



FULLEN FINANCIAL GROUP

Quarterly Market Summary – Q3 2023

Market Results as of the Third Quarter of 2023

Selected Index Results for Q3 – 2023

<u>Index⁽¹⁾</u>	<u>%Growth For FY 2022</u>	<u>%Growth For YTD 2023</u>	<u>%Growth For Q3 2023</u>
DJIA	-8.78%	1.09%	-2.62%
Core U.S. Aggregate Bond Index (U.S. multi-sector bond)	-14.98%	-3.04%	-3.99%
S&P 500 (large cap)	-19.44%	11.68%	-3.65%
S&P 400 (mid cap)	-14.48%	2.95%	-4.58%
Russell 2000 (small cap)	-21.56%	1.35%	-5.49%
MSCI EAFE Index (developed international)	-28.81%	5.00%	-4.94%
iShares MSCI Emerging Market Index	-28.60%	0.13%	-4.07%
iShares Dow Jones US Home Construction	-37.24%	29.51%	-8.13%
MSCI US REIT Index	-30.15%	-5.61%	-8.59%
Amex Oil Index	27.65%	8.20%	15.16%
Barclays Global Agg ex-US Corp Bond Index	-27.46%	-2.13%	-4.40%

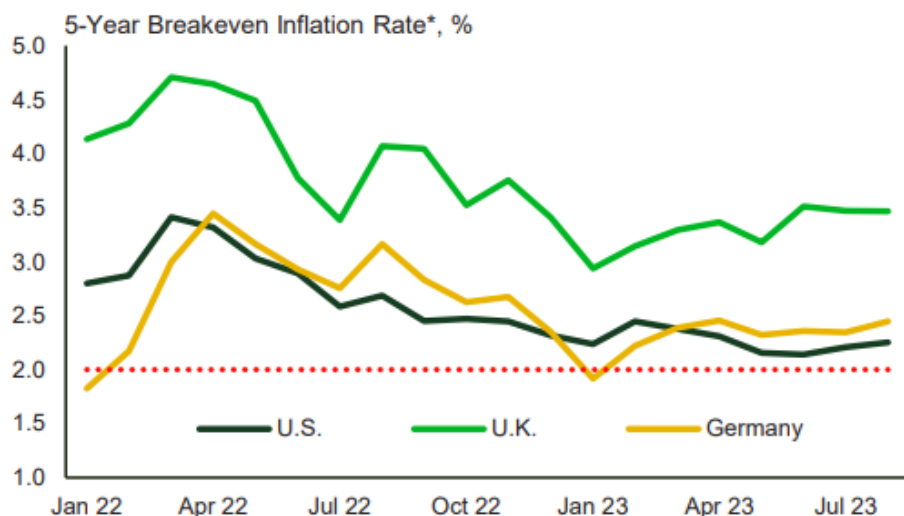
(1) These results do not include reinvestment of dividends.

Q3 Quick Summary

- Inflation remains the key driver in the global economic outlook. Inflationary pressures are cooling across large, developed economies, but progress on core measures has proved more difficult, leaving central banks biased towards additional rate hikes.
- The substantial monetary tightening already working its way through the economy is projected to slow the pace of global expansion from 3.1% this year to 2.7% in 2024. Challenges in China's economy, including weakness in the real estate sector and falling consumer confidence, continue to weigh on global economic growth.
- The U.S. economy – which has been a standout in terms of resilience this year – is set to see growth slow from 2.3% in 2023 to 1.3% in 2024 as impacts of higher interest rates and waning government stimulus ripple through the economy.
- The U.S. Federal Reserve (Fed) has signaled the likelihood of another quarter-point rate increase this year, and its expectation that the Fed Funds rate will remain elevated longer than previously expected, dampening third-quarter market performance for both stocks and bonds.
- The U.S. Congress narrowly averted a government shutdown on September 30th with a stop-gap deal that expires in mid-November. With the removal of Kevin McCarthy as Speaker of the House and ongoing friction between the House and Senate, prospects for a longer-term budget solution remain murky.

Inflation is Cooling, But Continues to Weigh on the Economy

The spring and summer months have brought relief on the inflation front as the energy shock abated and core price gains slowed. However, progress is at risk of stalling out short of major central banks' targets. The last mile may just prove to be the hardest for central bankers wary of pushing interest rates too far into restrictive territory. Although the energy price shock has faded, it has not been fully unwound in all regions. In the euro area and U.K., where the shock was most acute, prices are still 11% and 26% higher, respectively, than they were in January 2022. For the rest of the year, this means the base effects from 2022's price surge will continue to bring annual inflation numbers lower. However, in North America and Japan, energy price levels are roughly in line with those from early 2022 and are no longer having as great an impact on overall inflation readings.



*Monthly average of daily data Source: Federal Reserve, Bank of England, Deutsche Bundesbank

While there has been substantial progress fighting inflation on manufactured goods, the same can't be said for services. The U.S. and Canada have shown notable deceleration to about 3% quarter-over-quarter, while Japan and the Euro area both show consumer services price inflation chugging along at about 5%. The U.K. is the standout at a still-high rate of 9.6%. The stickiness in services prices, and its large share in the consumption basket, is giving market participants pause that central bankers may have to take rates higher in the coming months.

Recession Fears Recede, But Economic Growth Will Be Modest

Recession calls have been pared back in recent months as advanced economies weather the substantial monetary tightening of the past 18 months better than many forecasters feared. Hopes that the U.S. Federal Reserve will pull off a soft landing have increased, with markets building in expectations that interest rates will remain higher for longer. But now comes the hard part. Most forecasters continue to call for a period of subdued growth with rising unemployment. Weaker labor markets are necessary to help bring persistently high services inflation back down to acceptable levels. So, the distinction between a soft landing and a recession will likely be cold comfort for many consumers and businesses who will increasingly feel the pinch.

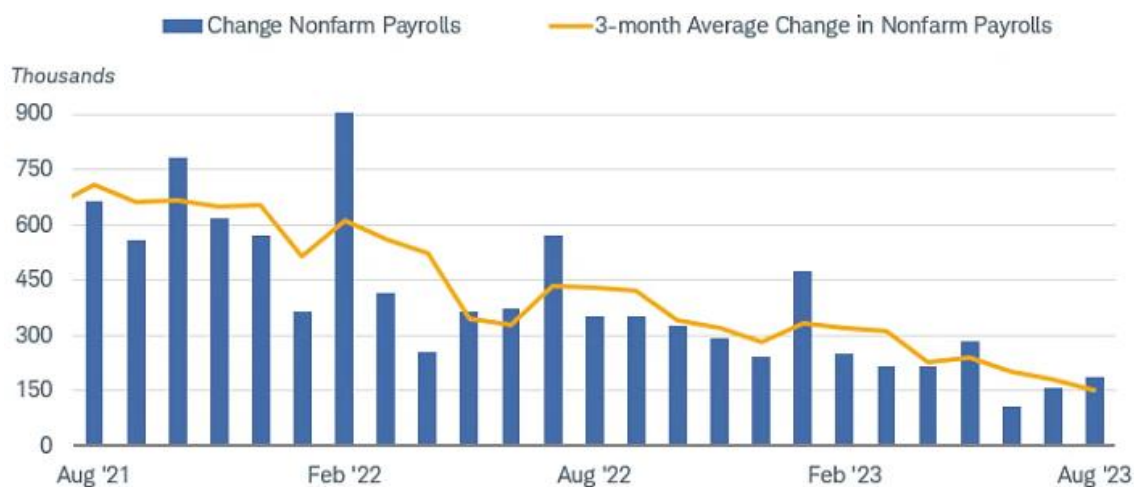
China has been having a tough year as well, as a surge in first quarter economic growth was followed by a stall in the second quarter. What little economic data China publishes shows a country mired in deflation, falling exports, high youth unemployment and an unstable property sector. Because property makes up about 70% of wealth for Chinese households, worries about the housing market appear to be eroding overall consumer confidence and the pace of spending on goods. Sustained weakness in China's economy will limit the potential for global economic growth in 2024.

So far in 2023 the U.S. economy has seemed almost impervious to higher interest rates, turning in a solid 2% pace of growth. In normal times that is not much to write home about, but after 18 months of relentless rate hikes, high inflation, and banking turmoil, it is notable. However, we are now approaching the point where many special influences will be fading. Top of that list is the depletion of pandemic-related excess savings by year end, a countercyclical force that helped consumers weather high inflation and interest rates rather well. In addition, households will enter 2024 with a savings rate at half its pre-pandemic level, while the repayment of student loans simultaneously comes back into scope. Job availability is also becoming less plentiful, and this trend will likely become more exaggerated next year. Analysts anticipate this trend will shift to net job losses over the coming quarters, leading to an increase in the unemployment rate. Potential headwinds from a prolonged UAW strike and the possibility of a government shutdown are further clouding the economic outlook.

Is the Fed Done With Rate Hikes?

There are economic signs to support and oppose the notion that the Fed's rate-hike cycle has done its job and can be ended. Whether the central bank still sees the need for another increase is a key question as we head into the final months of the year.

For context, recall that the Fed has raised the federal funds rate target range to 5.25% to 5.5%, from near zero in a little more than a year's time. The impact of that policy tightening is now showing up in economic data and lower inflation. Notably, the labor market, which is a key factor for the Fed in setting policy, is showing softness. Job openings have declined, hiring has slowed, wage growth is trending lower, and the unemployment rate has ticked higher, rising to 3.8% in August.



Source: Bloomberg, U.S. Bureau of Labor Statistics

And inflation is slowing. “Core” inflation, the Fed’s preferred inflation gauge (excluding volatile food and energy prices) rose by just 0.2% in July. On a three-month annualized basis, core inflation was up 2.9% year-over-year in July, which is closer to, but still above, the Fed’s 2% inflation target. Given mixed economic indicators though, competing narratives have emerged to describe the state of the U.S. economy, including the view that the U.S. has been experiencing rolling recessions that affect certain industries or geographies (different from an official national recession) for the past year and a half. While there have been noticeable declines in areas like housing and consumer goods, those pockets of weakness have been more than offset by resilience in the services and job markets.

All of these competing data points underscore the Fed’s need for vigilance, and why it is likely to maintain its hawkish tone, even as the economy cools. The Fed appears to be nearing the end of its rate hike cycle, but the likelihood of another rate hike is close to a coin toss at this point.

Would a Government Shutdown Matter to Investors?

In a surprising turn of events, Congress passed legislation late on September 30th to fund government operations until November 17th. The bill was signed by President Biden with 32 minutes to spare and continues funding for all government agencies at current levels. Although this provides some certainty for the next six weeks, the prospects for a shutdown in November remain elevated, particularly with the Speaker of the House chair now vacated.

Each federal agency makes contingency plans for operating “essential” services during a government shutdown. Should a shutdown occur in November, those services considered non-essential will be paused. Treasury markets and the stock market would continue to operate normally during a shutdown; however, SEC Chairman Gary Gensler recently stated the agency’s “normal oversight...on markets will not be possible” during a shutdown. Perhaps more importantly, government agencies like the Bureau of Labor Statistics would suspend collection of economic data, such as the Consumer Price Index and various employment reports. All of this data is critical for the Fed as it assesses the state of the economy and weighs decisions on monetary policy.

Historically, government shutdowns have not caused a major reaction in the markets, but shutdowns can increase market volatility. Even an extended shutdown, however, is likely to have only a modest impact on the economy. Congress has bought itself an additional six weeks, but the two chambers remain at odds over their approaches to funding the government. The Senate is working in a bipartisan fashion to craft bills that keep funding for the coming year at current levels, while House conservatives are pushing for steep spending cuts that have no chance of passing in the Senate. That dynamic puts a November government shutdown squarely on the table.

Conclusions

We believe economic uncertainty and market volatility will remain high for the remainder of this year and likely into 2024. It’s important during this period to maintain a well-balanced, diversified portfolio, with a risk profile consistent with your goals. Your portfolio should contain an appropriate mix of investments, including cash, bonds, and various types of stocks (large cap, mid cap, small cap, domestic and international) in appropriate allocations based on your goals, investment time horizon and tolerance for market risk.

Projecting stock market direction is always rife with problems, doing so in an environment like this can quickly make even the most thoughtful projections irrelevant. This highlights the benefits of a well-diversified portfolio and a consistent investment strategy to navigate through the volatility. Fundamentally, stock valuations are based on long-term expectations for dividend payments and price appreciation. Assuming the economy continues to

return to more “normal” levels of activity, the long-term impact on economic growth and equity values should not be significant. However, as we have stated previously, the ongoing and unprecedented level of government stimulus, both fiscal and monetary, continues to raise concerns about deficit spending and the corresponding growth in national debt. While such stimulus may be critical in times of stress, the long-term implications for economic growth are likely to be negative. In the near term, uncertainties around these policies (among other developments) will likely result in continued high levels of market volatility.

In periods of higher market volatility, maintaining investment discipline will be more difficult emotionally. However, we need to remember that market timing as an investment strategy has never worked consistently (and results in lower longer-term yields). Trying to time markets has a high probability of creating permanent losses in your portfolio. As always, stay with a consistent and disciplined investment strategy; it is the only course of action with any track record of success (in any investment environment). There is no reason to believe, even with the changing economic dynamics, that the disciplined approach to investments will be less effective than in the past at delivering the best possible relative returns.

At the most fundamental level, match your investment time horizon to your spending timeline – if you have short term cash needs then those funds should be in short term investments. These are simple asset/liability matching principles practiced by the most sophisticated investment managers every day (but far too complex to explain in sound bites and not conducive to selling products). Additionally, don’t try to solve short-term financial problems with long-term equity exposure. If you try to chase returns, you may get lucky sometimes but, if pursued long enough, it always ends in extreme frustration and often with serious financial losses. The reality is that no one has ever consistently predicted investment markets and they never will - and there is always a consequence to continued unsound financial behavior.

As always, if your personal or family situation has changed (or is likely to), a discussion with us as to how this may impact your financial plan and your overall asset allocation is warranted. Or, if you simply feel a need to discuss any aspect of your portfolio and/or financial plan, or you haven’t had a planning update within the last 12 months, please contact us to review your financial plan and investments.

Risks

Investors should be aware of the risks associated with all portfolio strategies and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance and the effectiveness of strategic and tactical portfolio approaches.

Your financial plan is the most important financial document that you possess! Keep it updated and use it.

Please note that you are entitled to receive Fullen Financials’ Form ADV whenever you would like to. This document outlines many details of who Fullen Financial is, their investment methodologies and their advisor’s education and experience. You may do so by contacting Paula Miller (paula@fullenfinancial.com) and requesting such. Alternatively, you can go to the Fullen Financial website at www.fullenfinancial.com and click on “Resources” in the top menu bar, and then on “Client Forms.”

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Appendix: Economic Indicators and Outlook

Economic Indicators: G7 & Europe

	2022	2023F	2024F	2025F
Real GDP (Annual Per Cent Change)				
G7 (30.8%)*	2.3	1.5	1.0	1.5
U.S.	2.1	2.3	1.3	1.7
Japan	1.0	1.8	1.0	1.0
Euro Area	3.4	0.6	0.6	1.2
Germany	1.9	-0.3	0.5	1.3
France	2.5	0.7	0.6	1.4
Italy	3.8	0.7	0.5	0.9
United Kingdom	4.1	0.3	0.6	1.6
Canada	3.4	1.2	0.7	1.5
Consumer Price Index (Annual Per Cent Change)				
G7	7.3	4.7	2.6	1.9
U.S.	8.0	4.2	2.7	2.0
Japan	2.5	3.1	1.9	1.5
Euro Area	8.4	5.4	2.5	2.0
Germany	8.7	6.1	2.7	2.0
France	5.9	5.7	2.4	2.0
Italy	8.7	6.4	2.2	1.8
United Kingdom	9.1	7.4	2.9	1.8
Canada	6.8	3.8	2.8	2.1
Unemployment Rate (Per Cent Annual Averages)				
U.S.	3.6	3.6	4.2	4.2
Japan	2.6	2.6	2.4	2.3
Euro Area	6.7	6.7	7.4	7.0
Germany	5.3	5.7	5.9	5.5
France	7.3	7.4	7.8	7.5
Italy	8.1	7.8	8.6	8.2
United Kingdom	3.7	4.3	4.9	4.4
Canada	5.3	5.4	6.5	6.6

F: Forecast by TD Economics, September 2023.

* Share of 2021 world gross domestic product (GDP) at PPP

Source: National Statistics Agencies, TD Economics.

Global Economic Outlook

[Annual Per Cent Change Unless Otherwise Indicated]

	2021 Share*	Forecast		
Real GDP	(%)	2023F	2024F	2025F
World	100.0	3.1	2.6	2.9
North America	19.0	2.2	1.3	1.8
United States	15.8	2.3	1.3	1.7
Canada	1.4	1.2	0.7	1.5
Mexico	1.8	2.9	1.8	2.2
European Union (EU-27)	14.8	0.7	0.9	1.4
Euro Area (EU-20)	12.0	0.6	0.6	1.2
Germany	3.3	-0.3	0.5	1.3
France	2.3	0.7	0.6	1.4
Italy	1.9	0.7	0.5	0.9
Other EU Members	2.8	0.3	1.9	2.2
United Kingdom	2.3	0.3	0.6	1.6
Asia	44.0	4.3	3.9	4.0
Japan	3.8	1.8	1.0	1.0
Asian NIC's	3.5	1.2	2.3	2.2
Hong Kong	0.3	4.0	2.1	2.4
Korea	1.7	1.2	2.2	2.3
Singapore	0.4	0.8	2.7	2.5
Taiwan	1.0	0.3	2.4	2.1
Russia	3.1	1.7	1.5	1.0
Australia & New Zealand	1.2	1.6	1.5	2.4
Emerging Asia	32.5	5.3	4.8	4.9
ASEAN-5	5.5	4.5	5.1	5.1
China	18.5	5.0	4.2	4.3
India**	7.0	6.7	6.0	6.3
Central/South America	5.5	1.7	1.6	2.3
Brazil	2.4	3.3	1.8	2.1
Other Emerging Markets	13.3	3.8	3.0	3.1
Other Advanced	1.1	1.7	1.9	2.2

F: Forecast by TD Economics, September 2023.

* Share of 2021 world gross domestic product (GDP) at PPP

** Forecast for India refers to fiscal year.

Source: International Monetary Fund, TD Economics.

Important Disclosures: This material is for informational purposes only. It is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a recommendation to buy a security. This summary is based exclusively on an analysis of general market conditions and does not speak to the suitability of any specific proposed securities transaction or investment strategy.

Judgement or recommendations found in this report may differ materially from what may be presented in a long-term investment plan and are subject to change at any time. This report's authors will not advise you as to any changes in figures or views found in this report.

Investors should consult with their investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.