Dear xxxx;

Much like life, when it comes to investing, it is impossible to predict the future. At the end of the second quarter and up until mid-September, a US recession was all but off the table. By the conclusion of Jerome Powell's speech on September 20th, a US recession is now seemingly right around the corner. While commodities (Q: +15.98%; YTD: +7.24%), led by oil, had a banner quarter, the rest of the market experienced declines which quickened in pace beginning on September 20th and continued through the end of the month. US fixed income (Q: -3.23%; YTD: -1.21%), which typically shows only modest movements, declined markedly. US equities (Q: -3.64%; YTD: +13.59%) and international equities (Q: -4.43%; YTD: +2.91%) were both lower as well.

This letter will provide an analysis of the major geopolitical, financial, and thematic events that shaped the quarter as well as our predictions for how these events will shape economic performance and returns in the remainder of 2023 and beyond. We will also provide an update on the successful migration of your accounts from TD Ameritrade to Schwab which took place over Labor Day weekend.

Inflation & The Federal Reserve Bank

Chairman Powell has taken steps to be as clear and predictable as possible when it comes to current and future interest rate decisions made by the Federal Reserve. In July, the year-over-year readings (June 2022-2023) for the CPI came in at just 3% while the core CPI rose by 4.8%. By the September reading (August 2022-2023), the CPI had shot up to 3.7% and the core CPI fell to 4.3%. Unfortunately, the decline in the core CPI on a percentage basis was considerably less than the rise in the CPI.

In July, the year-over-year reading (June 2022-2023) for the PCE was 3.2% which was down substantially from the prior reading of 4.0%. The year-over-year reading at the end of September (August 2022-2023) showed the PCE had increased to 3.5%. The core PCE registered a July reading of 4.3% and a September reading of 3.9%. While these readings are considerably lower than where they were one year ago, they are still substantially elevated when compared to the target rate of 2%.

As we mentioned in our last newsletter, since the rate hiking cycle began, people generally assumed that the apex of the cycle would begin as soon as the Federal Reserve stopped increasing for a single month. On June 14th, 2023, rates stopped increasing; however, that sigh of relief was brief as the Federal Reserve unanimously decided to raise rates during their meeting on July 26th. For the most part, the financial markets brushed off this rate increase because most inflation metrics were coming down in line with expectations or in some cases more quickly than the market had expected.

On September 20th, 2023, Chairman Powell threw a wrench into the plan for an orderly return to "normal" inflation levels. While rates were held constant, Powell explained that inflation was not coming down fast enough, that existing rates are not sufficiently restrictive and will likely rise by another 0.5% by the end of 2023, and that rates will be 0.5% higher than previously forecasted at the end of 2024.

While the market has sold off since September 20th, the Fed Rate Monitor Tool, which indicates where financial professionals believe interest rates will be after each Fed meeting, has not changed as we would have expected. While we anticipate at least one more rate hike in 2023, financial professionals do not. Currently, the consensus is that rates will remain constant at 5.25%-5.50% through the end of 2023, before starting to slowly decline in Q2, 2024. By the end of 2024, rates are expected to have decreased to 4.50%-4.75%. This is, however, 0.75% higher than these same financial professionals projected at the end of the second quarter of 2023.

Oil Prices

The primary driver of oil prices is supply and demand. Not only are the OPEC+ majors actively limiting supply, but US crude stockpiles are also sitting at their lowest level in fourteen months. These two conjoining factors have driven the price of oil up from $70.78 at the end of June to $90.795 today. This 28.27% gain has sent shockwaves through the economy and is the primary root cause of the stock market's softening over the last three months. Gas prices are up, inflation is up, interest rates are up, energy stocks are up, and industries like transportation, which rely heavily on oil prices, have slumped despite record traveler numbers.

Employment Data: Jobs & Strikes

The US unemployment rate rose by 0.3% to 3.8% in August which is the highest level of unemployment since February 2022. While this might seem substantial, it is in fact indicative of an extremely tight labor market. The long-term average unemployment rate is 5.71%. As of August 2023, every 0.1% point of the unemployment rate equates to 167,237 individuals seeking employment who are not currently employed. During most of September, the Screen Actors Guild (SAG) and the United Auto Workers (UAW) were on strike. The result of 169,000 workers striking would only increase the unemployment rate by slightly more than 0.1%. However, since the UAW has only been on strike since September 15th, and the SAG strike ended on September 27th, the actual impact on the unemployment rate from these strikes will be minimal. While unfortunate for the individuals and corporations involved in these strikes, the actual effect on the US economy will be muted.

Government Shutdown

Once again, the US government waited until the last possible second to pass a stopgap bill and prevent a 23rd shutdown. A shutdown occurs when Congress cannot come together to pass appropriations bills to keep the US government funded. These shutdowns and potential shutdowns, much like the most recent debt ceiling showdown, have become so commonplace that they barely crack the business news cycle. Since this latest stopgap bill only funds the government for six weeks, we will unfortunately have to revisit this topic next quarter. It's worth noting that during the last 22 shutdowns the stock market has returned on average 0.0%. No matter what happens with this shutdown or any future shutdowns, we do not foresee any impact on the broader economy.

Real Estate

As the Federal Funds Rate has increased so too have mortgage rates. Currently the average 30-year fixed-rate mortgage is 7.31% which is up from its 2021 low of 2.65%. Home refinances are down almost

100% since their March 2021 peak. While most people believed the dramatic increase in rates would decimate home prices, the average home price in the US has only fallen by 10%. The increase in rates has had a more substantial impact on existing home sales. Only 4 million existing homes were sold last month, which is down approximately 2.5 million (42%) since the post-covid monthly peak of 6.5 million. New home sales are also down 35% since their August 2020 high.

While higher rates for longer is a terrible sentiment for the residential real estate industry, there is a glimmer of hope on the horizon. Once the Fed finally decides to cut rates, even if only by 0.25%, this will signify the beginning of their rate cutting cycle. Investors and individuals who had been wanting to move or wanting to invest will pour into real estate even if that means they must take an 8-10% loan. People will do this because they know that those loans can be refinanced once the rate cutting cycle has delivered its desired results. These relative bargain hunters will cause real estate prices to begin a new trek upward. We believe this upswing is likely 6-12 months away.

On the commercial side of the industry, the national vacancy rate remains elevated, property values and new construction have slipped. Furthermore, office loans recently hit a 5% delinquency rate, which is a 20-month high. As much as individual employees may not like it, we believe the concerted effort to get workers back to the office will persist. By and large, commercial properties will struggle until corporations can either reduce their office space footprint or mandate their employees return to the office.

Transition From TD Ameritrade To Schwab – Update

The much-awaited transition of assets from TD Ameritrade to Schwab was successfully completed over Labor Day Weekend. You should now be able to view your accounts on the Schwab website and mobile application. If you have any difficulties, please call Schwab at 800-515-2157. While wait times to speak with representatives have been short, we have noticed some lengthy delays when trying to make seemingly minor changes to your accounts. Hopefully, these queues will begin to subside by the middle of Q4. We apologize for any inconvenience and will continue to work diligently behind the scenes on your behalf.

In the months and years leading up to the transition from TD Ameritrade to Schwab, both parties assured all advisors that there would be no changes to the platform that negatively impacted TD Ameritrade clients. Unfortunately, we have noticed one change that will affect all clients at some point. At TD Ameritrade, you could ask for any or all your assets during one business day and have those funds delivered to your bank account the following morning. This is not the case at Schwab. **At Schwab, you must wait three (3) business days to receive your requested funds.** For example, if you ask for funds during market hours on Thursday, those funds will not arrive in your bank account until the following Tuesday.

Conclusion

Looking forward to the final days of 2023 and into 2024, we remain bullish on equities with strong balance sheets. We believe fixed income yields will continue to offset any future rate hikes that are not already baked into the market. Further, we believe high growth equities and broad-based commodities will struggle. As we remain in a high-rate environment, we believe the performance of the mega cap and AI-related stocks will slow making room for some of the more unloved sectors (financials, health care, and utilities) to see gains. We predict that inflation as measured by the CPI and PCE will continue to decrease; however, we do foresee a 0.25% rate hike in either November or December. As inflation continues to cool in 2024, we believe rates will slowly decrease, which will lead to price improvements in both fixed income securities and growth stocks.

Client Referral Network

One of the oldest and most successful methods to grow a business is through word of mouth. GA Pincus Funds has been fortunate and has grown substantially due to referrals made by you and your fellow clients. We would like to use our future quarterly newsletters to return the favor to our clients. We plan to dedicate a section of our newsletters to our client's businesses. Rather than list your name or company name, we will instead indicate the category of business and location where you operate. For example, Real Estate Professional in Chicago, or Employment Lawyer in Georgia, or Public Relations Professional in New York, etc. If you would like to participate in this program, please let us know. This referral program is **free marketing** for your business. **We will not accept payments for these referrals.**

Performance Calculations

The performance of your accounts is calculated daily, taking into consideration daily deposits and withdrawals, and those daily returns are combined to form your quarterly, YTD, and since inception returns. When we round off this enhanced precision it may shift your performance by 0.01-0.02% when compared to the calculation ((end date value – start date value)/start date value). Please note, the performance figures on your statement are accurate and are GIPS (Global Investment Performance Standards) compliant.

Exchange Traded Funds (ETFs) are required to distribute all excess cash, net income, and dividends received from their constituent companies to their shareholders annually. These distributions take the form of dividends. Many ETFs issue special dividends at the end of the year to ensure compliance with this rule. The amount of the dividend is removed from the ETF on x-date, and the shareholder receives the funds on the pay date. The x-date and the pay date can at times straddle New Year's Day. Please be aware, your full year returns may be slightly lower than expected due to this nuance.

It is impossible to predict whether and by how much the market will increase or decrease. Our algorithm rebalances your accounts according to changes in the relative weightings of the securities you hold. As one security becomes too heavily weighted the algorithm sells shares in that security. Conversely, as one security becomes too lightly weighted, the algorithm purchases shares of that security. Instead of rebalancing based on time (as most managers do), this algorithm rebalances based on a securities' relative weighting in the portfolio. This gives GA Pincus Funds a long-term advantage. No matter what the market does in the future or has done in the past, if your time horizon is long enough (>1 year), this algorithm has proven itself to be successful.

Please stay safe and healthy. I am always available to answer any questions you may have.

Best regards,

Gabriel

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