



Investments in harmony with youSM

Quarterly Commentary

Executive Summary



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MARKET COMMENTARY

The resilience of the U.S. economy persisted through the third quarter as indicators of domestic growth continued to surprise to the upside. Consumer spending and the labor market have so far remained seemingly immune to the impact of tighter monetary policy. While core inflation has declined, the pace of decline has slowed, and it remains nearly double the Federal Reserve's 2% long-term target. In light of this, the Federal Open Market Committee (FOMC) maintained a hawkish sentiment indicating further interest rate increases could occur despite only raising rates at one of the two meetings during the quarter. Against this backdrop, market sentiment shifted to a higher-for-longer view of monetary policy, which combined with a supply demand mismatch and greater belief of a soft landing, pushed the long end of the Treasury yield curve substantially higher. As a result, the quarterly return for the Bloomberg U.S. Aggregate Bond Index was -3.23%. Equity markets also softened during the quarter with the S&P 500 returning -3.27%.

Following the recent partisan debate over the U.S. debt limit, Fitch Rating Services became the second nationally-recognized statistical rating organization (NRSRO) to downgrade the United States to AA+. Similar political brinksmanship nearly shut down the government again during the third quarter and remains a risk for the fourth quarter. Markets were largely unimpacted by the downgrade. However, purchases by some of the largest buyers of Treasury bonds, China, Japan, pension funds, and banks, have slowed right at the time Treasury issuance is increasing. This supply demand mismatch is partially responsible for the shift higher in interest rates but could prove temporary as these buyers return.

Economic forecasts continued to improve during the quarter, with both the Federal Reserve and market participants revising GDP estimates higher and unemployment rates lower. The Bloomberg Consensus Survey view of the likelihood of a U.S. recession within the next year also fell to 55%. The consumer remained the beacon of strength in the U.S. with spending repeatedly surprising to the upside. While spending has continued to be funded through savings and credit utilization, consumer credit metrics remain below pre-pandemic levels due to increases in after-tax incomes. This coupled with the continued strength of the labor market, which added 4.2 million jobs since the start of the pandemic – the majority of which have been in above-average earning sectors – leaves us cautiously optimistic regarding current consumer health.

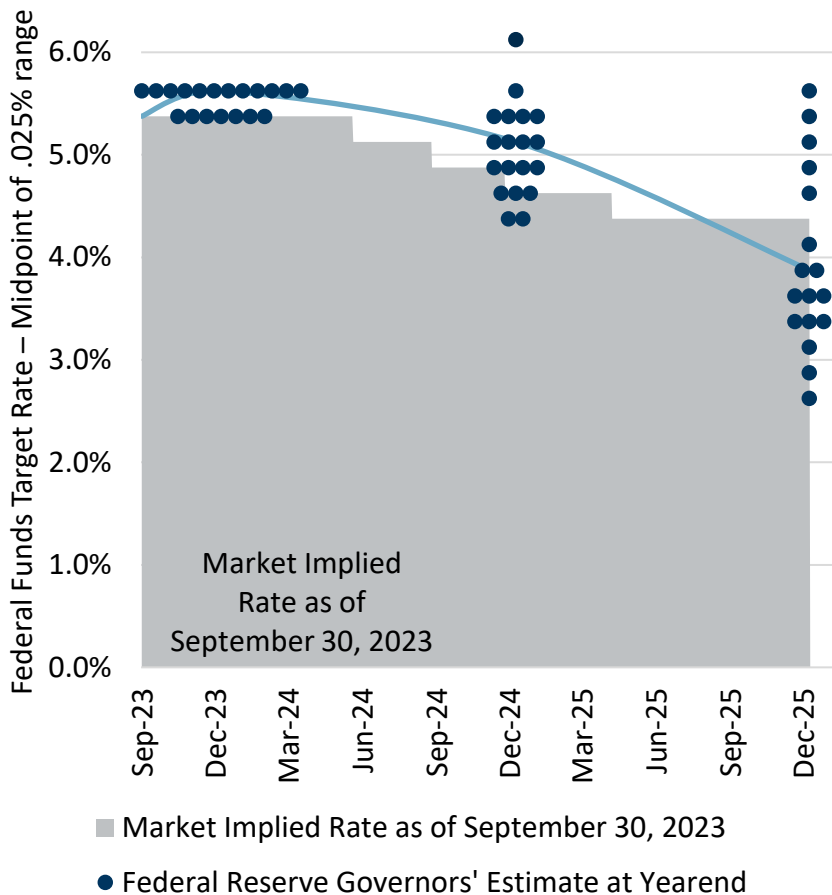
However, potential pressures are mounting. The resumption of student loan payments is likely to dampen consumer spending, though, on its own should not be a significant headwind. While the banking industry did not materially change during the quarter, regional banks remain stressed due to higher interest rates and weakness in the commercial real estate sector. This continues to pressure lending standards, reducing the availability of credit to small businesses which could lead to weakness in the labor market.

The cumulative effects of these potential headwinds to economic activity could prove a difficult challenge for the U.S. economy to overcome. This has led market participants to largely have a lack of conviction in economic projections which has increased markets sensitivity to economic data surprises. We expect this to continue into the fourth quarter

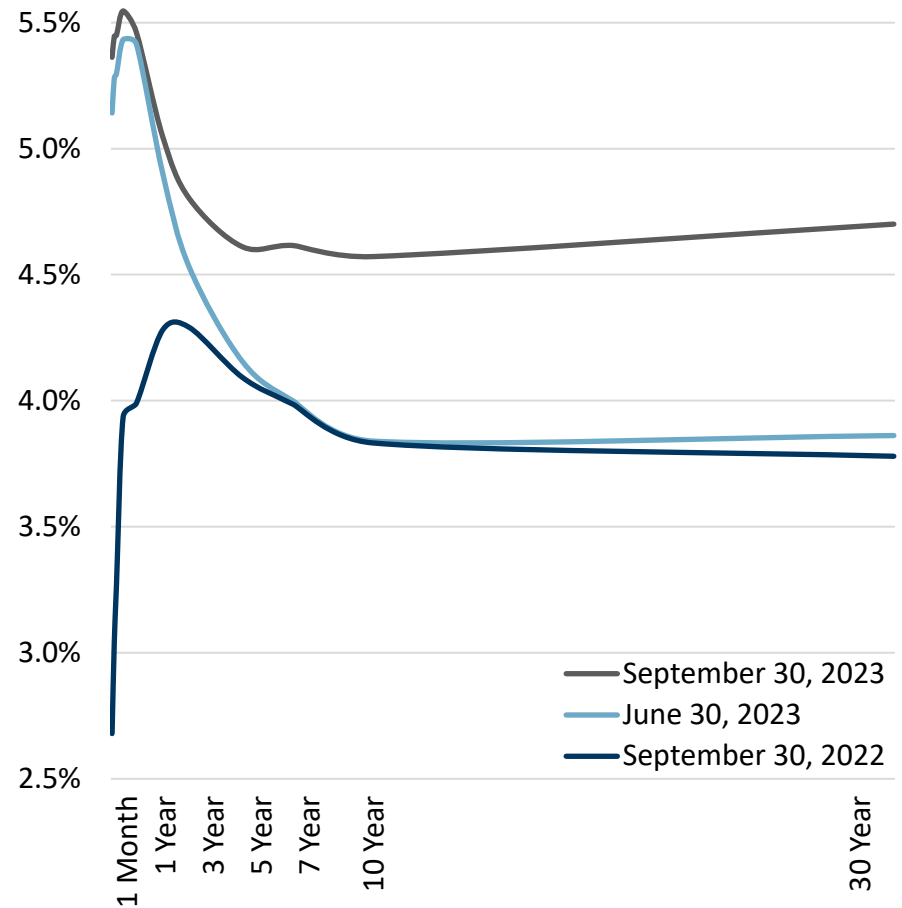
Economic Outlook

While the FOMC's hiking cycle is nearing an end, growing acceptance of "higher-for-longer" monetary policy and stronger economic data has pushed long-term rates higher

Expectations for the FOMC Overnight Target Rate



U.S. Treasury Yield Curve



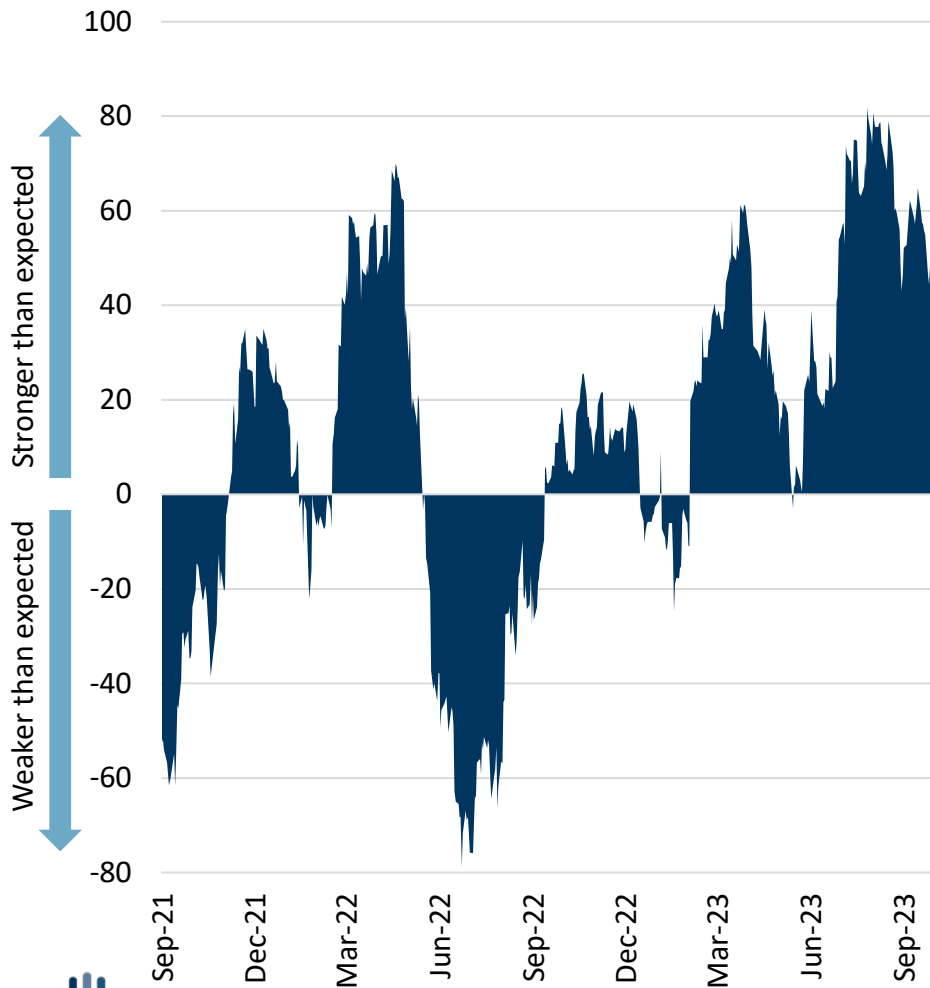
Source: Opus, Bloomberg, Federal Reserve

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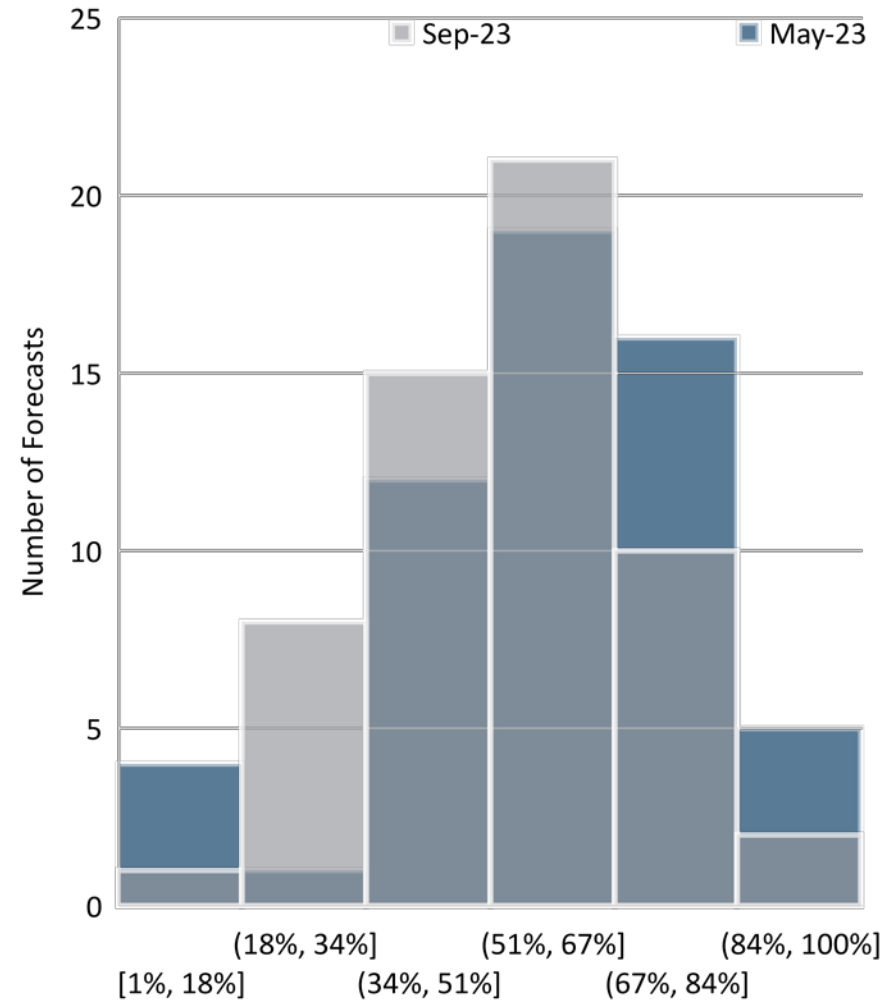
Economic Outlook

With economic data surprising to the upside, economic forecasts have been favorably revised, including diminishing expectations of a U.S. recession within the next year

Citi U.S. Economic Surprise Index



U.S. Recession Probability Forecast

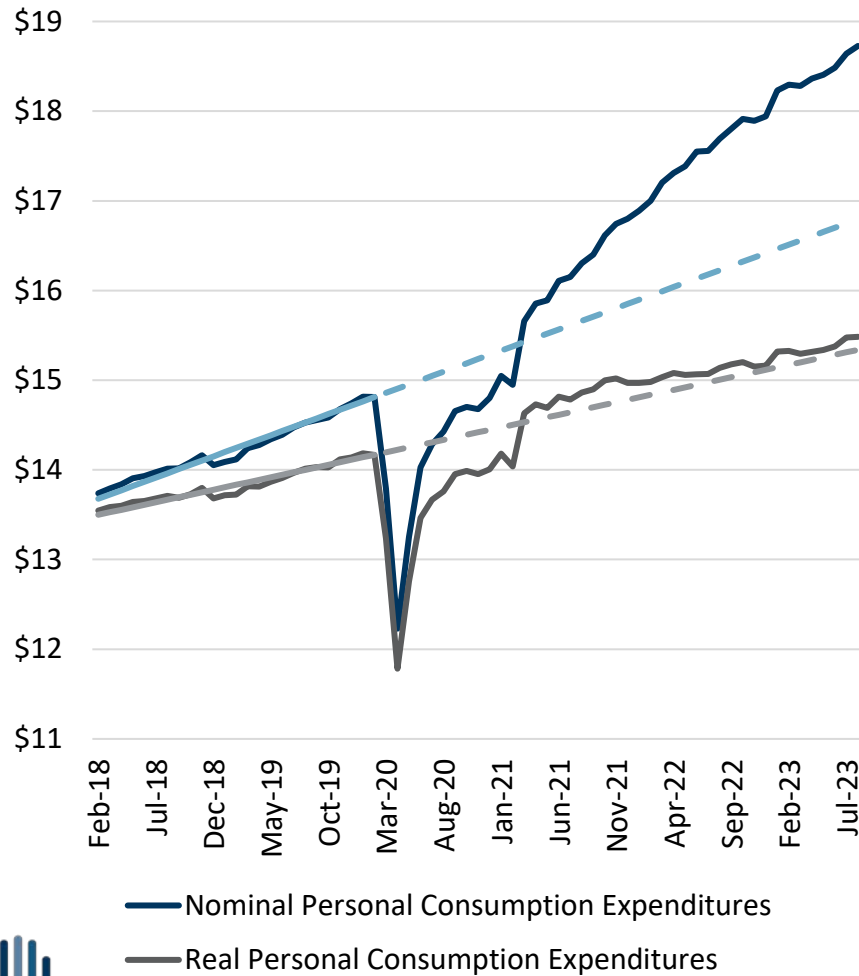


Source: Opus, Bloomberg, Citi

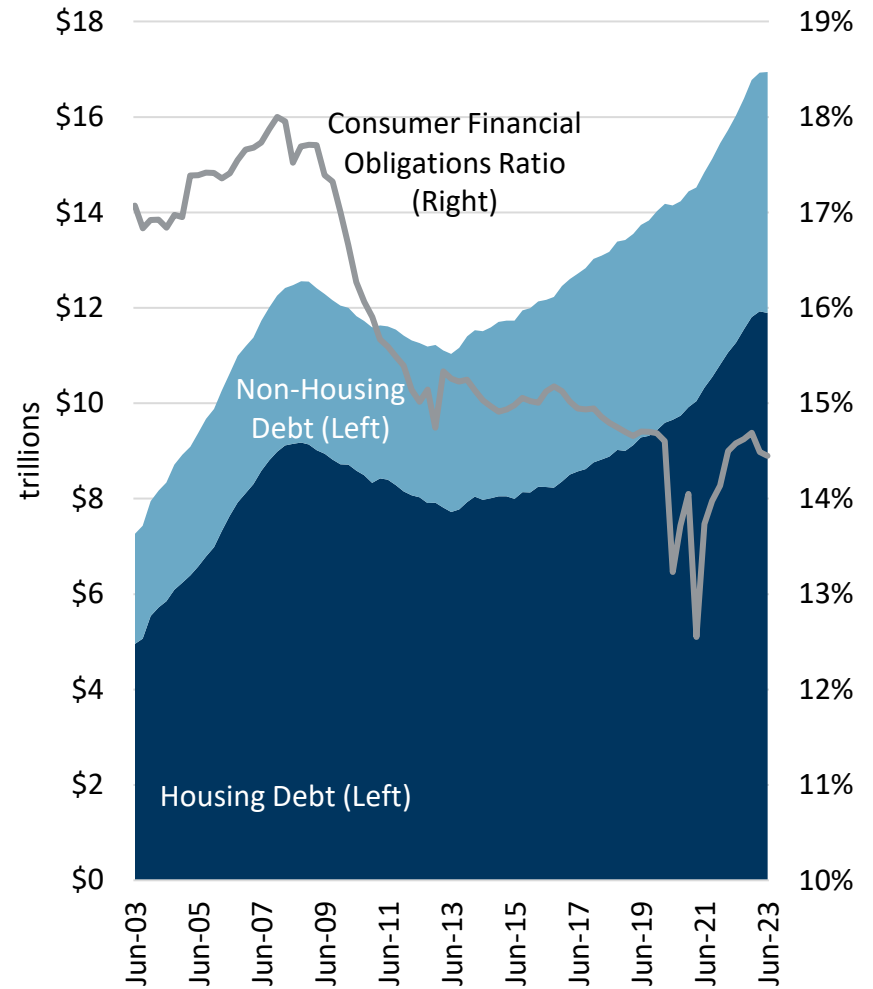
Economic Outlook

Consumers continue to fund spending using debt and reduced savings; however, monthly financial obligations remain manageable due to rising incomes

Consumer Spending trillions



Consumer Balance Sheet Health



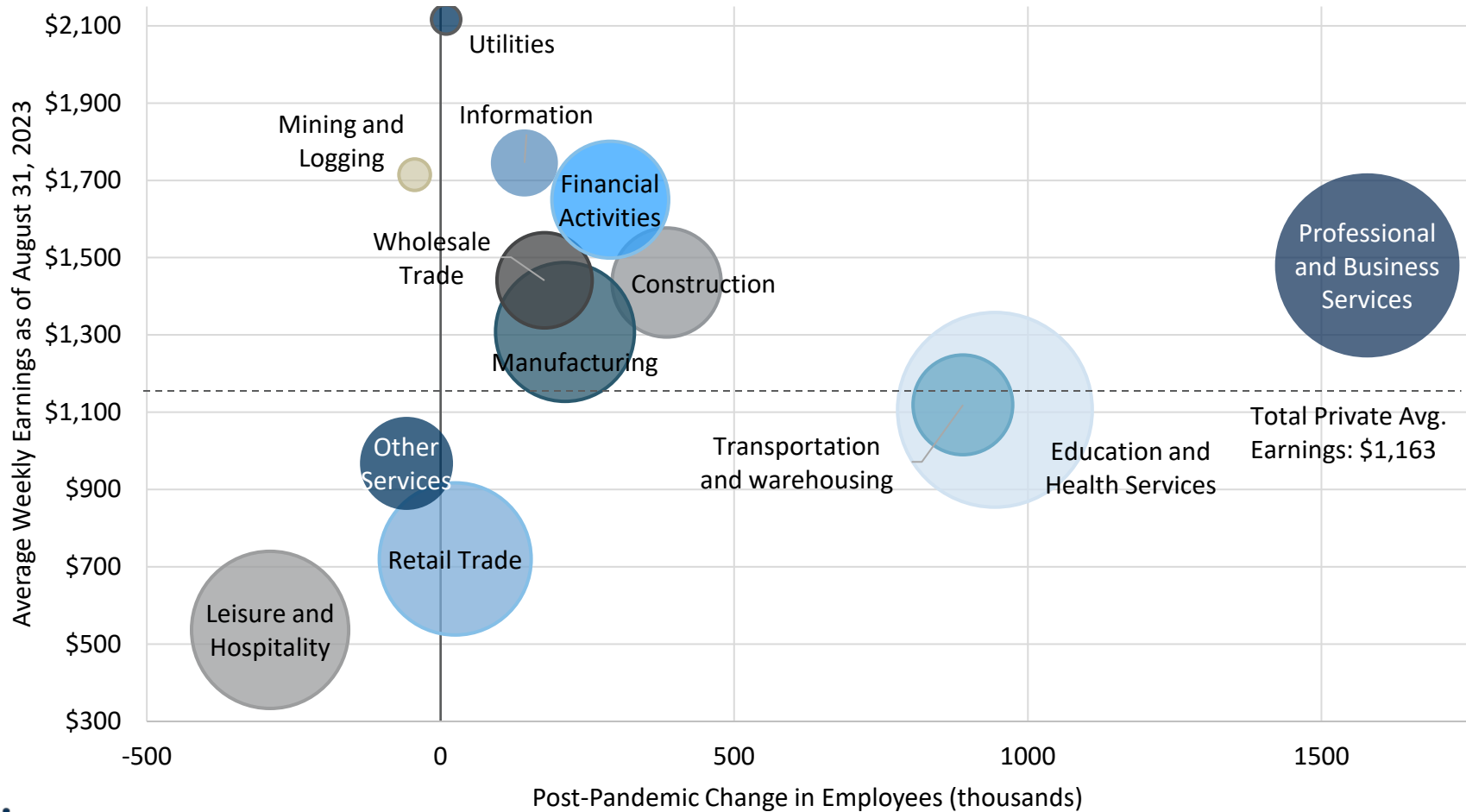
Source: Opus, Bloomberg, U.S. Bureau of Economic Analysis, Federal Reserve, Federal Reserve Bank of New York

Economic Outlook

The post-pandemic economy has added 4.2 million jobs, the majority of which have been in above-average earning sectors

Employment and Average Weekly Earnings by Industry for All Private Employees

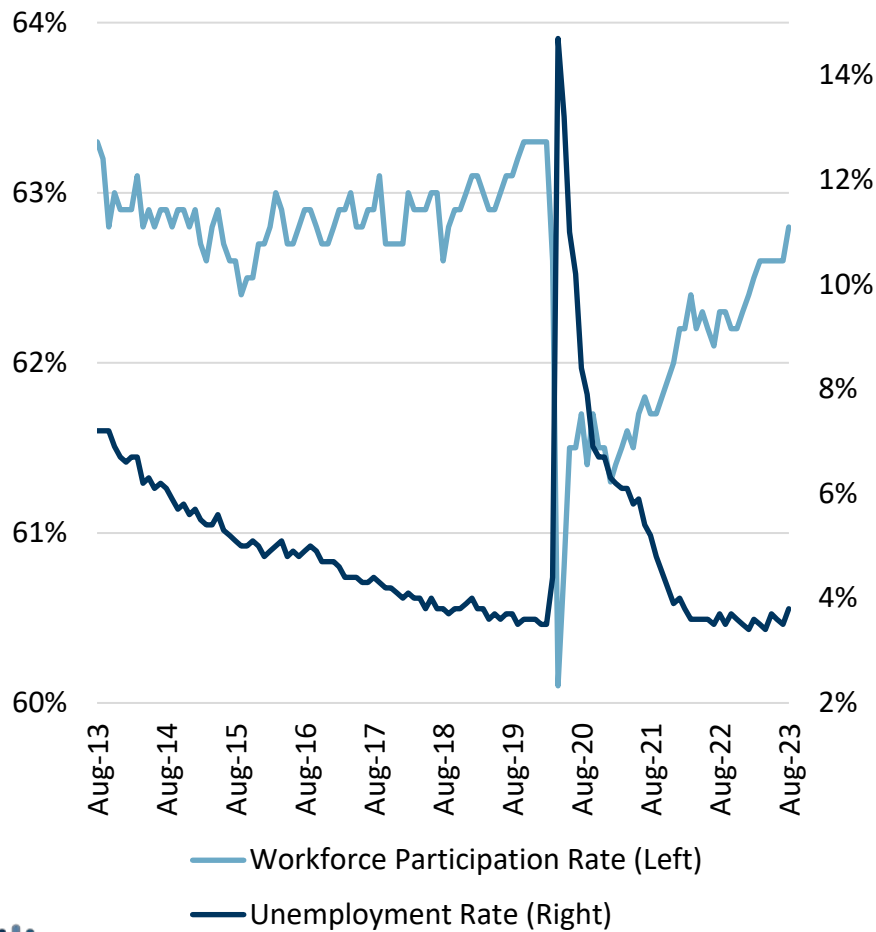
Bubble size reflects headcount for each industry



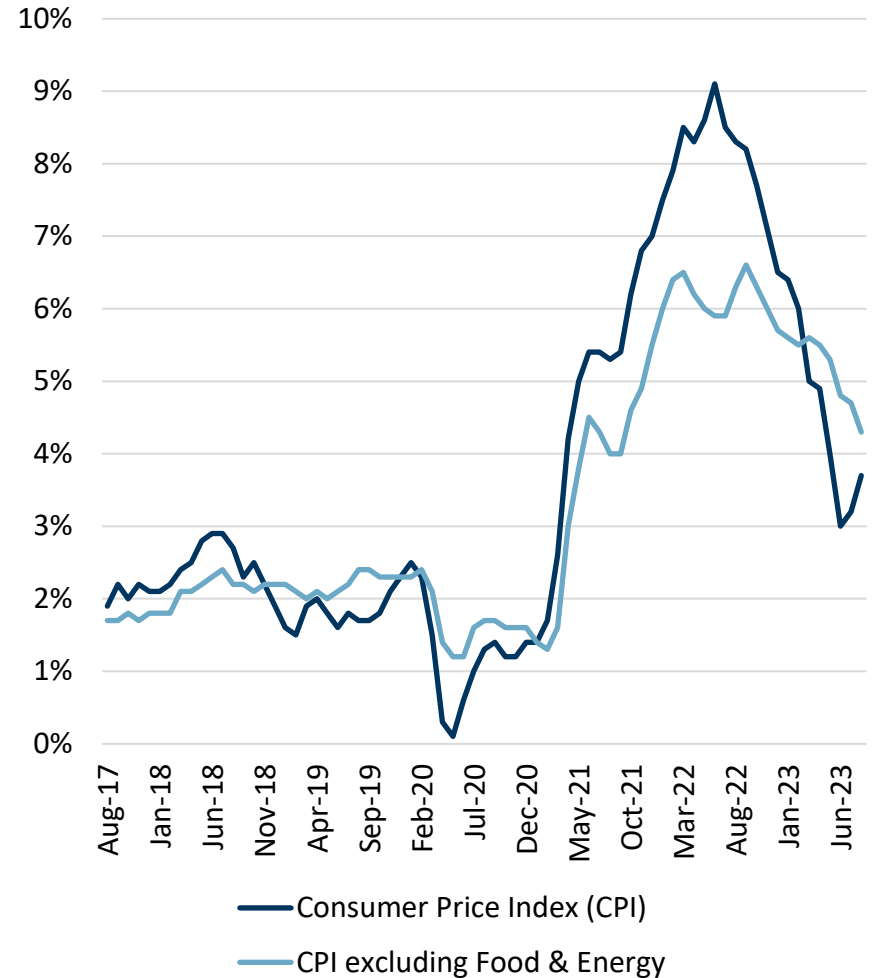
Economic Outlook

Labor market strength has continued despite tightening monetary policy intended to drive core inflation closer to the FOMC's 2% target

Unemployment Rate vs. Participation Rate



Consumer Price Index (CPI)



Source: Opus, Bloomberg, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis

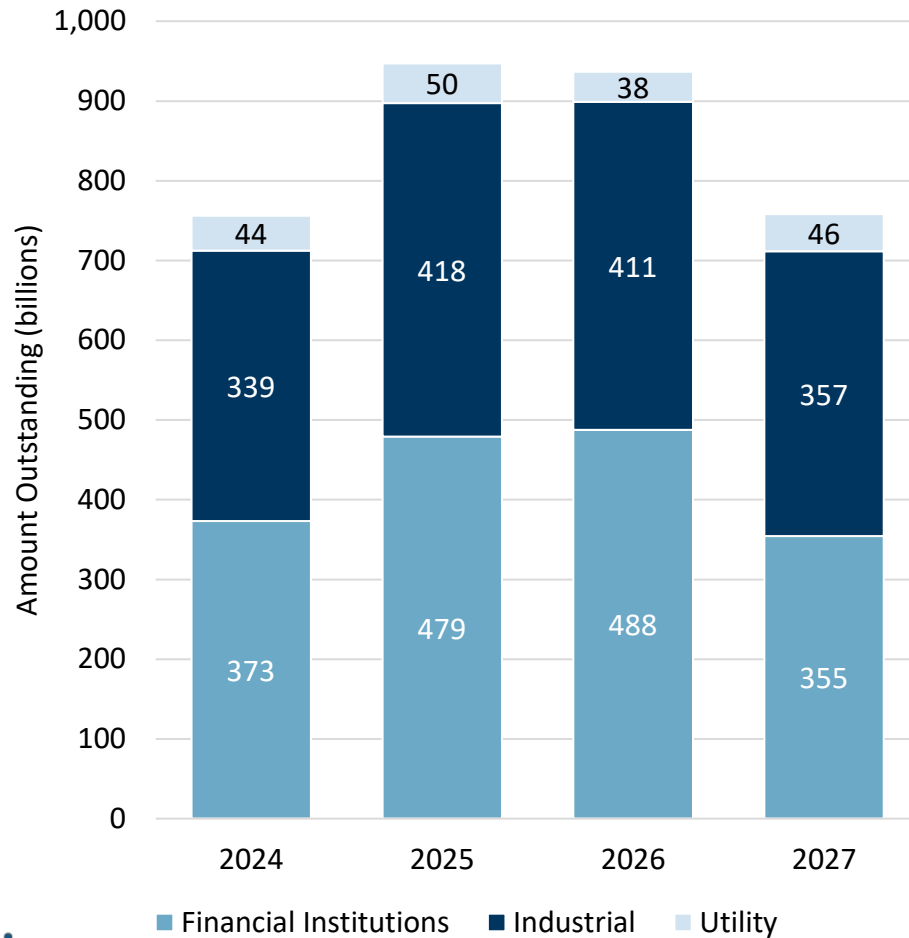
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Economic Outlook

A higher-for-longer interest rate environment could impact companies funding costs, as 29% of corporate bonds outstanding in the U.S. mature over the next 3.25 years

Upcoming Corporate Bonds Maturities

as of Sept. 18, 2023



Maturity Year	2024	2025	2026
Amt Maturing	\$756 B	\$947 B	\$937 B
Avg. Coupon	3.4%	3.6%	3.4%
Avg. Annual Interest Expense	\$25.7 B	\$34.1 B	\$31.9 B
U.S. Corporate Aggregate YTW as of 9/30/2023	6.0%		
Hypothetical Annual Interest Expense at Current Market Rates	\$45.4 B	\$56.8 B	\$56.2 B
Hypothetical Increase in Interest Expense at Current Market Rates	\$19.7 B	\$22.7 B	\$24.3 B

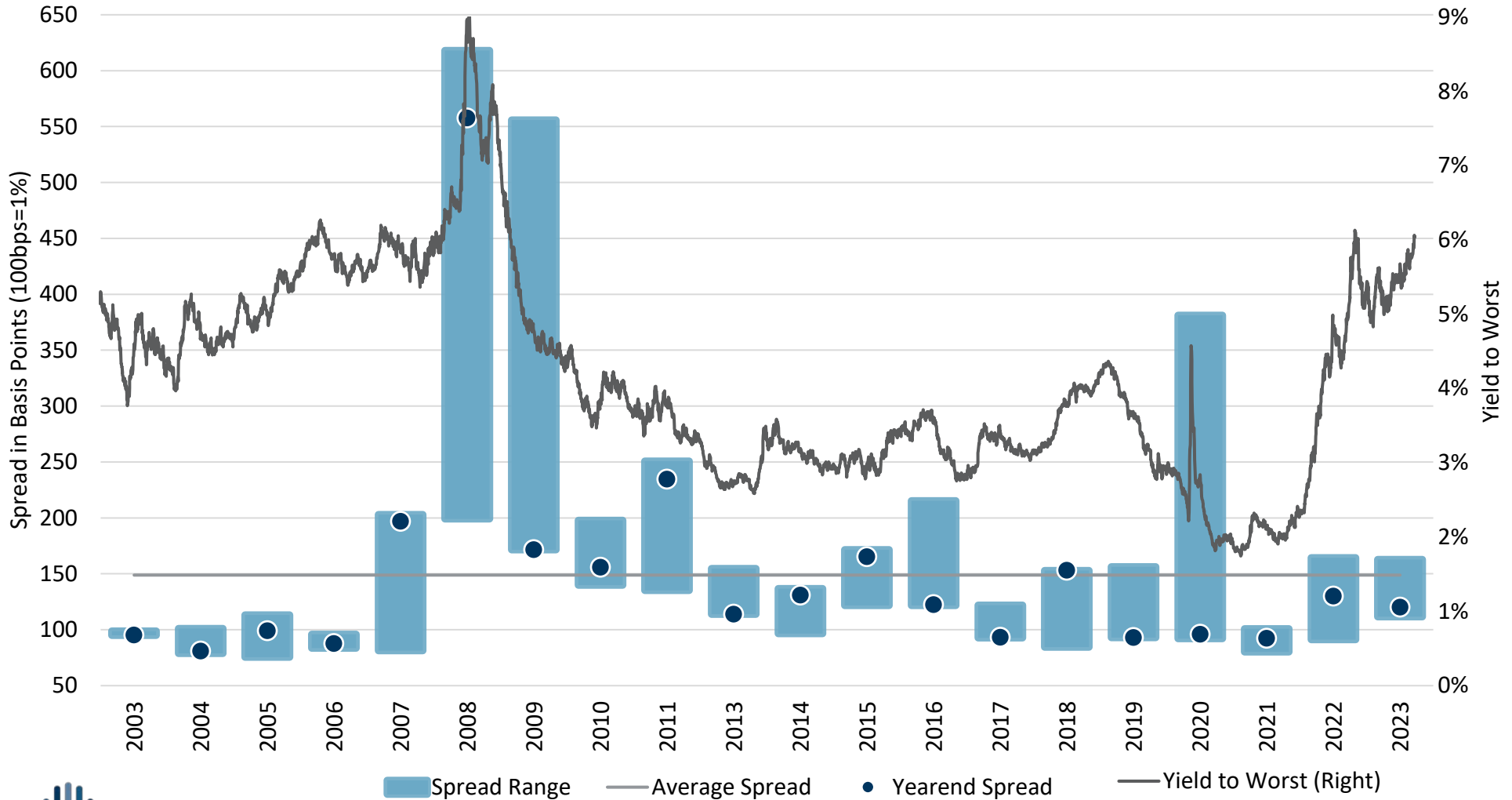


Source: Opus, Bloomberg

Economic Outlook

Corporate spreads remain near year-to-date lows; however, all-in-yields revisited post-Great Financial Crisis levels briefly seen during late 2022

Historical Investment Grade Corporate Yield and Spreads



*2023 figures represents data through September 30th
Source: Opus, Bloomberg

Economic Outlook

The potential for a soft-landing seems to have increased, pushing interest rates higher

FOMC hiking cycle is nearing an end, but further hikes are possible

- Core inflation continues to moderate but remains well above the FOMC's long-term target. Headline inflation moved higher due to elevated oil prices
- Hawkish FOMC sentiment means an additional rate hike is possible; however, both the FOMC and markets are forecasting cuts in 2024
- Stress in the banking sector and even higher rates could pressure interest rate sensitive areas of the economy further

Consumers have been the ballast of the U.S. economy, though this may be unsustainable

- Consumer spending has remained stronger than expected despite high prices
- Consumer credit fundamentals suggest the current debt burden is manageable, although the removal of pandemic related support could threaten middle-to-low-income families
- Labor market strength persists with unemployment remaining near the 50-year low and job openings remain prevalent

High all-in-yields and low compensation to take risk make up-in-quality fixed income sectors attractive

- The S&P 500 fell 3.27% during the third quarter, driven lower predominantly in response to higher interest rates
- All-in corporate bond yields revisited the highs of late-2022; however, spreads on these bonds remain near year-to-date lows
- We continue to monitor sources of potential volatility and geopolitical risk; such as U.S. election season, Russian Ukrainian conflict, tensions with China

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