

PERSPECTIVES AND POSITIONS

By James Dykstal, CFA, Portfolio Manager, November 2023

This is a summary of our views on the economy and markets based on data through October 2023.

Economy

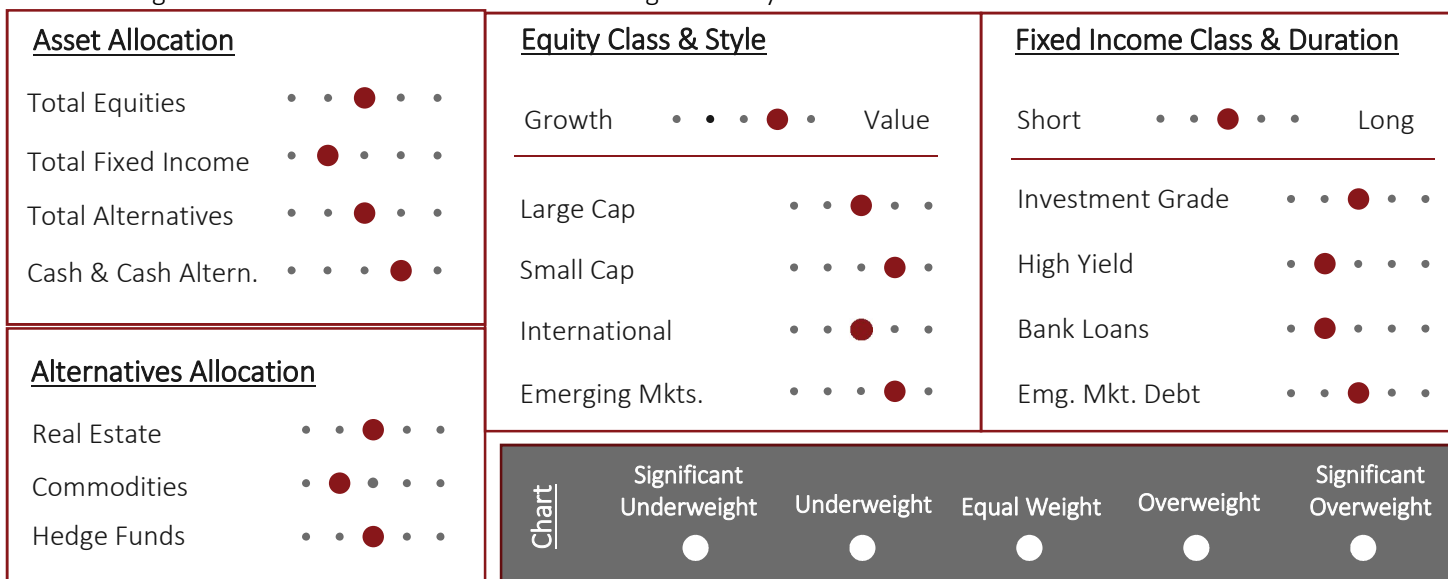
- U.S. GDP Growth – We expect to see slow economic growth continue in 2023 with risk of recession in 2024. The Treasury yield curve remains inverted which is a signal that market participants expect slowing growth and future Fed rate cuts. That inversion moderated by the end of the quarter as the 10 year Treasury rate increased from 3.82% to 4.57%.
- Inflation – Headline inflation (including food and energy) has stayed the same at 3.7% from August to September. Core inflation (excluding food and energy) was 4.1% in September, down from 4.3% in August. The difference between the two measures is primarily attributable to a decline in energy prices.
- Employment/Wages – Job creation is slowing. Employment has improved since the beginning of 2020 as people come back into the workforce. Current unemployment rate is 3.9%.
- Interest rates – We believe the Federal Reserve will seek to pause interest rates increases in the near term. The current range for Fed Funds is 5.25% to 5.50%

Markets

- Fixed Income – The Federal Reserve began its interest rate increase regime in March 2022 and we expect it to end in the next few months. The yield on the ten year Treasury closed the quarter at 4.57%, up from 3.82% at the end of the second quarter. This signifies that the market is pricing in a vigilant Federal Reserve.
- Equities – We expect GDP growth to remain positive for calendar year 2023, albeit at a moderating rate. Equity markets posted improvements during the first half of the year, but have not yet reached new highs. Volatility will be a constant as inflation and interest rate increases provide headwinds to valuations.
- Alternatives – Private real estate, retail, office, and apartment sectors have not kept pace with torrid industrial sector, but in aggregate provided diversification to portfolios in 2022. We are now seeing valuations in real estate turn over as higher rates impact valuations of real estate properties. Hedge funds provide diversification benefits to equity/fixed income markets.

TACTICAL POSITIONS

The following is our current Model Portfolio Positioning Summary:



¹ Provided by our affiliate, Discretionary Management Services (DMS), LLC