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THIRD QUARTER 2023 *INVESTMENT REVIEW*

FIXED INCOME OVERVIEW

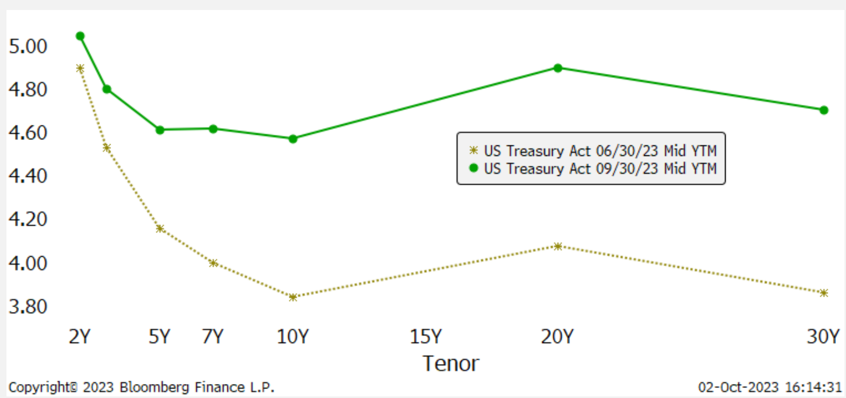
The "higher for longer" theme appears to be sinking in as interest rates moved sharply northward on sticky inflationary readings, a slightly hawkish Federal Reserve (the Fed), and fiscal imbalances. Market participants finally took the Fed at their word, or at least their projections, as the 50bp shift in 2024 and 2025 federal funds rates unnerved both stock and bond investors. Simply put, it appears as though the cost of financing will be higher for longer, and that is certainly not a path to easy profits, especially for those businesses that rely heavily on borrowing. The short-end of the curve remained relatively steady, with rates rising approximately 15bps on the 2-year Treasury moving from 4.90% to 5.04%, while rates further out the curve tilted much higher as the 10-year moved over 70bps to close at 4.57% and the 30year benchmark closing at 4.70%, about 84bps higher.

For the quarter, the Bloomberg Barclays Aggregate Index finished lower by 3.23%, (Cont.)

ARTICLE HIGHLIGHTS

- A tough quarter for Fixed Income returns
- Yields move higher as FOMC projections shift higher
- Bond Market Spreads starting to move wider
- Inflation remains sticky
- Manufacturing and Services stabilizing
- Some Consumers capitalized on low financing costs

U.S. Treasury Curve



Source: Bloomberg

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FIXED INCOME OVERVIEW

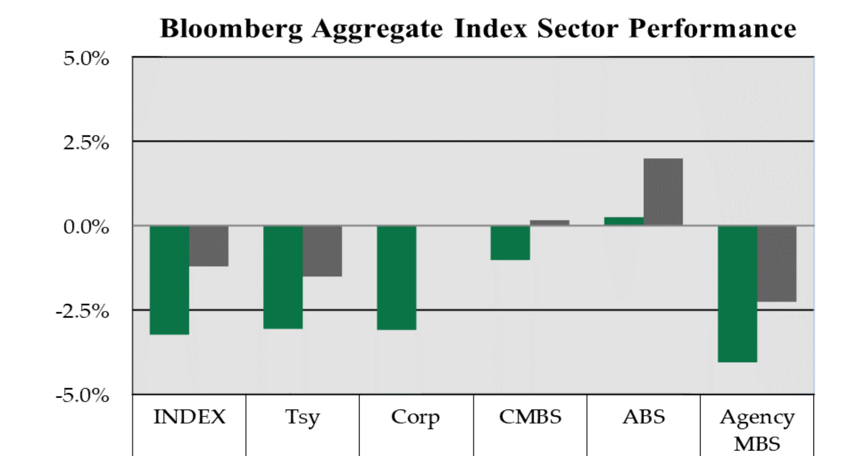
(Cont.) with Treasury, Corporate, and Agency MBS securities showing the most weakness as each lost over 3%. Asset-backed and commercial mortgage-backed debt performed relatively better, but it was difficult to find safe harbor in the duration-driven sell-off.

CREDIT SPREADS

Investment grade corporate credit spreads managed a very small rally of just 2bps during the quarter, but the market weakened during the last week of September, setting up a "wait and see" situation in regards to third quarter earnings releases. High yield bonds were again a market segment that offered positive performance as the embedded yield was enough to offset the move in interest rates. The Bloomberg HY 2% Issuer Capped index finished the quarter up 0.46%, while spreads ended 4bps wider. We think there may be an opportunity to increase our high yield exposure later in the fourth quarter.

FISCAL AND MONETRARY POLICY

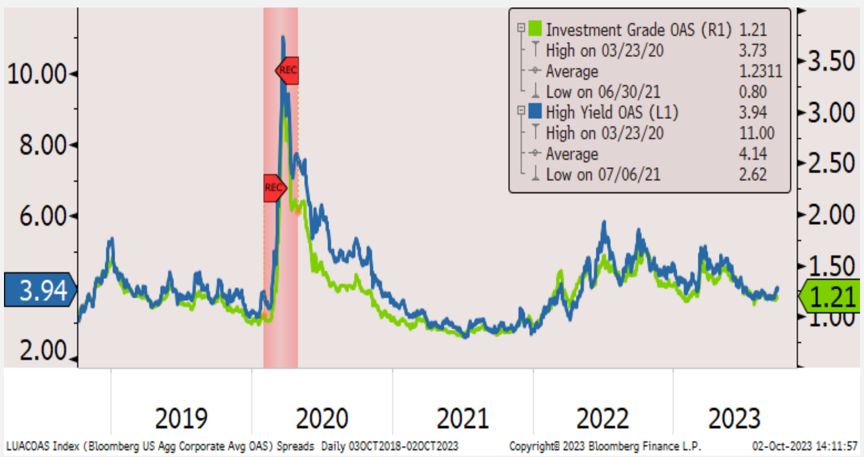
Fiscal wrangling in Washington D.C. again reared its unsightly head as Congress rushed and passed a last minute 45-day stopgap-funding bill, which funds the government at 2023 levels, but leaves out further aid to Ukraine, averting a government shutdown. Government spending levels and where the money goes are always subject to political theatre. Yet, looking at interest as a percent of GDP is thought-provoking, as many prior upticks have ended in recession. It is not difficult to argue that fiscal stimulus shares some of the responsibility with the current inflationary backdrop, and both major political parties get to share in that.



	INDEX	Tsy	Corp	CMBS	ABS	Agency MBS
Q3 '23	-3.23%	-3.06%	-3.09%	-1.02%	0.25%	-4.05%
YTD	-1.21%	-1.51%	0.02%	0.16%	1.99%	-2.26%

Source: Bloomberg

Bond Spreads



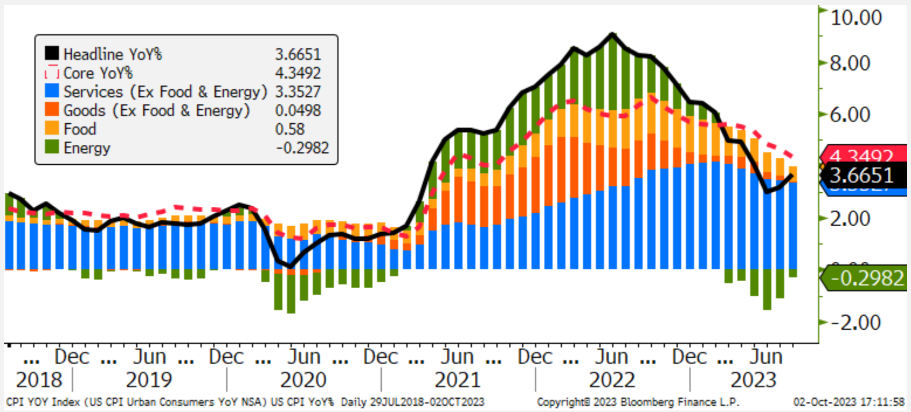
Source: Bloomberg

In another not-so-shocking revelation to anyone who still has money to go shopping is that inflation remains quite sticky. Headline CPI inflation has ticked up to 3.7% from just 3% in June, as energy is providing less of a tailwind these days. We acknowledge that "core" inflation continues to move in the right direction. However, unless services and food inflation move significantly lower, we think the Fed's job is not yet over. While Fed Chair Powell can sometimes move markets during his press conferences, it was the Committee's 50bp increases from their June meeting of their future federal funds projections that caught the markets (Cont.)

FISCAL AND MONETRARY POLICY

(Cont.) off guard in September. Another way of looking at it is we should expect fewer rate cuts in the coming years. In analyzing the rather robust growth and employment estimates, we agree that the path of interest rates will indeed need to be higher for longer.

CPI Inflation



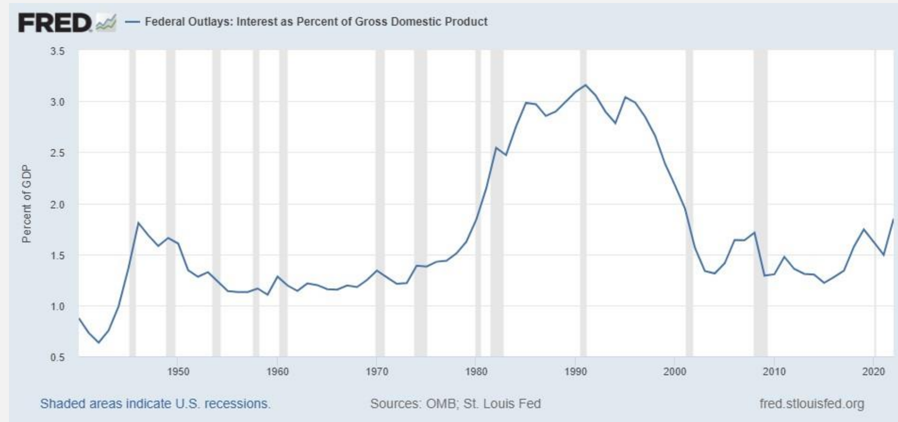
Source: Bloomberg

THE ECONOMY

Employment within our country remains quite robust even as recent ADP and non-farm payroll data slip below 200k jobs added per month and average hourly earnings are clocking in with 4% gains. Recent ISM data also points to an uptick in growth, which mirrors the FOMC projections of better-than-expected GDP growth ahead. Maybe they know what they are talking about after all.

Meanwhile, the consumer still appears to be hanging in there as overall debt-to-income ratios look favorable compared to recent slowdowns. Many consumers took advantage of the historic low interest rates to finance their housing and other large expenditures, now seemingly providing a steady tailwind to many facets of our economy. Our structured team has been keeping an eye on the resumption of interest accruing on federal student loans, with payments on those loans starting again in October. It is very early, but we have (Cont.)

U.S. Govt. Interest as % of GDP



Source: Federal Reserve Bank of St. Louis

Median Projections in Percent Terms

Variable	2023	2024	2025	2026
change in GDP	2.1	1.5	1.8	1.8
June projection	1	1.1	1.8	
Unemployment rate	3.8	4.2	4.1	4
June projection	4.1	4.5	4.5	
PCE inflation	3.3	2.5	2.2	2
June projection	3.2	2.5	2.1	
Core PCE inflation	3.7	2.6	2.3	2
June projection	3.9	2.6	2.2	
Memo: Projected appropriate policy path				
Federal funds rate	5.6	5.1	3.9	2.9
June projection	5.6	4.6	3.4	

Source: Federal Open Market Committee

THE ECONOMY

(Cont.) not noticed any significant slowdown in prepayment speeds across our consumer ABS sectors yet. We do expect a modest slowdown in some subsectors going forward, particularly among borrowers of the lowest credit quality, as these payments kick in and rising interest rates slow the economy.

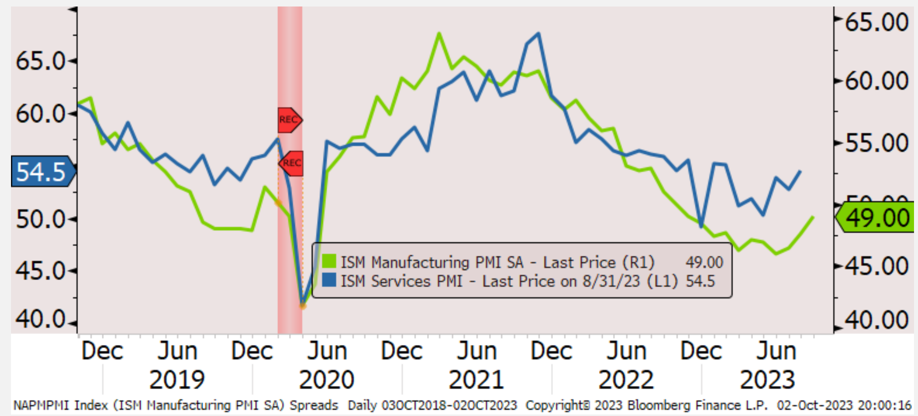
FOURTH QUARTER STRATEGY

The fourth quarter begins with the rates market trying to find a top in yields with some opting for the sidelines, which has pressured spreads in certain areas of the corporate bond market. We have been opportunistically adding duration across most mandates, but this has been a slow process, and we are still a touch underweight duration relative to our benchmarks.

Our portfolio managers have been selling within our taxable muni area with the proceeds going to U.S. Treasuries/Cash, Agency MBS and certain sectors of the Corporate Bond market such as technology. We continue to prefer larger money center banks which have greater revenue diversification to their smaller regional bank brethren. Regional banks continue to face headwinds from the higher rates, putting pressure on their net interest margins and slowing loan growth engines. We are underweight both life and P&C insurers, as life insurance companies hold a considerable amount of commercial real estate, and P&C companies have limited pricing power in the face of increased natural disasters.

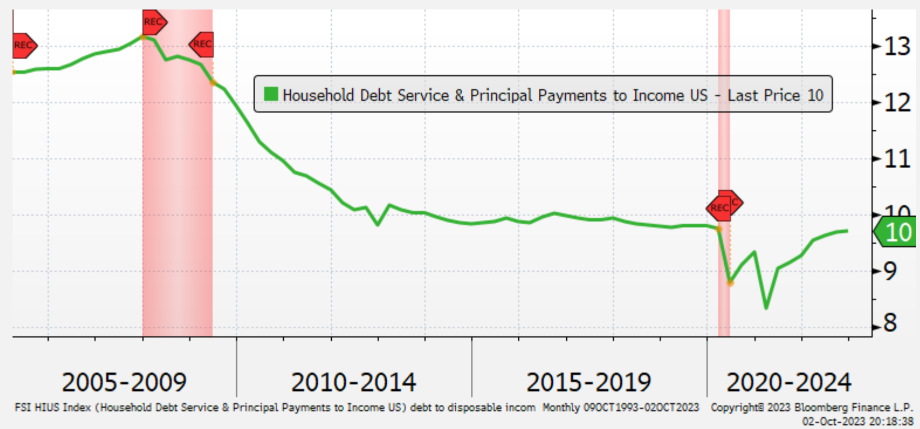
Our structured finance managers like data center-related ABS, as this sector has experienced strong demand that should continue to increase with the growth of AI and hold up relatively well in an economic downturn. They are finding value in small-mid size ticket equipment and select subordinated tranches of top tier auto ABS. We do not own any traditional office REITs, and are sticking to higher-quality names within the REIT sector, generally in defensive sectors like single family rentals. We have also been adding to government-guaranteed bonds issued by the Small Business Administration. These bonds are trading cheap relative to their historic relationship to agency CMBS and corporates.

Manufacturing and Services PMI



Source: Institute for Supply Management, Bloomberg

Household Debt Payments to Income



Source: International Monetary Fund, Bloomberg

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