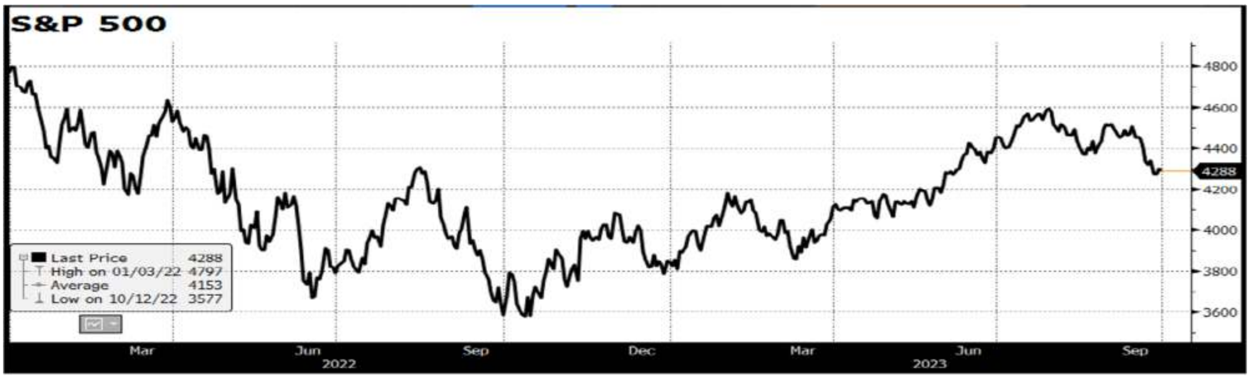
Investment Report 3Q2023

In the third quarter of 2023, investor attention turned from worries about an economic "hard landing" to worries about persistently rising inflation, which caused most asset classes to have small decreases. The Federal Reserve raised the target range for the Federal Funds rate in July and maintained it at 5.25–5.50% during their September meeting. At 5.50%, the federal funds rate is currently at its highest point. Due in part to the skyrocketing price of oil, inflation remained high in the quarter, with the headline CPI standing at 3.7%. During the quarter, the cost of a barrel of oil increased from $70 to $90. According to the median participant in the FOMC's most recent Summary of Economic Projections (SEP), rates will be decreased by 50 basis points (0.50%) to 5.1% in 2024 after one more rate hike this year.

Also, early in the third quarter, the S&P 500 reached its highest level since March 2022, but in August and September, rising global bond yields, worries about an increase in inflation, and worries about an impending economic slowdown weighed on the major indices, and the S&P 500 ended the quarter with a slight loss.



The S&P 500 started the third quarter largely the same way it ended the second quarter – with gains. Stocks rose broadly in July thanks primarily to “Goldilocks” economic data, meaning the data showed solid economic growth but not to the extent that would have implied the Federal Reserve needed to hike rates further than investors expected. That solid economic data combined with a decline in inflation metrics to further boost stock prices, as investors embraced reduced near-term recession risks and steadily declining inflation. The Federal Reserve, meanwhile, increased interest rates in late July but also signaled that could be the last rate hike of the cycle. The hope that one of the most aggressive rate hiking cycles in history was soon coming to an end was bolstered by that tone and discourse. Last but not least, the Q2 results season was stronger than anticipated with generally positive company outlook, supporting prospects for rapid earnings growth through 2024. The S&P 500 index reached its highest point since March 2022, and it ended the month with a healthy gain of more than 3%.

But on August 1st, one of the major U.S. credit rating agencies, Fitch Ratings, downgraded U.S. sovereign debt, altering the nature of the market. The primary justification for the downgrading, according to Fitch, was the long-term dangers of the present U.S. fiscal trajectory. However, even though there was no immediate cause for the rating, the action itself immediately put downward pressure on U.S. Treasuries, increasing their yields noticeably. Treasury yields saw a strong surge in response to the Fitch downgrading, which was followed by a comeback in anecdotal inflation indicators and a significant spike in Treasury sales as a result of the debt ceiling crisis. This increase in yields persisted throughout the whole month. Also, August 21st saw the 10-year Treasury yield reach its highest level since mid-2007, rising from 4.05% on August 1st to 4.34%. Because of the sharp increase in interest rates, which put pressure on market values and sparked fears of a potential downturn in the economy, stock prices were negatively impacted throughout August, and the S&P 500 saw its first monthly loss since February. August saw a 1.59% decrease in the S&P 500.

Nonetheless, the August volatility diminished in the first part of September as the S&P 500 stabilized throughout the first half of the month thanks to strong economic data and a halt in the increase in Treasury yields. However, after the Fed's September decision, markets experienced a resurgence of volatility as the FOMC surprised investors by announcing a "hawkish" hike in interest rates. To be more precise, most Fed members restated their expectation that there will be another rate hike before the year ends and reduced their prediction of four rate reduction in June to just two rate cuts for the entire year of 2024. Later in the month, two more events put more pressure on bonds and equities. First, a broad strike by the United vehicle Workers labor union disrupted vehicle production and momentarily slowed economic growth. Second, the failure of Republicans and Democrats to reach a consensus on a "Continuing Resolution" to fund the government sent the United States hurtling into yet another government shutdown. Although the shutdown was averted at the last minute, another budget fight is probably in store for the upcoming months because the funding extension is only in place until November 17. The S&P 500 finished September slightly lower after declining toward the end of the month to reach a new three-month low.

Third Quarter Performance Review

In contrast to the first and second quarters, rising bond yields produced reversals in sector and index performance, which mostly drove the markets in the third quarter. As in the first two quarters of 2023, big and small companies surpassed each other in terms of market capitalization, despite the fact that both had negative returns. Given that smaller businesses are often more dependent on debt funding to maintain operations and that rising interest rates provide greater financial headwinds for smaller businesses relative to their bigger peers, the relative outperformance of large caps is consistent with rising Treasury yields.

Even though both investment types had a negative quarterly return, we did observe a performance reversal from the first two quarters of the year as value somewhat outpaced growth in the third quarter. Growth funds underperformed last quarter because they typically hold higher P/E tech firms, and rising bond yields tend to weigh more severely on companies with greater valuations. Value funds performed better in the third quarter because they contain equities with lower P/E ratios, which make them less susceptible to rising yields.

Sector-wise, the third quarter saw negative returns in nine out of the eleven S&P 500 sectors, a sharp contrast to the second quarter's broad gains. Because of a sharp increase in oil prices, the energy sector of the S&P 500 had the greatest performance in the third quarter. In anticipation that the incorporation of cutting-edge artificial intelligence will increase search and social media businesses' future advertising income, Communications Services also ended the third quarter with a slightly positive return. When examining sector laggards, consumer staples, utilities, and real estate were the least performing sectors in the third quarter, making the impact of rising bond yields once again evident. These sectors had some of the greatest dividend yields on the market, but as bond yields rose swiftly, investors moved out of the high-dividend sectors and into less volatile bond funds since the dividend yields were no longer as attractive.

US Equity Indexes	Q3 Return	YTD
S&P 500	-2.08%	13.07%
DJ Industrial Average	-1.28%	2.73%
NASDAQ 100	-1.30%	35.37%
S&P MidCap 400	-3.57%	4.27%
Russell 2000	-4.76%	2.54%

Source: YCharts

Worldwide, mild drops were observed in foreign markets, which once again trailed the S&P 500 in the third quarter as fears of a regional recession were reinforced by unsatisfactory economic data from China and Europe. However, because of the announcement of China's larger-scale economic stimulus late in the quarter, emerging markets did fare relatively better than developed markets.

International Equity Indexes	Q3 Return	YTD
MSCI EAFE TR USD (Foreign Developed)	-3.22%	7.59%
MSCI EM TR USD (Emerging Markets)	-2.48%	2.16%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	-2.96%	5.82%

Source: YCharts

Overview

Total returns (net) % – to end September 2023

	3 months			12 months		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	-3.5	-0.5	0.6	22.0	12.8	11.5
MSCI World Value	-1.9	1.1	2.2	17.1	8.3	7.1
MSCI World Growth	-4.9	-2.0	-0.9	26.6	17.1	15.8
MSCI World Smaller Companies	-4.4	-1.5	-0.4	14.0	5.5	4.3
MSCI Emerging Markets	-2.9	0.0	1.1	11.7	3.4	2.2
MSCI AC Asia ex Japan	-3.3	-0.4	0.7	10.9	2.6	1.4
S&P500	-3.3	-0.3	0.8	21.6	12.5	11.2
MSCI EMU	-7.2	-4.4	-3.4	34.3	24.3	22.8
FTSE Europe ex UK	-5.5	-2.6	-1.6	31.8	21.9	20.5
FTSE All-Share	-2.2	0.8	1.9	24.5	15.2	13.8
TOPIX*	-0.8	2.3	3.4	25.9	16.5	15.2

Moving on to fixed income markets, hawkish comments from the Fed and indications of a pick-up in inflation pressured fixed income markets, causing the primary benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) to fall modestly for a second straight quarter. And, if we go deeper into the bond markets, we find that, despite the Fed not indicating that it intended to raise interest rates more than initially anticipated, shorter-duration debt securities had a positive quarterly return and beat those with longer durations in the third quarter. However, a combination of a pick-up in some inflation readings and investors' realisation that the Fed would postpone any rate cuts until 2024, keeping rates "higher for longer," put pressure on longer-duration bonds.

Corporate bond market, in Q3 higher-rated, investment-grade debt fell moderately while lower-quality, higher-yielding "junk" bonds saw a tiny increase. The significant performance disparity was a reflection of investors' ongoing optimism about future economic development, as they "reached" for riskier businesses' higher yields in the face of generally rising bond yields.

US Bond Indexes	Q3 Return	YTD
BBgBarc US Agg Bond	-2.94%	-1.21%
BbgBarc US T-Bill 1-3 Mon	1.36%	3.71%
ICE US T-Bond 7-10 Year	-4.20%	-2.86%
BbgBarc US MBS (Mortgage-backed)	-3.84%	-2.26%
BbgBarc Municipal	-3.95%	-1.38%
BbgBarc US Corporate Invest Grade	-2.59%	0.02%
BbgBarc US Corporate High Yield	0.80%	5.86%

Source: Ycharts

According to the Refinitiv Global Focus index, convertible bonds lost -2.3%, meaning that only 30% of them were protected against downside risk. Convertibles were not part of the "Magnificent 7" stocks' notable gain during the few favourable trading weeks of the quarter for equities, as none of them had outstanding convertibles. According on September-specific data, convertibles have historically provided levels of protection equal to or greater than 50% against the downside. This quarter, the primary market saw US$22 billion worth of new convertibles, demonstrating its continued strength. Future projections indicate that a large number of corporations that are unable to get liquidity on the regular corporate markets may need to issue convertibles in order to provide low-cost stock in addition to high coupons.

	3 months			12 months		
Government bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-3.0	-0.0	1.0	-0.7	-8.1	-9.2
JPM GBI UK All Mats	-4.7	-1.8	-0.7	6.4	-1.5	-2.6
JPM GBI Japan All Mats**	-6.2	-3.4	-2.3	-5.4	-12.4	-13.4
JPM GBI Germany All Traded	-5.2	-2.3	-1.2	4.1	-3.6	-4.8
Corporate bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	-2.6	0.3	1.4	6.2	-1.7	-2.8
BofA ML US Corporate Master	-2.7	0.3	1.3	4.0	-3.8	-4.9
BofA ML EMU Corporate ex T1 (5–10Y)	-3.3	-0.3	0.8	12.7	4.3	3.1
BofA ML £ Non-Gilts	-1.9	1.1	2.2	17.5	8.7	7.4
Non-investment grade bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	0.1	3.1	4.2	12.7	4.3	3.1
BofA ML Euro High Yield	-3.0	0.0	1.1	8.1	0.0	-1.2

Source: Thomson Reuters DataStream. Local currency returns in Q3 2023: *2.5%, **-3.2%.

Past performance is not a guide to future performance and may not be repeated.

Inflation

Inflation rates have fallen from 10-year highs recorded in many countries after Russia's full-scale invasion of Ukraine. Wholesale prices for food and energy, which soared in 2022, are now falling again, according to the latest statistics from most of the world's biggest economies. Price stability is a result of tighter central bank monetary policy, slower economic growth, and improved supply chains. Nonetheless, due to variations in the labour, energy, and economic performance markets, there are diverse inflation trajectories in the biggest economies. For instance, the US inflation rate is predicted to approach the Federal Reserve's 2.0% target in 2024, coming in close to 2.4%. The boom in inflation seeing that early-2021 became pushed via way of means of deliver chain bottlenecks, surging strength prices, robust client call for due to a stable hard work market, and big quantities of stimulus. Most inflation readings have decelerated from height tiers with numerous signs returning to normalized ranges. While the Fed recognizes average progress, they're now no longer thrilled with the tempo of disinflation withinside the offerings quarter as measured via way of means of the Core Personal Consumption Expenditure (PCE) Index. The state-of-the-art Core PCE Inflation analyzing of +3.9% remains nicely above the Fed`s 2.0% target. Meanwhile, inflationary pressures in certain emerging and eurozone economies are expected to stay high throughout 2023–2024. Among the main factors contributing to the inflationary pressures are robust labour markets and commodity price volatility. Inflation in Q4 2023–Q1

2024 may increase due to rising energy and agricultural commodity costs, while robust labour markets in the major economies will likely drive-up service prices.

Commodities

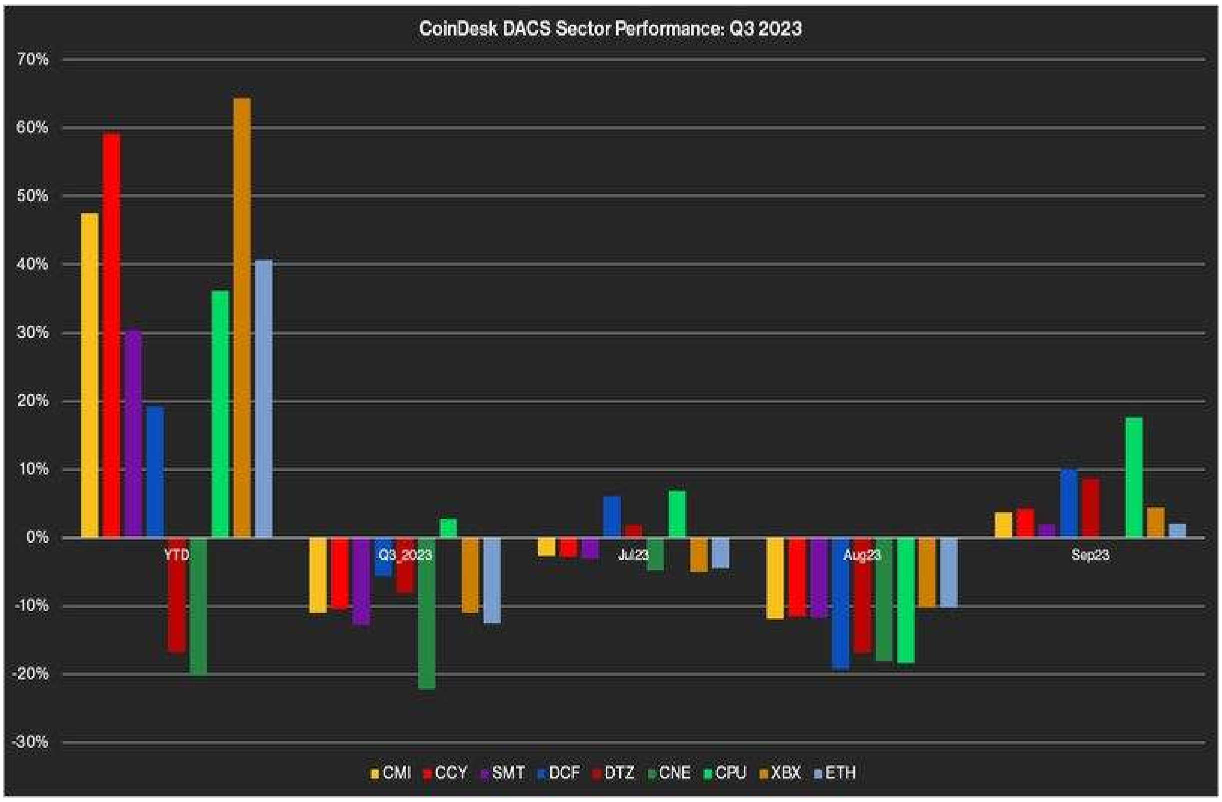
Due to a notable uptick in the energy complex, commodities witnessed strong gains and were the top performing major asset class in the third quarter. Due to ongoing supply concerns, oil prices increased throughout the quarter as Russia and Saudi Arabia decided to prolong their voluntary supply cuts through the end of the year causing also the S&P GSCI Index climbed in the third quarter 2023. Following the previously mentioned revelation of the significant Chinese stimulus plans, demand projections increased late in the third quarter, which led to a strong increase in prices at the end of the quarter. Industrial metal components recorded a slight increase in the quarter as higher prices for zinc, lead and aluminum offset lower prices for nickel and copper. The agriculture sector ended the quarter in negative territory as lower prices for wheat, corn, soybeans and coffee offset strong increases in cotton and sugar prices. Precious metals were the worst performing index constituents in the third quarter, with both gold and silver prices falling

Commodity Indexes	Q3 Return	YTD
S&P GSCI (Broad-Based Commodities)	17.06%	7.24%
S&P GSCI Crude Oil	29.85%	12.73%
GLD Gold Price	-3.10%	1.40%

Source: YCharts/Koyfin.com

Digital Assets

Markets have changed drastically in terms of risk since the previous year, with significantly lower volatility, correlation with equities, and correlation among the top 30 tokens. The CoinDesk Market Index (CMI), which covers more than 90% of the cryptocurrency market value, had a -11% decrease over the previous quarter. While ether (ETH) underperformed, showing a loss of -12.5% for the previous three months, bitcoin (BTC) beat the wider benchmark by falling -10.9%. Ether has increased by 41%, while Bitcoin has increased an astounding 64%. This proves these cryptocurrencies' durability as some of the best-performing investments in 2023. This quarter's outperformance of BTC over ETH and the overall CMI is an extension of a pattern that has been seen all year long. While the ongoing regulatory pressure on alternative tokens fuels the division in the cryptocurrency market between the established giants (Bitcoin and Ether) and smaller digital asset protocols and projects, institutional demand for Bitcoin ETFs keeps supporting BTC. The computing (CPU, +3%) and deFi (DCF, -8%) sectors performed quite well in Q3 2023, but the culture and entertainment (CNE, -22%) and smart contract platform (SMT, -13%)—which includes Ether—performed poorly. Also, this quarter, news about US regulations was a major factor in price swings, with SEC actions playing a significant role. Legal decisions have been made in the US following regulatory enforcement actions (such as those taken against Coinbase and Binance). In the meantime, there was a lot of trading activity surrounding the possible approval dates due to regulatory submissions for spot ETFs made by some of the biggest asset managers in the world.



Performance across regions

Eurozone

Concerns about how rising interest rates would harm economic growth caused shares of the eurozone to decline in the third quarter. Data reported at the very end of the month, however, indicated that inflation in the eurozone had decreased from 5.2% in August to a two-year low of 4.3% in the year ending in September. This might render it possible for the European Central Bank to stop raising interest rates. Because of worries about how rising interest rates might affect customers' disposable income, the consumer discretionary sector saw some of the sharpest drops. There was significant strain on the information technology industry. The long-term potential of artificial intelligence has generated a lot of excitement this year, but short-term worries about consumer spending are also impacting chip demand.

US

In the quarter of 2023, US equities declined. The quarter began with investors feeling confident that the economy had successfully weathered a soft landing orchestrated by the Federal Reserve (Fed) and that the period of policy tightening rates was drawing to an end. But as August and September wore on, the possibility of a prolonged period of higher rates began to wane. This came after an updated Fed "dot plot," which is a graph that displays the interest rate projections of each Fed policymaker. The US labour market is still quite solid. Nonetheless, the Bureau of Labour Statistics reports that in August, the unemployment rate increased by 0.3 percentage points to 3.8%. There were 514,000 more unemployed people, totaling 6.4 million. The purchasing manager's index (PMI) for the US composite flash decreased slightly from 50.2 in August to 50.1 in September, indicating a weakening of the US economy. The manufacturing and services sectors' survey data serves as the foundation for the PMI indices. A reading of 50 or higher implies expansion, while one below 50 denotes contraction.)

UK

Throughout the quarter, UK equities increased. Large, UK-quoted diversified energy and basic materials firms did well, recovering from the preceding three-month period's weakness. They profited from the weakening of the pound relative to the dollar. The energy groups in particular were helped by a strong increase in crude oil prices. A number of market segments with a domestic focus made a comeback after exhibiting subpar results in Q2. This happened in the midst of rising consumer confidence indicators in the UK and speculation that base interest rates might have peaked. Concurrently, long-term fixed mortgage rates declined and the sell-off in long-dated gilts slightly abated, resulting in very stable market interest rates. These events contrasted with the sell-off in government bonds that other large developed economies witnessed throughout the quarter.

Asia (ex Japan)

In the third quarter, stocks in Asia outside Japan fell. Fears over the development of the global economy and the state of the Chinese economy dampened investor sentiment, with most markets in the MSCI Asia ex Japan Index finishing the quarter lower than when it began. The worst index markets during the quarter were South Korea, Taiwan, and Hong Kong; Malaysia and India saw increase. August saw steep drops in Chinese stock prices, with the real estate market in the nation underperforming other sectors as investors lost faith in Beijing's ability to provide sufficient stimulus to revive the second-biggest economy in the world. Even though the official PMI manufacturing index for China increased in August, it was still below the 50-point barrier, meaning that it was the fifth consecutive month of contraction. By lowering the stamp fee on share transactions and reducing the speed of initial public offerings in Shanghai and Shenzhen—which can divert liquidity from the larger market and pressure share prices—China has attempted to restore confidence in the nation's faltering stock market. The third quarter saw a steep decline in Hong Kong shares as well. In September, trade of shares in the troubled Chinese real estate developer Evergrande was banned in Hong Kong due to significant price declines. Share prices in South Korea also declined as a result of decreased factory output and a slowdown in retail sales, which alarmed investors, especially those from abroad. Taiwan's stock fell as investors feared a financial crisis brought on by the debt problems plaguing a number of Chinese real estate enterprises may also cause regional currencies to weaken vs the US dollar.

Finally, even if there are legitimate worries about a potential economic downturn in the future, the most recent statistics is still strong. The third quarter saw robust growth in employment, consumer spending, and company investment, and there isn't much concrete evidence of an impending recession in the economy. In conclusion, as we start the final three months of the year, there are genuine threats to the economy and markets. However, the markets have encountered many of these dangers throughout 2023, and the economy and markets have shown remarkably robust during that time. Therefore, although these and other risks need to be constantly watched, they don't pose any new, substantial obstacles for companies that haven't experienced any for the majority of the year.