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2023 3rd Quarter Equity Market Update

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Summary of key data points

Equities Consolidating Following Fed’s “Hawkish Pause”: U.S. equities have been consolidating near support (pg. 4) following the Fed’s “hawkish pause” as the reality of rates being higher for longer dampens the optimism of a soft landing. Overall, the S&P 500 has been under selling pressure to end the quarter and is ~7% off its 52-week high (pg. 4). However, with RSI near oversold conditions going into earnings season (pg. 12) and a seasonally strong period (pg. 10), we would continue to accumulate the pullback. The prior two earnings seasons have served as nice catalysts due to strong earnings surprises.

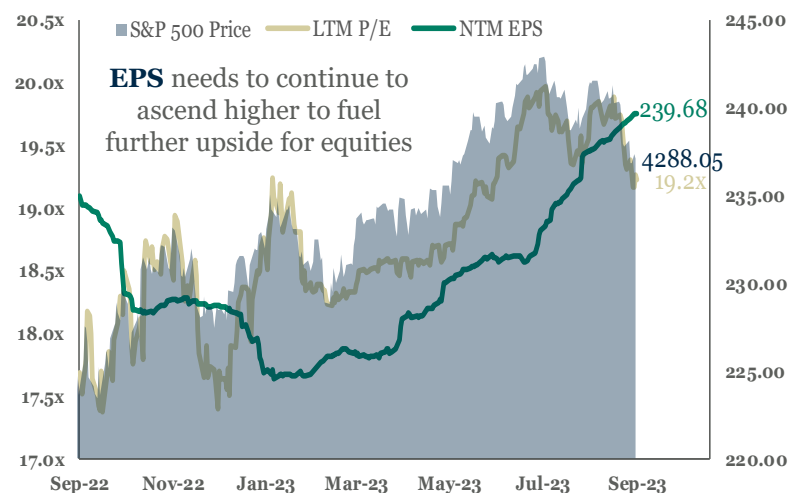
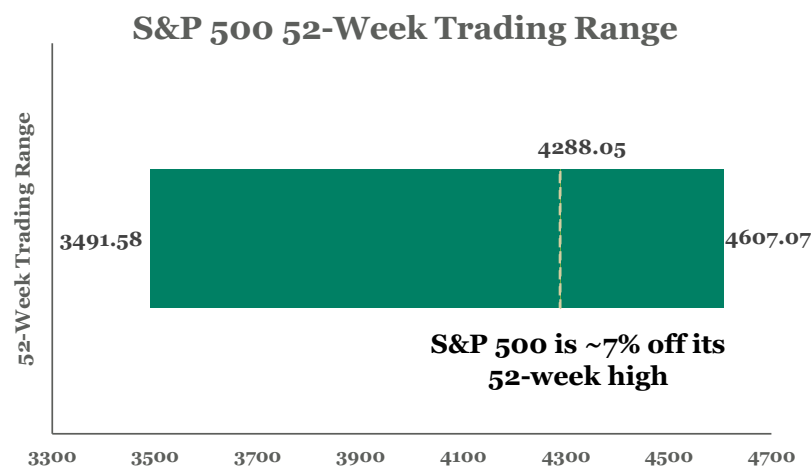
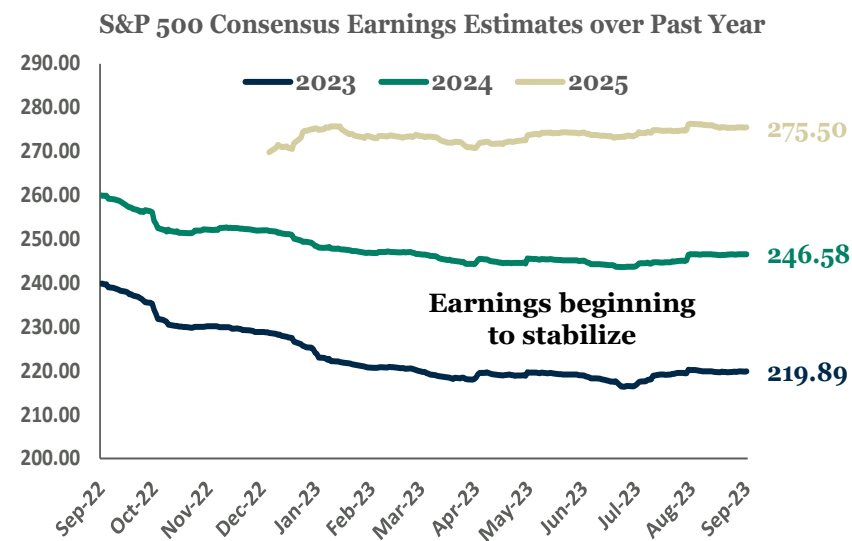
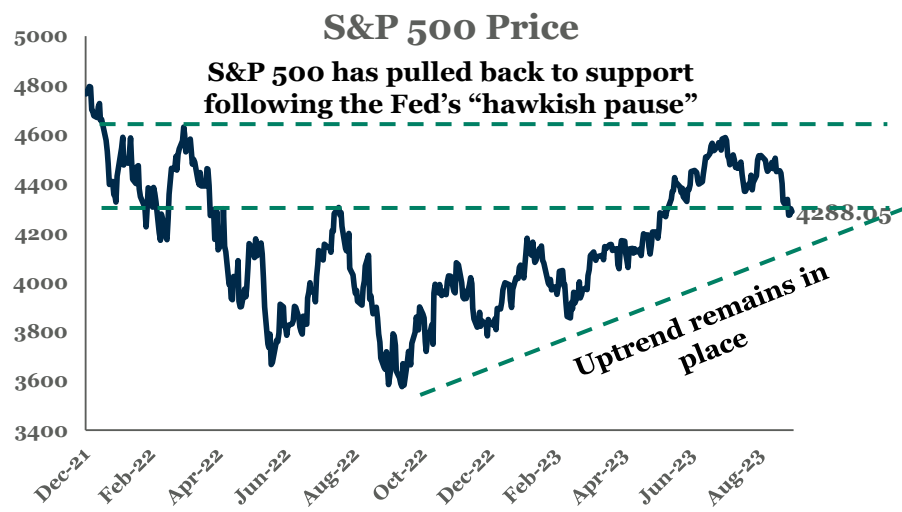
S&P 500 Painting a Rosier Picture Than Reality (pg. 5): Despite the 11.7% gain for the S&P 500 cap-weighted index over the first 3 quarters of 2023, performance has been dominated by Tech+ heavyweights and the average stock (S&P 500 equal-weighted index) is up only 0.3% YTD. In fact, the contribution from the 10 Tech+ heavyweights have accounted for 100% of the YTD performance for the S&P 500. We believe in order to see a meaningful higher move for equities, we need to see additional broadening in breadth as the current “one dimensional” market has been a challenge for well diversified, actively managed portfolios.

Dividends Out of Favor in 2023 (pg. 6): 2023 has been a challenge for strategies that focus on income from equity positions with the average return of -1.2% for companies with a dividend yield over 1%. However, looking over the last 2 years, the average return for dividend yielding securities >1% is outperforming. On a relative basis, >1% dividend yielding securities are on average down 5.2% vs. the S&P 500 off by 10%. We continue to see opportunities for high quality companies with a track record of consistent dividend growth and would continue to accumulate.

Sector Performance Dominated by Tech+ (pg. 7): The bias for sector performance this year has been towards Tech+ sectors as only 3 sectors to outperform the S&P 500 YTD have a tech-centric focus—Communication Services +39.4%, Technology +33.8%, and Consumer Discretionary +25.7%. On the other hand, the defensive sectors have not provided solace, even during the recent backup in equities with Utilities -16.5%, Real Estate -8.1%, Consumer Staples -6.6%, and Health Care -5.3%.

2024 Earnings Outlook (pg. 16-17): We remain optimistic in the intermediate outlook for equities (12-18 months outlook) as we see the possibility for equities to return back to highs by year-end 2024, even if there remains the possibility for the U.S. economy to slip into a recession. Overall, we see earnings power of \$220-\$230 in a scenario in which economic growth remains sluggish, inflation continues to moderate, and the Fed becomes less restrictive. While a recession is still possible, it is expected to be mild and short-lived, allowing full year economic growth to be positive YoY. Given our belief that a 21-22x P/E multiple is warranted, our price objective would be 4620-5060, which would be a possible return to an all-time high for the S&P 500.

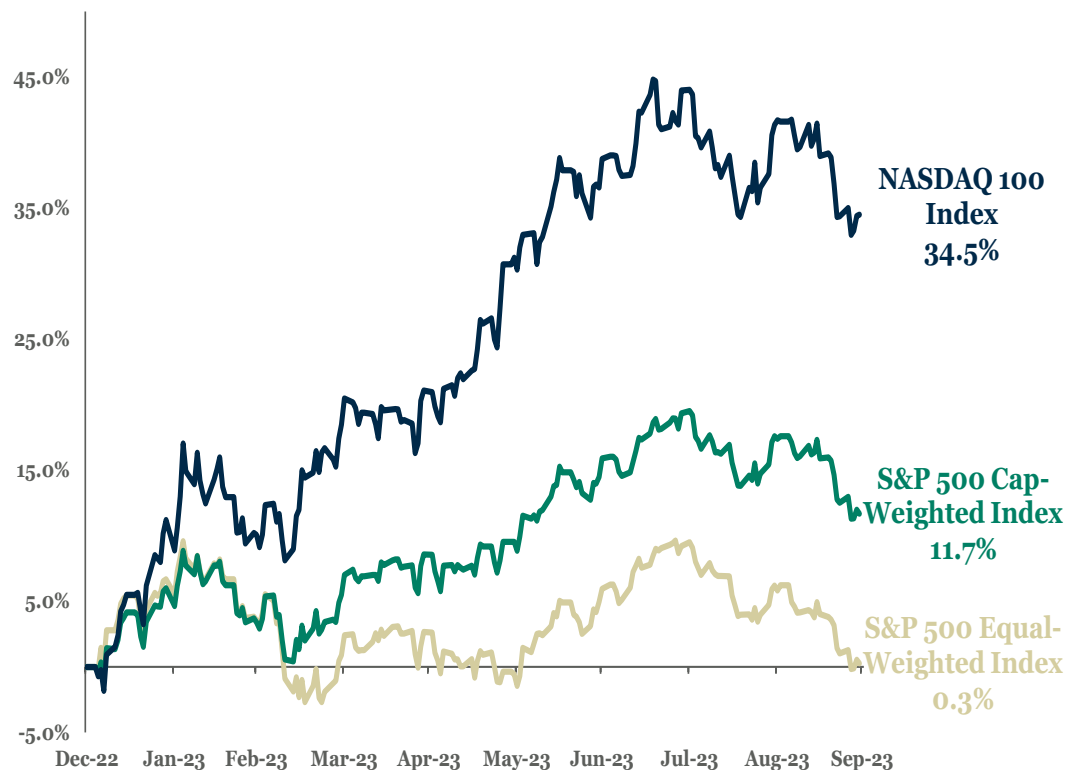
Equities Consolidating Following Fed's "Hawkish Pause"



Source: FactSet

S&P 500 Painting A Rosier Picture Than Reality

Despite the S&P 500 up 11.7% YTD through the end of September, the average stock is up only 0.3% over this same period of time! Performance has been dominated by large-cap, specifically large cap Tech+ heavyweight companies. The contribution from these 10 heavyweights has accounted for 100% of the YTD returns for the S&P 500. Breadth remains extremely one dimensional, which has been a challenge for well diversified, actively managed portfolios.

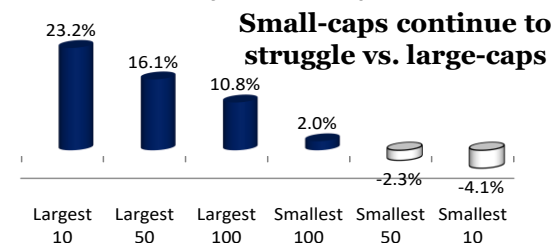


Source: FactSet

Areas of Strength

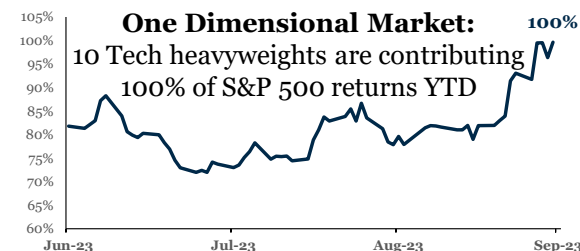
Large Cap

2023: S&P 500 Average Performance by Market Cap



Tech+ Companies

Tech Heavyweight % Contributions to S&P 500 Returns

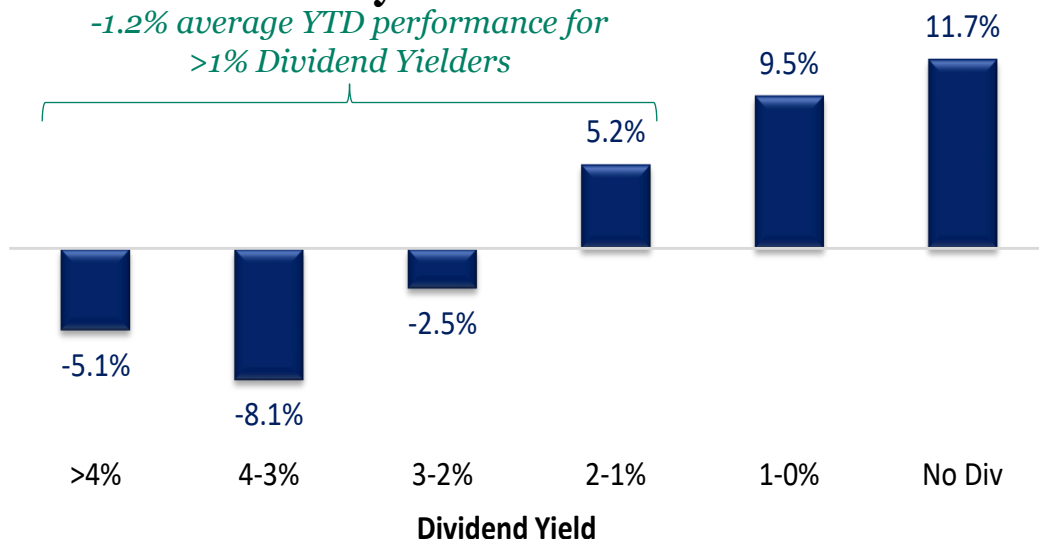


Dividends Out of Favor in 2023

2023 has been a challenge for strategies that focus on income from equity positions. However, looking over the last 2 years, the average return for dividend yielding securities >1% is outperforming. On a relative basis, >1% dividend yielding securities are on average down 5.2% vs. the S&P 500 off by 10%.

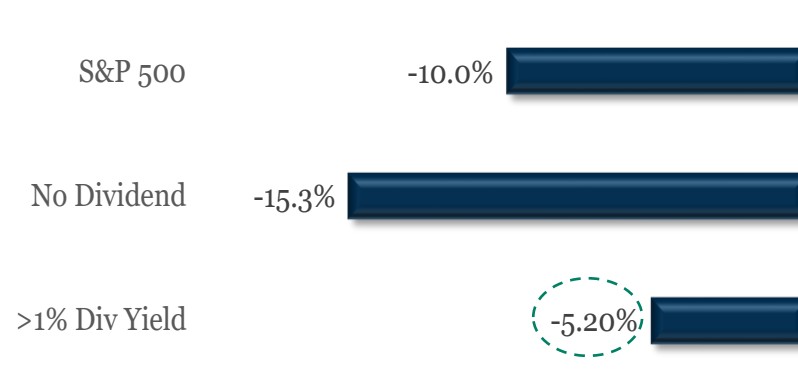
YTD 2023: S&P 500 Average Performance by Dividend Yield

-1.2% average YTD performance for >1% Dividend Yielders

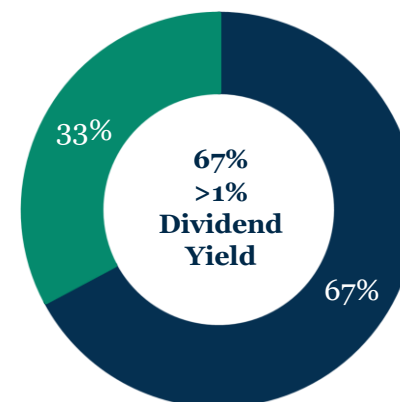


S&P 500 Average Performance by Dividend Yield

2022-YTD'23



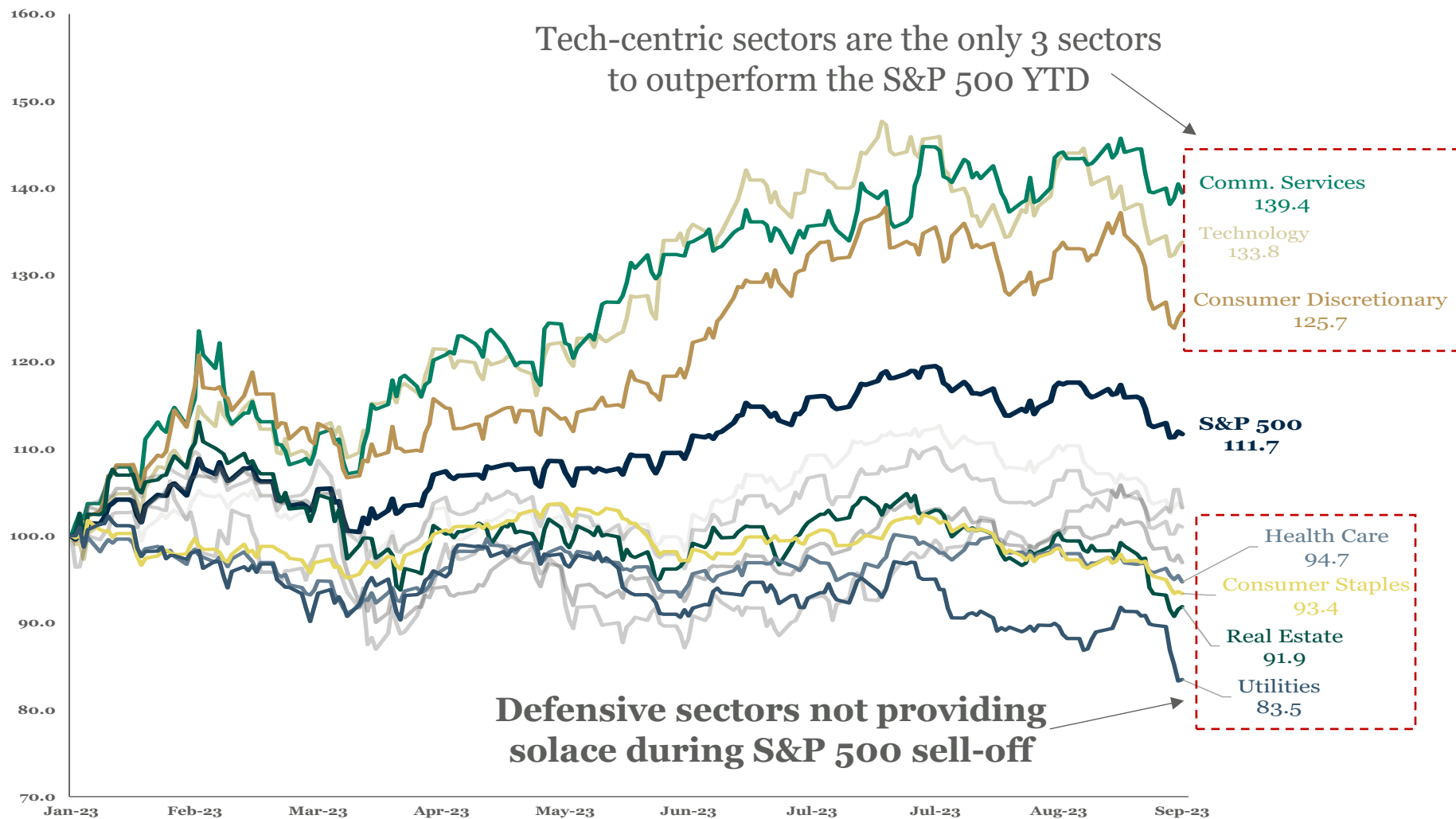
% of S&P 500 Companies Paying >1% Dividend Yield



Source: FactSet

Sector Dominance by Tech+

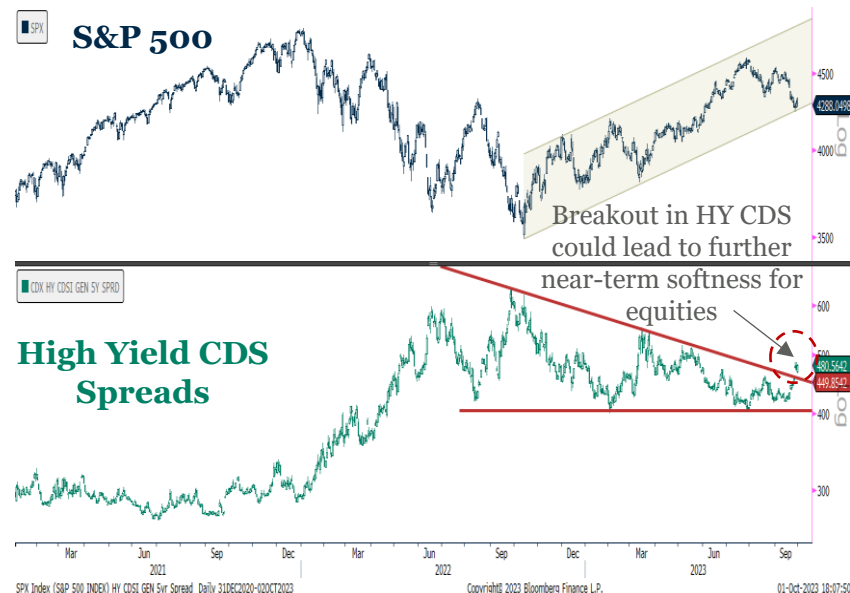
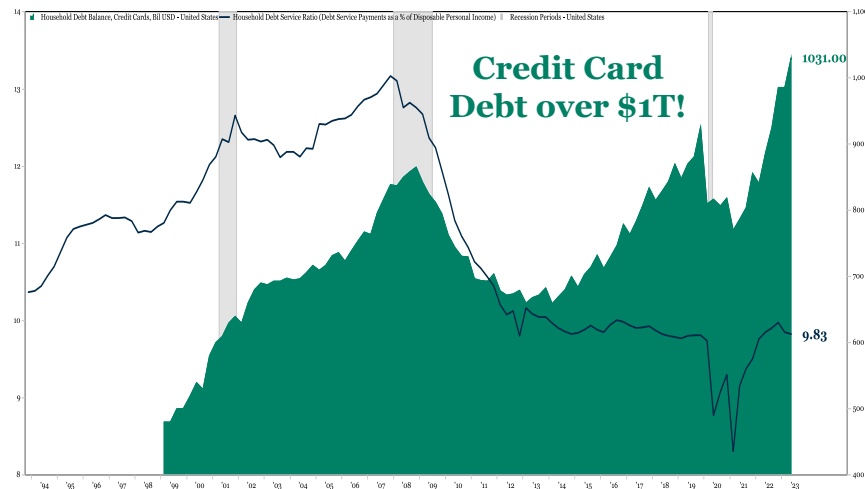
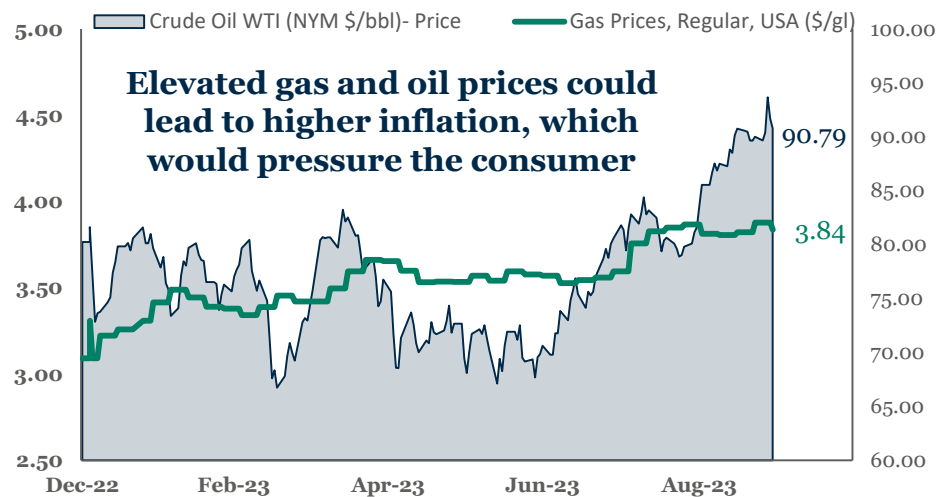
Sector Relative Performance



Source: FactSet

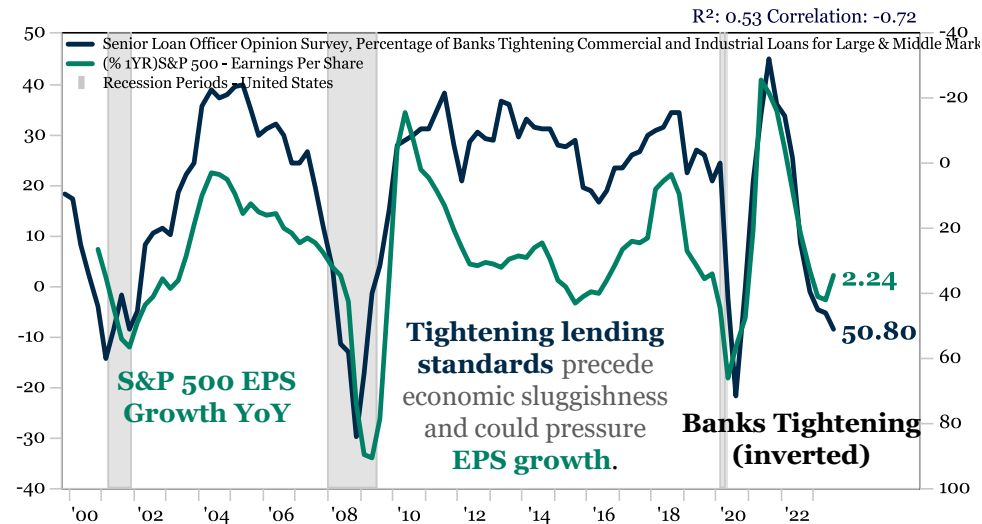
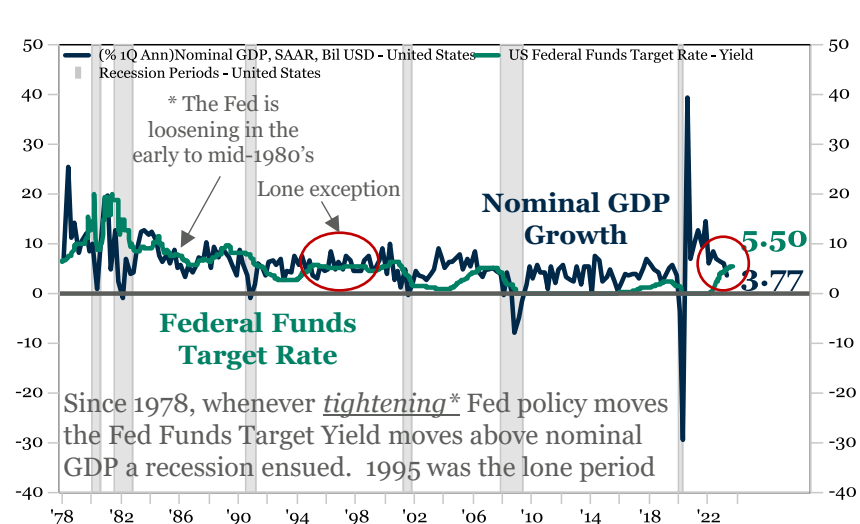
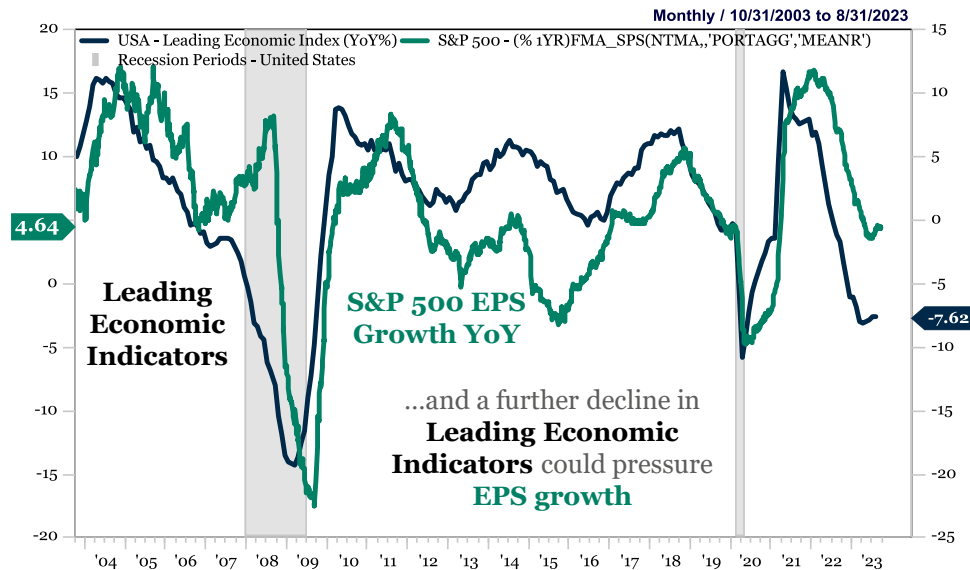
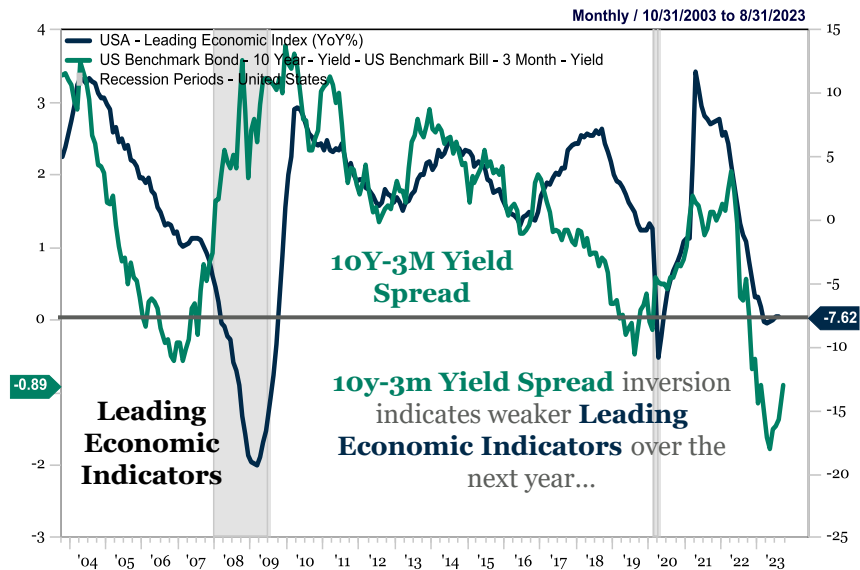
Risks to Goldilocks Narrative

Elevated Oil Prices, Rising 10-Year Yields, Breakout in HY CDS, Government and Personal Debt, Auto Strikes, One-Dimensional Market, etc.



Source: FactSet, Bloomberg

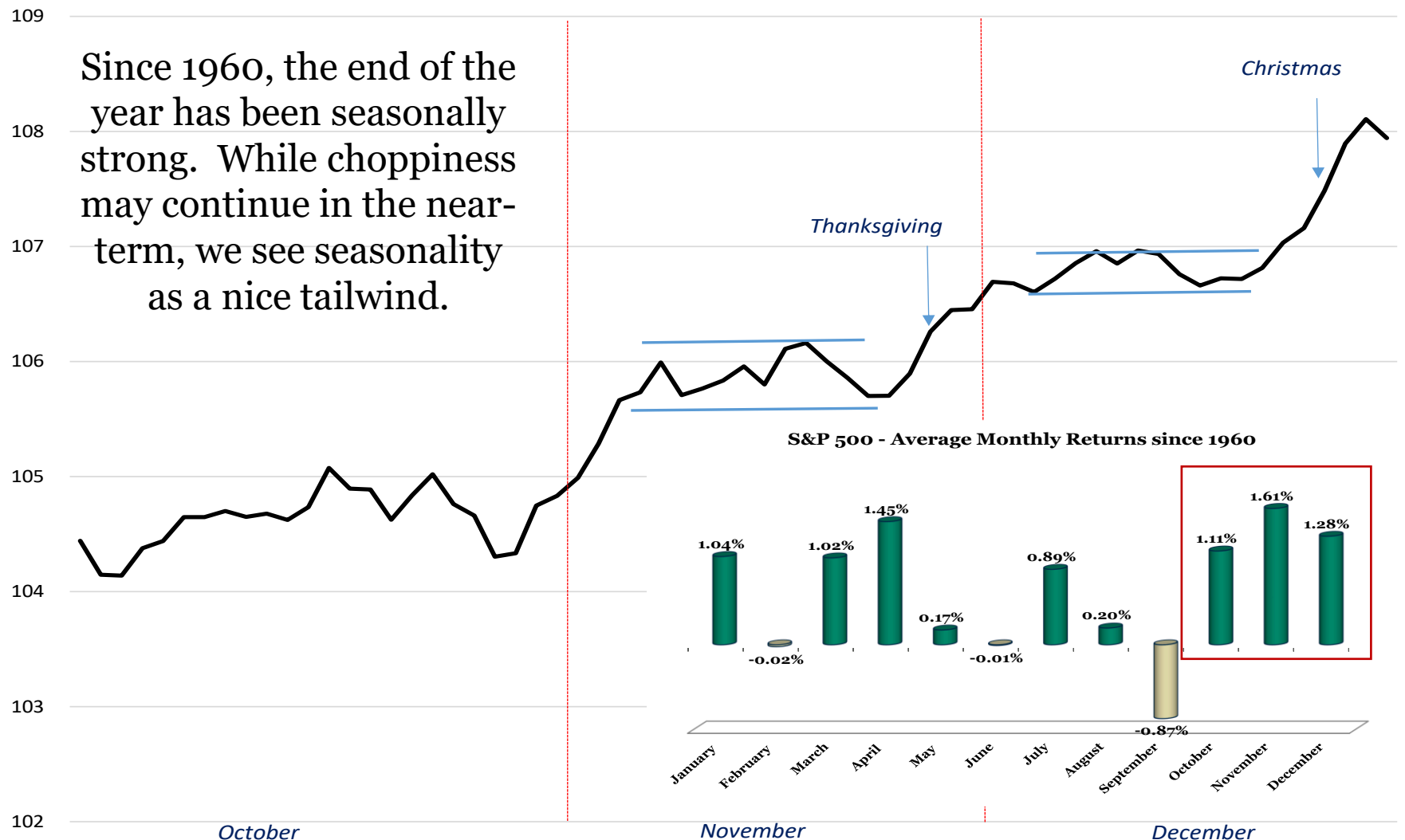
Traditional Recessionary Signals Point to Mild Recession



Source: FactSet

Seasonal Late Year Strength

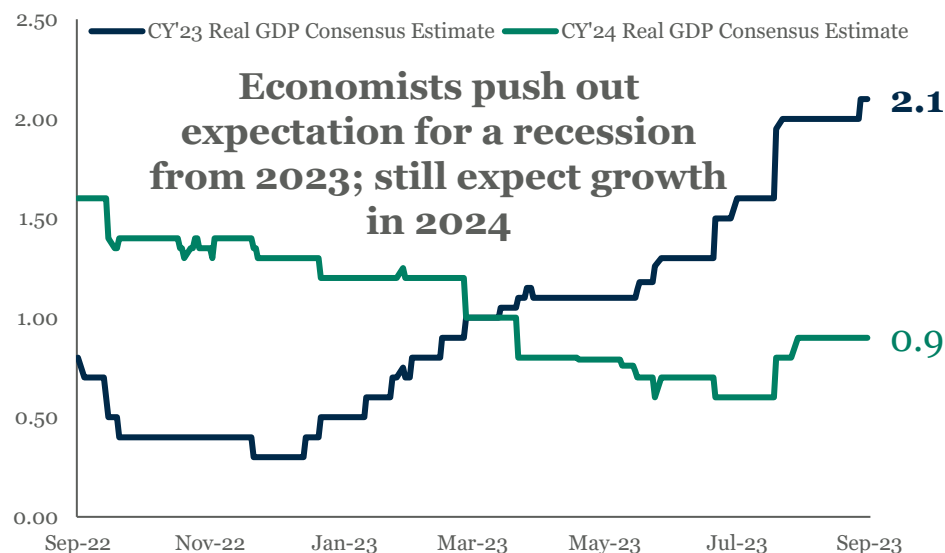
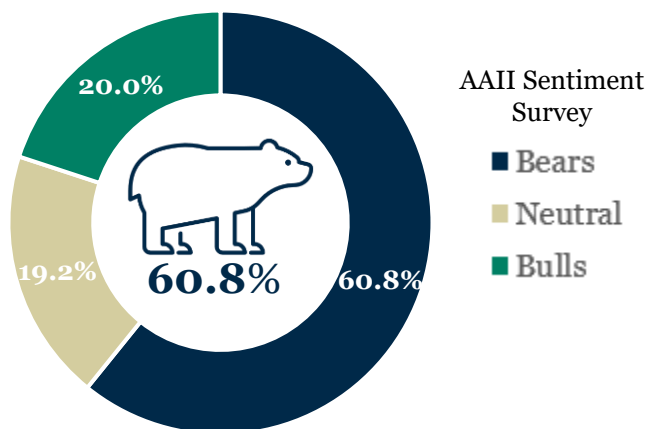
S&P 500 Historical 4Q Performance (since 1960)



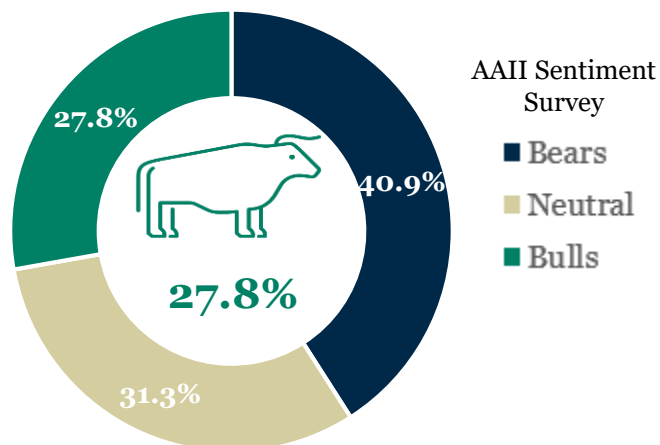
Source: FactSet

Increasing Bullishness as Recession Expectations Pushed from 2023

September 2022



September 2023

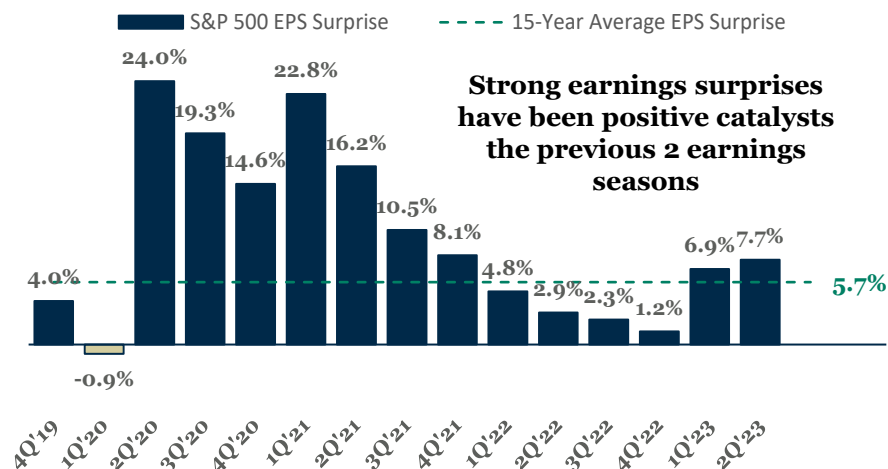


Shift to a more neutral/bullish stance as economists push out the expectation for a recession from 2023

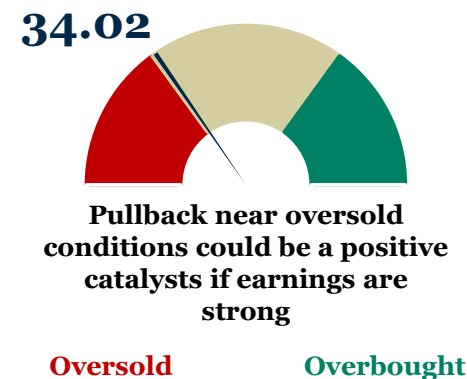
Source: FactSet

Earnings Season

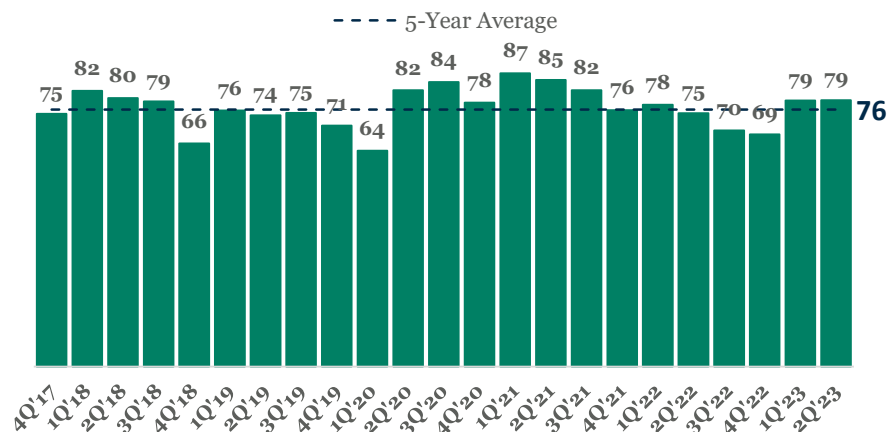
S&P 500 Earnings Surprise



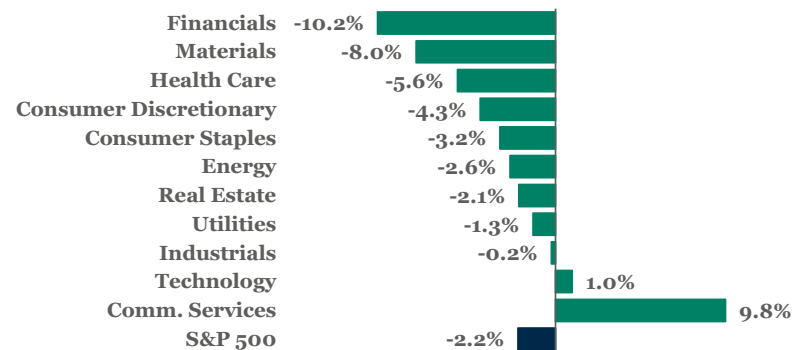
S&P 500 Relative Strength Index (RSI)



% Beating EPS Estimates



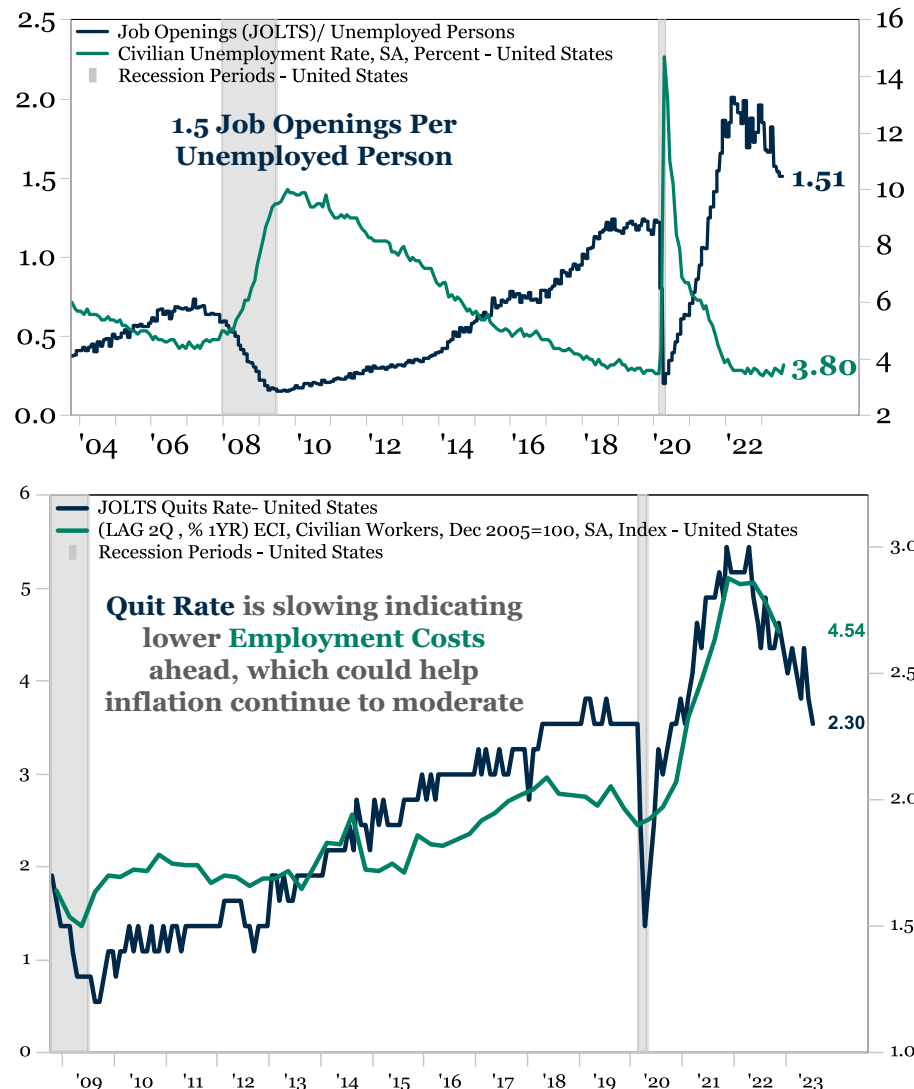
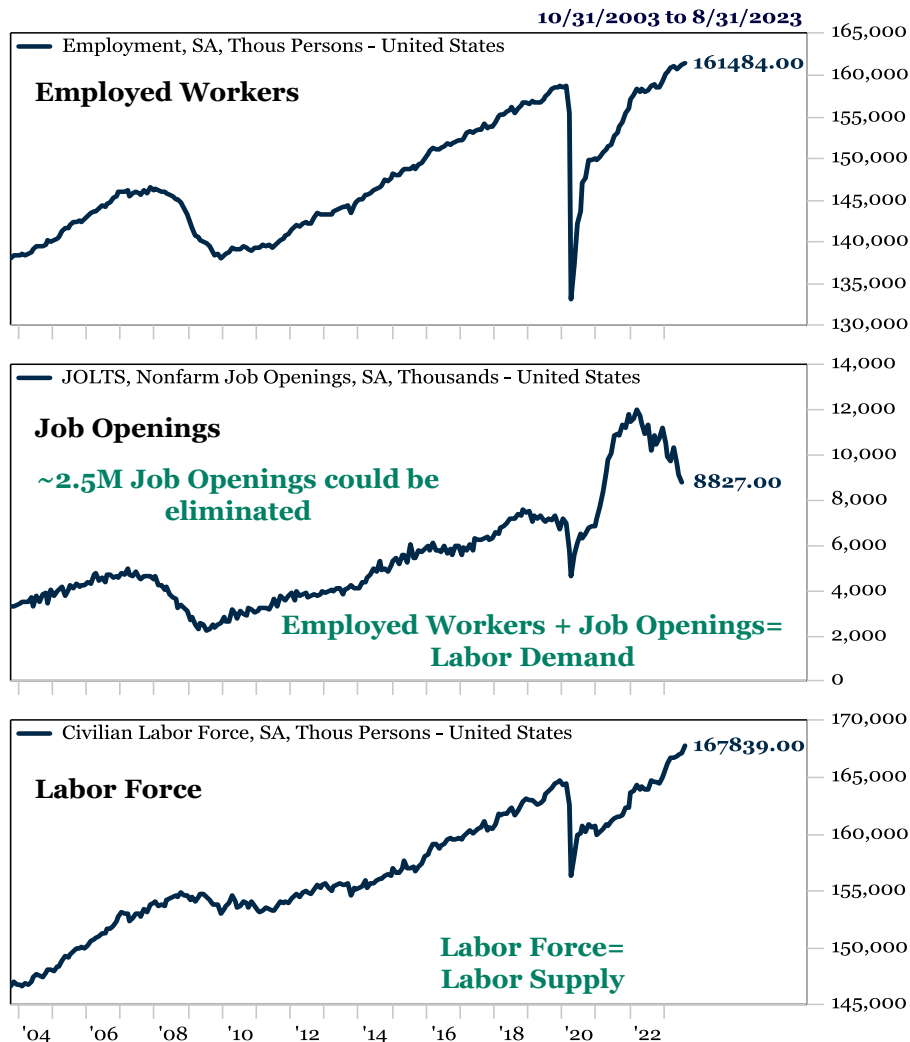
2024 EPS Revisions YTD by Sector



Source: FactSet

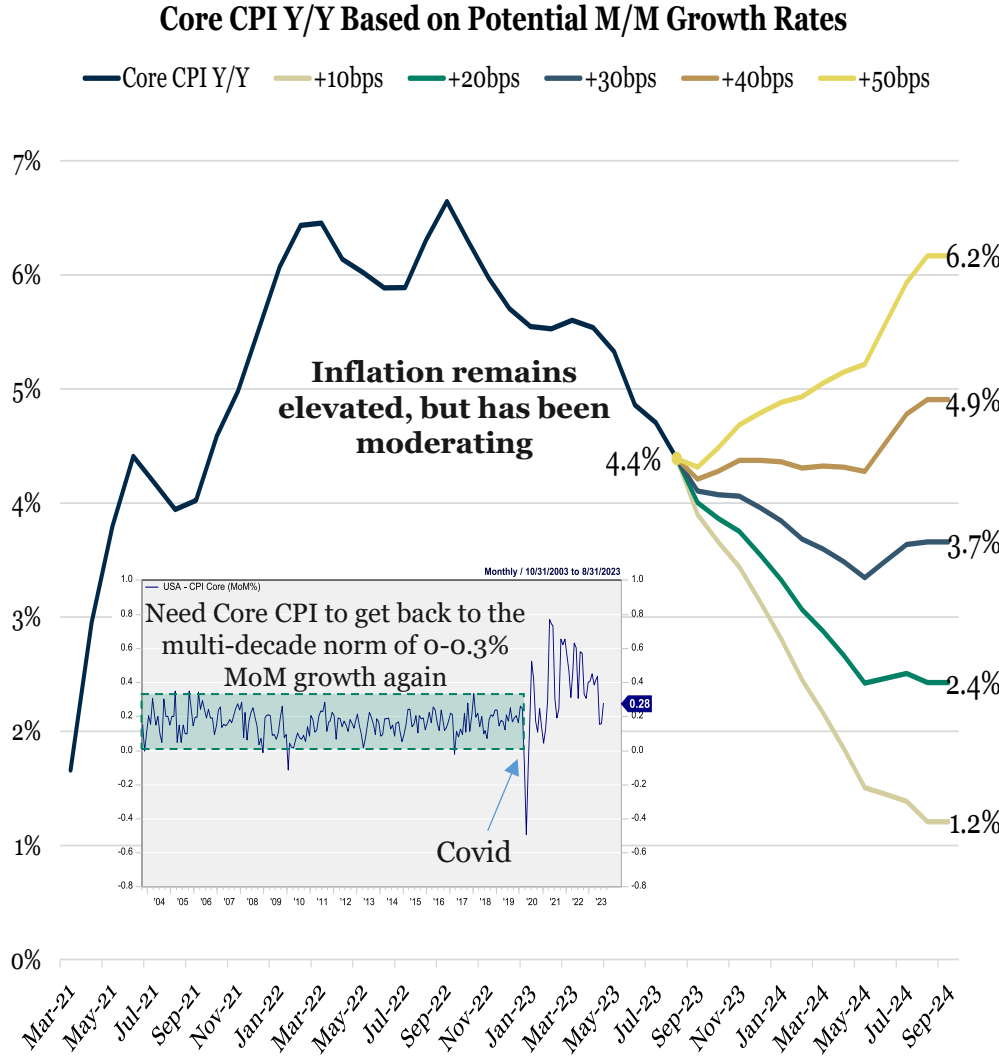
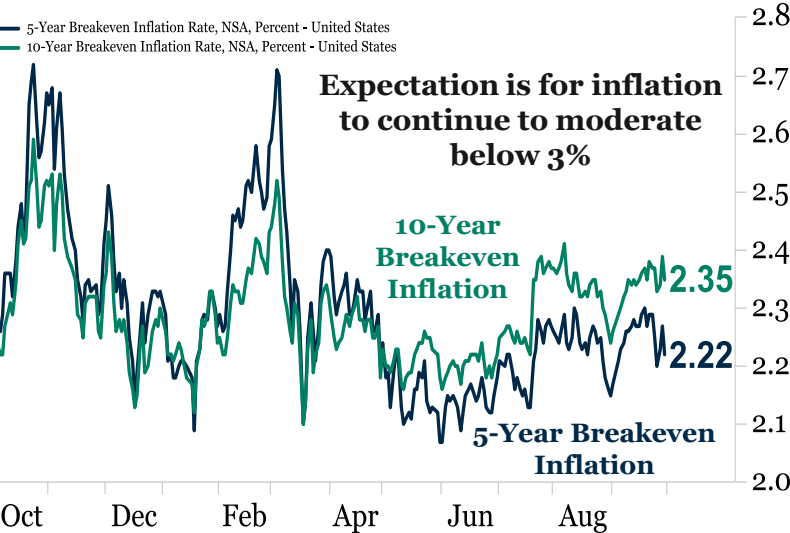
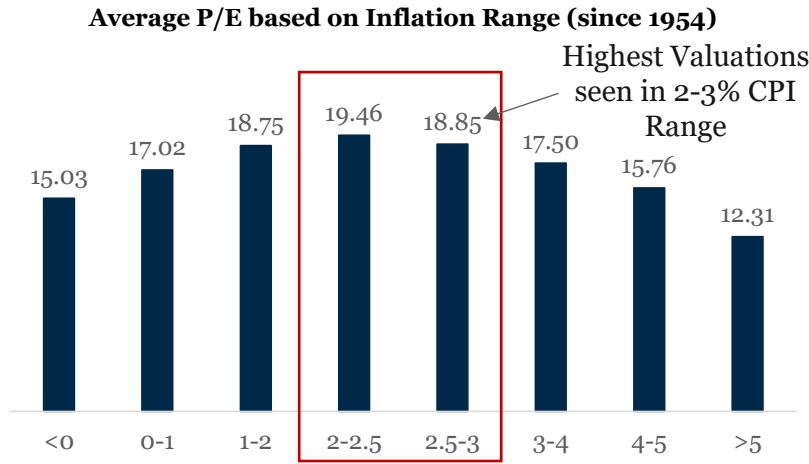
Jobs Remain Strong For Now

Labor Demand > Labor Supply



Source: FactSet

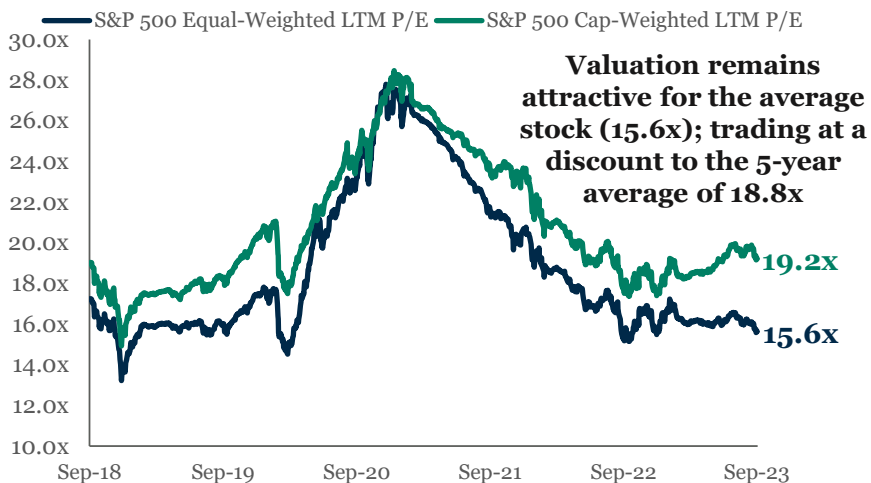
Inflation- Needs to Be Correct to Justify Valuation



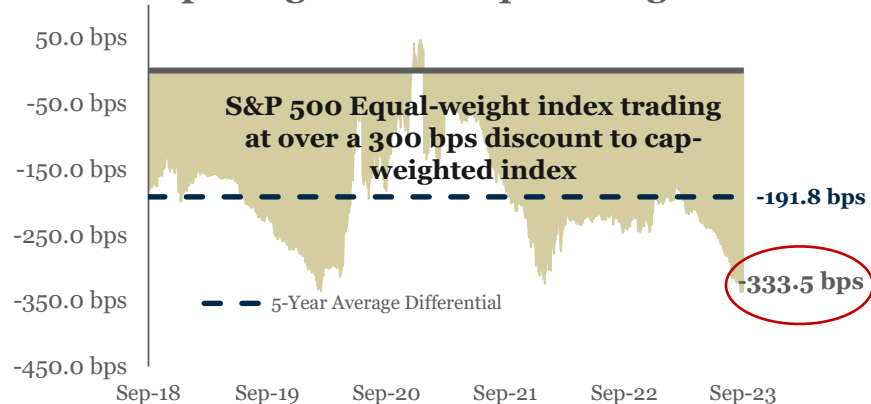
Source: FactSet

Valuation- Not Everything is Expensive

Discount for S&P 500 Equal-Weight

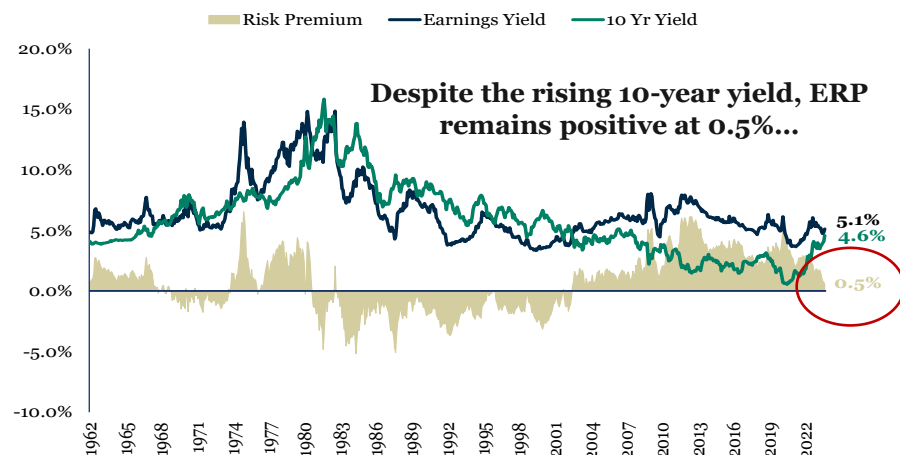


LTM P/E Differential between S&P 500 Cap-Weighted and Equal-Weighted

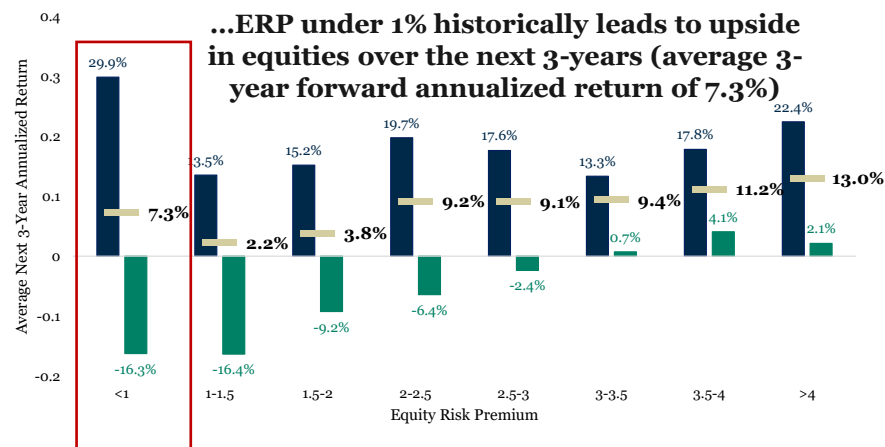


Equity Risk Premium

S&P 500 Equity Risk Premium

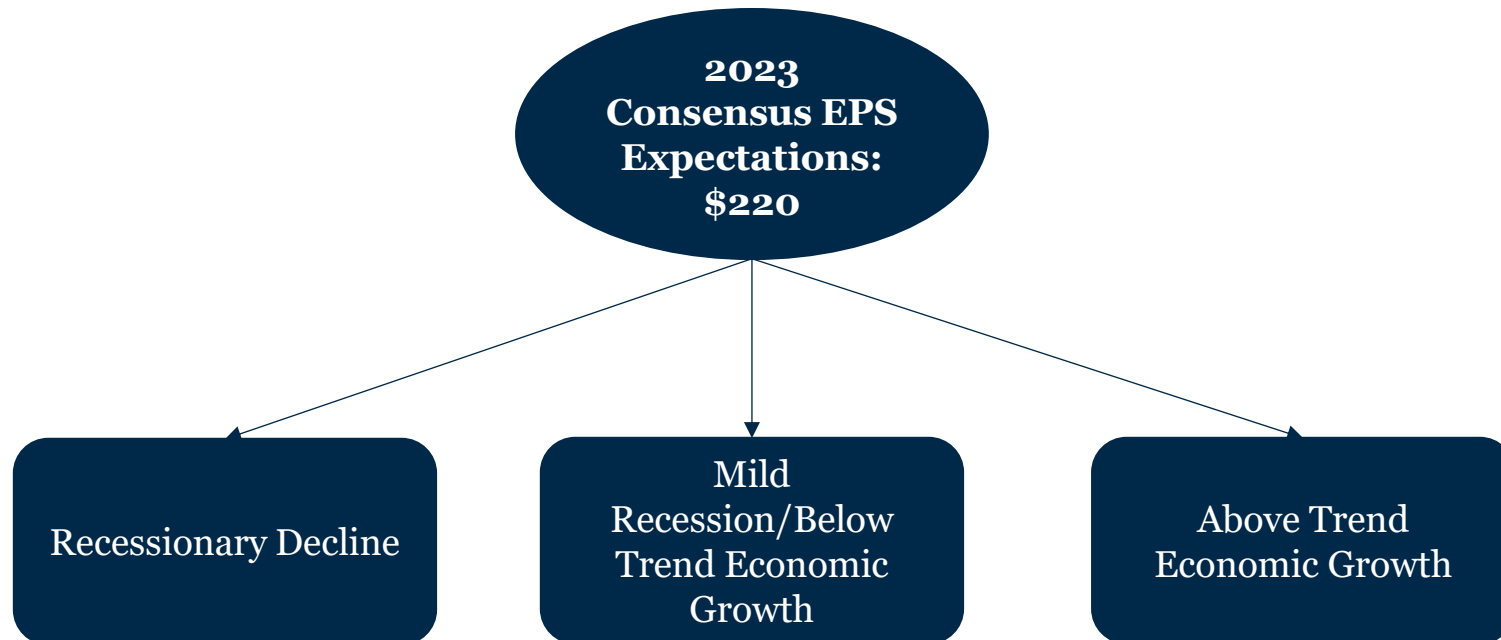


Equity Risk Premium vs Average, Best, and Worst Next 3 Year Annualized Return



Source: FactSet

2024 Earnings Outlook



**2024
Year-
End EPS**

\$175-\$200

\$220-\$230

\$245-\$255

Economic momentum slows sharply. The Fed is forced to become more accommodative, which helps offset the economic decline. On average, earnings decline ~22% in recessionary periods.

Economic growth remains sluggish, but inflation continues to moderate, and the Fed becomes less restrictive. While a recession is still possible, it is expected to be mild and short-lived, allowing full year economic growth to be positive YoY.

Goldilocks scenario in which the Fed successfully achieves a “soft landing”. The lagged impact from the Fed’s tightening cycle is not enough to dampen the resiliency of the U.S. economy, which is able to grow above trend. Current 2024 consensus EPS expectations are for ~\$247.

Source: FactSet

2024 Outlook- Possible Return to All-Time Highs

LTM P/E											
2024 S&P 500 EPS Estimates		16x	17x	18x	19x	20x	21x	22x	23x	24x	25x
	170	2720	2890	3060	3230	3400	3570	3740	3910	4080	4250
	175	2800	2975	3150	3325	3500	3675	3850	4025	4200	4375
	180	2880	3060	3240	3420	3600	3780	3960	4140	4320	4500
	185	2960	3145	3330	3515	3700	3885	4070	4255	4440	4625
	190	3040	3230	3420	3610	3800	3990	4180	4370	4560	4750
	195	3120	3315	3510	3705	3900	4095	4290	4485	4680	4875
	200	3200	3400	3600	3800	4000	4200	4400	4600	4800	5000
	205	3280	3485	3690	3895	4100	4305	4510	4715	4920	5125
	210	3360	3570	3780	3990	4200	4410	4620	4830	5040	5250
	215	3440	3655	3870	4085	4300	4515	4730	4945	5160	5375
	220	3520	3740	3960	4180	4400	4620	4840	5060	5280	5500
	225	3600	3825	4050	4275	4500	4725	4950	5175	5400	5625
	230	3680	3910	4140	4370	4600	4830	5060	5290	5520	5750
	235	3760	3995	4230	4465	4700	4935	5170	5405	5640	5875
	240	3840	4080	4320	4560	4800	5040	5280	5520	5760	6000
245	3920	4165	4410	4655	4900	5145	5390	5635	5880	6125	
250	4000	4250	4500	4750	5000	5250	5500	5750	6000	6250	
255	4080	4335	4590	4845	5100	5355	5610	5865	6120	6375	
260	4160	4420	4680	4940	5200	5460	5720	5980	6240	6500	

Soft economic momentum could spill over into 2024, which may keep economic growth below trend, driving our expectation for 2024 year-end EPS of \$220-\$230.

We believe a P/E multiple of 21-22x is likely warranted, which coincides with a 2024 year-end price objective of 4620-5060, which would be a possible return to all-time highs.

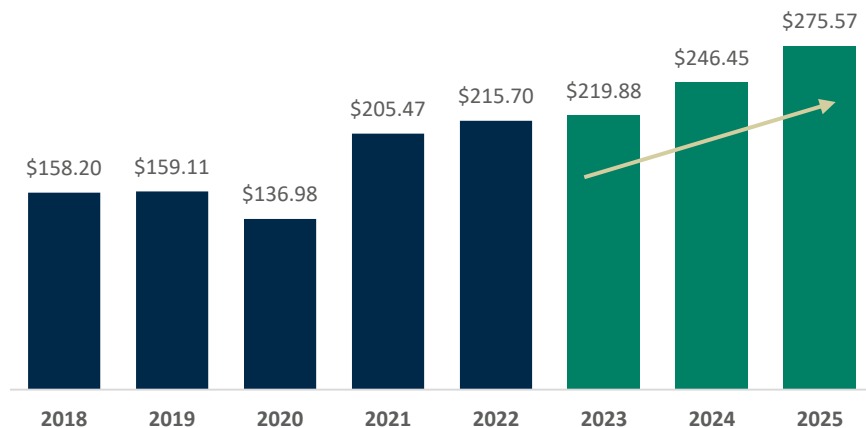
Average time to return to new high after recessionary bear market:
23 months

Average time to return to new high in non-recessionary bears:
10 months

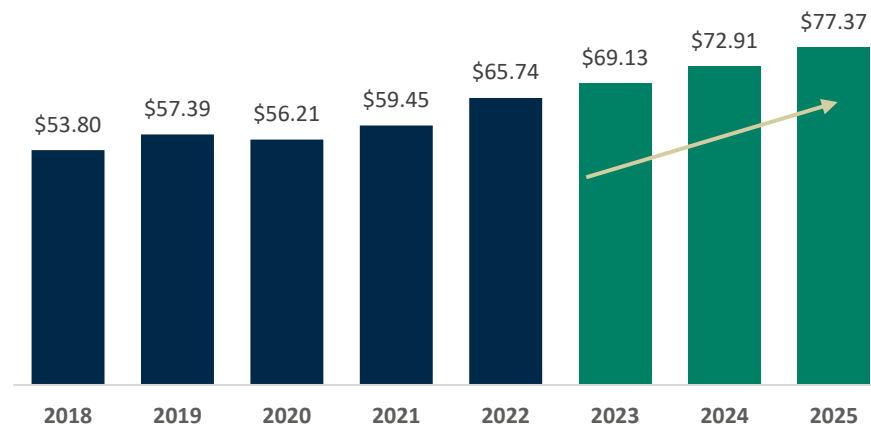
Source: FactSet

S&P 500 Consensus Expectations

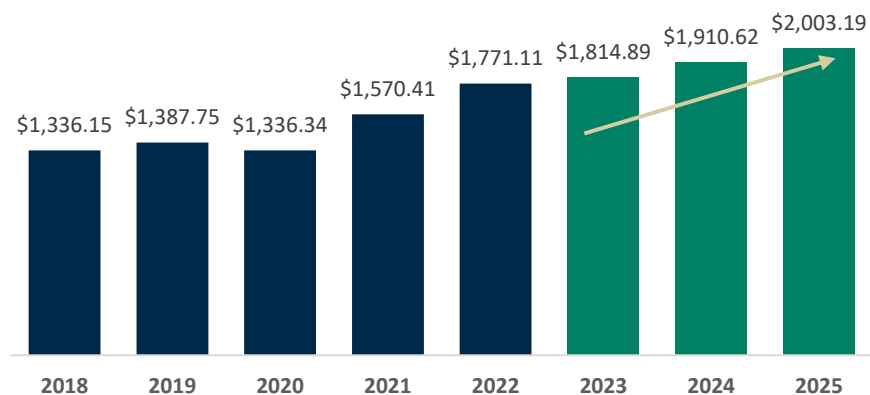
S&P 500 EPS



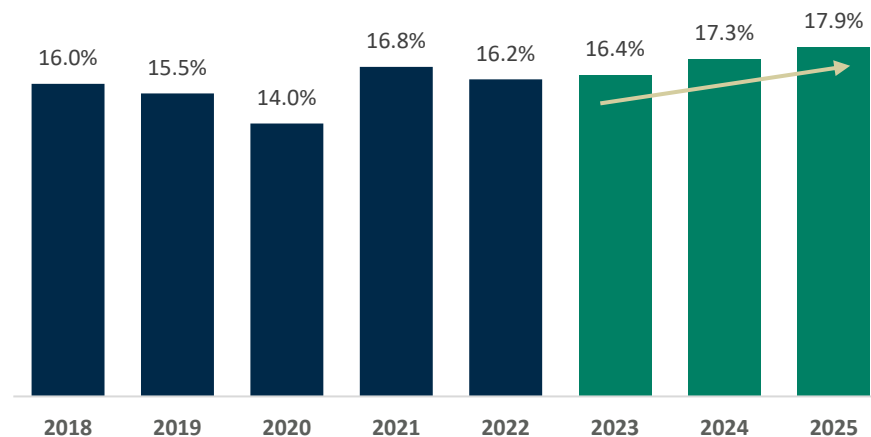
S&P 500 Dividends Per Share



S&P 500 Sales Per Share



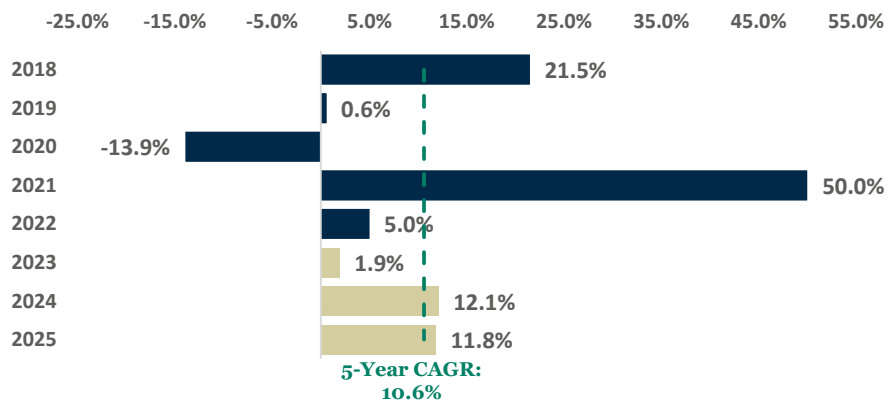
S&P 500 EBIT Margins



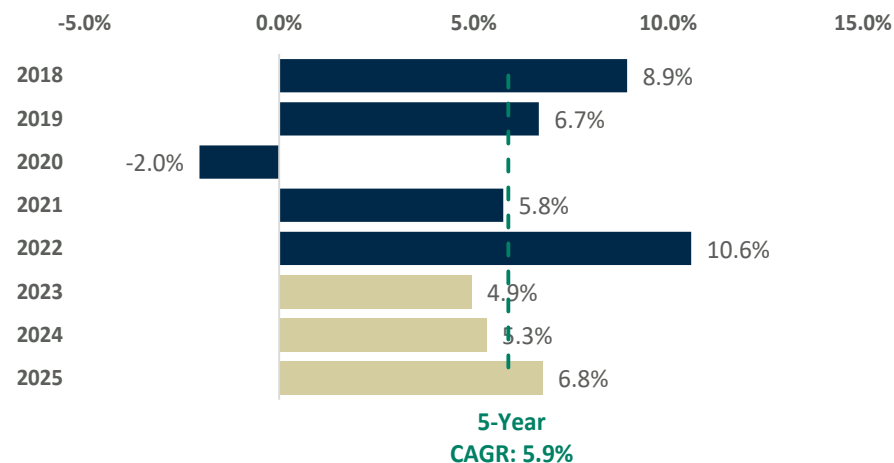
Source: FactSet

S&P 500 Consensus Growth Expectations

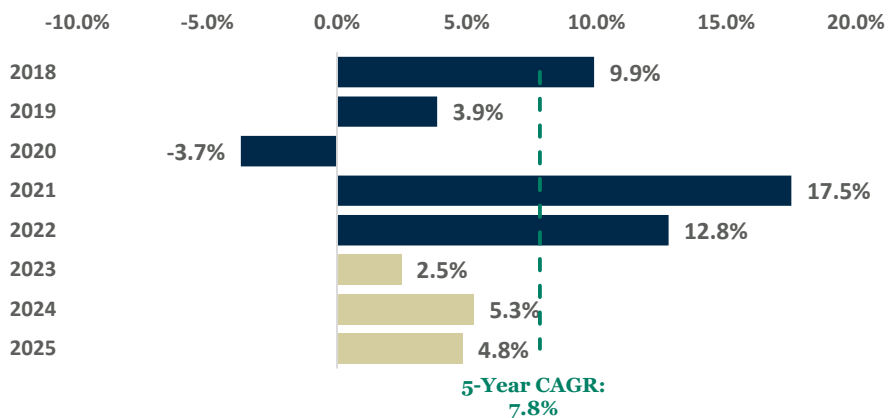
S&P 500 EPS Growth



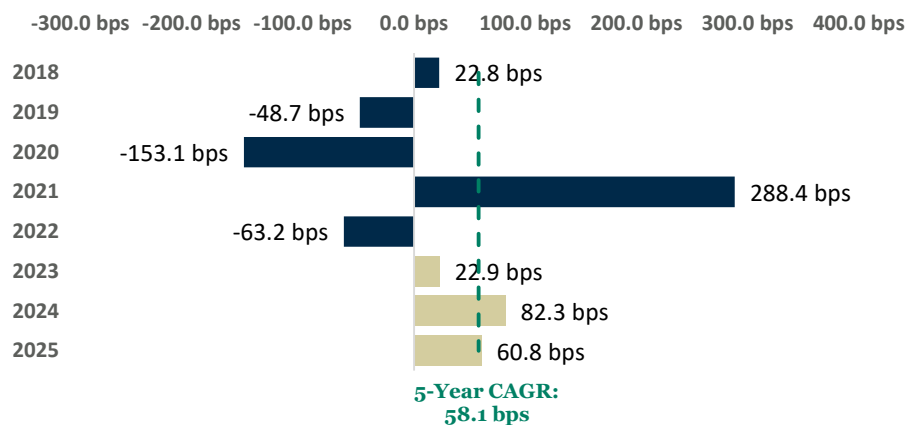
S&P 500 Dividends Per Share Growth



S&P 500 Sales Per Share Growth



S&P 500 EBIT Margin Growth



Source: FactSet

Supplemental Slides

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Stat Pack Estimates (September 29, 2023: S&P 500 4288.05)

Stat Pack of Forecasts		
	2023 Estimates	2024 Estimates
Consensus EPS S&P 500 ¹	\$219.88 (Bottom up- Analysts)	\$246.45 (Bottom up- Analysts)
EPS Growth S&P 500	1.9% bottom up	12.1% bottom up
Margins (EPS/Sales-using bottom up est.)	12.1% E(consensus ¹)	12.9% E (consensus ¹)
EPS if Margins stay flat (high probability from elevated levels)		\$231.18 (based on consensus revenues)
GDP	Fed 2.1%; Consensus 2.1%; RJ 2.1% ³	Fed 1.5%; Consensus 0.9%; RJ 0.4% ³
CPI	Headline 4.1% ¹	Headline 2.7% ¹
PCE (Personal Consumption Expenditures)	4.1% (ex-F&E) ¹	2.7% (ex-F&E) ¹
Dividend/Dividend Growth S&P 500	\$69.13 ¹ +5.1% Payout ratio: 31.4% (of bottom up est.)	\$72.91 ¹ +5.5% Payout ratio: 29.6% (of bottom up est.)
Revenue Growth Per Share S&P 500 (only bottom up available)	+2.5% (\$1,814.89/share ¹)	+5.3% (\$1,910.62/share ¹)
P/E	~19.5x ²	~17.4x ²
Earnings Yield S&P 500	5.1% (using bottom up est.)	5.7% (using bottom up est.)
Fed Funds (average)	5.55% ¹	4.25% ¹
10 Year Treasury Yield	4.06% ¹	3.59% ¹

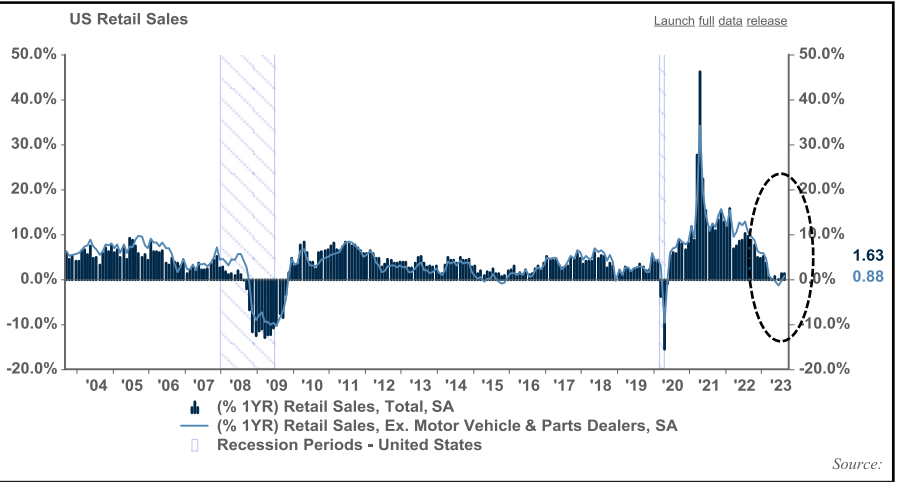
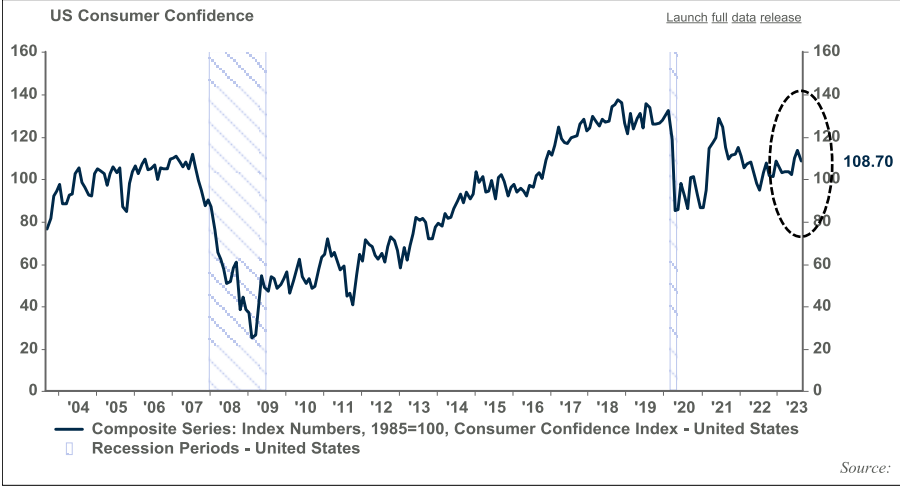
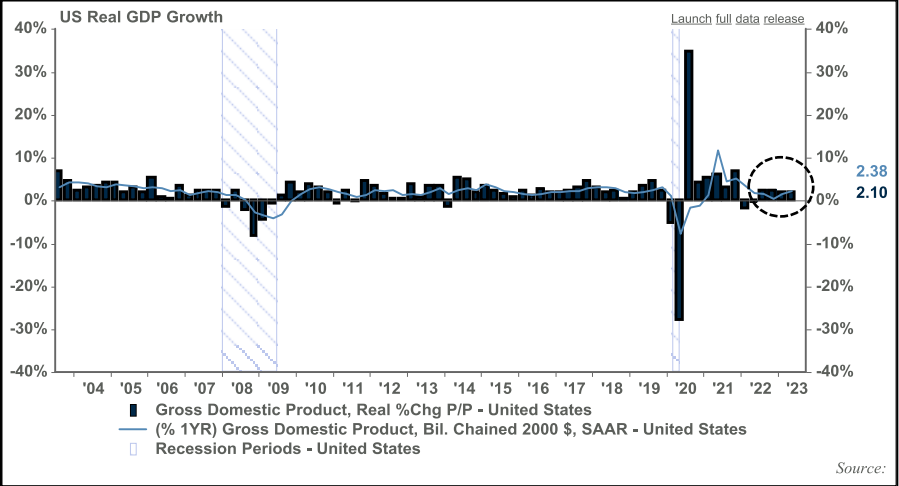
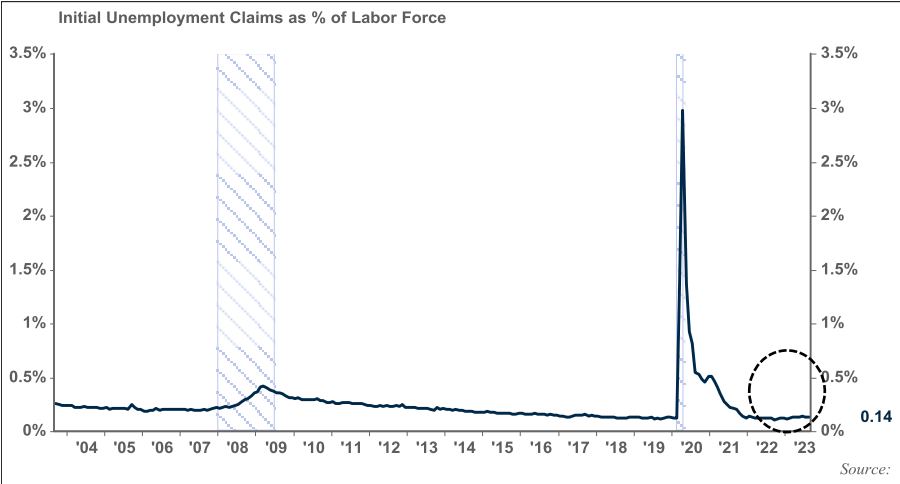
¹ FactSet and Bloomberg;

² Current PE based on consensus 2022 and 2023 bottom up estimates

³ RJ Chief Economist Eugenio Aleman

Source: FactSet

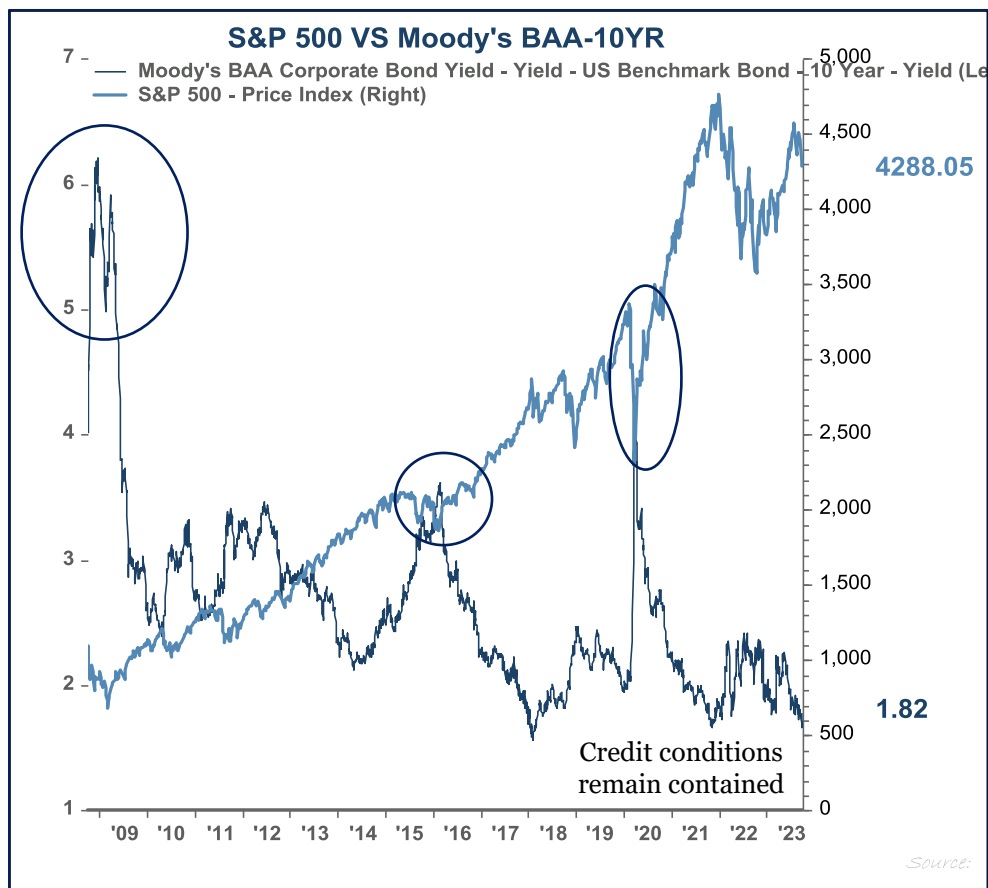
U.S. Economic Conditions



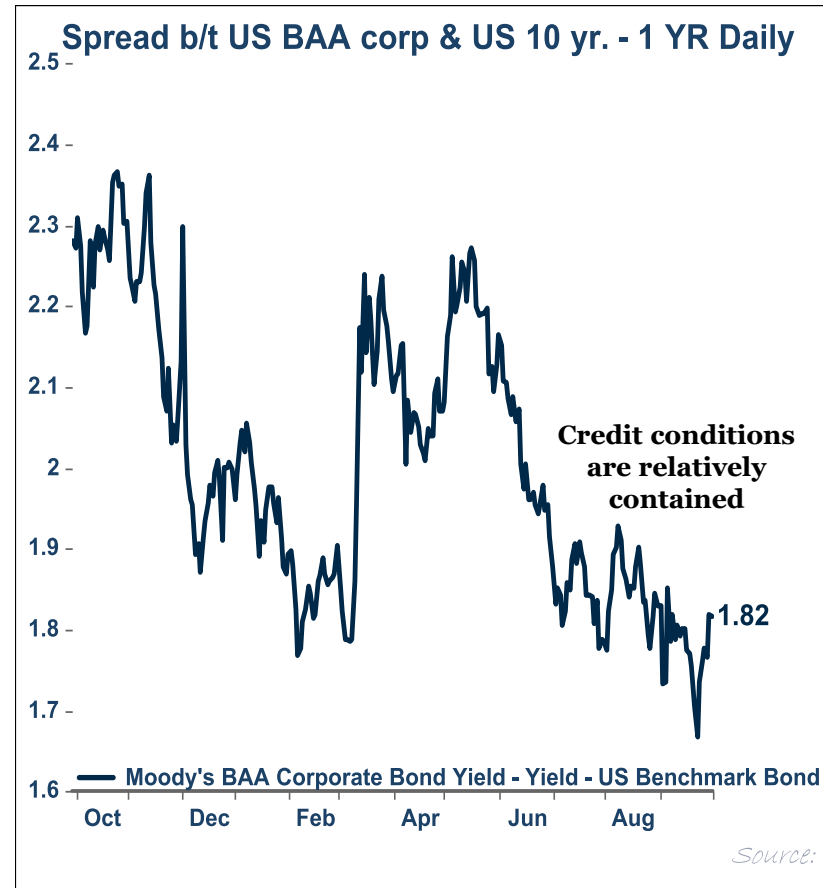
Source: FactSet

Credit Conditions

The credit markets are relatively contained despite economic softness. We will continue to keep a keen eye on the credit markets for signs of further deterioration.

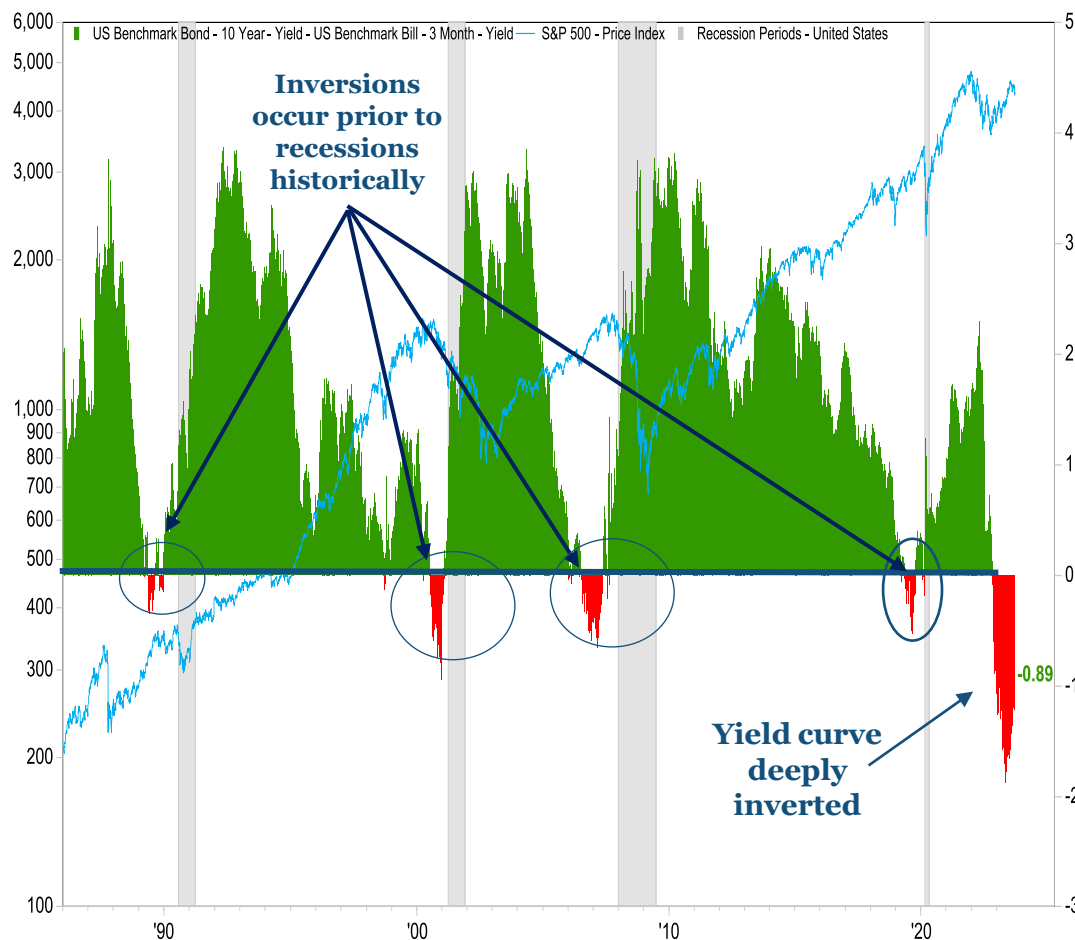


Source: FactSet

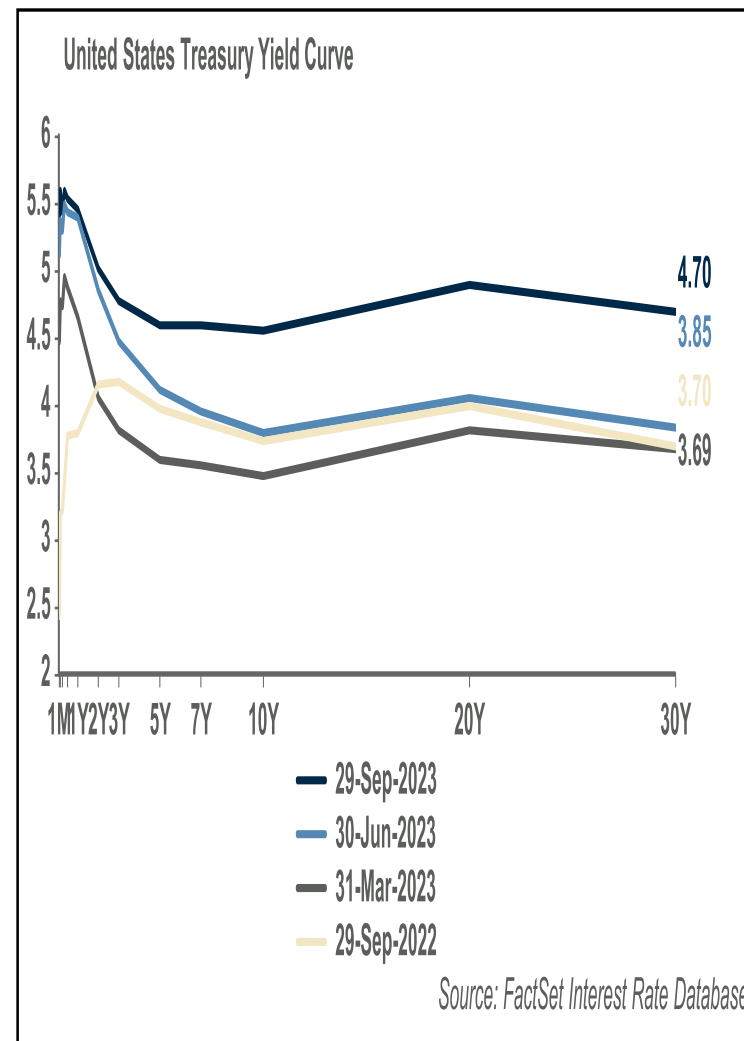


2023: Areas to Watch: Inversion of Yield Curve

The spread between the 10-year and 3-month is deeply inverted. A narrowing of the yield curve would likely be negative for the Financial sector.

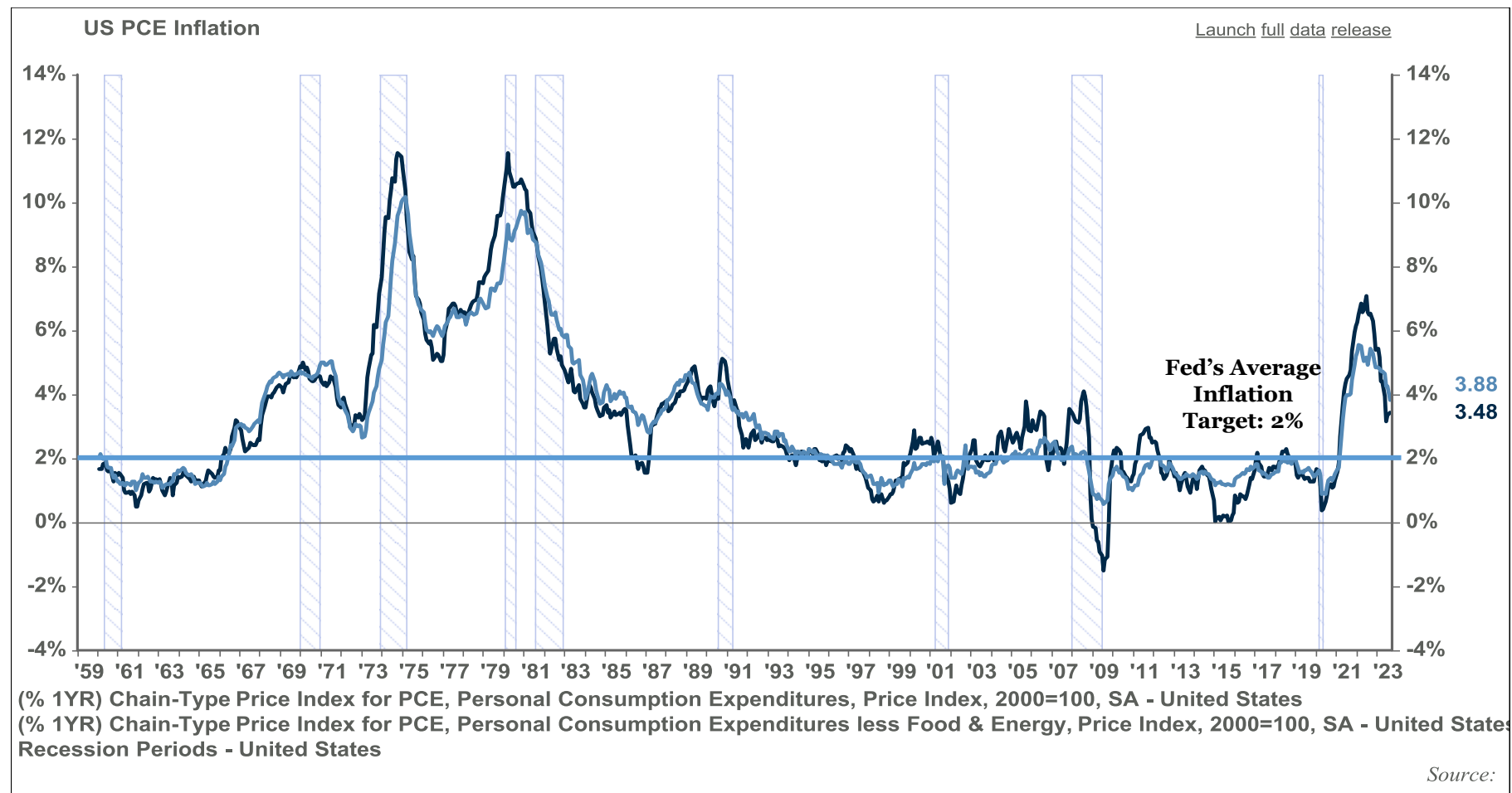


Source: FactSet

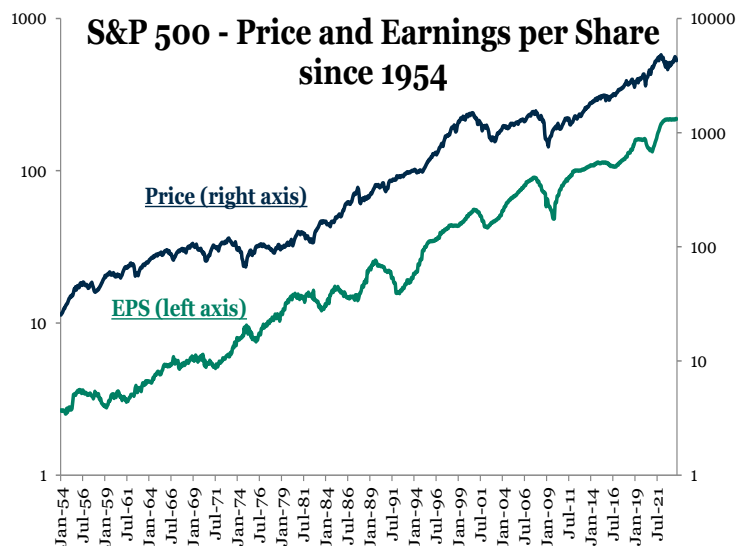


2023: Areas to Watch: Inflation

This is an area we continue to watch closely. After some debate if inflation was transitory, inflation has been more sticky resulting in the FOMC's call to action by raising rates to combat the higher prices. Despite inflation being more persistent in the Services sector, we continue to believe there are opportunities for inflation to moderate as economic activity softens.

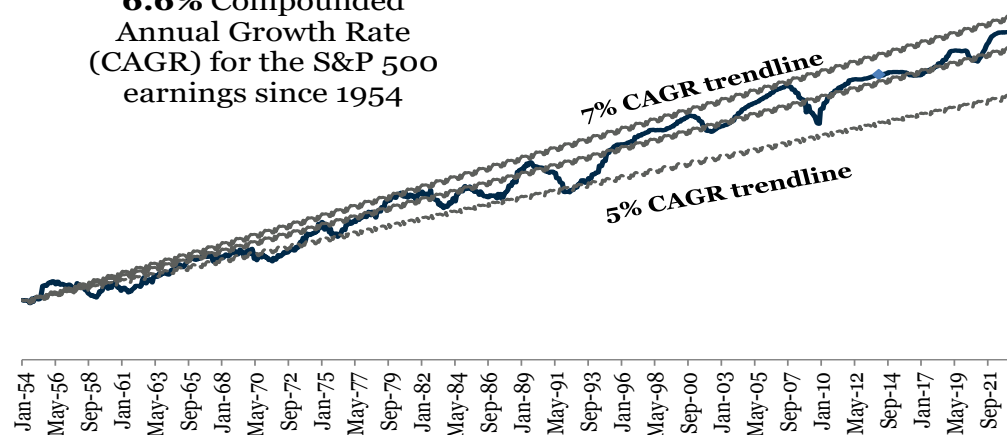


S&P 500 Earnings – Long-Term Mother’s Milk of the Market



S&P 500 - Earnings since 1954

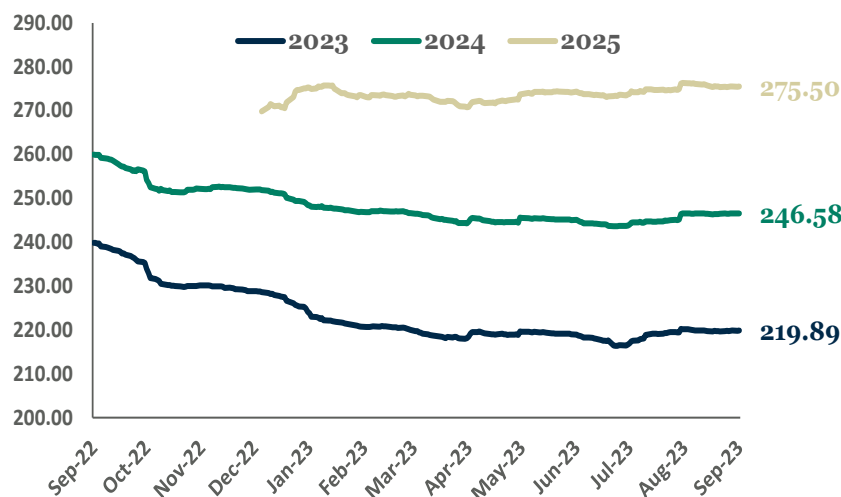
6.6% Compounded Annual Growth Rate (CAGR) for the S&P 500 earnings since 1954



S&P 500 since 1954:

- Earnings CAGR: 6.6%
- S&P 500 Price CAGR: 7.6%

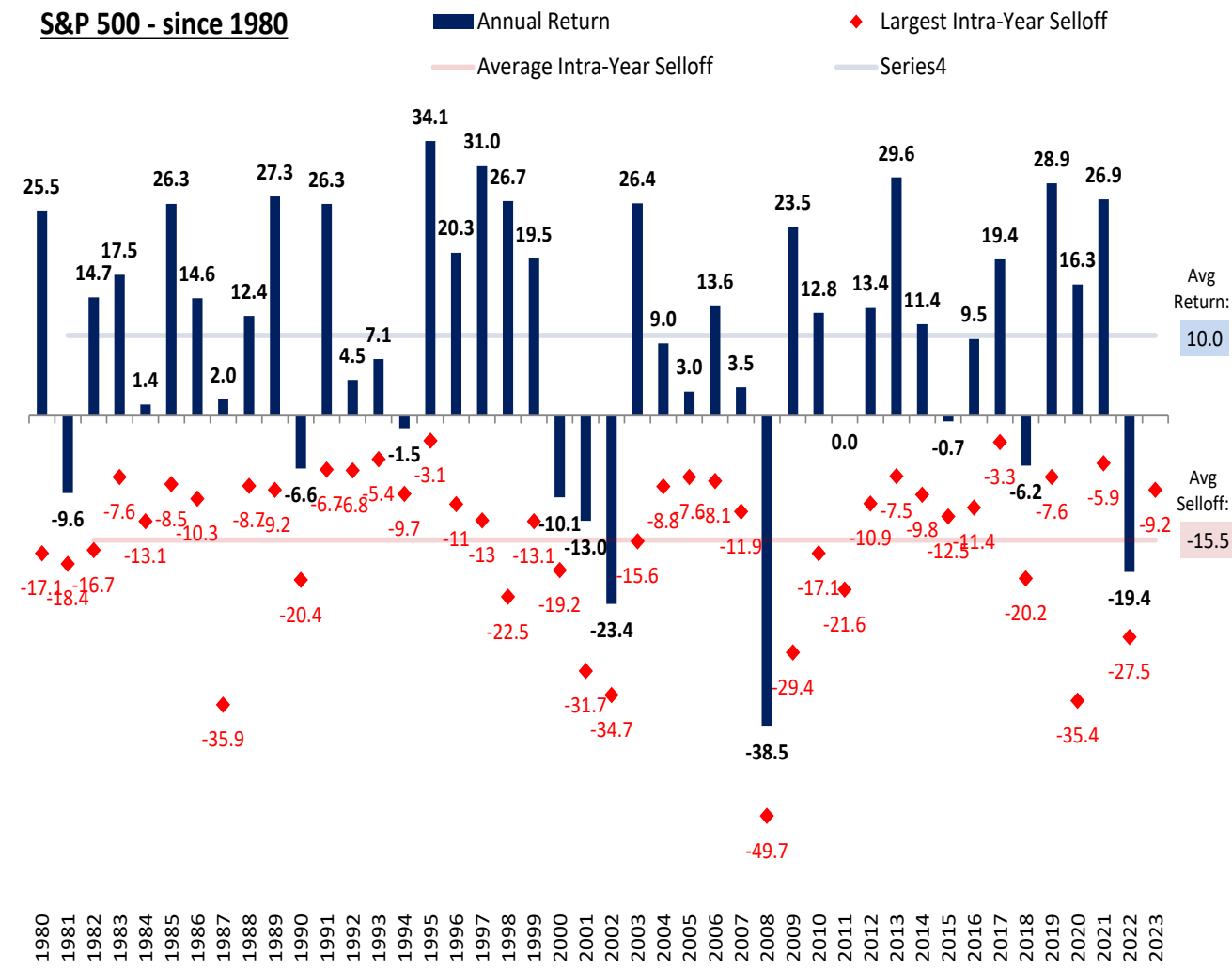
S&P 500 Consensus Earnings Estimates over Past Year



EPS Growth YoY	
Year	
2023	1.9%
2024	12.1%
2025	11.8%

Source: FactSet

Market Selloff Stats



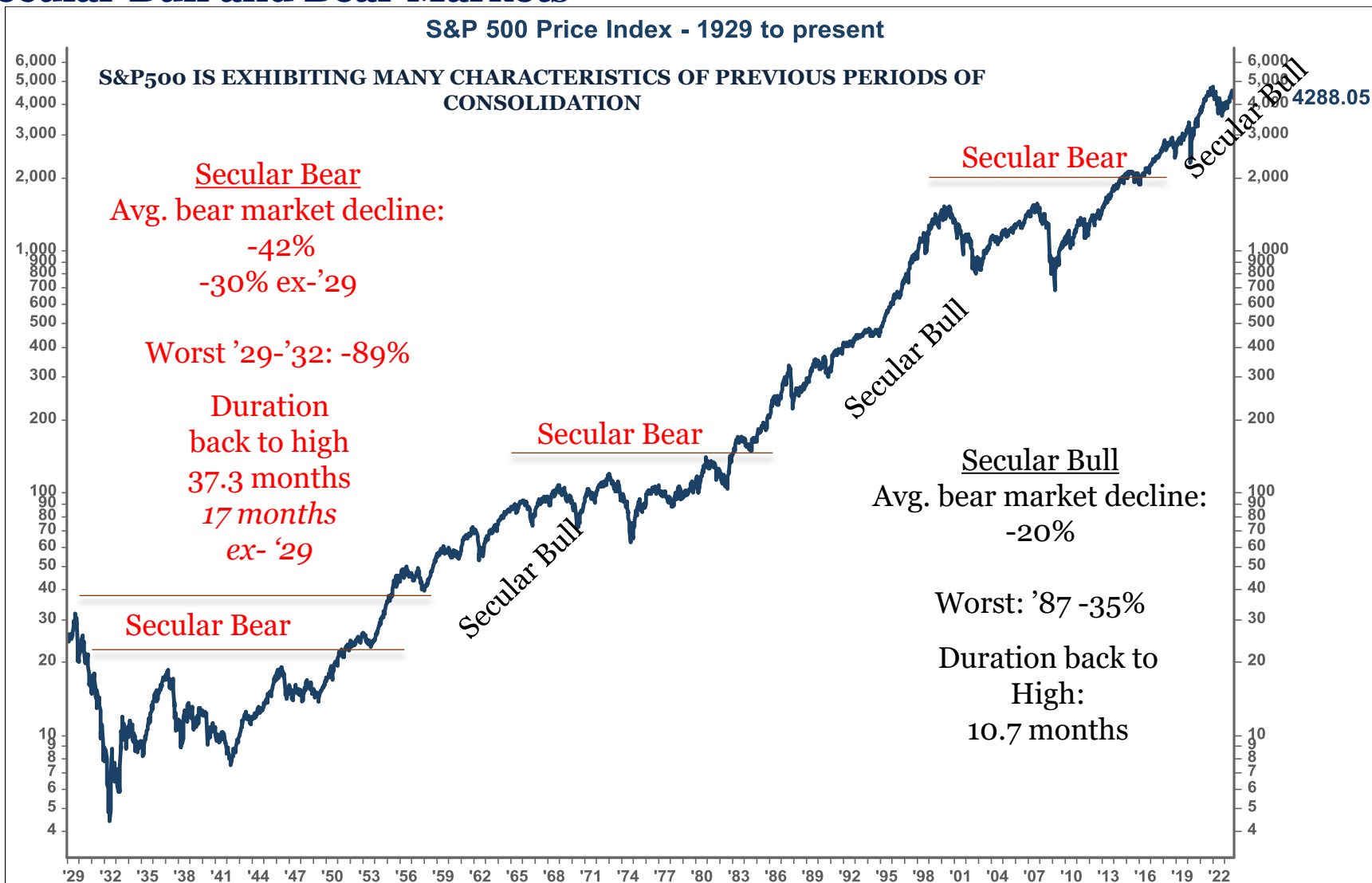
Selloffs are common:

- Average Largest Intra-year selloff: -15.5%
- Ex-bear market years still normal to get 8-12% drawdown intra-year
- Average Annual return is : +10.0%

Source: FactSet

Secular Bull and Bear Markets

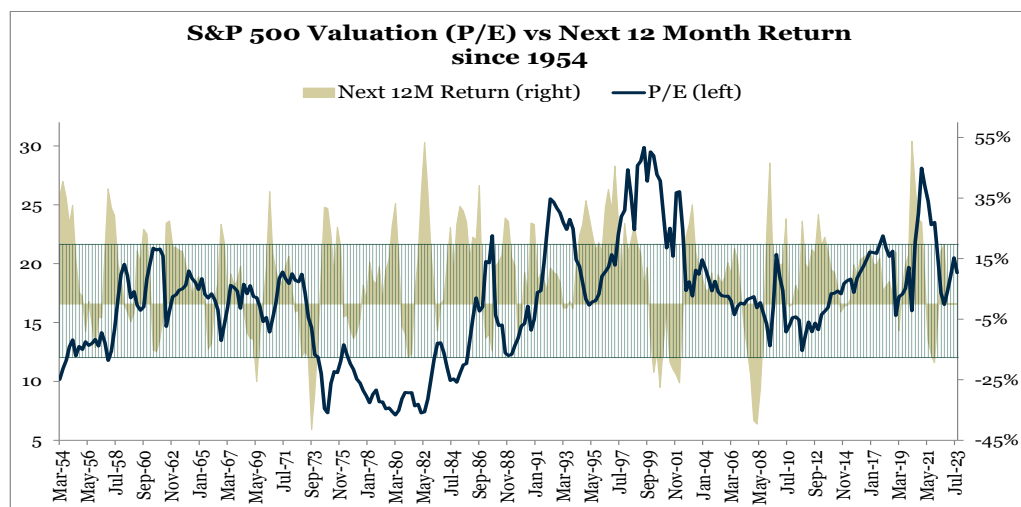
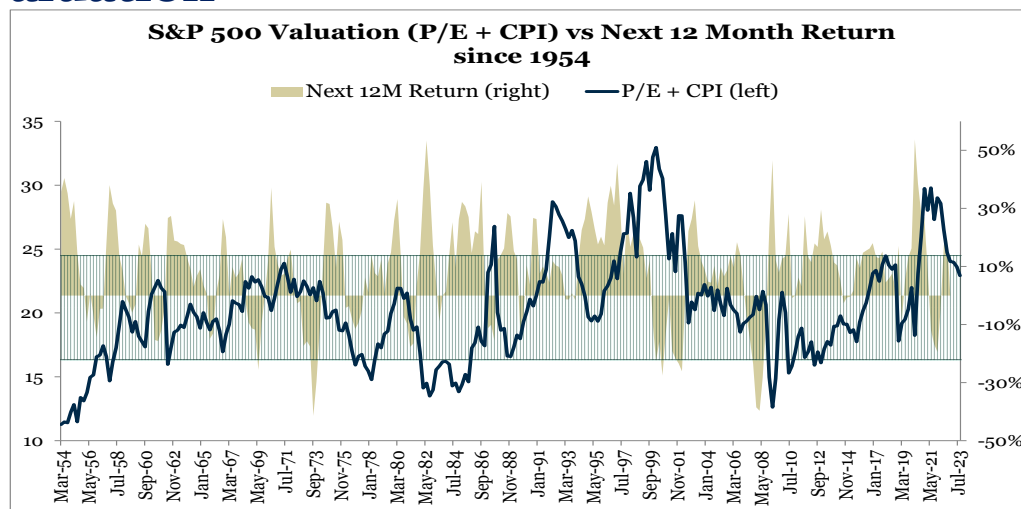
S&P 500 Price Index - 1929 to present



Source: FactSet

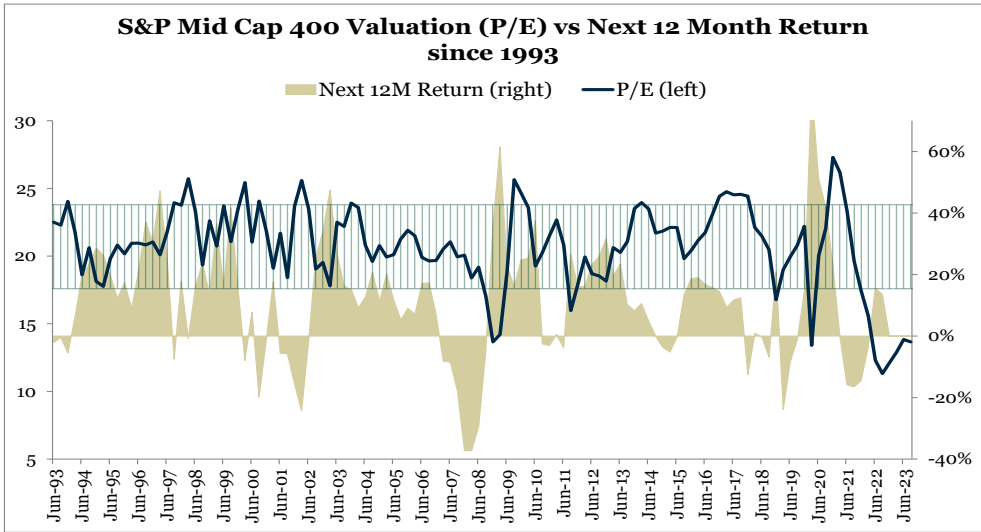
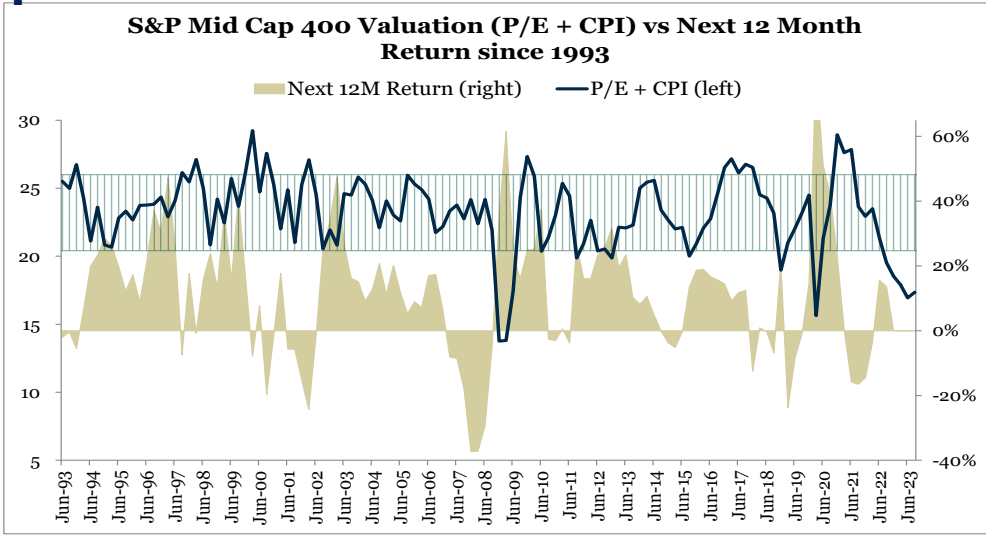
Source:

S&P 500 Valuation



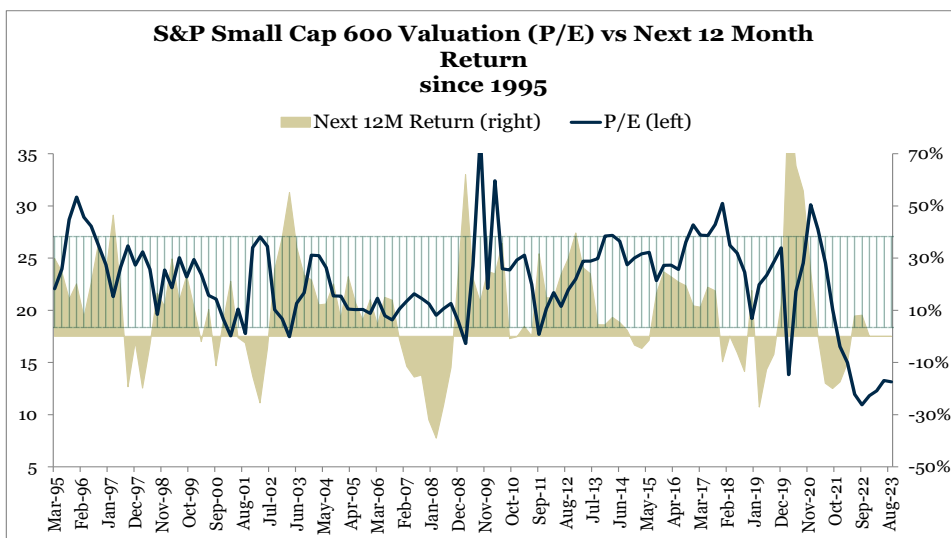
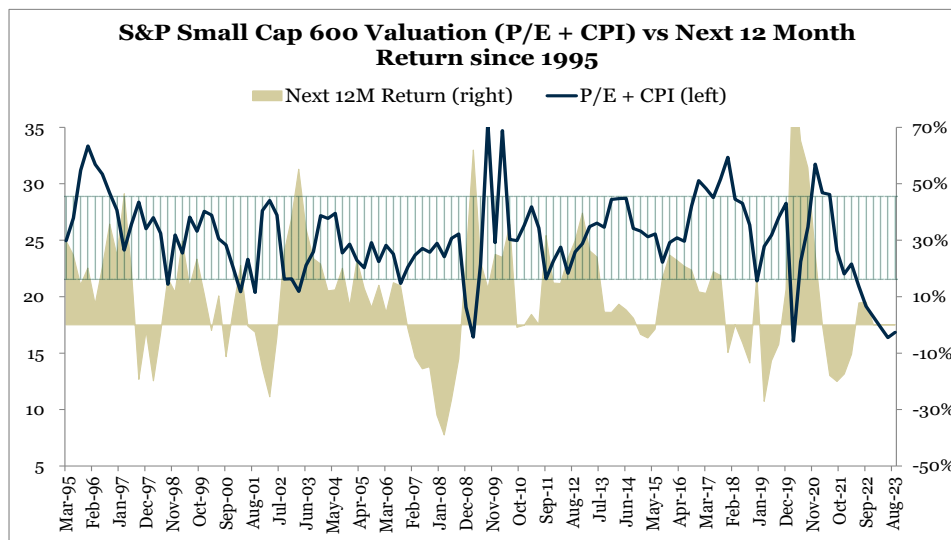
Source: FactSet

S&P Mid Cap 400 Valuation



Source: FactSet

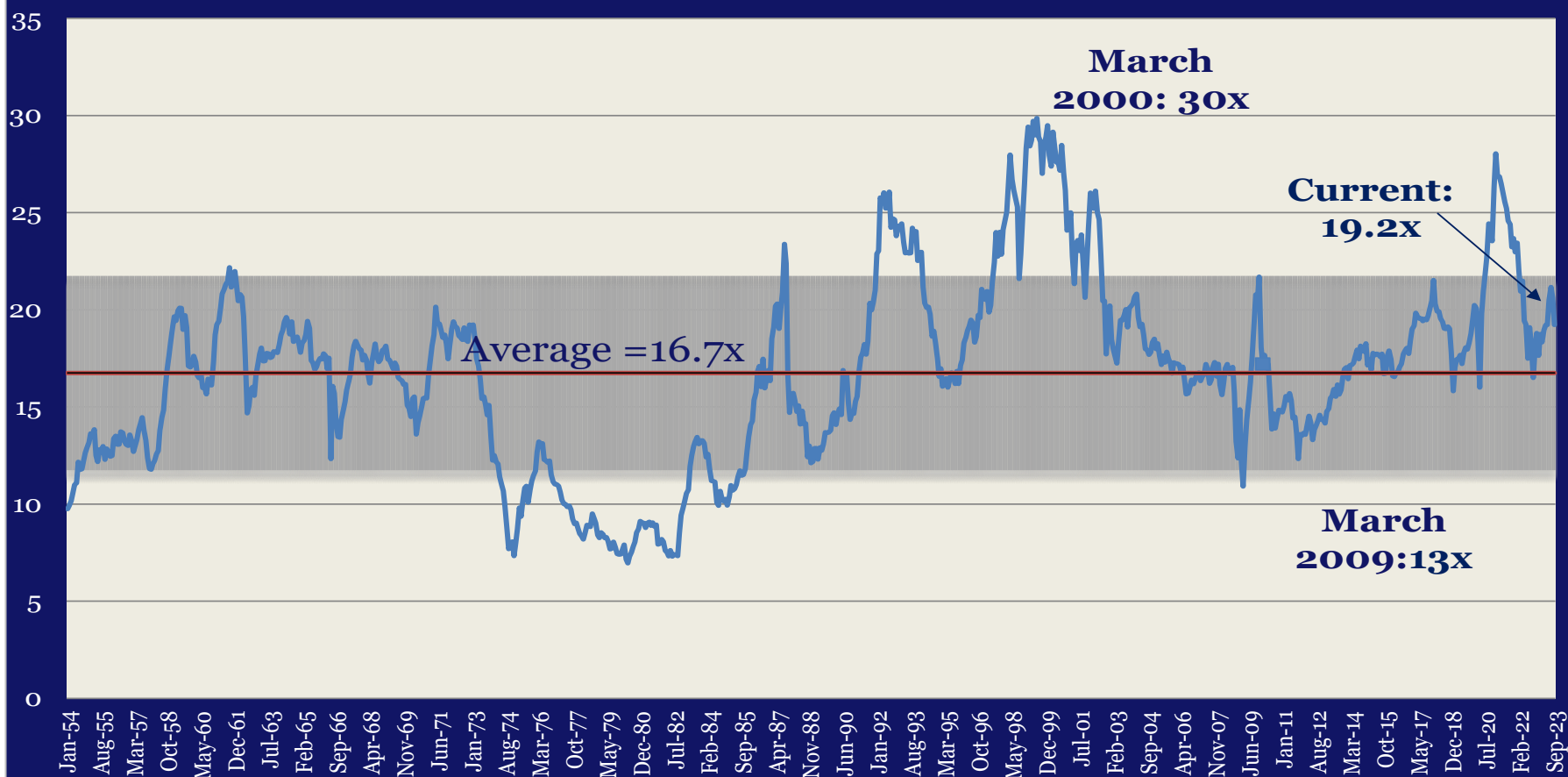
S&P Small Cap 600 Valuation



Source: FactSet

S&P 500: Long Term P/E

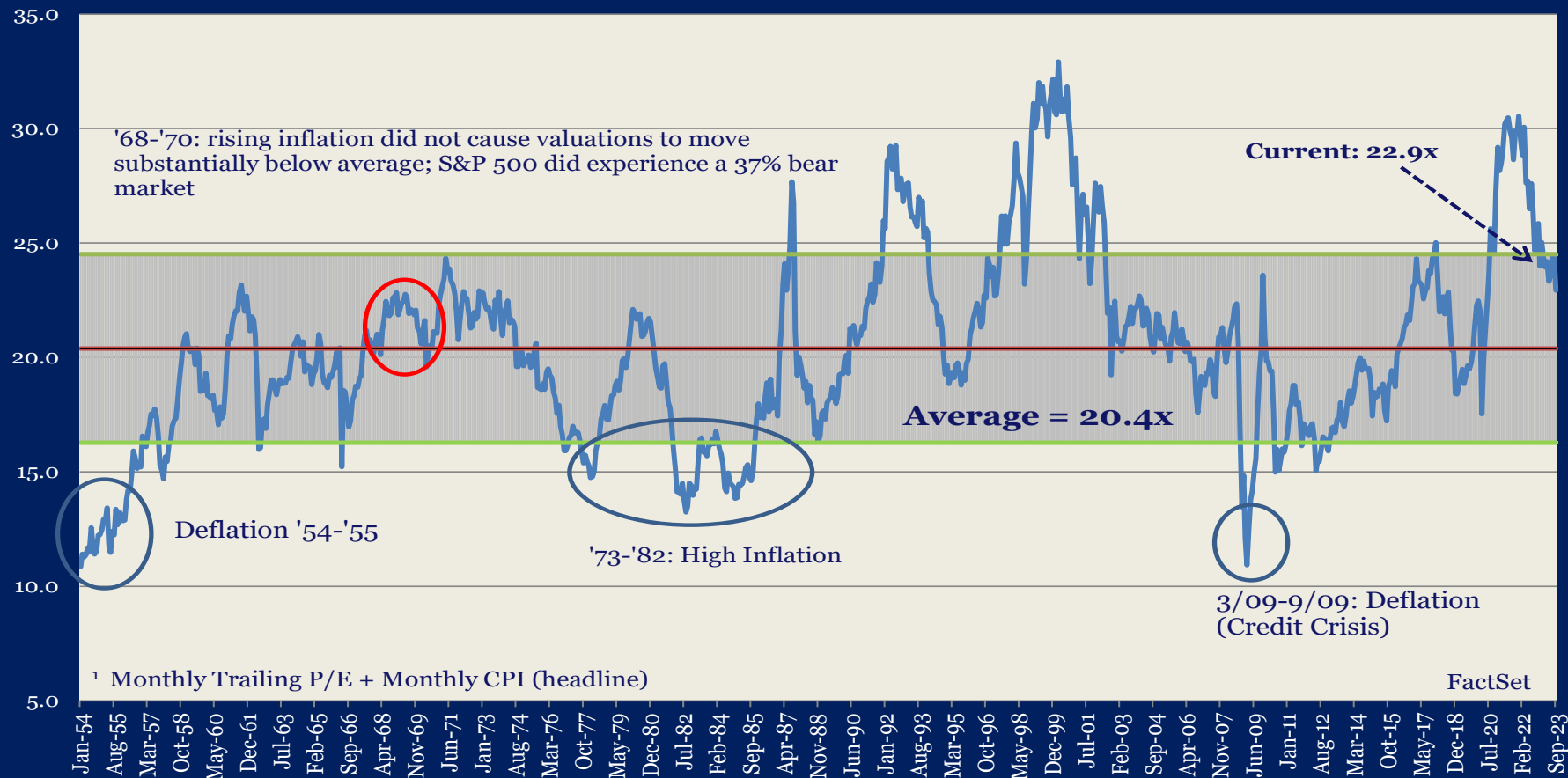
S&P 500 Trailing 12 month P/E
Standard Deviation Chart
1954 to September 2023



FactSet

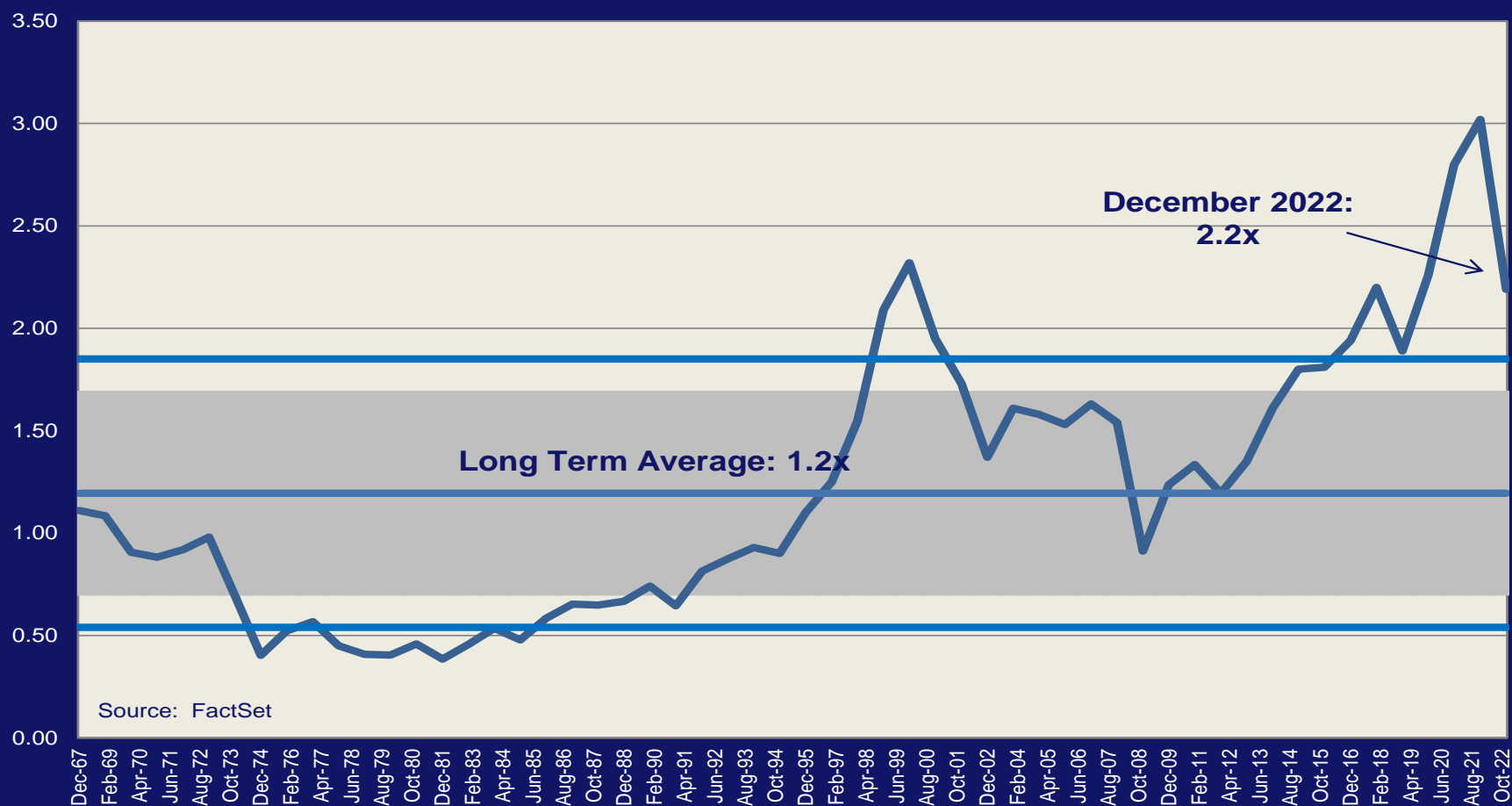
S&P 500: Inflation-Adjusted P/E

S&P 500 P/E + Inflation ¹ Standard Deviation Chart 1954 to September 2023

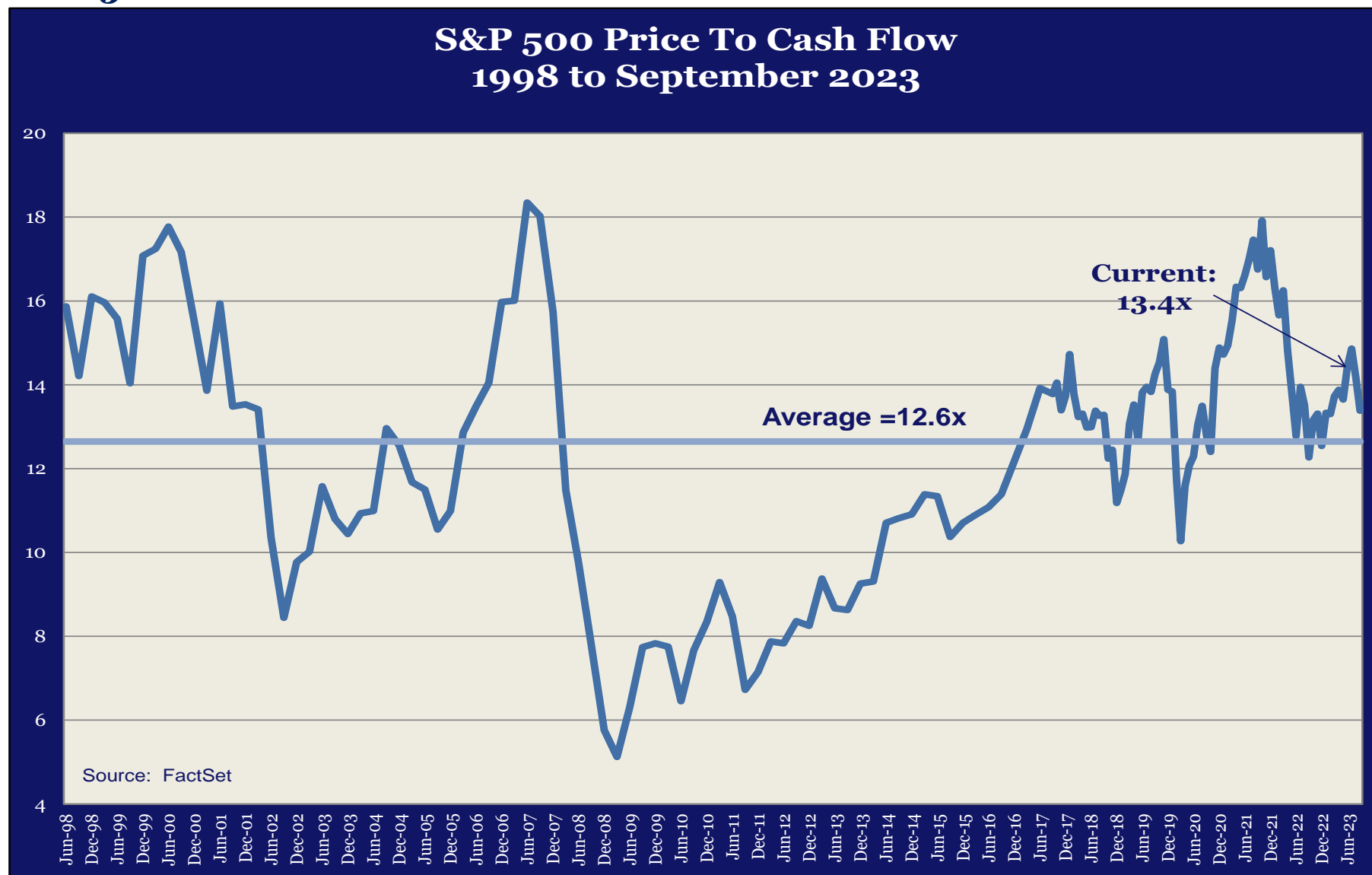


S&P 500: Price to Sales

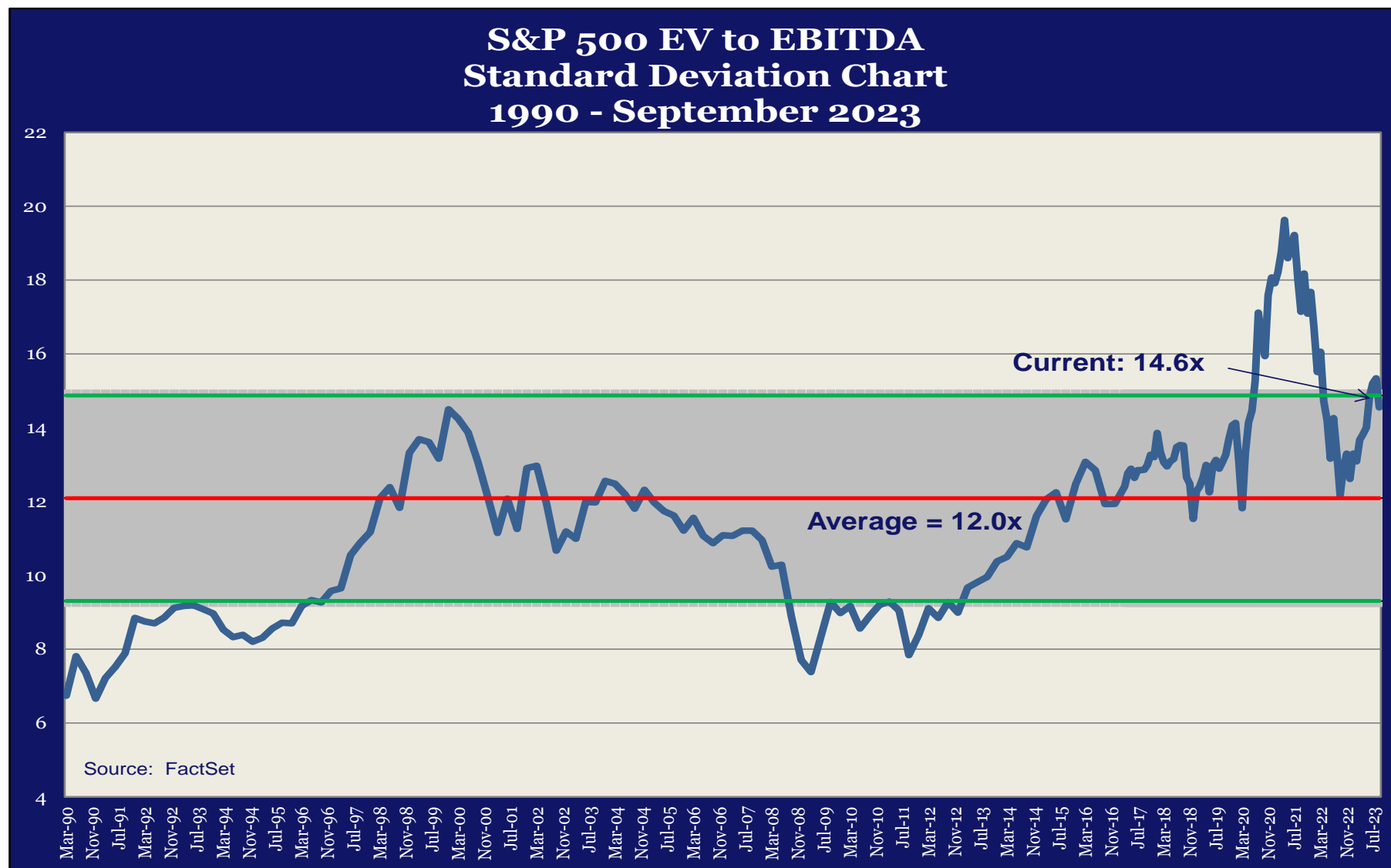
Annual Price to Sales
1967 - December 2022



S&P 500: Price to Cash Flow



S&P 500: EV to EBITDA



Definitions

S&P Mid-Cap 400 – Provides investors with a benchmark for mid-sized companies.

S&P Small Cap 600 – Provides investors with a benchmark for small-sized companies.

U.S. Treasury – Securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

200-DMA – The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days.

50-DMA – The 50-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 50 days.

Weighting – Sector percentage (%) of S&P 500

Total Return – Price return including dividends received

Beta – Measure of volatility in comparison to the market as a whole

Dividend Yield – Dividends received divided by price; reflects the percentage return off of dividends received.

Dividend Payout Ratio – Dividends distributed divided by net income; reflects the percentage of net income distributed in dividends.

Long-Term EPS Growth – Estimated earnings per share growth over the next three to five years, as received from consensus analyst forecasts.

Free Cash Flow Yield – Free cash flow divided by price. The free cash flow per share a company is expected to earn against its market price per share.

Price to Sales – Market cap divided by sales of companies in the sector or S&P 500

Price Earnings Ratio (P/E) – The price of the stock divided by its earnings per share.

EV to EBITDA – Enterprise Value (EV) divided by EBITDA (Earnings Before Interest, Tax, Depreciation, & Amortization).

- **LTM P/E** – P/E calculated with the last 12 months earnings reported.
- **NTM P/E** – P/E calculated with the consensus earnings estimates over the next 12 months.

Relative P/E – The sector's multiple divided by the S&P 500 multiple; represents a premium or discount relative to the S&P 500's valuation. We use last 12-month P/E in this report.

Relative Ratio – The sector's relative P/E multiple vs. its respective 10-year average relative P/E.

Relative Strength – Calculates price performance relative to the S&P 500 over time.

Standard Deviation – Measures the fluctuations of returns around the arithmetic average return of investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns.

IMPORTANT INVESTOR DISCLOSURES

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It is important to review the investment objectives, risk tolerance, tax objectives and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk, including loss. There is no assurance that any strategy will be successful, and no one particular investment style or manager is suitable for all types of investors. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns. Asset allocation and diversification does not ensure a profit or protect against a loss.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Commodities and currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

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Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

Europe: DAX (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Asia: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.