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Market Intelligence

November 2023

Executive Summary:

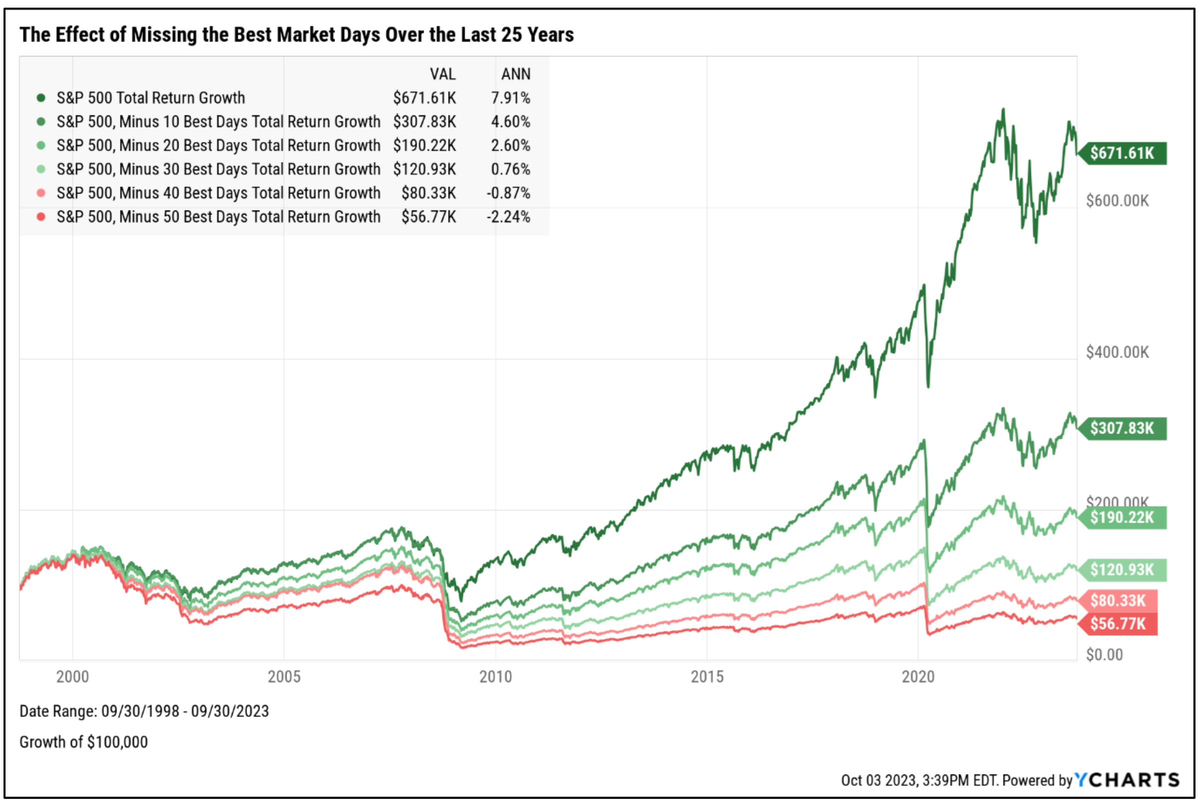
Historical Context: We're navigating one of the longest bear markets in decades, reminiscent of the early 2000s post the "dot-com bubble." Although we haven't seen declines as steep as those during the 2008 crisis or the 2020 pandemic, the ongoing situation, fueled by the Fed's rate hikes, is understandably causing investor fatigue.

Reasons for Optimism:

- Interest rates are stabilizing closer to long-term averages, enabling attractive income levels across various asset classes.
- The US economy has shown resilience, with unemployment at a 60-year low and continued employment growth.
- Volatile periods, like now, often present prime investment opportunities as asset prices become more favorable.

Market Dynamics: While prominent stocks (like the "Magnificent Seven") have bolstered the S&P 500, the broader market reveals a price decline again in 2023 after a tough 2022. However, Q3 business growth remains positive, with average revenue and earnings growth reported by S&P 500 companies.

Future Outlook: We anticipate that interest rates will decline sooner than the market expects, considering the declining inflation trend. Combined with a resilient economy, this shift should benefit stocks. Additionally, many sectors, beyond just the high-flying large companies, are trading at attractive levels with growing revenue and earnings.



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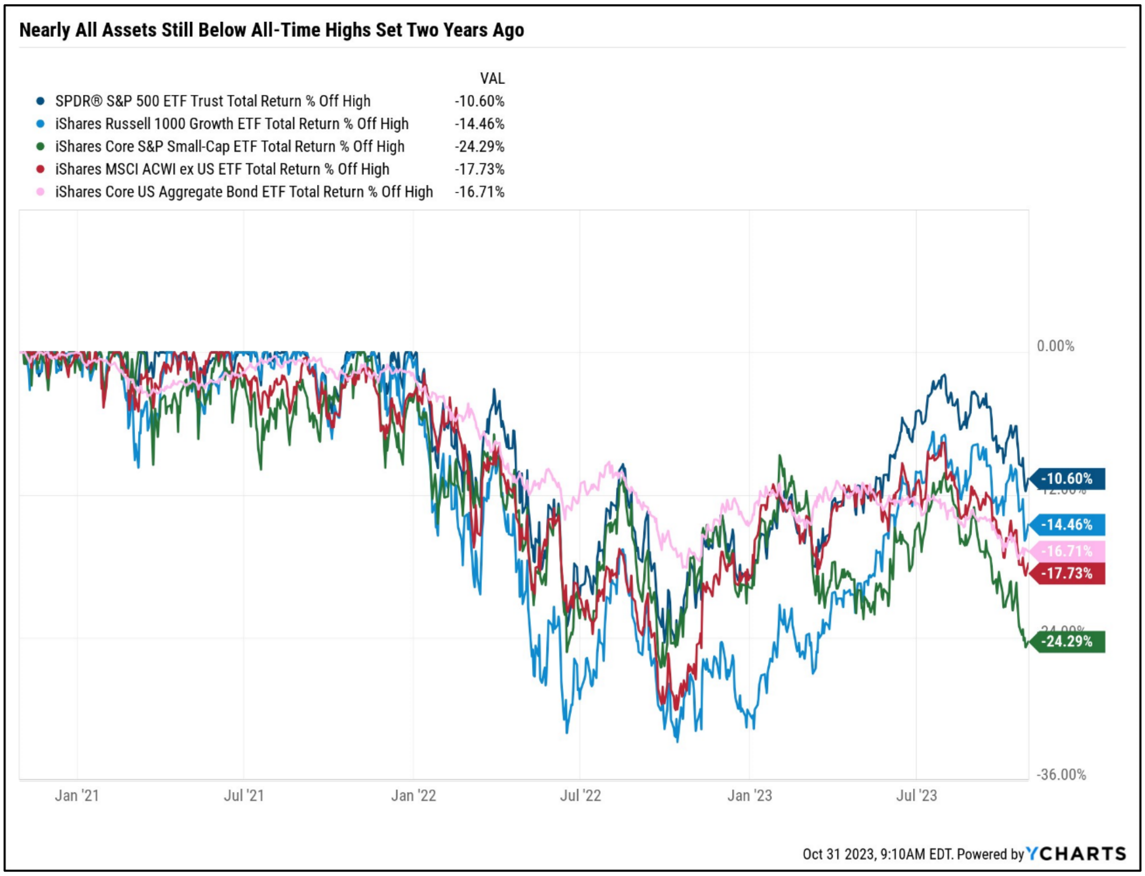
One Chart You Need: The Long Bear Market



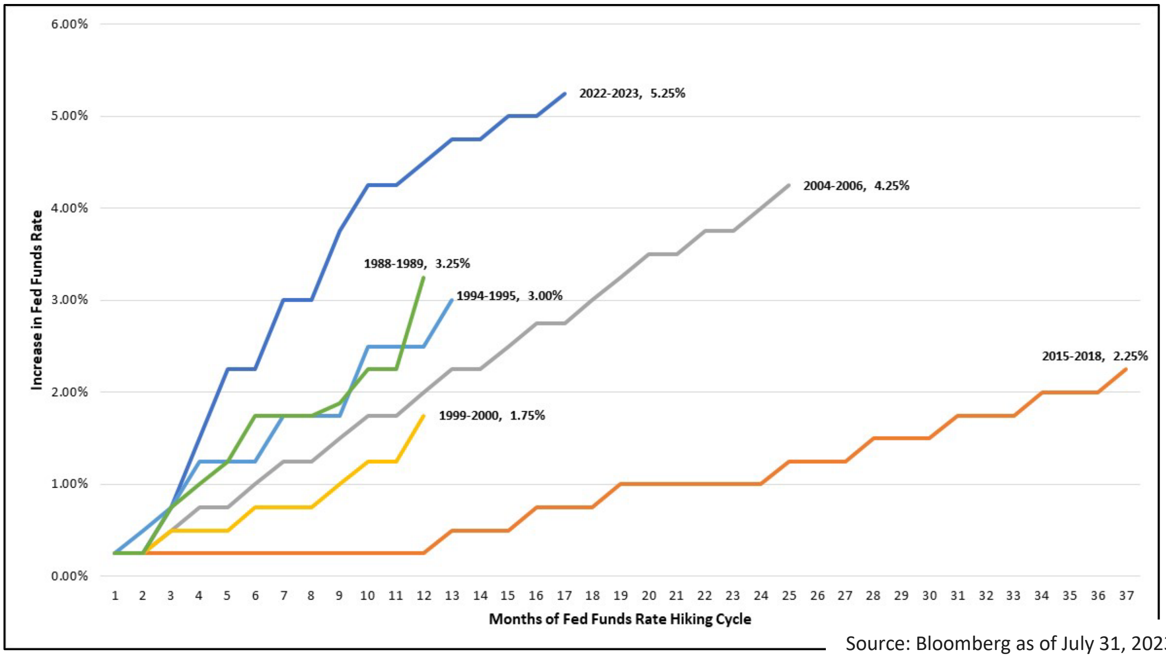
[1]We are living through one of the longest bear markets in several decades; not necessarily the most severe with respect to its level of decline, but the sheer length of time that markets have been flat or declining now stands at almost two years and is justifiably fatiguing many investors. This coincides with the length of time that the US Federal Reserve has been raising interest rates in an effort to control inflation and stabilize economic growth.

Many assets are still well below their all-time highs achieved almost two years ago. While not as steep as market contractions witnessed during the 2008-2009 global financial crisis or the early days of the 2020 global pandemic, the environment today feels much like the early 2000s following the "dot-com bubble"; a period which enthusiasm for technology and growth waned at the same time that the Federal Reserve was raising interest rates to control inflation (very similar to today).

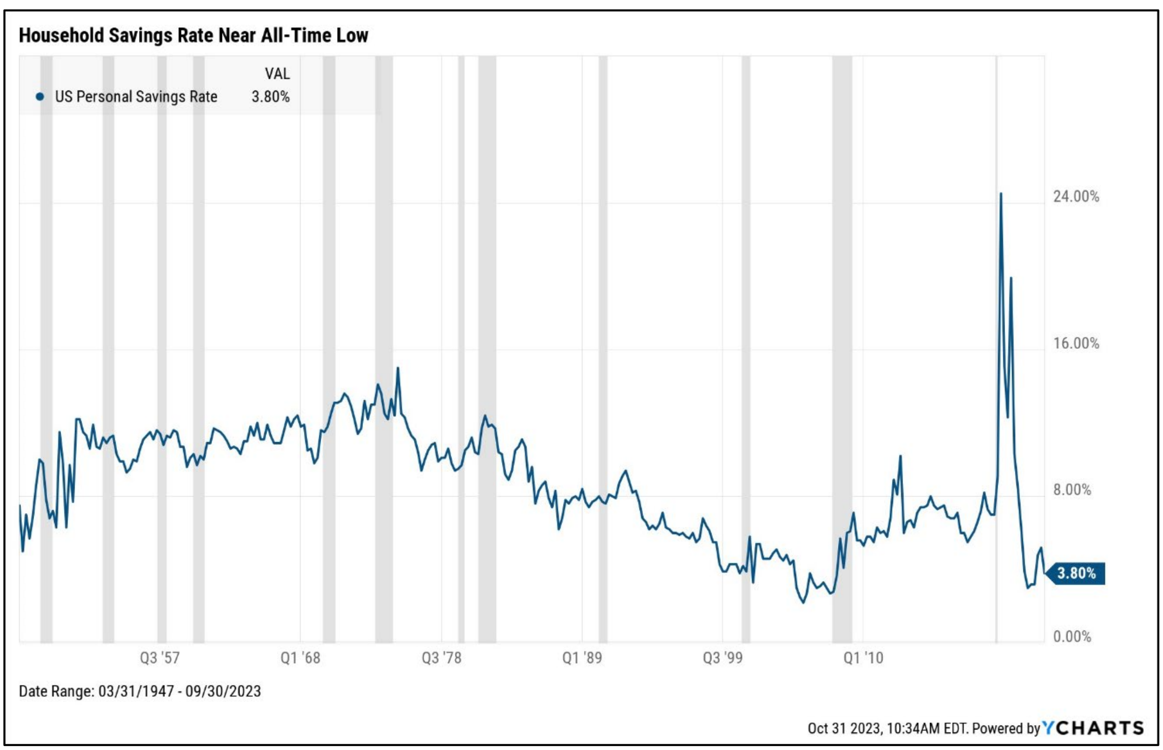
In this month's letter, we will focus on why we remain optimistic. Much of our optimism is driven by the expectation that high inflation and interest rate increases are moving into the rearview mirror, the economy has remained resilient, and many assets are trading at significantly more attractive levels than two years ago.

[1] The ETFs presented are not intended to be benchmarks for performance. Rather, they are intended to be demonstrative of a particular sector or segment the investment universe discussed. Each ETF was selected as opposed to an index to more accurately reflect what an investor might experience. There are other ETFs or indices that might be representative of the same spaces. However, we believe the ones shown are sufficiently representative to assist us in explaining our investment thesis.

The primary driver of the two-year bear market in assets is the rising interest rate environment driven by the US Federal Reserve. The Fed has aggressively raised rates to promote economic stability and help control inflation following the robust economic reopening after the global pandemic. Despite the swift and drastic increase, interest rates are now closer to very long-term averages, which allows investors to earn income levels across many asset classes that have not been available for nearly twenty years. Thus far, the US economy has remained resilient. For example, the unemployment rate remains near a 60-year low at 3.8% and the total number of employed Americans has reached a new all-time high every month since mid-2022. Conversely, the household savings rate is near its lowest level in more than 70 years and credit card debt is at an all-time high, implying that household financial flexibility may be declining in the face of higher costs.

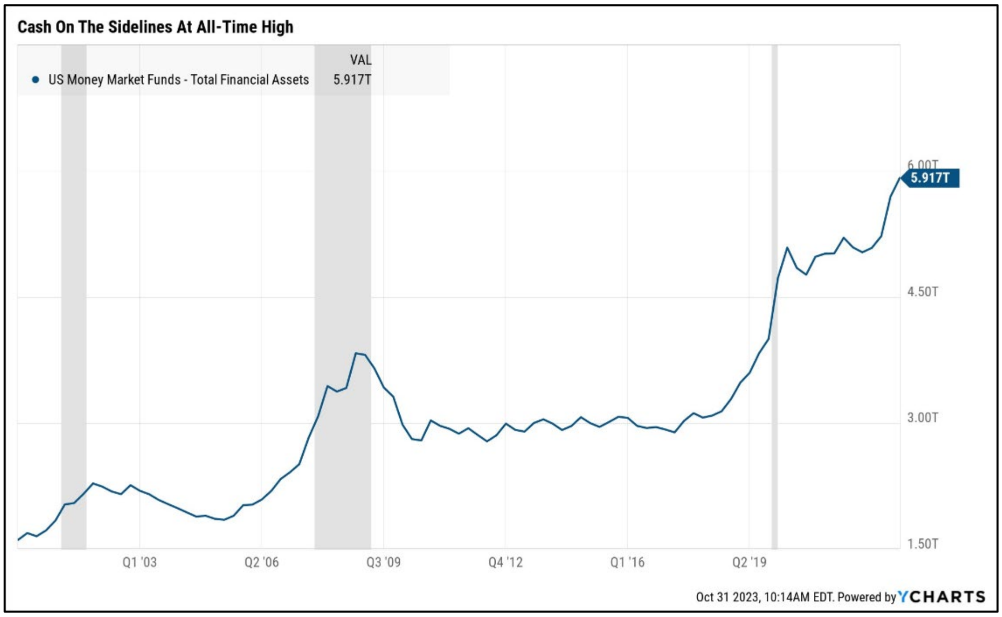


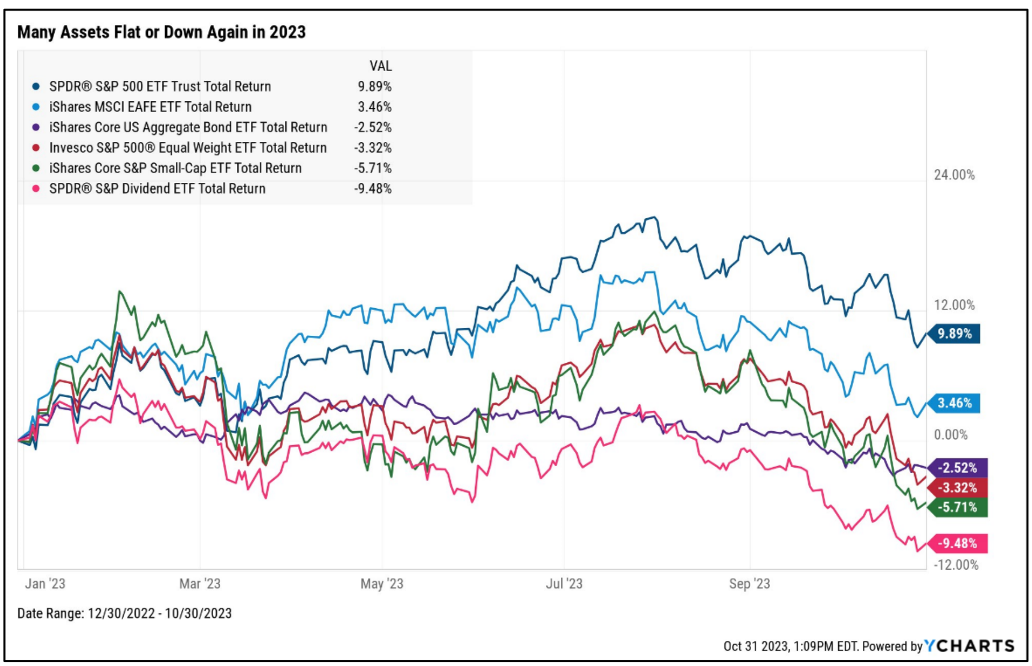
Source: Bloomberg as of July 31, 2023



As interest rates have moved from near-zero to greater than 5%, it's not surprising to see more dollars move toward cash and other investments such as certificates of deposits. The balance in US money market funds is now $6 trillion, likely driven by higher rates and investor fatigue of the nearly two-year bear market. But, we believe that periods of volatility and uncertainty are often some of the best times to invest. This is often because during periods of volatility and uncertainty, prices of assets become cheaper, and today is no exception. In the next section, we will dissect valuation across several parts of public investment markets. And, we expect that the record amount of assets in money market funds today will eventually be a tailwind for future stock buying as the market begins to recover.

[2]Outside of large US growth companies, most asset classes are trading near-or-below their long-term average valuation. Thanks to the "Magnificent Seven" stocks (Apple, Amazon, Microsoft, Alphabet, Meta Platforms, Tesla, Nvidia) which have advanced 32-182% this year, the S&P 500 has stayed afloat, rising 10% through the end of October[3]. However, the equally weighted version of the S&P 500, which removes the impact of large companies on performance, has declined 3%. This means that the **price** of the average company has declined in 2023. Interestingly, it does not mean the **business** of the average company has declined. **As of October 30th, 252 companies within the S&P 500 had reported results for the third quarter of 2023. The average revenue growth since Q3 2022 was 2.1% and the average earnings growth was 5.7%.[4]**





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3 Source: YCharts as of October 31, 2023

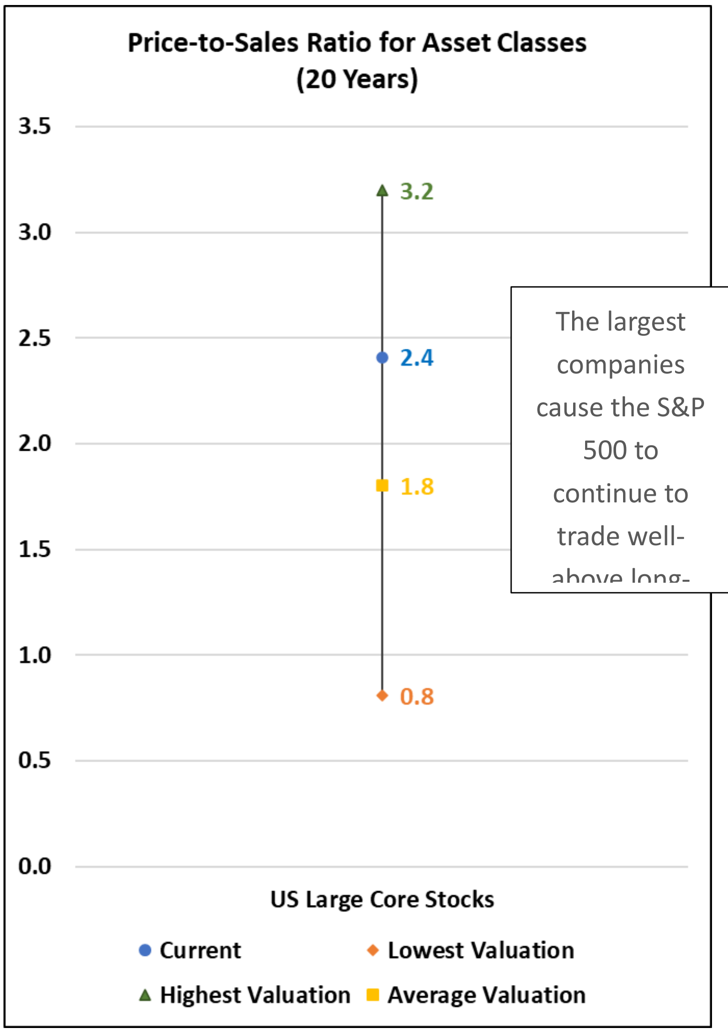
4 Source: Bloomberg as of October 31, 2023

Why would stock prices go down if businesses are growing? We believe this is driven by two primary factors:

1. <u>Alternatives to Stocks</u>: Higher interest rates present alternatives to stocks that had not been compelling for many years. For example, cash and bonds now pay more than 5%.

2. <u>Negative Sentiment</u>: Investors may be bracing for a significant recession or an environment in which interest rates remain elevated for an extended period, limiting the longer-term relative value of stocks compared to bonds.

These are very logical reasons to be bearish on stocks, and in fact, market expectations are for the US Federal Reserve to keep their base lending rate near 5% or above through late 2024. **Given the strength observed in the overall economy, we do not expect a significant recession. And, given the downward trend in inflation, we view it as likely that the Fed will reduce interest rates faster than the market anticipates. Both of these outcomes should be good for stocks.**



Source: Bloomberg as of October 31, 2023

And, outside of the Magnificent Seven, many other parts of the market look reasonably priced or better. For example, investors considering a move to cash or CDs paying +5% may wish to consider dividend-oriented companies which also pay near 5%, with growing businesses, and more favorable tax treatment on dividends compared to interest income[5]. The WisdomTree US High Dividend Index is expected to grow revenue and earnings by 14% and 10% in 2024, respectively. This means that investors receive a 5% dividend that should continue to grow. Many other asset classes are expected to experience revenue and earnings growth in 2024 such as the 10% expected earnings growth for the large US companies and the 30% expected earnings growth for small US companies.

[5] IRP and its affiliates do not provide tax or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for tax or accounting advice. You should consult your own tax and accounting advisors before engaging in any transaction.

Source: Bloomberg as of October 31, 2023

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Outlook & Positioning Summary

Economy

✓ Economic Growth	4.9% US Gross Domestic Product (Q3 2023)
✓ Employment	Solid, but showing signs of deterioration
• Households	Not overindebted but savings and sentiment low
• Financial Conditions	Inflation Remains Above Target, Interest Rates Elevated, Bank Lending Declining. US Government Spending on Infrastructure.

Markets

✓ Valuation	Many Assets Trading At-or-Below 15-20 Year Averages
✓ Earnings	Growing and beating expectations
• Trend	Narrowly Focused on US Large Tech Stocks
• Investor Sentiment	Slightly Bearish

Portfolio Management	= Overall Risk	Maintain risk exposure in-line with your long-term plan
	+ Active Management	Dispersion high, opportunity for security selection
	= Alternatives	Recently reduced in favor of traditional bonds
Equities	= Large Cap Equities	Maintain exposure, shift towards dividends
	+ Small Cap Equities	Attractive valuation, opportunity for stock pickers
	+ Foreign Equities	Attractive valuation
	= Emerging Market Equities	Attractive valuation, elevated geopolitical risk
	= Commodities	Lower on recession fears, but energy prices rising
	= Public REITs	Varies significantly by property type, reviewing opportunities
Fixed Income	= Interest Rate Sensitivity	Recently increased as rates are significantly higher, and Fed looks to be nearing end of tightening cycle
	= Credit	Credit spreads near long-term averages, focus on higher quality
Key Themes	+ Healthcare	Potentially transformative but unloved by investors
	+ Infrastructure	Trillions required for transportation, energy & communications
	+ Disruptive Technology	Seeking durable revenue growth after sharp rise & fall

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Prices & Interest Rates

Representative Index	October 2023	Year-End 2022
Crude Oil (US WTI)	$81.02	$80.26
Gold	$1,985	$1,819
US Dollar	106.66	103.52
2 Year Treasury	5.07%	4.41%
10 Year Treasury	4.88%	3.88%
30 Year Treasury	5.04%	3.97%

Asset Class Returns

Category	Representative Index	1 Month	YTD	2022	1 Year	3 Years	5 Years
US Large Companies	S&P 500	-2.1%	10.7%	-18.1%	10.1%	10.4%	11.0%
US Large Companies	S&P 500 Equal Weight Index	-4.1%	-2.4%	-11.5%	-0.7%	10.1%	8.7%
US Dividend Companies	WisdomTree High Dividend Index	-3.7%	-9.7%	-0.5%	-7.8%	11.7%	5.9%
US Growth Companies	Russell 3000 Growth	-1.7%	21.6%	-29.0%	17.3%	8.1%	13.5%
US Value Companies	Russell 3000 Value	-3.7%	-2.1%	-8.0%	-0.5%	10.2%	6.4%
US Small Cap Equity	Russell 2000	-6.8%	-4.5%	-20.4%	-8.6%	4.0%	3.3%
Global Equity	MSCI All-Country World	-3.0%	6.7%	-18.4%	10.5%	6.7%	7.5%
Foreign Developed Equity	MSCI EAFE	-4.1%	2.7%	-14.5%	14.4%	5.7%	4.1%
Emerging Market Equity	MSCI Emerging Markets	-3.9%	-2.1%	-20.1%	10.8%	-3.7%	1.6%
US Fixed Income	Bloomberg Barclays US Agg. Bond	-1.6%	-2.8%	-13.0%	0.4%	-5.6%	-0.1%
US Fixed Income	Bloomberg Barclays Municipal Bond	-0.9%	-2.2%	-8.5%	2.6%	-2.5%	1.0%
Global Fixed Income	Bloomberg Barclays Global Agg. Bond	-1.2%	-3.4%	-16.3%	1.7%	-7.3%	-1.6%

Source: YCharts as of October 31, 2023. Annualized returns for data longer than 1 year