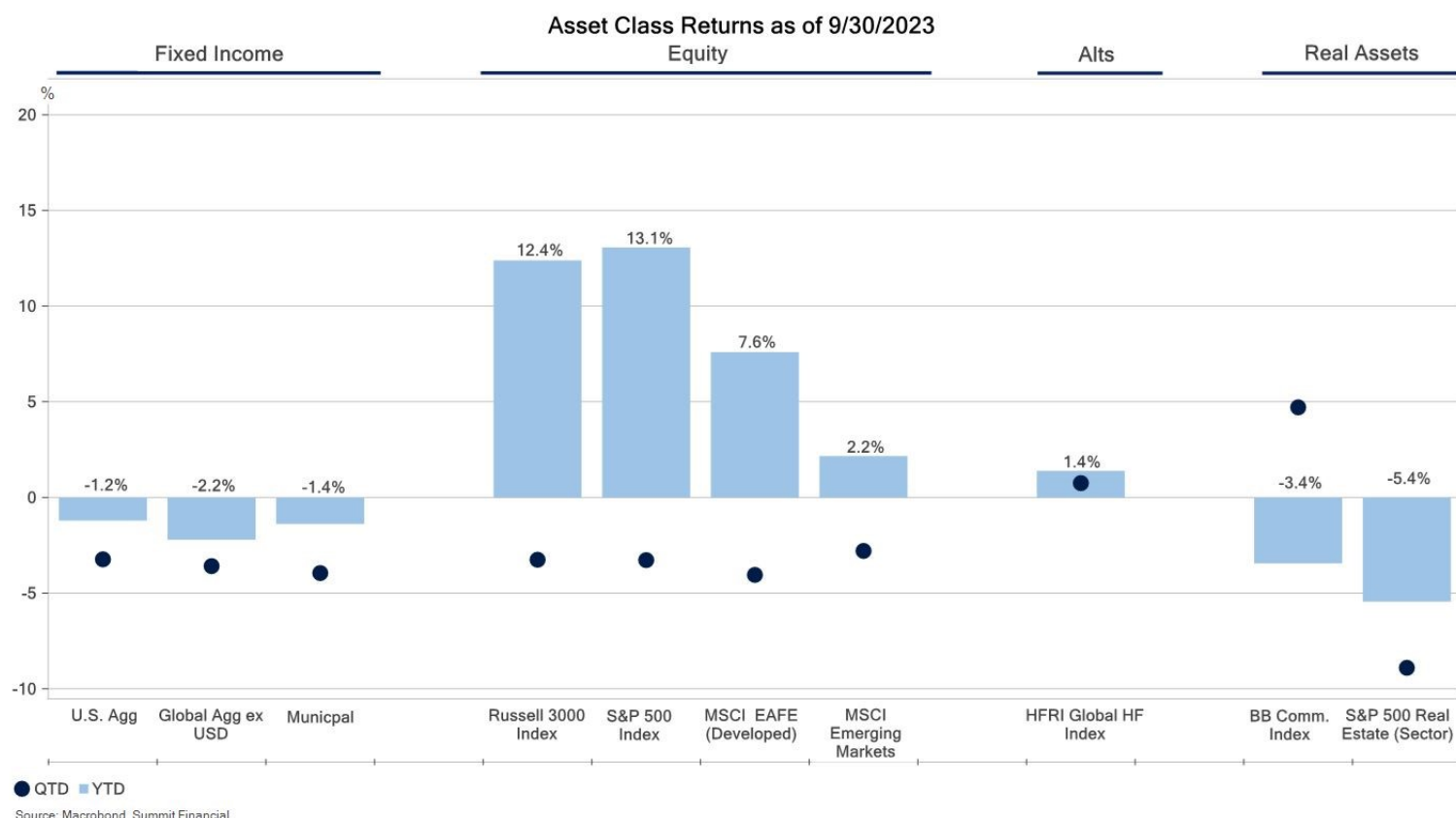


Key Takeaways

- Global economic growth has remained resilient during this rate hiking cycle. Near term growth, **although moderate, is now trending towards an economic slow down** as most major economies seek to reduce high levels of inflation.
- Within the U.S., **monthly inflation has nearly returned to trend** and job creation continues to support economic growth.
- U.S. equity markets, which fell moderately during the quarter, remain ahead for the year but **equity returns have been driven by a small group of names**.
- The **average S&P stock is reasonably priced**, trading at a P/E of 14x.
- Fed policy makers are forecasting a **'soft landing'** for the U.S. economy with growth moderating and inflation falling.
- S&P 500 is priced more opportunistically with valuations and volatility levels implying a **'no landing'** scenario.
- Fixed income markets are priced for **'no landing'**, given tight credit spreads across corporate and municipal bonds.
- Though recession talk abounds, no asset category is priced for a **'hard landing'**.
- Private markets continue to gain assets, provide broad exposure to critical market segments and offer strong potential to **offset public market risk and generate stable levels of income**.
- Global economic policy uncertainty**, which was already running near records highs, increased further with the outbreak of war in Israel. The U.S. will need to make decisions on providing aid as it runs its largest ever peace time debt and deficit burden.
- A **reshuffling of the global order**, which has seen dramatic changes in global trade, regional alliances, cyber warfare and manufacturing production is now likely to experience even further upheaval.



Economy

The U.S. economy, per the GDPNow forecast from the Federal Reserve Bank of Atlanta, is on pace to grow near 5% in Q3 2023. The rate of growth is far in excess of the 0% projection from Wall Street economists at the beginning of the quarter and well above the Fed's target. Growth was driven by strength in retail sales, construction materials, software/AI and investments in renewables infrastructure. However, higher growth today is coming at the expense of future growth tomorrow as forecasts for Q4 2023 and calendar year 2024 are being notably reduced. Headwinds include higher rates for mortgages, resumption of student loan repayments and the expiration of a short-term government funding bill which will likely lead to tighter fiscal policy.

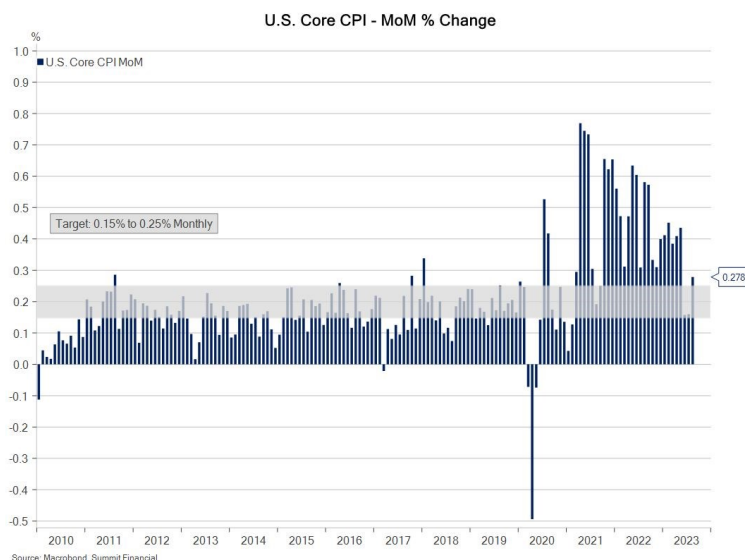
Inflation (see below) continues to decline but remains above the Fed's 2% target. Core PCE, the Fed's preferred measure, is running at 3.9%. According to the Fed's internal forecasts, core PCE will fall to 2.6% by calendar year 2024 and return to target by calendar year 2026. The Fed intends to reduce its policy rate from restrictive to neutral in tandem with this decline.

The U.S. labor market remains strong (see below). Nonfarm payroll growth, while slowing, remains supportive of economic growth and initial claims as a percentage of the labor force are running at historic lows. An increase in work stoppages and recent labor settlements are driving wages higher. While too early to worry about a wage-price spiral, the Fed needs to consider medium-term risks to inflation if wage growth accelerates and moves above trend.

Eurozone growth, despite running negative in Germany, has actually held up well given the backdrop though it is now expected to reach 0% for H2-23 and Q1 2024. Emerging markets continue to grow near 6% with India and the Asia Pacific region showing the most strength. China is forecast to grow 4% next year, though only 1% for the upcoming quarters. Japan is forecast to slow from 1.8% growth this year towards 1% next year.

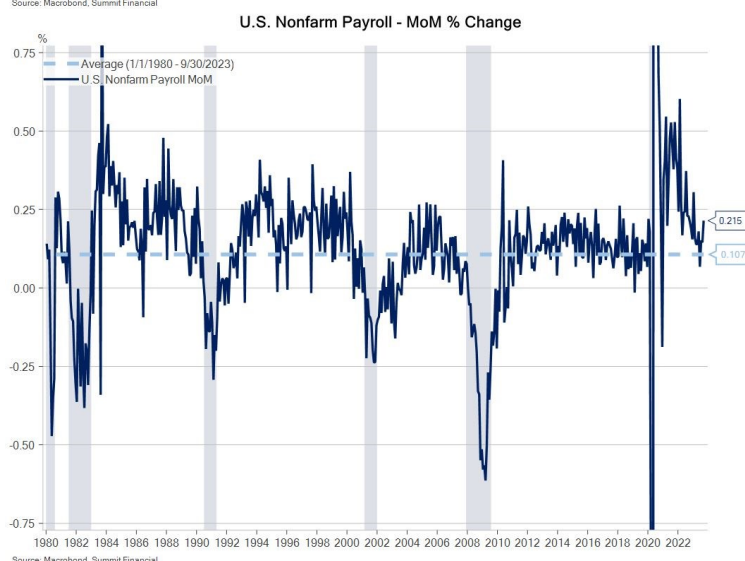
U.S. Monthly Inflation Has Nearly Returned to Trend

- The Fed's target rate for inflation is 2%. In order to achieve this, the monthly core CPI figure must consistently run between 0.15% and 0.25%.
- In June, for the first time in nearly two years, inflation returned to its target range. (chart right)
- The Fed will need to see this range persist for at least six months to get some level of certainty that inflation is returning to trend.
- The Fed is likely to hold rates at current levels until at least January 2024 with probability of dovish talk rising if/as trend persists.



Job Creation is Slowing but Still Supporting Growth

- Stronger than expected September jobs report indicates continuing economic strength. (chart right)
- Prime age participation rates continue to rise which is a positive.
- Recent wage growth is moderating towards 3.5% - in line with the Fed's target for core inflation.
- However, increasing strike activity and high wage gains from recent settlements indicate that wage levels may run above trend and this likely remains a near-term concern for policy makers.



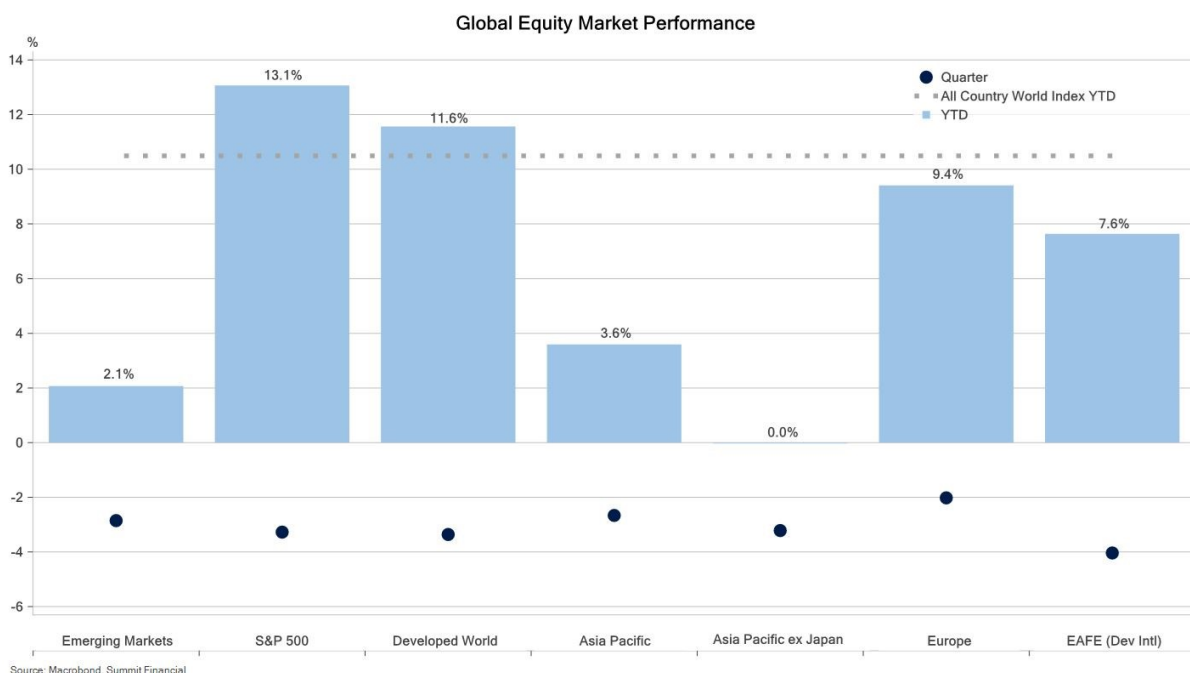
Equity Markets

S&P 500 year to date performance is near 13%, however market breadth remains very narrow with the seven largest names (AAPL, MSFT, GOOGL, AMZN, META, NVDA, TSLA) generating all the returns. The average stock is flat year to date. The same seven names are driving the sector outperformance in technology, communications and consumer discretionary as well as the style outperformance of growth over value.

VIX remains below average levels and is currently indicating a normal market correction, although equity valuations, relative to cash and bonds, remain richly valued with risk premiums at historic lows.

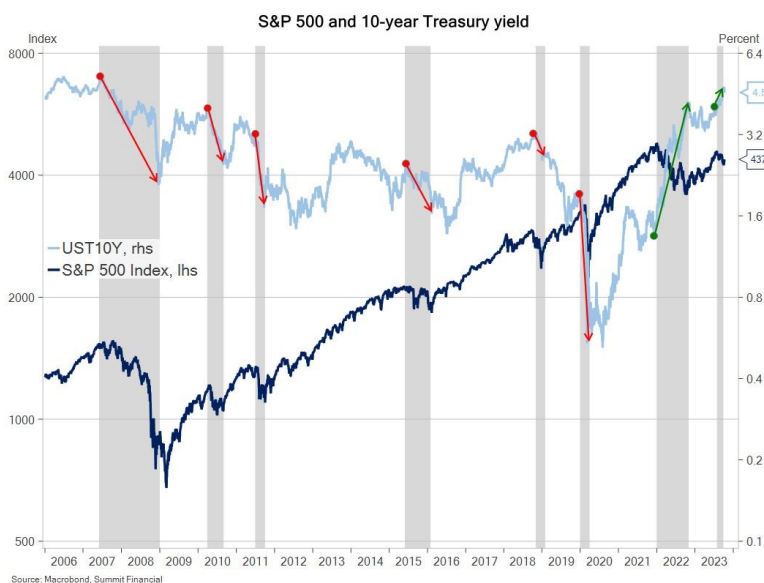
Looking forward, analysts are forecasting a ‘no landing’ scenario with earnings growth for Q4 2023 estimated at 7.8% and calendar year 2024 at 12%. Given the Fed’s policy stance of higher for longer, margin pressures are likely to increase, driven by higher rates, slower bank lending, rising strike occurrences and wage levels. Under a ‘soft landing’ scenario, earnings are likely to grow closer to 0%, similar to the growth slowdown of 2015/16.

Versus U.S. large cap names, international markets offer lower valuations with higher dividend yields, but also have lower profit margins and returns on invested capital.



S&P 500 is Priced for a ‘No Landing’ Scenario

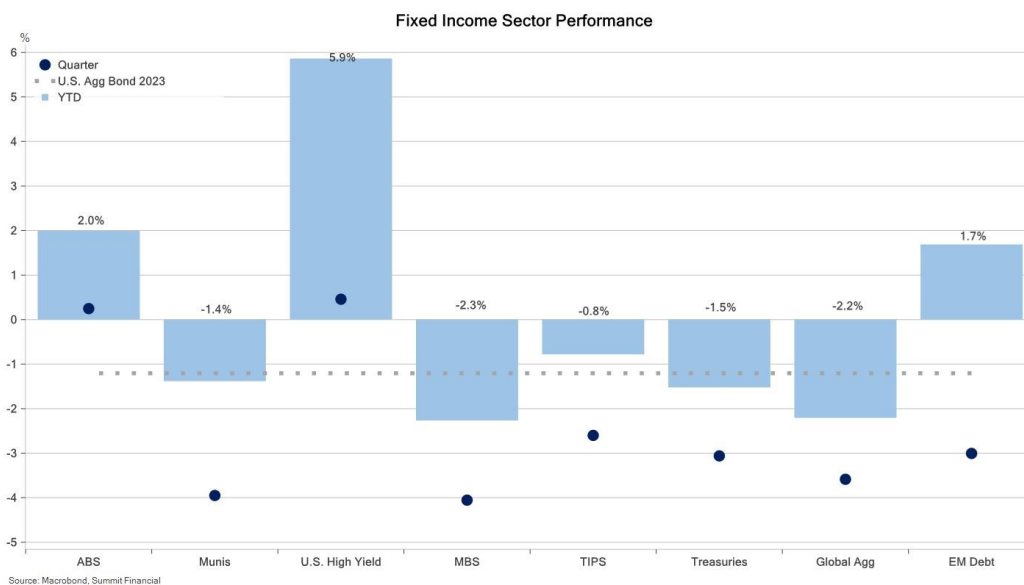
- The skew in equity valuations is driven by the same seven large names which trade at an average 36x forward P/E. The equally weighted S&P500 is trading at 14x forward P/E.
- Price action is likely to be very sensitive to any negative revisions for 2024 especially within Communications, Technology and Consumer Discretionary as those sectors have expected growth rates above 16%.
- Every market correction since 2008 has been met with falling bond yields—providing support for equity valuations. This backdrop is no longer in place. Both 2022 and 2023 corrections have coincided with rising long rates. Valuations will have a harder time rising with this backdrop. (chart right)



Fixed Income Markets

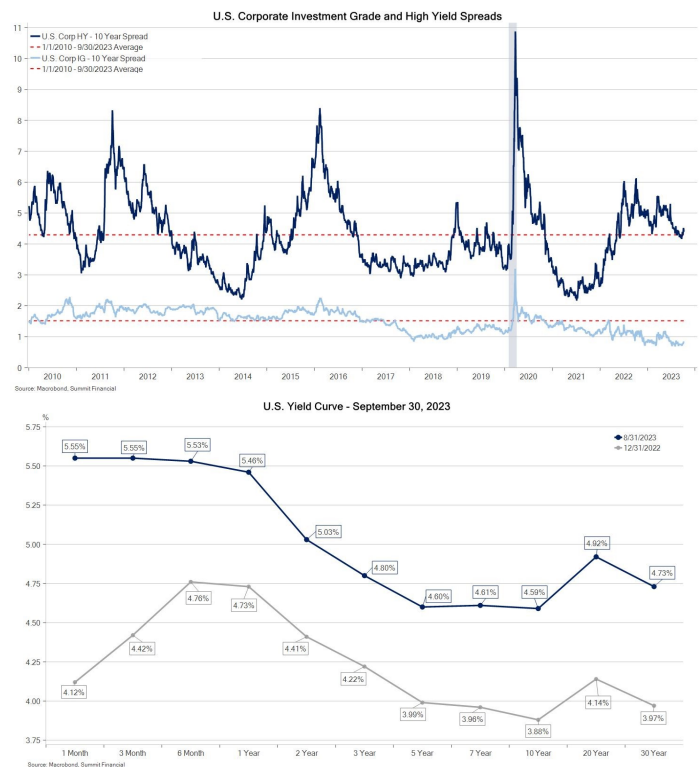
During Q3, investors repriced the U.S. 10-Year Treasury 90bps higher with yields rising from 3.9% towards 4.8%. In part, this was driven by the Fed (finally) convincing investors that it intends to hold rates in restrictive territory and at higher levels for a longer period of time. This repricing of the term premium further tightens financial conditions and assists the Fed in its battle against inflation. Internal Fed projections indicate that its Federal Funds rate will remain at current levels into Q1 2024 and market forecasts, per the CME, indicate investors are now in general agreement. Year to date, the U.S. Aggregate Index has returned -1.2%, while long-term U.S. Treasuries near 4.5 - 5.0% offer fair value versus the long-term inflation target.

At a macro level financial condition indices remain favorable, largely because credit spreads are narrow (see below), equity volatility is low and equity returns remain positive. At a micro level, the tightening effects of the Fed's aggressive policy hikes are accumulating. The lagged (normally 6 to 18 months) effects will begin to show through widening spreads, followed by delinquencies and ultimately defaults. However, given the high level of policy rates, the Fed now has tremendous flexibility to ease and will be able to adjust as required—assuming inflation remains contained—though this is likely to be a volatile process.



Despite Rising Rates, Credit Spreads Remain In Line with Historic Levels.

- Credit spreads across municipal, corporate and securitized bonds remain stable and well within normal ranges. Over the past few years, many large firms extended duration and borrowed long-term at very low rates. As a result, they have minimal refinancing requirements and are much less sensitive to higher short-term rates.
- This is reflected in credit spreads (chart top right), especially for investment grade bonds, which remain very low and are not indicating any signs of stress.
- The curve remains inverted as the Fed continues to try and slow down the economy and reduce inflation pressures. The impact is flowing through but with significant lags given how low rates were (at 0%) and how hot the economy was when the Fed began. (chart right)



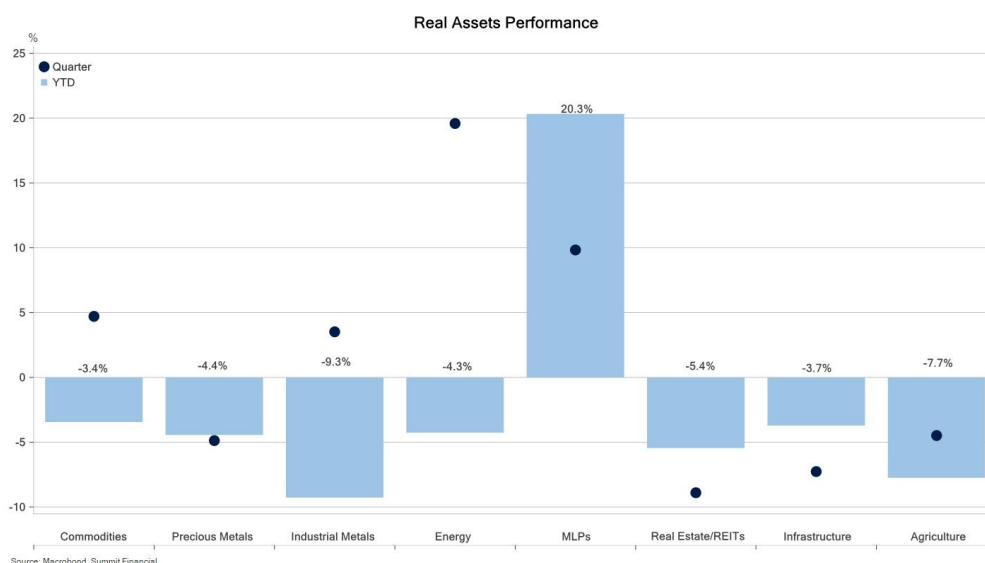
Real Assets

Oil prices rose during the third quarter, including ~12% in September, extending an upward move that began in July. Production cuts by Saudi Arabia and Russia led to tight supply concerns and pushed WTI crude prices above \$90 per barrel after oscillating in the \$60 to \$80 range for most of the year. The ~30% increase in crude prices led to oil's best quarterly performance since the Russian invasion of Ukraine in Q1 2022. But higher energy prices coincided with negative market returns with nine of the eleven S&P 500 sectors posting declines for the quarter.

Gold prices were down ~3% for the quarter while industrial metals achieved a modest gain, with price increases for zinc, lead, and aluminum offsetting weaker prices for copper and nickel. Copper prices, commonly seen as a bellwether for the global economy, dropped ~7% over the past two months and are roughly flat on the year.

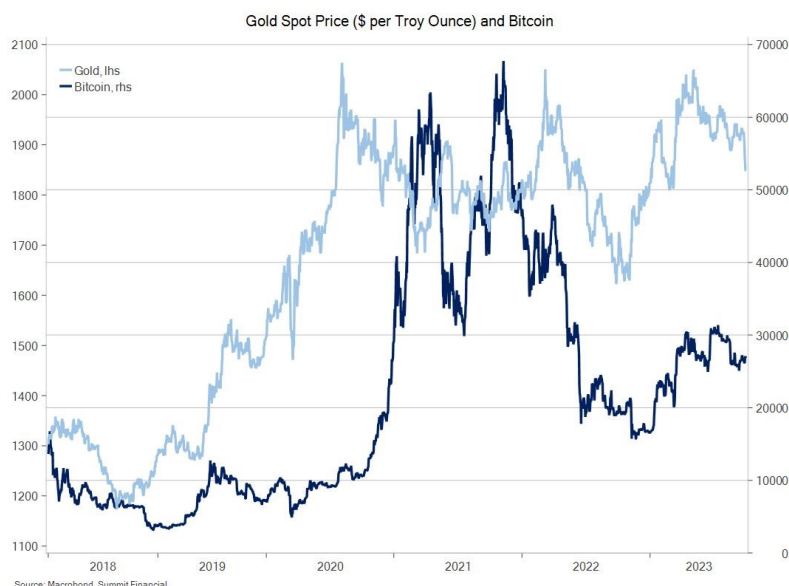
U.S. REITs fell 8.9% in Q3, in a sharp reversal of its 2.4% gain in Q2, and is now down -5.4% year to date though dispersion among sectors remains high. The sector's sensitivity to rising interest rates and ongoing weaknesses in office and retail properties contributed to the underperformance. However, areas such as data centers, warehousing, multifamily residential continue to be strong and many continue to generate strong cash flows. Certain analysts believe many companies are now trading at favorable discounts given the recent price declines.

Infrastructure securities were dragged down alongside the broader equity markets due to higher interest rates, persistent inflation and weakness globally, despite fundamental and operating trends remaining strong. Current U.S. policies, including the Inflation Reduction Act and the Infrastructure Investment and Jobs Act, have fostered a favorable backdrop for the sector and its long term outlook remains positive.



Gold Holding Strong Despite Rising Rate Backdrop

- Gold lost 3.7% in September, with a bulk of the move occurring during the last three days of the month.
- An extensive run up in cash and bond yields alongside a stronger USD and economic resilience continue as headwinds for gold.
- However, a worsening geopolitical backdrop, higher global levels of inflation, large U.S. deficits and increased foreign central bank purchases continue to provide support.

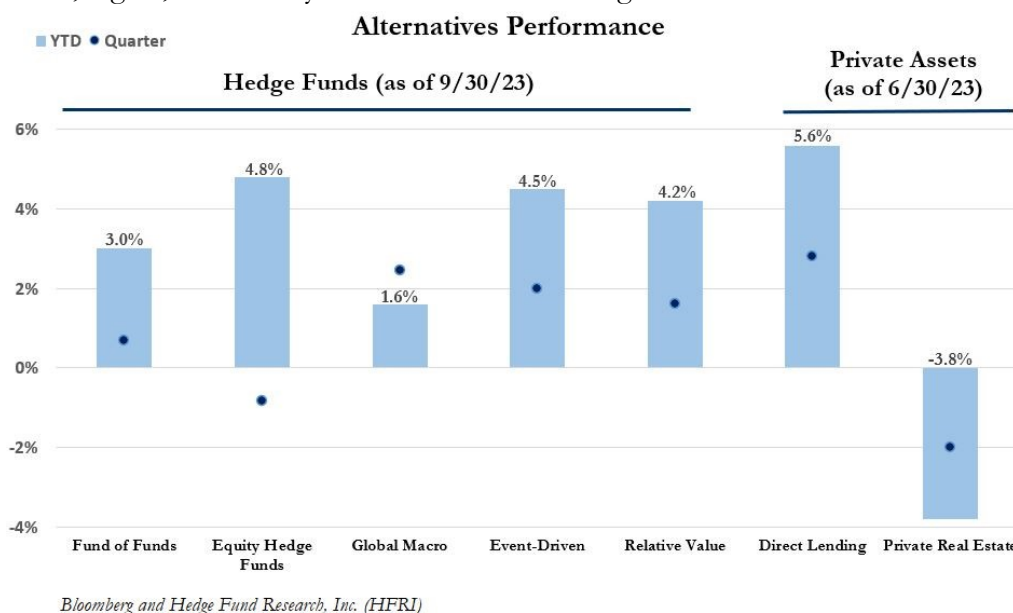


Alternatives

A meaningful decline in fundraising across all private market segments combined with elevated recession risk and higher cost of debt financing has caused a drop in deal activity and exit opportunities. Though fundraising levels are still on pace to exceed \$1 trillion this year. Year to date, private debt and secondaries account for 20% and 7% of capital raised, compared to 16% and 4% in 2022. Venture Capital's share declined 6%, with funds that deploy capital later in the venture lifecycle losing appeal in the current poor exit environment. Real assets fundraising fell the most, dropping 7% compared to 2022, and is on pace to have its worst year in a decade.

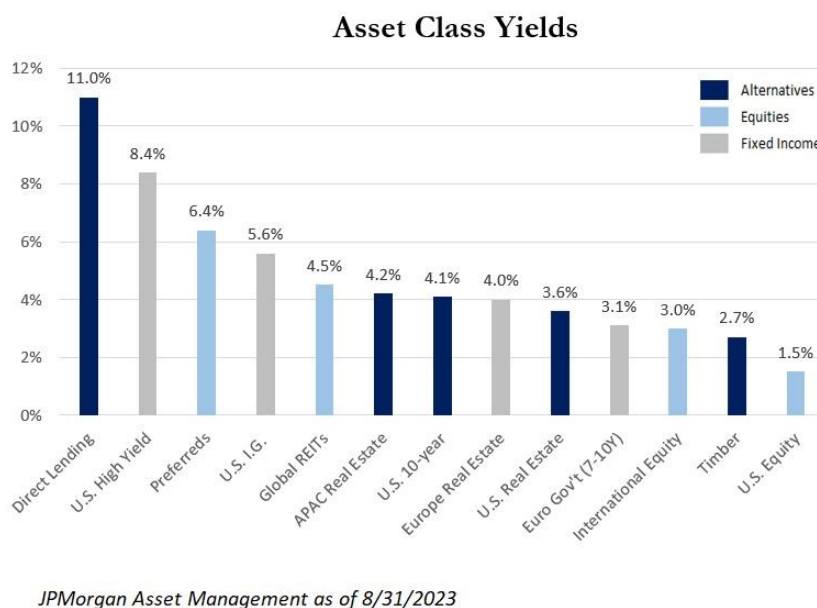
Given high levels of dry powder, all strategies are well positioned to capitalize on any potential dislocations or stress that might unfold. This is already evident in the secondary market where investors are purchasing assets at significant discounts to NAV. Discounts are most notable within real estate and venture though transaction activity is well below levels of prior years.

Total addressable market for private credit continues to grow as loan growth at banks retreats based, in part, on a falling deposit base and an more restrictive lending posture. The strategies have benefitted from floating-rate structures, shorter duration exposures and the outlook remains strong. Within private real estate, increased rates have translated into higher debt costs, which have lowered valuations and moderated achievable returns. Selectivity remains critical as dispersion of returns is very wide across segments given weaker backdrops in retail and CBD office and stronger backdrops in warehouse, digital, multifamily and certain industrial segments.



Where to Find Yield?

- Significant opportunities for yield exist across various asset categories.
- Private credit and public high yield bonds offer the highest rates with yields in the 8%-11% range.
- Preferred securities, which are tilted towards the financial sector, offer yields near 6.4% just above investment grade corporate bonds which yield near 5.6%.
- Global real estate yields are near 3% to 4% depending on the region and will likely move higher as prices rerate lower to adjust for higher discounts rates.
- S&P 500 dividend yield sits at 1.5%.



Growth	9/30/2023	6/30/2023
GDP Now Estimate (Q3 2023)	4.9%	
Blue Chip Consensus Estimate (Q3 2023)	3.0%	
U.S. Leading Economic Indicator (YoY%)*	-7.6%	-7.8%
Unemployment Rate (%)	3.8%	3.6%
Initial Claims (Weekly as of 9/29/23, thousands)	209.0	249.0
Industrial Production (YoY%)*	0.3%	-0.3%
Consumer Sentiment	68.1	64.4
ISM Manufacturing Index	49.0	46.0
ISM Non-Manufacturing Index	53.6	53.9
Retail Sales (YoY%)*	2.5%	1.5%
Building Permits (mil)*	1.5	1.4

Market Sentiment	9/30/2023	6/30/2023
MOVE Index	113.6	110.6
VIX	17.5	13.6
Short Interest Ratio for Total US Market*	3.4	2.9
National Financial Conditions Index (NFCI)	-0.4	-0.3

*As of 8/31/2023

Source: Bloomberg and Federal Reserve Bank of Atlanta

Inflation	9/30/2023	6/30/2023
Headline CPI (YoY)	3.7%	3.0%
Core CPI (YoY)	4.1%	4.8%
Core PCE (YoY)*	3.9%	4.3%
Forward Breakeven Inflation Expectation (5-year)	2.2%	2.2%

Rates & Credit Conditions	9/30/2023	6/30/2023	10-Year Average
3-M U.S. Treasury	5.6%	5.4%	1.2%
10-YR U.S. Treasury	4.6%	3.8%	2.3%
Spreads over 10-YR U.S. Treasuries (bps)			
U.S. Corporate Investment Grade	145	164	110
U.S. Corporate High Yield	429	467	409
U.S. Municipal	-27	-32	-0.6

Federal Reserve Economic Projections	2023	2024	2025
Real GDP (YoY%)	2.1%	1.5%	1.8%
PCE Price Index (YoY%)	3.3%	2.5%	2.2%
Core PCE (YoY%)	3.7%	2.6%	2.3%
Unemployment %	3.8%	4.1%	4.1%

Disclaimer

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It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership; The Russell 1000 Index measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000 Index representing approximately 90% of the total market capitalization of that index. It includes approximately 1,000 of the largest securities based on a combination of their market-cap and current index membership; The Russell Midcap Index measures the performance of the mid-cap segment of the US equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies; the S&P 500 Index is a market capitalization-weighted Index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of eleven different sectors; the MSCI EAFE Index (Europe, Australasia, Far East) captures large- and mid-cap representation across developed markets countries around the world excluding the US and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the MSCI Emerging Markets Index captures large- and mid-cap representation across emerging markets countries across the world. The index covers approximately 85% of the free float-adjusted market capitalization in each country; The MSCI World Index captures large- and mid-cap representation across developed markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the Bloomberg Commodity Index (BB COM Index, Commodities) reflects commodity futures price movements and is calculated on an excess return basis. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the 6th-10th business day based on the roll schedule; the Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency); the Bloomberg Barclays Global Aggregate Ex US Index is a measure of investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in US dollars are excluded; the Bloomberg Barclays Municipal Bond Index covers the US dollar-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; the Dow Jones US Real Estate Index measures the performance of real estate investment trusts (REITs) and other companies that invest directly or indirectly in US real estate through development, management, or ownership, including property agencies; The Bloomberg Barclays US Corporate High-Yield Index measures the US dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded; The HFRX Global Hedge Fund Index is comprised of funds representing the overall hedge fund universe. Constituent funds include but are not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, even driven, macro, merger arbitrage, and relative value arbitrage. The underlying strategies are asset weighted based on the distribution of assets in the hedge fund industry; MLPs, or Master Limited Partnerships, are represented by the Alerian MLP Index, which is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index constituents earn the majority of their cash flow from midstream activities involving energy commodities; The S&P 500® Real Estate comprises those companies included in the S&P 500 that are classified as members of the GICS® Real Estate sector; The S&P Case-Shiller Home Price Index measures the value of single-family housing within the US The index is a composite of single-family home price indices for the nine US Census divisions. Leading economic indicators (LEI) are statistics that precede economic events. They predict the next phase of the business cycle. The OECD Composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend, continue to strengthen in most major economies. The MOVE Index measures US interest rate volatility. The index tracks the movement in US treasury yield volatility implied by current prices of 1-month OTC options. The Cboe Volatility Index (VIX) is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 Index. 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. Core CPI excludes food and energy, while headline CPI includes all items. The Consumer Confidence Index is a measure based on a survey administered by The Conference Board that reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectations for inflation, stock prices and interest rates. A treasury Bill (T-Bill) is a short-term US government debt obligation backed by the treasury Department with a maturity of one year or less. Treasury Inflation-Protected Securities, or TIPS, are inflation-protected bonds (IPBs) that are issued by the U.S. Treasury. Their face value is pegged to the CPI and adjusted in step with changes in the rate of inflation. The National Financial Conditions Index (NFCI) is a weighted average of a large number of variables (105 measures of financial activity) each expressed relative to their sample averages and scaled by their sample standard deviations. The short interest ratio is a mathematical indicator of the average number of days it takes for short sellers to repurchase borrowed securities in the open market. The ratio is calculated by dividing the total number of shorted shares of a stock by the average daily trading volume. CBD stands for central business district, which is the commercial and business center of a city. The Personal Consumption Price Index (PCE) is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. EM Debt refers to Emerging Market Debt, which is represented by the Bloomberg Emerging Markets Tradeable External Debt Index. Precious metals are represented by the Bloomberg Precious Metals Subindex. The Bloomberg Precious Metals Subindex, is a commodity group subindex of the Bloomberg Commodity Index. It is composed of futures contracts on gold and silver. It reflects the return of underlying commodity futures price movements only and is quoted in USD. Industrial metals are represented by the Bloomberg Industrial Metals Subindex, which is composed of futures contracts on aluminum, copper, nickel and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD. Energy is represented by the Bloomberg Energy Subindex which is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD. Infrastructure is represented by the S&P global Infrastructure Index, which is designed to track 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities. Agriculture is represented by the Bloomberg Agriculture Subindex, which is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat. It reflects the return of underlying commodity futures price movements only and is quoted in USD. High-Yield Bonds that invest in lower-rated debt securities (commonly referred to as junk bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default. Private Credit Investments (Direct Lending) involve a high degree of risk, including the loss of the entire investment. International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks. The PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of US economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the manufacturing sector. Consumer Sentiment is represented by The University of Michigan Consumer Sentiment Index which rates the relative level of current and future economic conditions. The ISM Non-Manufacturing Index is a monthly indicator of US economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the services (or non-manufacturing) sector. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss. Economic and market forecasts presented herein reflect our judgment as of the date of this presentation and are subject to change without notice. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client.