns[6]



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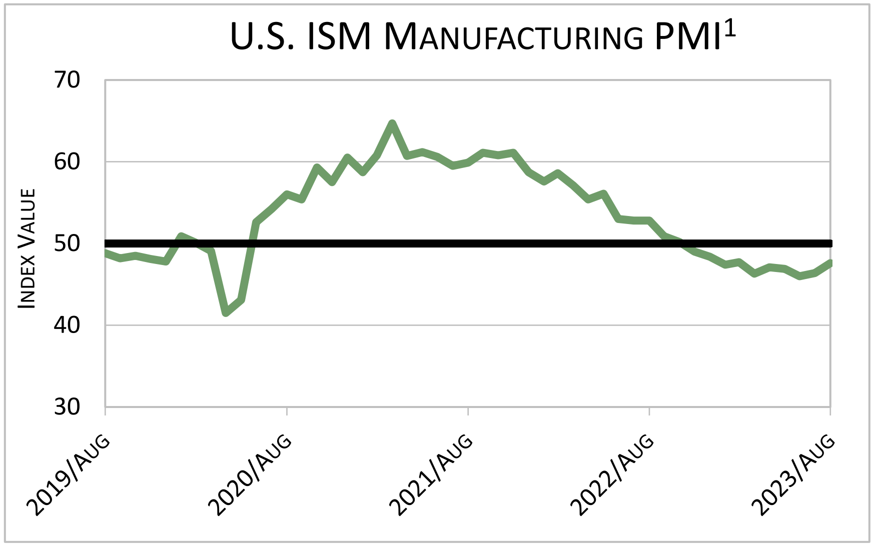
Outlook

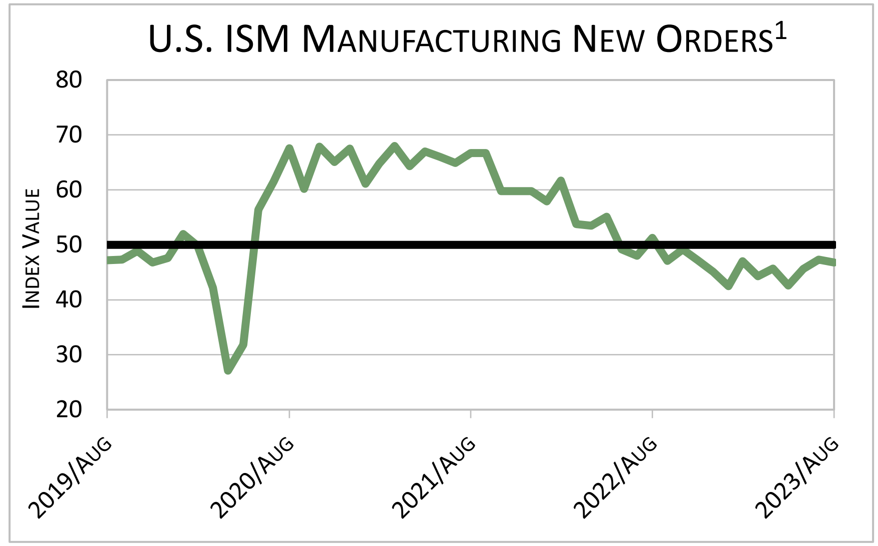
Financial market volatility likely due to mixed economic conditions with higher interest rates

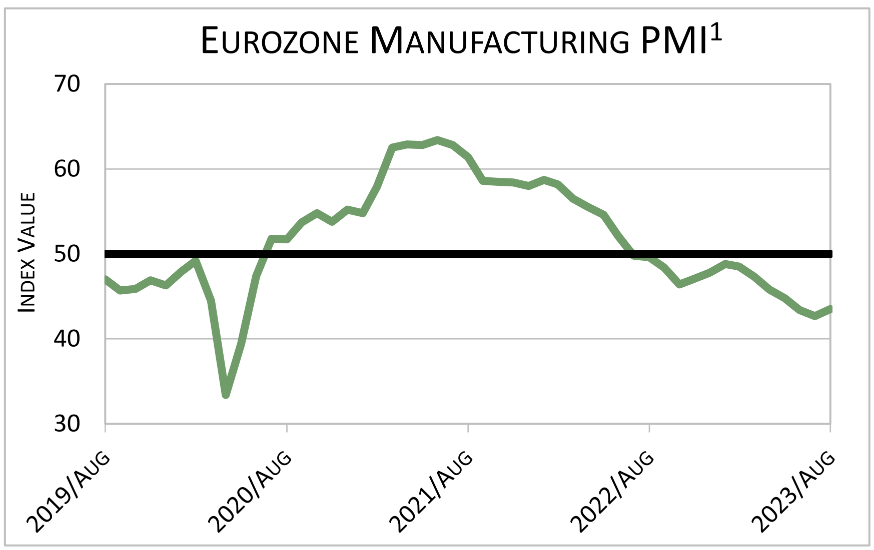
- The U.S. economy has been resilient with gross domestic product and corporate profit reports coming in better than expected, the labor market remaining tight, and inflation cooling. However, inflationary pressures persist, such as rising oil prices as major producers curtail production and demand for higher wages as evidenced by the current auto workers strike. These factors along with the continued hawkish tone from the Fed point to interest rates remaining higher than consumers, businesses, and investors have been accustomed to over most of the past decade. The combination of higher prices, higher financing costs, and tighter lending conditions for a sustained period could increasingly be a headwind for consumer and business activity as well as a pressure on corporate profits. The housing market is already feeling the impact of these headwinds and consumer loan delinquencies are trending higher.
- These same conditions are in place outside the U.S. particularly in Europe. Japan and India are the primary exceptions where economic growth is stronger due to cyclical tailwinds, such as increasing tourism and exports.
- China's economy continues to be constrained by the debt problems in the property sector that are also dampening consumer sentiment. China's manufacturing sector, and increasingly the services sector, continue to struggle from lower demand due to geopolitical tensions and slowing global growth. The Chinese government has provided only minor stimulus actions to date but may be forced to ratchet up stimulus efforts to improve consumer sentiment and lower unemployment.
- In this environment, financial markets are likely to continue to be volatile in reaction to new data reports and there is likely to be more dispersion of returns based on individual companies' ability to navigate a slowing economy and a higher interest rate environment.

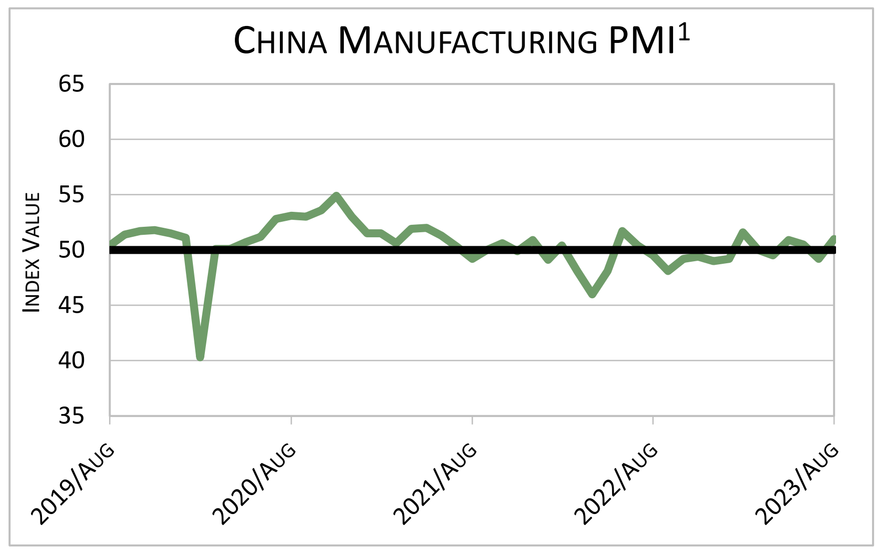
Outlook

Global manufacturing continues to be weak









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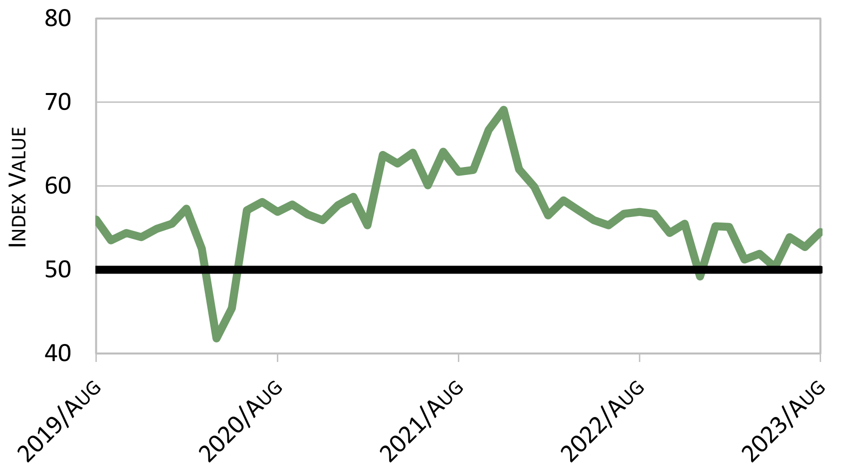
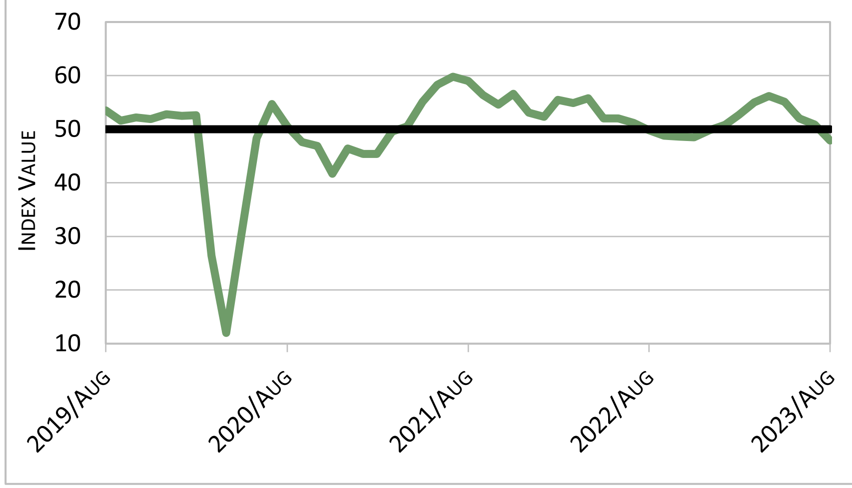
Outlook

Services sector activity is holding up in the U.S. and Japan but is trending down elsewhere

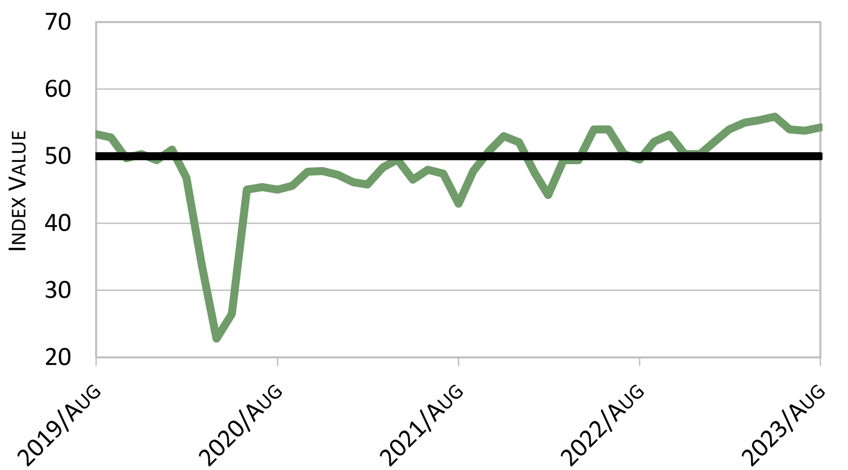
U.S. ISM Services PMI[1]



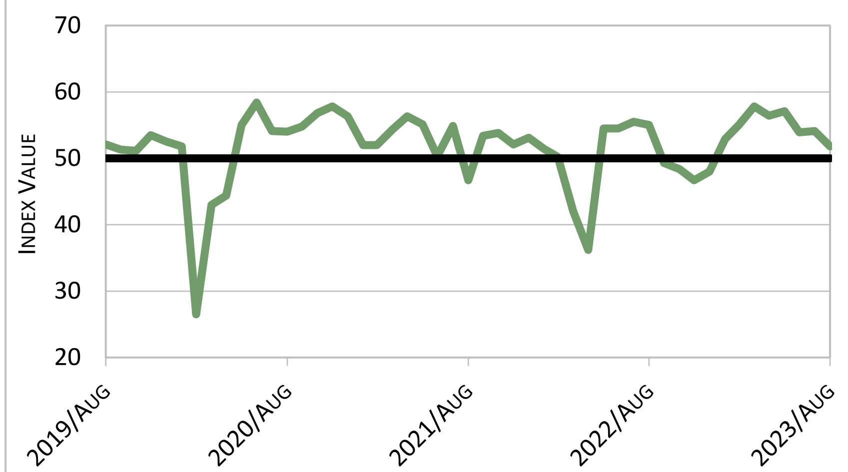
Eurozone Services PMI[1]



Japan Services PMI[1]



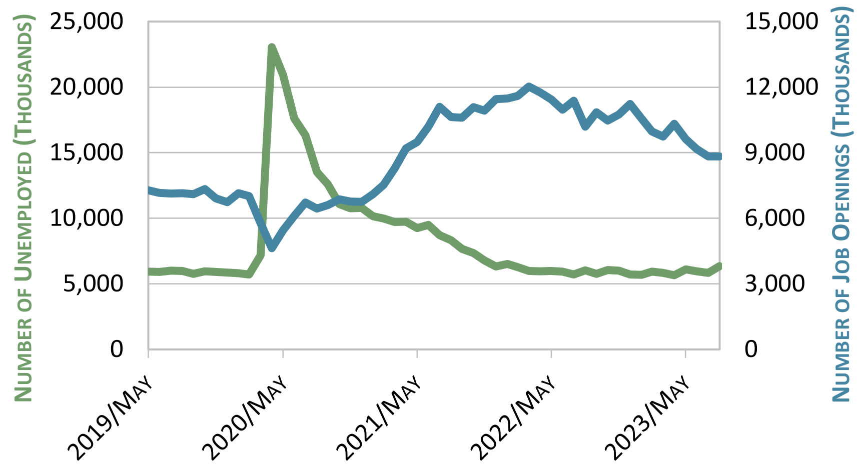
China Services PMI[1]



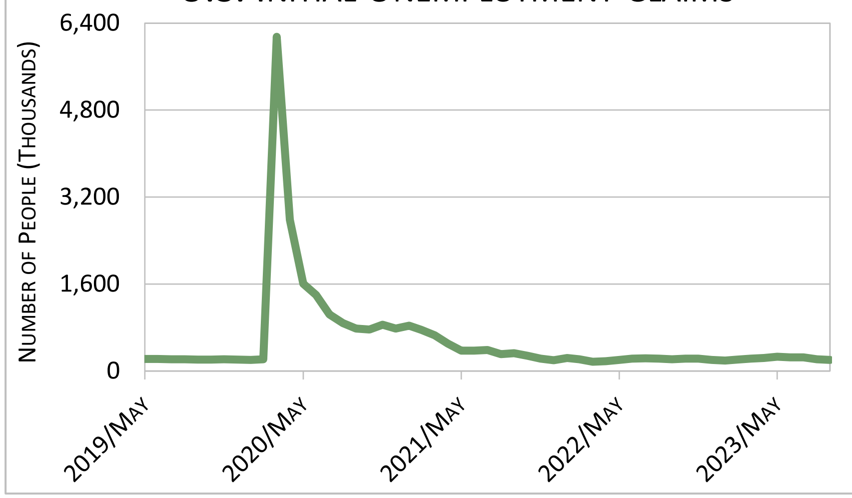
Outlook

Still a way to go to balance jobs and wages to meet the Fed's inflation target

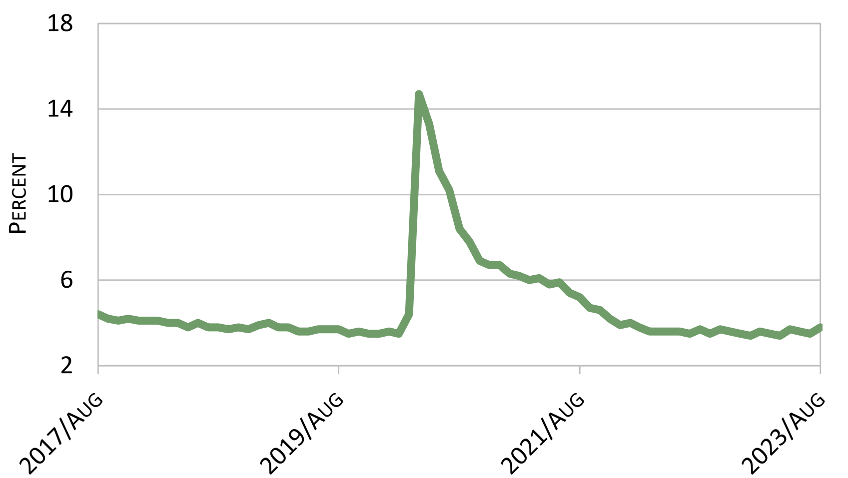
U.S. Employment[1,7]



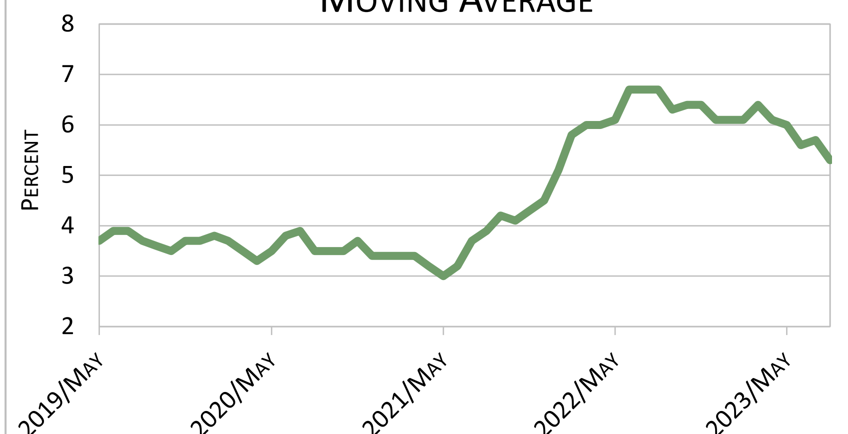
U.S. Initial Unemployment Claims[1]



U.S. Unemployment Rate[1]



U.S. Median Wage Growth 3-Month Moving Average[8]



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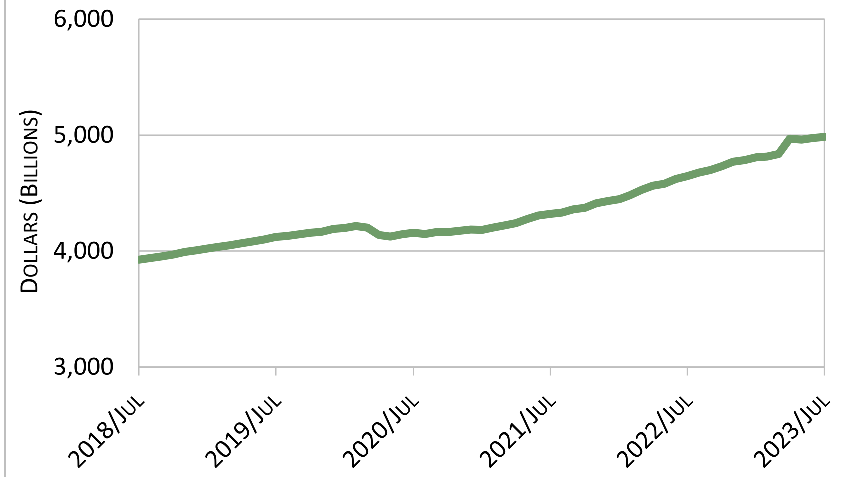
Outlook

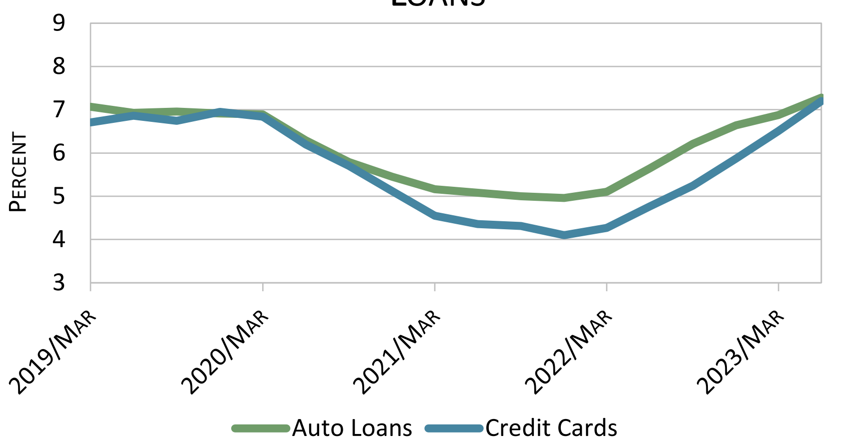
Is consumer spending power getting stretched?

Credit balances and new delinquencies on credit card and auto loans have risen above pre-Covid levels at the same time as interest rates have risen sharply.

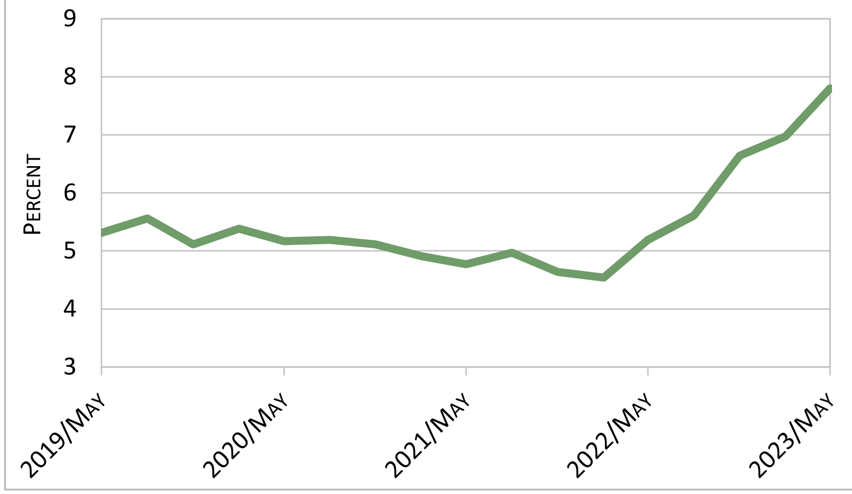
U.S. Consumer Credit Outstanding[1]



New Delinquent Balances on Consumer Loans[9]



New Auto Loan Rate[10]



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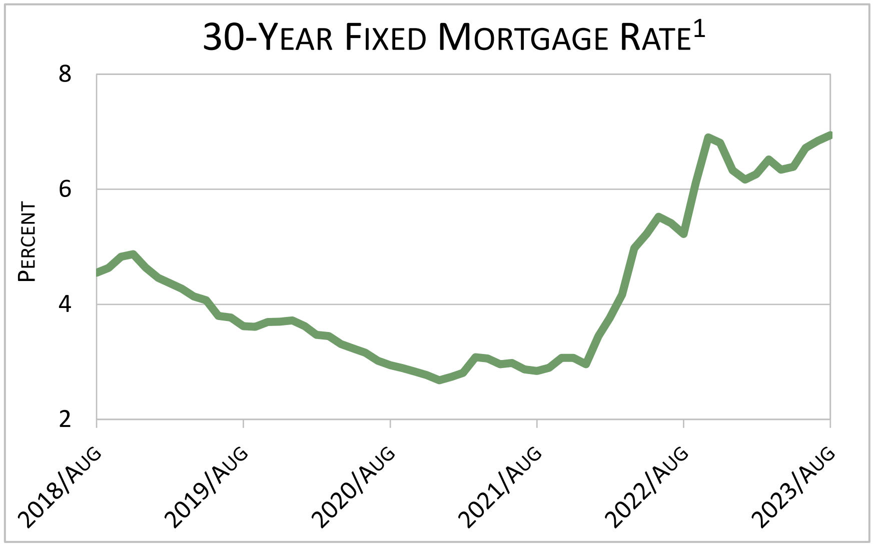
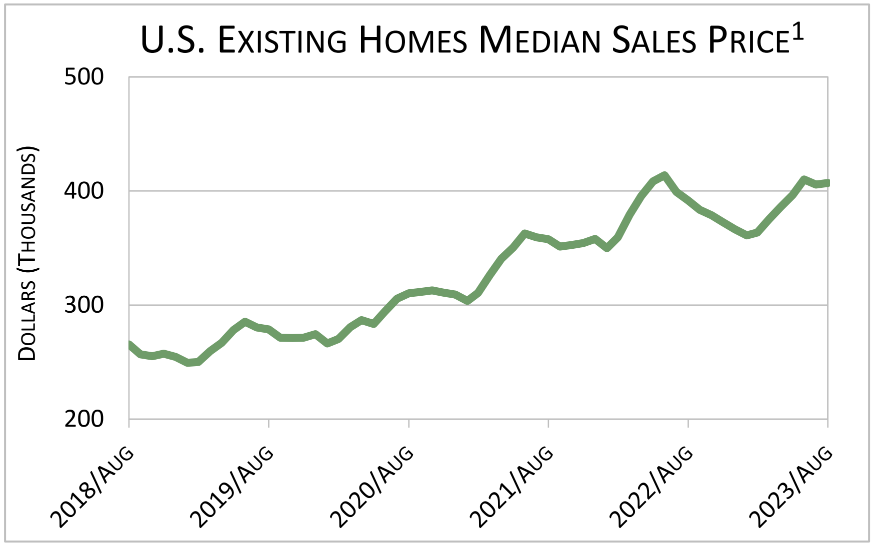
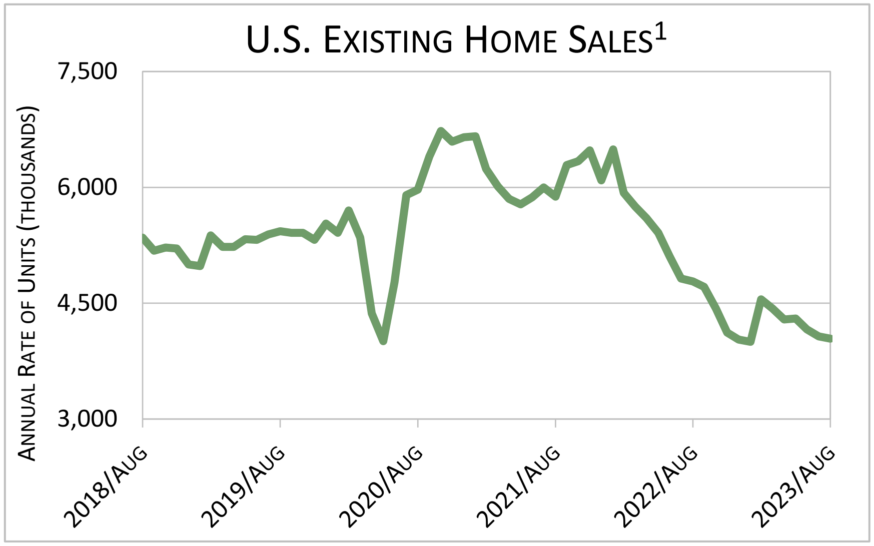
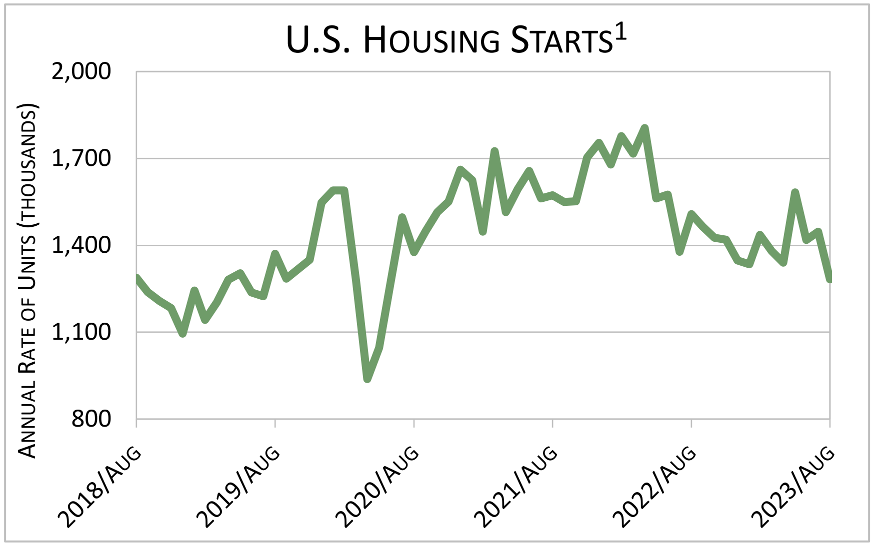
OUTLOOK

HIGH COSTS AND RISING RATES ARE SLOWING THE HOUSING MARKET









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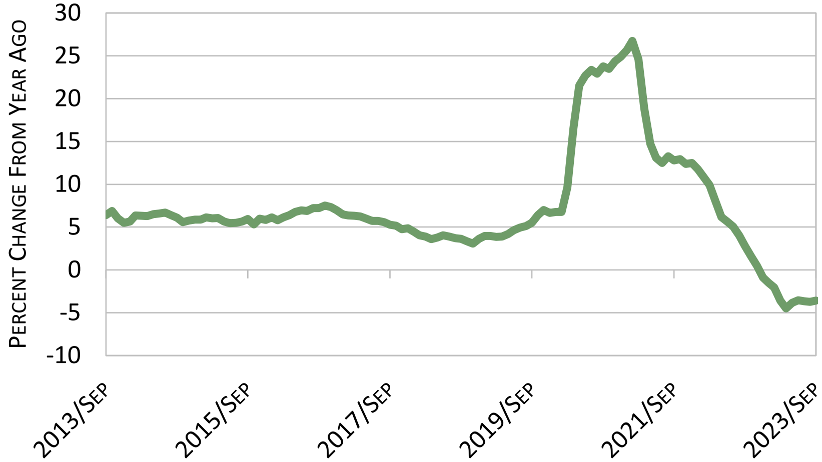
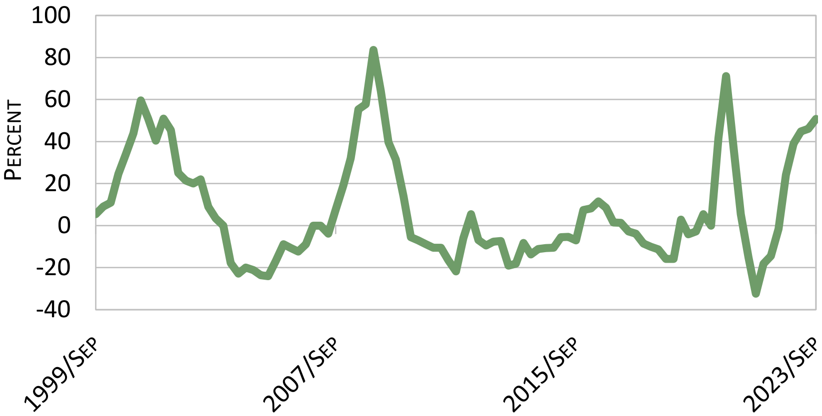
Outlook

Declining liquidity and credit tightening could be headwinds for economic growth

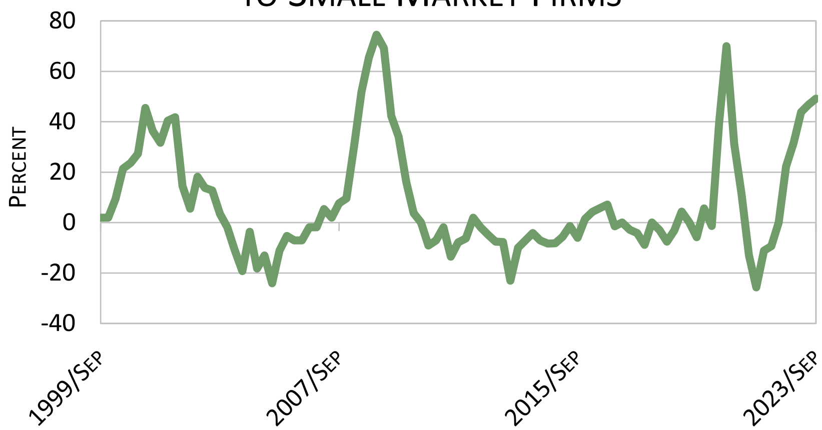
M2 Money Supply[11]



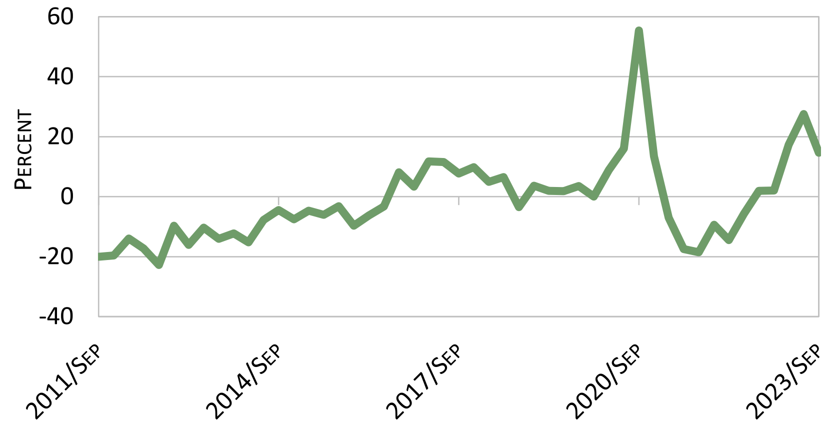
Banks Tightening Standards For Loans to Large/Middle Market Firms[12]



Banks Tightening Standards For Loans to Small Market Firms[13]



Banks Tightening Standards For Auto Loans[14]



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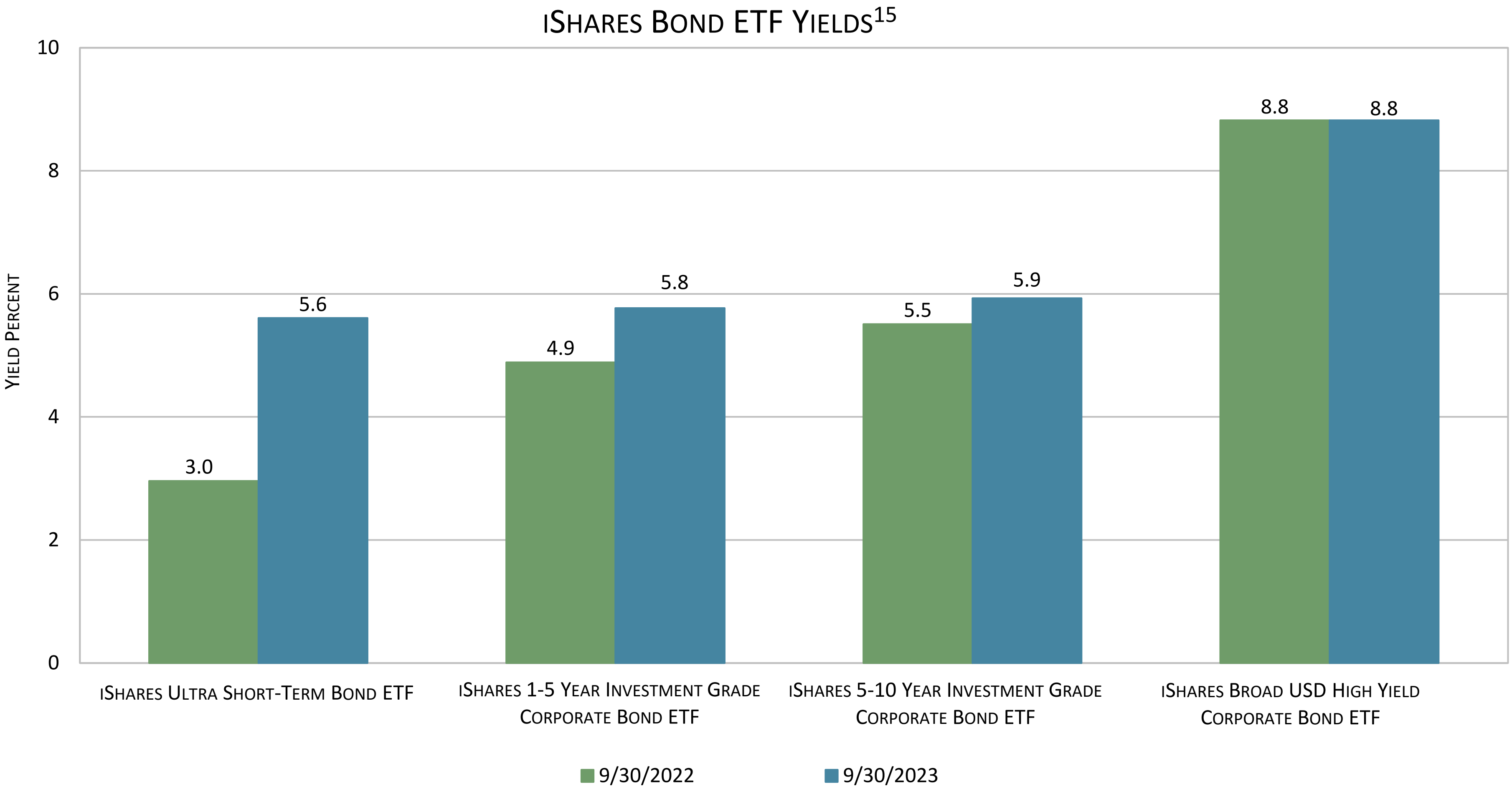
Outlook

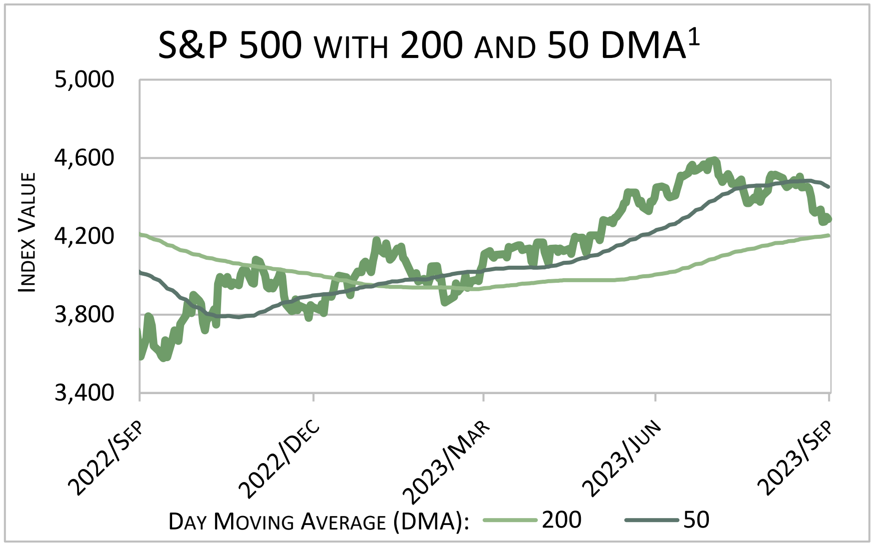
Shorter-term fixed income yields are attractive vs. recent years and dividend yields

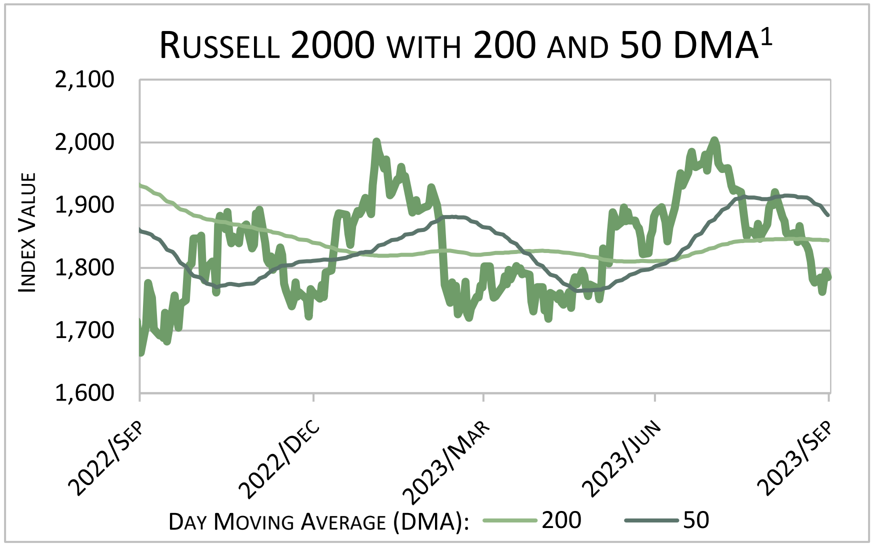
Yields have moved up to the highest in a decade or more. Short-term bond yields are also attractive compared to the dividend yield on most stocks. For example, the dividend yield on the S&P 500 index is 1.5% and the yield on the iShares U.S. Regional Banks ETF is 4.4%.

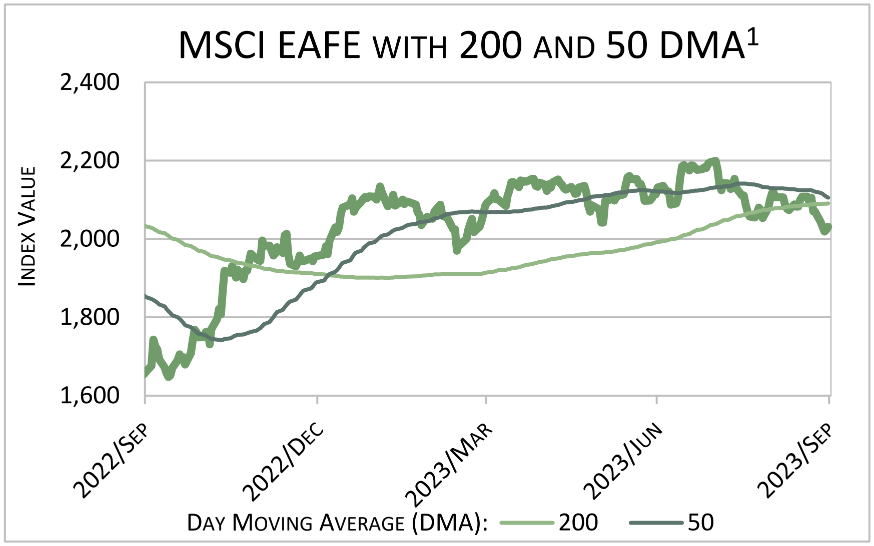


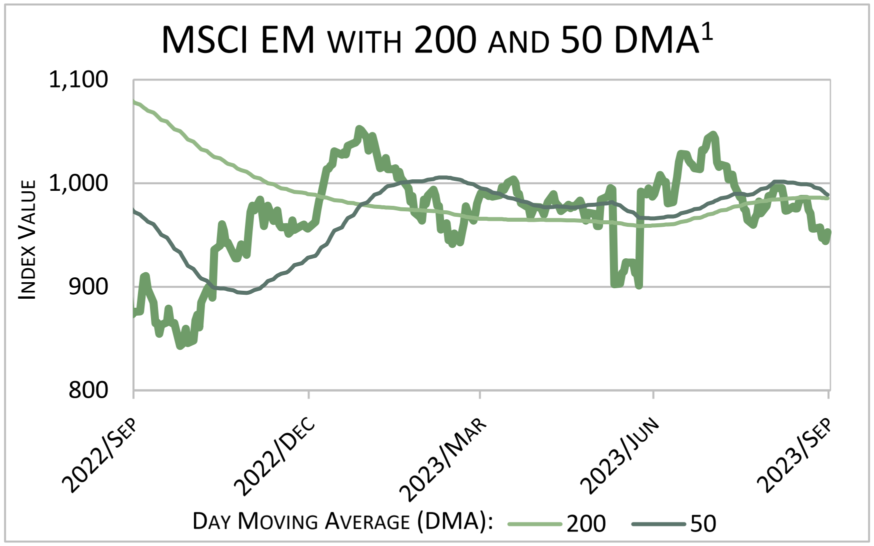
OUTLOOK

EQUITY MARKET TECHNICAL INDICATORS LOOK WEAK, BUT COULD BE NEARING OVERSOLD LEVELS









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VOGEL TACTICAL RECOMMENDATIONS

FIXED INCOME YIELDS ARE ATTRACTIVE. SLOWER GROWTH A RISK TO EQUITIES. OVERWEIGHT CASH.

ASSET CLASS	ACTION	COMMENTARY
Domestic Large-Cap Equity	EQUAL WEIGHT	Prices could be pressured if earnings growth slows hurt by inflation, high interest rates, and tighter lending, but maybe near the end of the rate hike cycle. Volatility is likely.
Domestic Mid-Cap Equity	EQUAL WEIGHT	Prices could be pressured if earnings growth slows hurt by inflation, high interest rates, and tighter lending, but maybe near the end of the rate hike cycle. Volatility is likely.
Domestic Small-Cap Equity	EQUAL WEIGHT	Wider than average valuation gap with large-cap stock but also higher risk to margins and growth opportunities from increasing cost of financing. Expect wider price swings in reaction to signs of slowing growth.
International Developed Equity	EQUAL WEIGHT	Inflation is slowing but still high in many regions so likely more rate hikes to come, but economic activity is improving in certain regions such as Japan.
International Emerging Market Equity	UNDERWEIGHT	Higher U.S. dollar is a headwind. Weak Chinese economy continues to be a risk. Positives are lower valuations than U.S. markets, catalysts for growth in various regions from moves to diversify supply chains, and rate cycles have peaked.
Fixed Income	EQUAL WEIGHT	Yields are the highest in several years so are a source of income and diversification. Prefer shorter maturity bonds since there is still a risk that prices fall as the Fed tightens policy. However, after market moves much has likely been priced in already.
Hedge Strategies	UNDERWEIGHT	The flexibility to position for various risk scenarios can provide return opportunities, but rapid and sharp market swings can be challenging for some strategies. Opportunity set for distressed investing strategies may be improving.
Real Assets	EQUAL WEIGHT	Attractive dividend yields offer inflation protection. The outlook for certain sectors is positive since demand is strong and supply remains tight, but volatility is likely.
Cash	OVERWEIGHT	Keep reserves for liquidity needs since periods of volatility are a risk if consensus expectations are not met or interest rates move higher. Yields are attractive.

DISCLOSURES

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Sources: *Number below corresponds to the superscript notation in chart titles and text blocks*

Sources:

1. Telemet America, Inc.
2. Federal Reserve Bank of Atlanta, Sticky Price Consumer Price Index less Food and Energy [CORESTICKM159SFRBATL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CORESTICKM159SFRBATL, September 30, 2023.
3. Office for National Statistics (ONS), released 20 September 2023, ONS website, statistical bulletin, Consumer price inflation, UK: August 2023.
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5. Daily Treasury Yield Curve Rates, retrieved from U.S. Department of Treasury; https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield, September 30, 2023.
6. Advent Software, Inc.
7. U.S. Bureau of Labor Statistics, Unemployment Level [UNEMPLOY], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNEMPLOY, September 27, 2023.
8. Atlantafed.org/chcs/wage-growth-tracker.
9. New York Fed Consumer Credit Panel/Equifax.
10. Board of Governors of the Federal Reserve System (US), Finance Rate on Consumer Installment Loans at Commercial Banks, New Autos 72 Month Loan [RIFLPBCIANM72NM], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/RIFLPBCIANM72NM, September 30, 2023.
11. Board of Governors of the Federal Reserve System (US), M2 [WM2NS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WM2NS, September 30, 2023.
12. Board of Governors of the Federal Reserve System (US), Net Percentage of Domestic Banks Tightening Standards for Commercial and Industrial Loans to Large and Middle-Market Firms [DRTSCILM], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DRTSCILM, September 30, 2023.
13. Board of Governors of the Federal Reserve System (US), Net Percentage of Domestic Banks Tightening Standards for Commercial and Industrial Loans to Small Firms [DRTSCIS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DRTSCIS, September 27, 2023.
14. Board of Governors of the Federal Reserve System (US), Net Percentage of Domestic Banks Tightening Standards for Auto Loans [STDSAUTO], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/STDSAUTO, September 30, 2023.
15. Find iShares ETFs, retrieved from iShares by BlackRock, Inc.; https://www.ishares.com/us, September 30, 2023 and September 30, 2022.