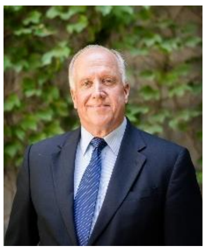
2023 – 3rd Quarter Review & Outlook

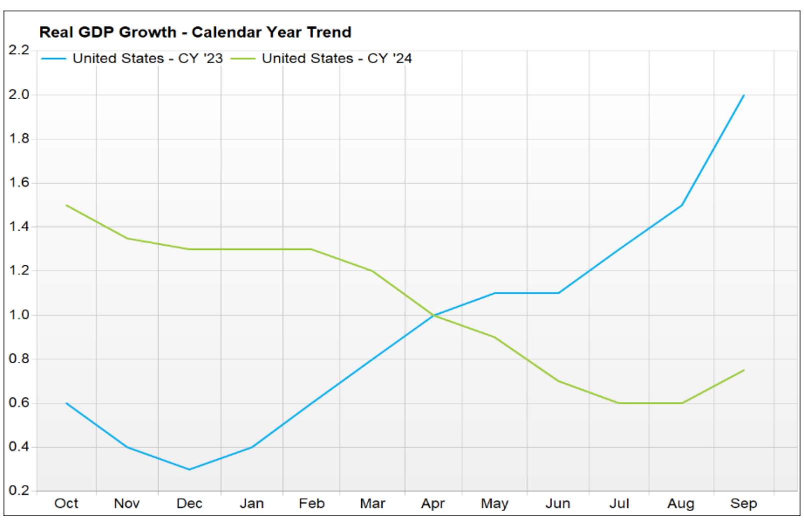
Economic and Investment Review



Mark Anderson

Chief Investment Officer

Economic Growth: Many economists and strategists previously expected that the U.S. economy would have fallen into recession by this time. However, the economy has been remarkably resilient given the headwinds of higher interest rates, inflation, labor strikes, tighter lending standards and an ongoing war in Ukraine. The consensus estimate for 2023 real GDP began the year at just 0.40% but has since moved considerably higher to 2.0%.



Source: FactSet

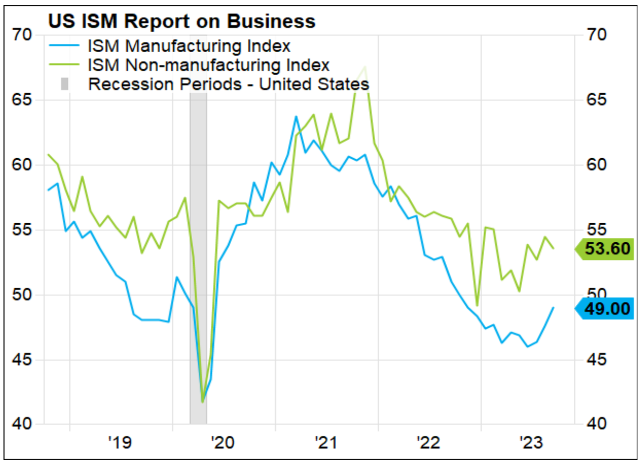
The consensus forecast for Q3 is 2.5% Q/Q and 2.3% Y/Y. Goldman Sachs recently boosted their forecast for Q3 to 3.3% Q/Q. Slower growth is expected in 2024.

Consumer spending accounts for about 68% of GDP and consumers have continued to spend, supported by a tight labor market and rising real wages. The Wall Street Journal reports that Americans spent 5.8% more in August than a year earlier. Consumers are of course spending more on the essentials of food, shelter, energy and transportation but they also seem to be focusing more than usual on things like travel and events. The rise in real wages does not completely cover the increase in spending as consumers have been tapping savings and increasing debt.

It is expected that consumer spending will slow down in the coming months as the lagged impact of monetary tightening, higher energy prices, and the resumption of student loan payments take their toll. As a result, Q4 GDP is forecasted to decline to just 0.2% Q/Q and 1.8% Y/Y. The theme continues as the outlook for 2024 is for a slowing economy with GDP reaching just 0.7% for the year. Consumer confidence fell for the second consecutive month in September. Consumers continue to be concerned about higher prices for goods and services as well as the current political situation and higher interest rates.

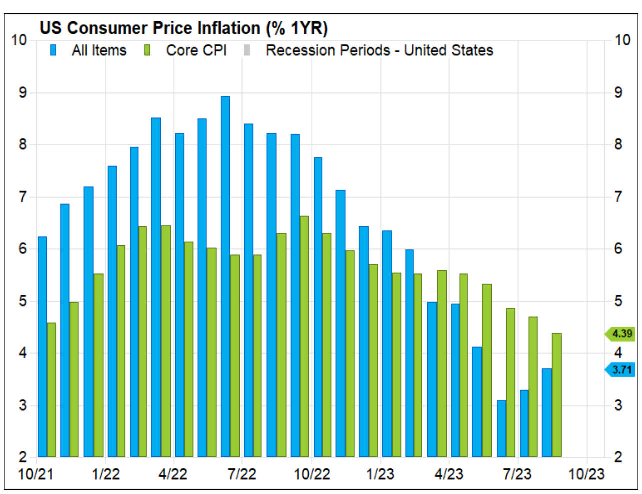
The labor market has held up much better than most would expect during a period of slow economic growth and rising interest rates. Labor force participation has recovered to pre-pandemic levels in support of labor supply growth, however retiring baby boomers are acting as an offset. Unemployment ticked up to 3.8% in August and remained there in September but remains at historically low levels. The level of job openings continues to surprise to the upside and the number of unemployed persons per job opening also remains at historically low levels. However, it is expected that the demand for labor will cool in Q4 resulting in a reduction in job growth.

Business spending has been stronger than expected as companies rush to increase use of artificial intelligence and to reshore or nearshore manufacturing. However, manufacturing, as measured by the ISM Purchasing Managers Index, has been in contraction since late last year. A reversal may be possible as it appears that the index may have bottomed and may be poised to show improvement.



Source: FactSet

Inflation as measured by the consumer price index (CPI) has trended down from a peak of 9.1% in June of last year to 3.7% in August of this year. There has been a reversal in the trend over July and August due to an increase in energy prices. The core rate (CPI ex food and energy) has trended down more slowly to 4.4% in August.



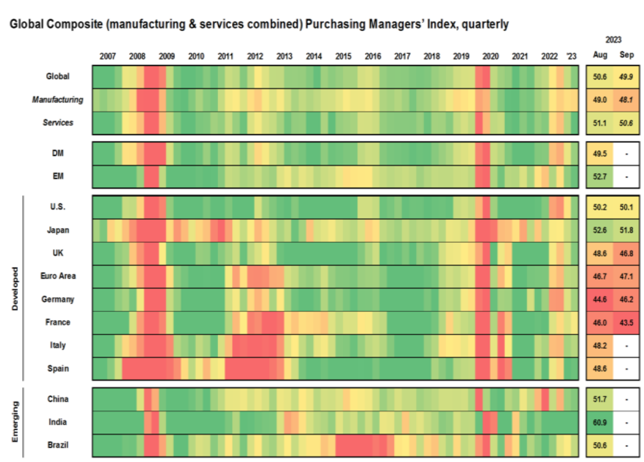
Source: FactSet

The lagged effect of the same supply chain issues that earlier impacted core goods continues to impact core services including medical care, transportation, education and particularly shelter. Shelter is currently the largest contributor to inflation. The good news is that there are some indicators that rent growth is slowing which should add to downward pressures on inflation over the next year.

The Federal Reserve has increased the Fed Funds target rate by a total of 5.25% over the past year and a half to a range of 5.25% - 5.50% in their effort to bring inflation back down. The Fed left the rate unchanged at their September meeting but set the stage for a potential additional increase in November. Goldman Sachs expects no further rate increases this cycle while others expect an increase in November and possibly several more increases in 2024. The Fed has stated that they expect rates to be higher for longer indicating that any rate cuts in the future are still likely a ways off unless we do fall into recession.

Oil prices spiked in September at $96+/bbl for Brent crude and $93+/bbl for WTI as OPEC restricted supply but recently retreated somewhat due to the impact that higher interest rates have had on strengthening the U.S. dollar against other currencies.

Global economic activity momentum remains stagnant. Europe was able to sidestep an energy induced recession, however economic activity has contracted the past few months. India continues to be a promising spot as it grows its economy and increases exports.



Source: Standard & Poor's, J.P. Morgan Economic Research, J.P. Morgan Asset Management.

Equity Markets

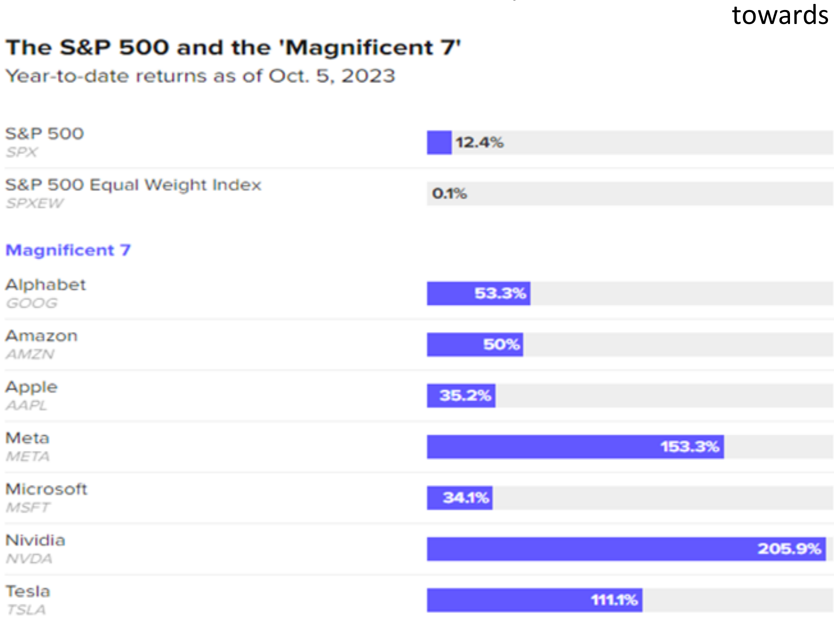
Equity markets moved lower in Q3 in response to higher input costs, higher interest rates and the Fed's pronounced line of higher for longer. The S&P 500 moved down -3.27% in the quarter but still remained solidly positive – up 13.07% YTD and 21.62% for 1 year. We expect that the U.S. equity market's revaluation for higher interest rates is likely largely done at this point.

2023 Q3 Returns				
EQUITY	Q3 2023	YTD 9.30.23	1 Year 9.30.23	3 Years Annualized
S&P 500	-3.27	13.07	21.62	10.15
S&P 500 Value	-4.09	7.56	22.19	13.39
S&P 500 Growth	-2.59	18.11	19.82	6.80
Dow Jones Ind Avg	-2.10	2.73	19.18	8.62
NASDAQ Composite	-3.94	27.11	26.11	6.61
S&P Mid Cap 400	-4.68	3.91	13.45	8.09
S&P Small Cap 600	-4.93	0.81	10.08	12.10
MSCI EAFE	-4.89	7.08	25.65	5.75
MSCI Emerging Mkts	-2.93	1.82	11.70	-1.73

Source: FactSet

Growth stocks declined less than value stocks in the quarter due to being slightly less interest rate sensitive. Growth stocks have rebounded nicely in 2023 after a poor year in 2022.

The so-called Magnificent 7 makes up 28% of the S&P 500 Index but has accounted for nearly 65% of



Source: FactSet

the benchmark's YTD returns through October 5th. The equal weighted benchmark was essentially flat for the period.

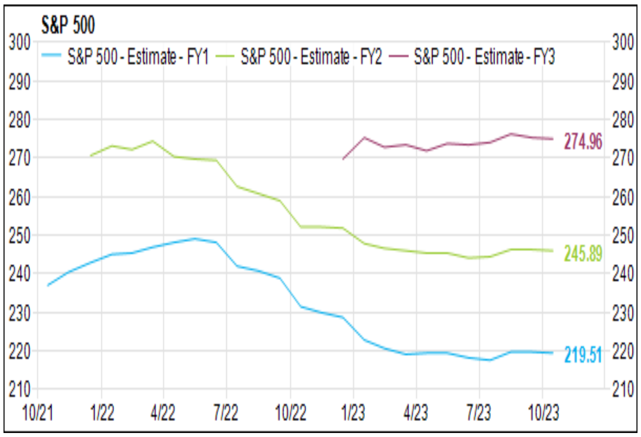
Energy and Communications Services were the only sectors with positive returns in Q3. Interest-sensitive Utilities and Real Estate were the worst performers in the quarter. Communication Services, Information Technology and Consumer Discretionary sectors continue to lead the way on a YTD basis.

Source: FactSet

The tech heavy NASDAQ leads the equity asset class on a YTD and 1 year basis. Small cap stocks suffer from not having the benefit of mega-cap tech stocks leading the way. Also, investors tend to lean towards quality large cap stocks with stronger balance sheets, sustainable margins and greater access to capital in times of market volatility.

Developed International stocks (MSCI EAFE) were down -4.89% in Q3 and continued to lag the S&P 500 on a YTD basis. The one year performance looks great but the benchmark rebounded from depressed levels a year ago. The domestic equity market continued to lead international counterparts over the past three years. Emerging market stocks (MSCI EM) continue to be dragged down by China, which has by far the largest individual country weight in the benchmark. The MSCI China benchmark was down -7.29% YTD and -14.27% annualized for 3 years through Q3. Valuations for the MSCI China benchmark are near 5-year lows but analysts expect margins and earnings to improve in 2024. The People's Bank of China recently took actions to stimulate economic activity.

Expectations for 2023 S&P 500 earnings growth improved slightly in Q3 from 1.0% to 1.8%. Expectations for both 2024 and 2025 remain close to 12% and estimate revisions remain stable.



Source: FactSet

Goldman Sachs forecasts just 1.3% earnings growth for 2023 and 5.5% for 2024. Raymond James expects earnings growth to be flat for 2023 and 2024.

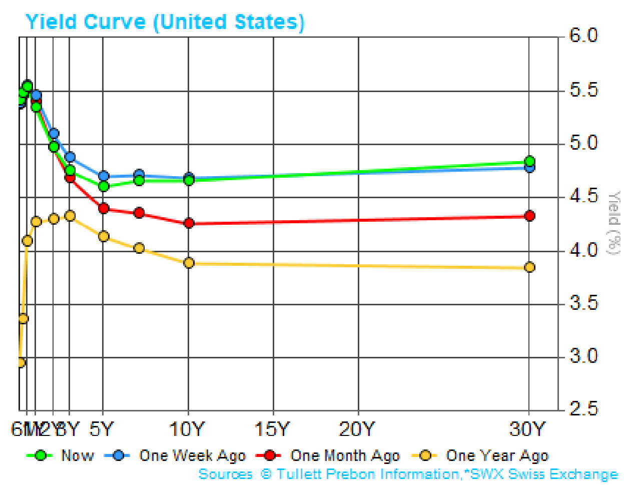
The S&P 500 is currently at 4,365, trading at 19.8x the 2023 consensus earnings estimate of 219.51, 18.1x for the next 12 months and 17.8x the 2024 estimate of 245.89. Goldman Sachs forecasts S&P 500 levels of 4,500 for 3 months, 4,600 for 6 months and 4,700 for 12 months. Raymond James has a year-end target of 4,400 and a 2024 year-end target of 4,650. Justification for PE multiple expansion is primarily based on the belief that the Fed will be successful in its battle against inflation, that the Fed will come to the end of its tightening cycle and that interest rates will begin to decline in 2024. The market appears to expect rate cuts sooner than the Fed is currently projecting.

We forecast the S&P 500 to be near 4,600 for 12 months. The forecast is based on 1.87% earnings growth in 2023, compared with the consensus estimate of 1.8% and a rebound of ~10.5% earnings growth in 2024 and 2025 compared with consensus estimates of ~12% for each year. At the same time the P/E multiple is expected to regress slowly towards the long-term mean.

We are very early in the Q3 earnings season. The earnings outlook for the S&P 500 for the third quarter is less negative relative to recent quarters. Overall, the S&P 500 is expected to report a year-over-year decline in earnings of -0.3% for Q3. Revenues are expected to have grown by 1.7% over the same period. Analysts expect earnings growth of 7.8% in Q4.

Fixed Income Markets

The U.S. Treasury yield curve shifted considerably higher over the past month as the Fed indicated that it expects the Fed Funds target rate to be higher for longer as it works to bring inflation under control.



Treasury yields for 2- and 10-year maturities have moved to their highest levels in over 15 years. The result has been negative returns for bonds in Q3. The Bloomberg US Aggregate Bond Index declined -3.23% and the ICE Municipal Bond Index declined -3.50% in the quarter.

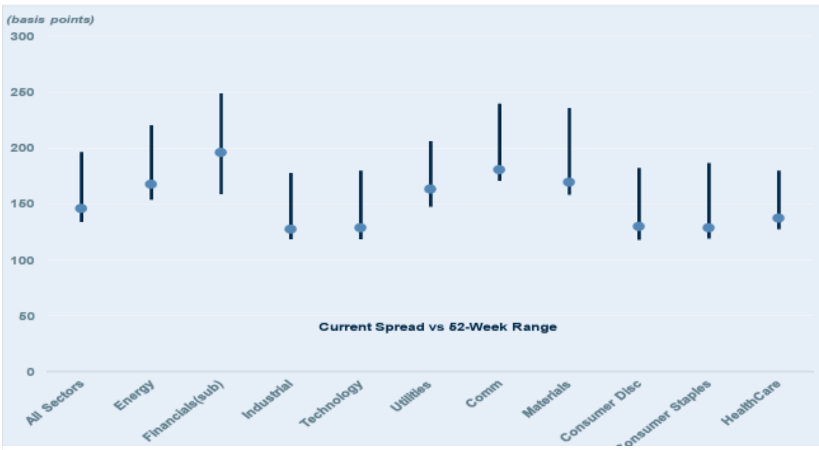
2023 Q2 Returns				
FIXED INCOME	Q3 2023	YTD 9.30.23	1 Year 9.30.23	3 Years Annualized
Bloomberg US Agg Bond	-3.23	-1.21	0.64	-5.21
ICE AMT-Free Nat'l Muni	-3.50	-1.05	2.74	-1.89
Markit iBoxx USD Liquid High Yield Index	-0.13	4.90	9.91	0.58

Source: FactSet

The good news is that higher yields are making bonds more attractive for purchase and holding in investment portfolios.

Investment-grade corporate bonds do not seem to be anticipating a recession as all sectors other than financials are trading near their lowest yield spread to comparable treasuries in the past year.

INVESTMENT-GRADE CORPORATE BOND SPREADS BY SECTOR



Source: Bloomberg LP, Raymond James

High yield bonds held up better than their investment-grade counterparts in Q3. The Markit iBoxx High Yield Index was down just -0.13% in the quarter and returned 4.90% YTD and 9.91% for 1 year.

Real Assets

Real Estate took a tumble in Q3 as it reacted negatively to higher interest rates. The Dow Jones U.S. Real Estate Index declined by -8.56% in the quarter and is now down -4.85% YTD. There continues to be stress in the office segment but industrial and multi-family properties continue to see strong demand.

Commodities, lead by energy, moved up 15.98% in Q3 and 7.24% YTD.

Asset Allocation

We reiterate that the opportunity should be taken to bring fixed income allocations to target due to higher yield opportunities and the likelihood that bond prices will respond positively to lower inflation in 2024.

Alternative investments can add value to diversified portfolios for investors with suitable risk tolerances, especially in the current environment with higher cash rates and a prolonged period of higher inflation and slower growth.

Disclosures

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