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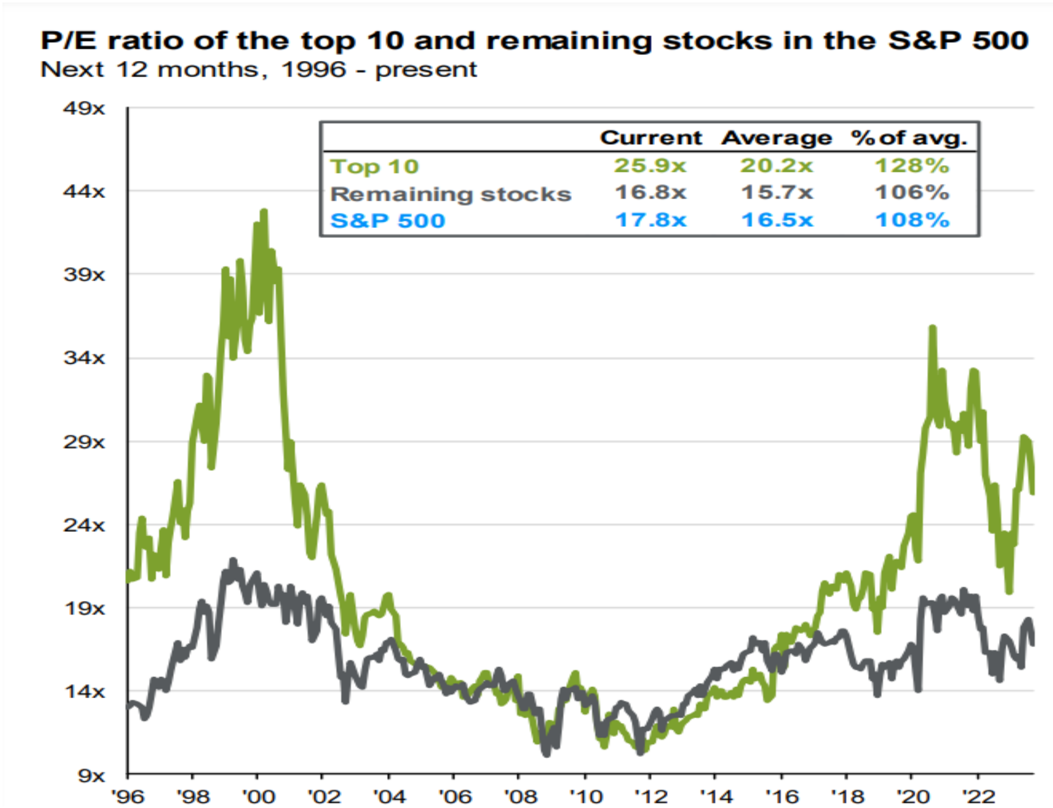
SUMMARY

- Market volatility returned during Q3 impacting stocks and bonds with both reporting negative returns during the quarter.
- The total return on a 50/50 global stock/bond benchmark portfolio now stands at +4.5 percent YTD.
- We show how bond yields have become attractive relative to equity dividend yields.
- We discuss our investment approach that leans into asset classes that may offer the most appealing prospective returns for the risk taken.

MARKET REVIEW AND OUTLOOK

Following a Q2 rally, the market volatility experienced earlier this year promptly returned during Q3 with stocks falling -6.5% from Aug 1 through Sept 30, 2023. Regular readers of our market commentaries know well our focus on seeking returns commensurate with the risk taken. We had noted in our Q2 letter that the stock rally was *"a bit overly optimistic"* as it was being led by a select few mega-cap tech (AI-related) mega-cap stocks and that *"periods like this with abnormally high p/e and p/s ratios are typically followed by lower-than-average market returns in months ahead."*

So, after the recent sell-off, are stock market valuations back to normal? The answer is, no not yet. The graph below tells the story. The green line is the price/earnings ratio for the largest 10 stocks in the S&P 500 index and the grey line shows the remaining 490 stocks in the index. So, while equity valuations have been sliding back towards their long-term average, they are still relatively high overall versus the past decade.

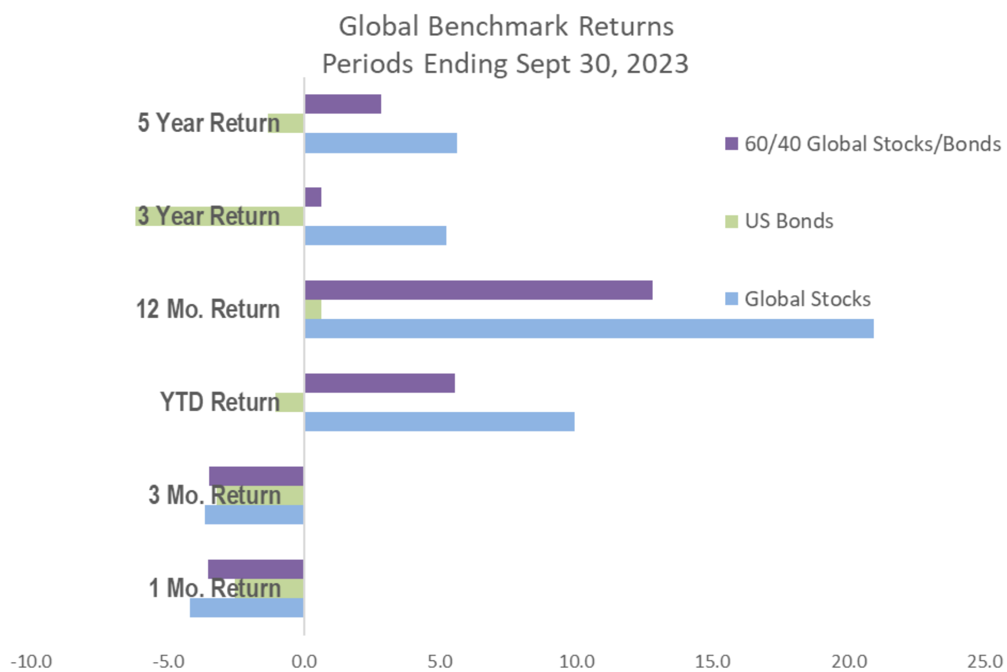


Source: JP Morgan, Guide to the Markets Q3 2023. The portfolios shown are hypothetical portfolios and do not necessarily represent any actual Vesteer portfolio or strategy. Investing always involves risk, whenever you invest you are at risk of loss of principal as the market fluctuates. Past performance is not indicative of future results.

With Q3 ending on a down note, investors are heading into the final months of 2023 worried that the Federal Reserve will keep interest rates higher for longer than they expected just a few months ago. This erodes the case for risky assets like stocks and heightens the likelihood that a seemingly resilient economy runs into trouble.

VESTEER PORTFOLIOS

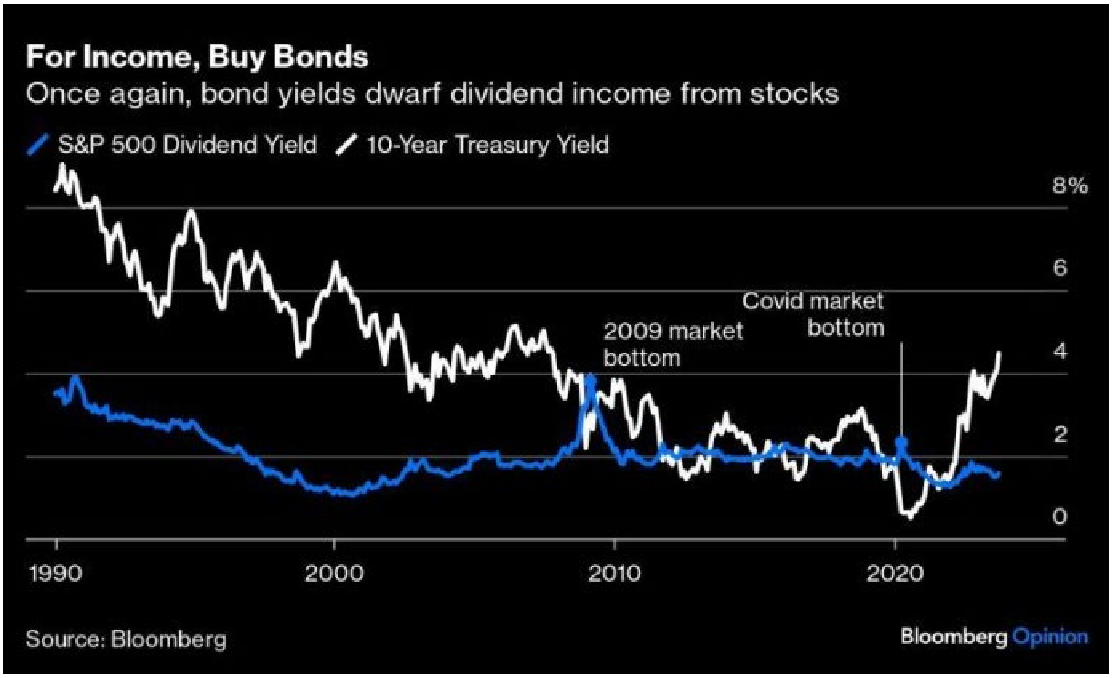
The equity market selloff has been accompanied by a bond market selloff driven by bond yields soaring over the past few months. Both stocks and bond prices falling at the same time is unusual, but as we know, happened as well during 2022 with both stocks and bonds declining for the year. As shown in the below graph, bond returns are now slightly negative for the year 2023 as well as for the past 3-yr and 5-yr periods.



Source: Vesteer Wealth Mgt analysis using data from Morningstar. Returns beyond one year annualized.

The portfolios shown are hypothetical portfolios and do not necessarily represent any actual Vesteer portfolio or strategy. The results are hypothetical and are not an indicator of future results and do not represent returns that any investor might actually achieve. Indexes are unmanaged, do not reflect management or trading fees, and one cannot invest directly in an index. Purchases are subject to suitability. This requires a review of an investor's objective, risk tolerance, and time horizons. Investing always involves risk, whenever you invest you are at risk of loss of principal as the market fluctuates. Past performance is not indicative of future results.

Comparing stocks versus bonds, we observe that bond yields have become more attractive relative to stocks. The below graph makes this more clear. Here you can see that bond yields are now higher than stock dividend yields making bonds relatively attractive versus stocks. A situation we've not seen for over a decade.



Source: JP Morgan, Guide to the Markets Q3 2023. The portfolios shown are hypothetical portfolios and do not necessarily represent any actual Vesteer portfolio or strategy. Investing always involves risk, whenever you invest you are at risk of loss of principal as the market fluctuates. Past performance is not indicative of future results.

Having said all that, academic research shows that trying to time the market aggressively is a very difficult game. Our efforts to do so are thus done only modestly. This means, as we've mentioned in the past, we change allocations to our strategic portfolio of diversified global asset classes gently towards those asset classes potentially offering the best expected return for the risk taken when viewed over a two- to five-year horizon.

During Q3, risk assets shifted to risk-off mode pushing global stocks lower by -3.6% as measured by the MSCI AWCI (All Countries World Index). For 2023 YTD, the MSCI ACWI is up 10%, while bonds, as measured by with the Bloomberg Barclays Bond Index, has declined -1%. The YTD 2023 total return for our usual 50/50 global stock/bond portfolio is higher by 4.5% YTD. Depending on chosen risk profile, Vesteer client portfolios report total returns of between 1.2% and 4.3% YTD. We continue to take risks, but are seeking to do so prudently.

So, what does all this mean for Vesteer portfolios looking ahead? The combination of the slowing economy, along with relatively higher than average equity market valuations relative to bonds, leads us to maintain our defensive portfolio posture (tilt towards higher quality stocks and bonds and away from riskier assets). There are no guarantees in markets, of course, but this strategy has worked to grow and preserve wealth across a variety of market environments historically, like during last year's market downturn.

In closing, we reiterate our long-standing goal to add value for all of our clients by going beyond managing your investment portfolio to fully support all of your financial planning needs. Please reach out to us if we can ever be of service to your long-term financial success.

As always, we thank you for your trust!

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