GUIDE TO THE GAUGES

Quarterly Economic and Capital Market Review

Third Quarter 2023

Economy

Monetary Policy

Valuations

Investor Sentiment

Interest Rates

Guide to the Gauges

Our Latest Assessment of Key Economic Indicators

We believe that over the long term, stock prices are driven by two things: earnings, and what people are willing to pay for those earnings. These five gauges reflect our outlook for the factors that we believe drive stock prices.

Each gauge is comprised of a number of individual indicators, which the Investment Team evaluates on an ongoing basis to determine if the gauge is neutral, positive, or negative.

Third Quarter Summary

Stock market weakness from August continued in September and the S&P 500 Index recorded its first negative quarter of 2023.

GDP growth remains near trend; however, we believe there are some storm clouds on the horizon. While the likelihood of a mild recession has increased, the current strength of the job market leads us to believe that any potential recession would be short and shallow.

As inflation continues to trend downward, we believe that the Federal Reserve is at or near the end of the current rate hike cycle. After raising rates in July, the FOMC held rates steady in September, but signaled additional rate hikes may be appropriate.

We held the Valuations gauge in a Neutral position this quarter and we continue to view stocks as “fairly valued” at the index level. Investor sentiment, which is a contrarian indicator, flipped from bullish to bearish in September. As a result, we moved the Investor Sentiment gauge two notches forward to the Slow Forward position.

The gauges represent the firm’s expectations for the market, and how changes in the market will affect the strategy, but are only projections which assume certain economic conditions and industry developments and are subject to change without notice.

No Change in Position

Economy

This quarter, we held the Economy gauge in the Neutral position to reflect that while GDP growth remains near trend, there are some storm clouds on the horizon. September marked the 11th consecutive month of declining manufacturing activity in the U.S. Given the likelihood of tighter lending standards from banks and higher interest rates, the odds of a mild recession have increased. However, given the strength of the job market, we believe that any potential recession would be short and shallow.

Key Takeaways

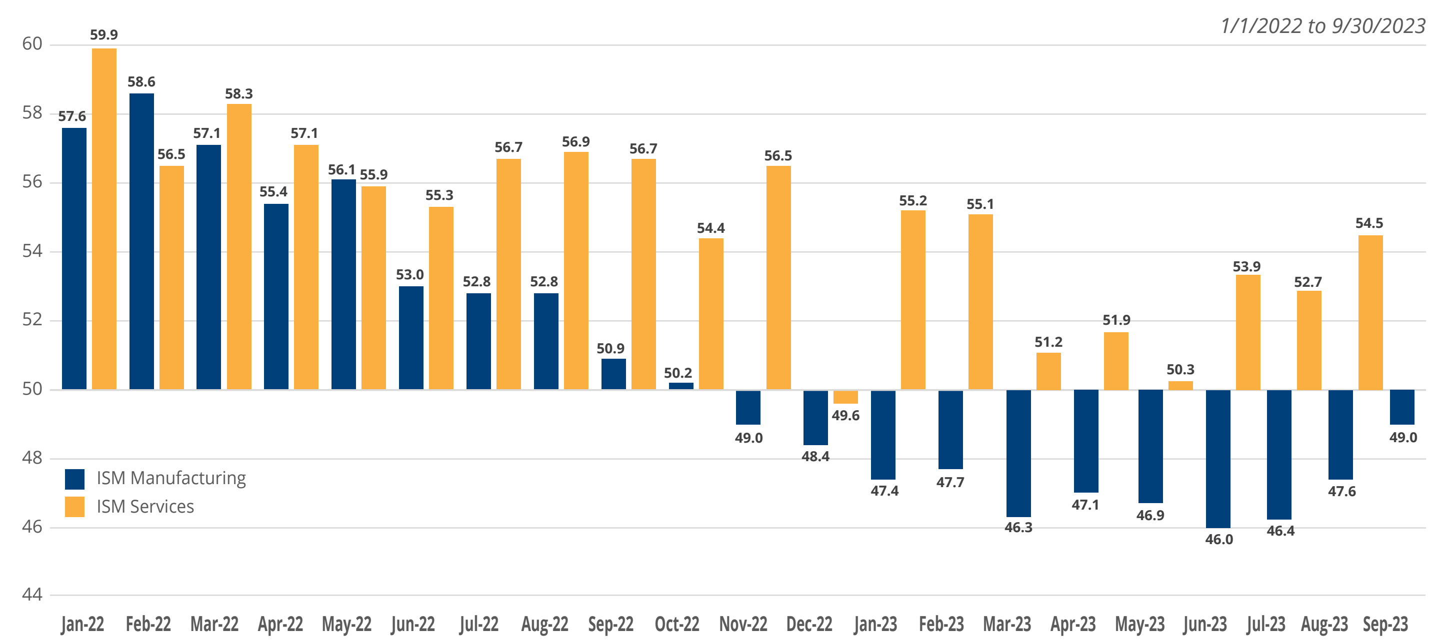
GDP
Q1 GDP came in at 2.2% and Q2 GDP came in at 2.1%. Growth of the U.S. economy has proven to be better than expected so far in 2023.

Labor Market
The August unemployment rate of 3.8% is near its lowest level in decades. Job openings are plentiful, but are off their peak from March of 2022.

Inflation
Headline CPI and PPI for August came in at 3.7% and 1.6%, respectively. The Fed's preferred measure of inflation, Core Personal Consumption Expenditures (PCE), remains above the target of 2%.

ISM Manufacturing and Services PMI

The ISM Manufacturing PMI rebounded to 49 in September but remains below 50. This marked the 11th straight month below 50. The ISM Services PMI came in at 53.6 for September.



Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
57.6	58.6	57.1	55.4	56.1	53.0	52.8	52.8	50.9	50.2	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0	46.4	47.6	49.0
59.9	56.5	58.3	57.1	55.9	55.3	56.7	56.9	56.7	54.4	56.5	49.6	55.2	55.1	51.2	51.9	50.3	53.9	52.7	54.5	

Source: Investing.com

Source: fred.stlouis.org

For illustrative purposes only. Past performance is not indicative of future results.

No Change in Position

Monetary Policy

This quarter, we held the Monetary Policy gauge in the Slow Reverse position to reflect that the Federal Reserve is still considering further rate hikes and is actively engaged in Quantitative Tightening. While Fed policy is still a headwind for risk assets, we believe that the Federal Reserve is nearing the end of the current rate hike cycle.

Key Takeaways

Rate Hikes
After raising rates in July, the FOMC held rates steady in September but signaled additional rate hikes may be appropriate.

Fed Fund Futures
Fed Fund Futures currently imply that the final Fed rate hike was in July and that rate cuts may begin in July of next year.

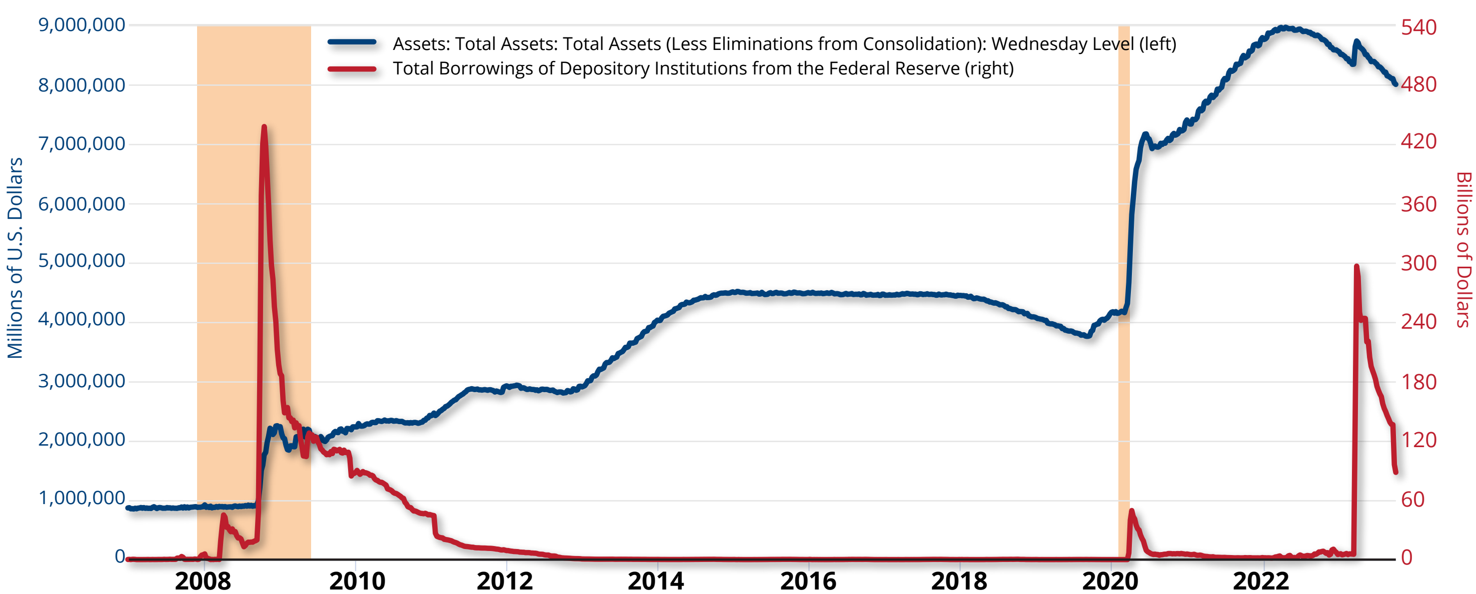
Balance Sheet
The Fed's balance sheet has decreased to levels observed prior to the regional bank issues experienced in March. Borrowing by banks through the Fed's discount window has declined after spiking in March.

The Fed's Balance Sheet

After some regional banks scrambled for liquidity in March, the Fed's balance sheet has begun to shrink again.

Total Borrowings of Depository Institutions from the Federal Reserve

6/1/2007 to 9/30/2023



Source: www.stlouisfed.com

Source: Board of Governors of the Federal Reserve System. For illustrative purposes only. Past performance is not indicative of future results.

Valuations

This quarter, we held the Valuations gauge in a Neutral position to reflect that P/E multiples remain in "fair value" range for S&P 500 companies.

No Change in Position

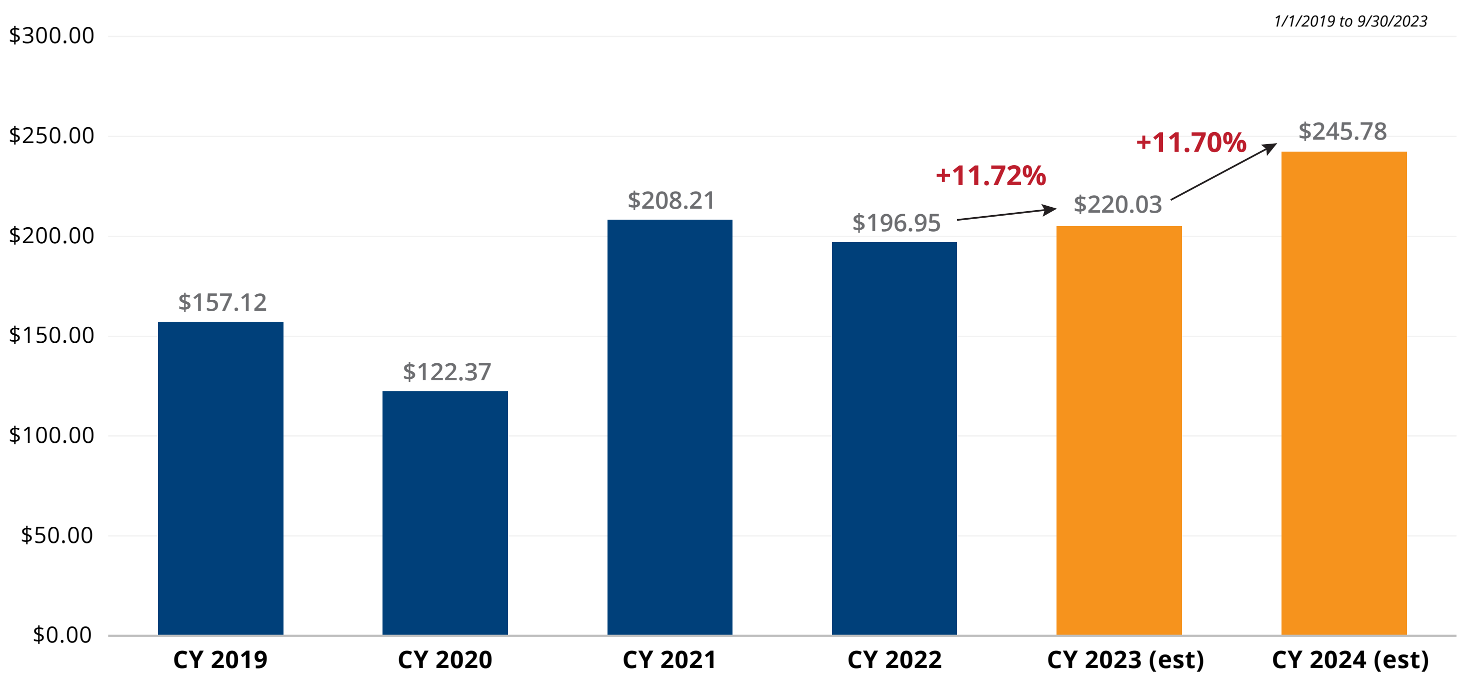
Key Takeaways

P/E Multiples
After reaching undervalued levels at the end of Q3 2022, stocks have staged a rally and remain in "fair value" range.

Earnings
In Q2, S&P 500 companies posted a 17% increase in operating earnings compared to a year ago. Analysts are forecasting better earnings growth in the second half of this year.

S&P 500 Calendar Year Operating EPS Actuals & Estimates

In 2022, S&P 500 operating EPS declined by 5%, albeit from a record level in 2021. For 2023 and 2024, the consensus of Wall Street analysts are for earnings growth of approximately 12% each year. However, we acknowledge the possibility of revisions to those estimates.



Source: S&P Global 1/1/1996 to 9/30/2023. For illustrative purposes only. Past performance is not indicative of future results. Neither past actual, projections, nor other forward looking statements regarding future financial performance of markets are only predictions and actual events or results may differ materially

Moved Two Notches to the Right

Investor Sentiment

This quarter, we moved the Investor Sentiment gauge from Slow Reverse to the Slow Forward position to reflect that investor sentiment flipped from bullish to bearish in September. We also observed that stock volatility, as measured by the VIX Index, increased as the quarter ended.

Key Takeaways

AAII Survey
As equity markets declined in August and September, investor sentiment became less bullish.

VIX Index
After briefly reaching 30 in mid March, the VIX Index retreated to a new 52 week low of 12.73 in June. In September, the VIX Index increased to 17.52.

What Direction Do AAII Members Feel the Stock Market Will Be in the Next Six Months?

Since it's inception in 1987, the AAII Survey has been a useful contrarian indicator. In the past, when the survey reaches extreme levels of bullishness or bearishness, a change in direction for the market often follows.

Sentiment Votes

Week Ending	Bullish	Neutral	Bearish
9/27/2023	27.8%	31.3%	40.9%
9/20/2023	31.3%	34.1%	34.6%
9/13/2023	34.4%	38.4%	29.2%
9/6/2023	42.2%	28.2%	29.6%

Historial View

Historial Averages	37.5%	31.5%	31.0%
1-Year Bullish High	51.4%	Week Ending 7/19/2023	
1-Year Neutral High	39.9%	Week Ending 2/22/2023	
1-Year Bearish High	56.2%	Week Ending 10/19/2022	

Source: American Association of Individual Investors

For illustrative purposes only. Past performance is not indicative of future results.

No Change in Position

Interest Rates

This quarter, we held the Interest Rates gauge in the Slow Reverse position to reflect that both the level of interest rates and the shape of the yield curve remain a slight headwind for risk assets.

Key Takeaways

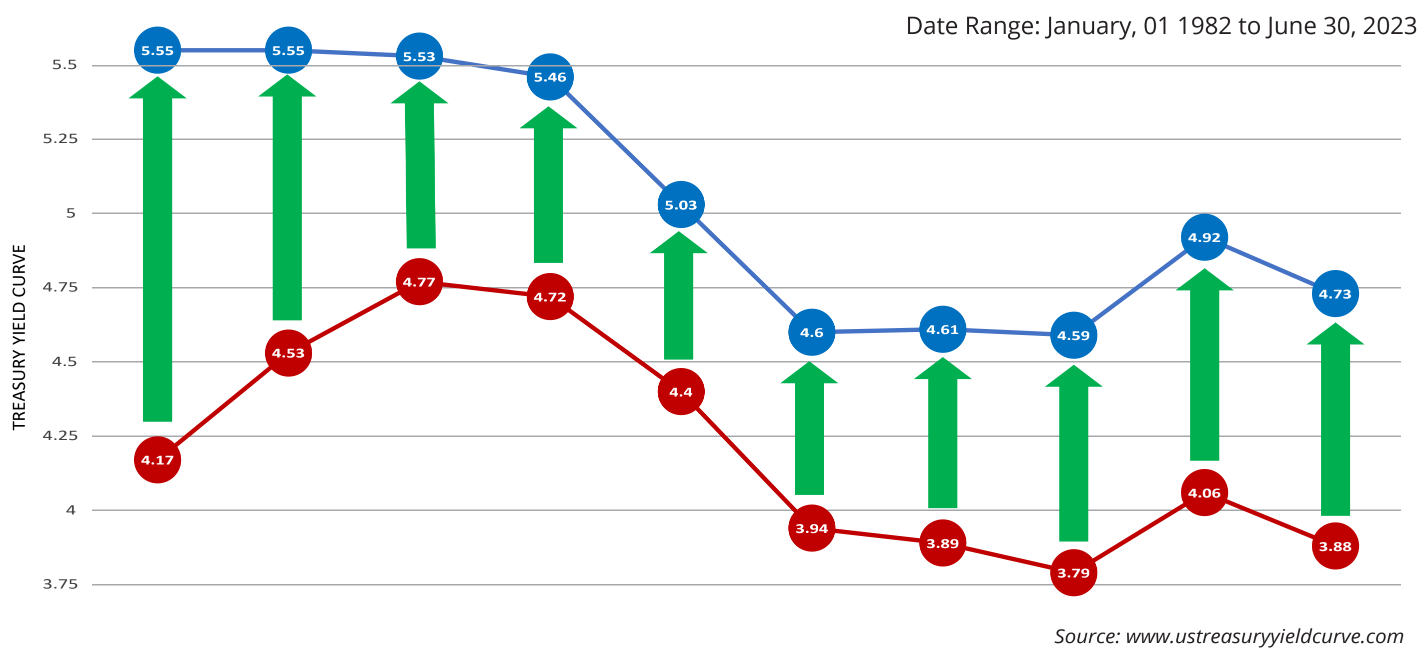
Change in Yields
Long-term interest rates have eclipsed their October 2022 highs as supply/demand issues and seasonality have impacted rates.

Yield Curve
The spread between the 3-month and 10-year Treasuries remains inverted. This signal has preceded prior recessions, although it does not indicate the depth or duration of a potential recession.

Interest Rate Volatility
After briefly declining below 100 in the middle of September, the ICE BofA MOVE Index finished the month at 113.55. The MOVE Index is considered the "fear gauge" for the bond market.

U.S. Treasuries Yield Curve

The entire yield curve has moved higher since the beginning of the year as the Fed has signaled "higher for longer."



	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
1/3/2023	4.17	4.53	4.77	4.72	4.40	3.94	3.89	3.79	4.06	3.88
9/30/2023	5.55	5.55	5.53	5.46	5.03	4.60	4.61	4.59	4.92	4.73

Source: Federal Reserve Bank of St. Louis

For illustrative purposes only. Past performance is not indicative of future results.

The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.

The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 large companies listed on stock exchanges in the United States.

The 3 Month Treasury Bill Rate is the yield received for investing in a government issued treasury security that has a maturity of 3 months.

The 10 Month Treasury Bill Rate is the yield received for investing in a government issued treasury security that has a maturity of 10 months.

The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

The ISM Services PMI provides significant information about factors affecting total output, growth, and inflation.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

The price-to-earnings (P/E) ratio relates a company's share price to its earnings per share.

The GDPNow model forecasts GDP growth by aggregating 13 subcomponents that make up GDP with the chain-weighting methodology used by the U.S. Bureau of Economic Analysis.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output.

The MOVE Index measures U.S. interest rate volatility. The index tracks the movement in U.S. Treasury yield volatility implied by current prices of 1-month OTC options.The S&P U.S. Treasury Bond Current 10-Year Index is a one-security index comprising the most recently issued 10-year U.S. Treasury note or bond.

VIX of VIX (or VVIX) is a measure of the volatility of the Chicago Board Options Exchange (CBOE) Volatility Index (VIX). The CBOE's VIX measures the short-term volatility of the S&P 500 indexes, and the VVIX measures the volatility of the price of the VIX. In other words, VVIX is a measure of the volatility of the S&P 500 index and alludes to how quickly market sentiment changes.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced and sold in a specific time period by countries.

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