

## SIA Perspectives

**Stegner Investment Associates, Inc.**

**3<sup>rd</sup> Quarter 2023**

With our second quarter 2023 *SIA Perspectives*, we were pleased to report a third straight quarter of gains for most client portfolios. Fears that “the sky is falling” did not rattle financial markets during this period, despite a great deal of uncertainty.

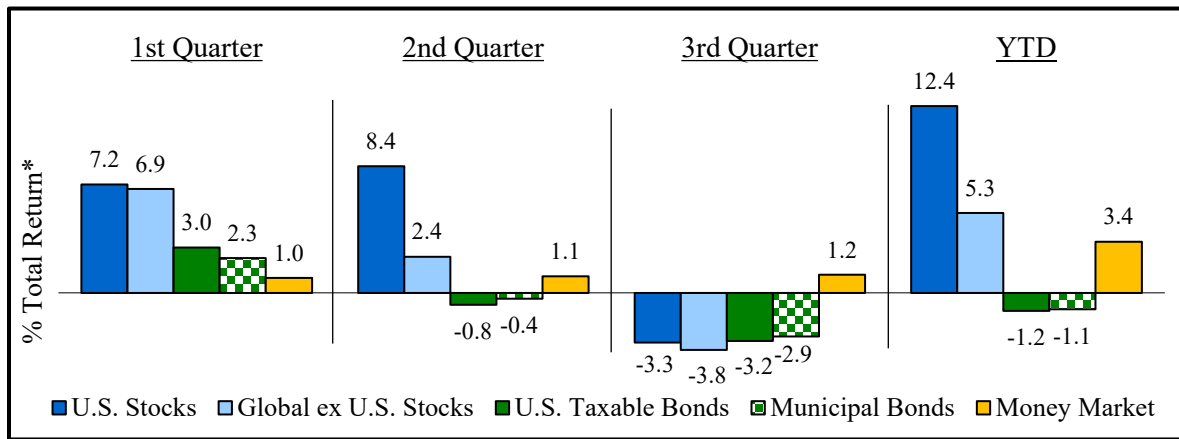
While we did not expect another quarter of outsized portfolio gains, the third quarter provided less exciting returns, as noted in the reports submitted with this newsletter. Despite the recent declines, portfolio results for 2023 are still decidedly positive.

Before presenting and analyzing the performance of various asset classes to-date for 2023, it is important to review the specific events that triggered results during the third quarter, as noted in the exhibit below:

	Key Event	Financial Market Reaction
July	<ol style="list-style-type: none"> <li>1) U.S. economic growth (GDP) accelerated during the second quarter to an annualized rate of 2.4%, which was an improvement from the first quarter’s 2.0% results.</li> <li>2) Earnings reports from corporations notched another quarter of exceeding investors’ expectations.</li> <li>3) As a gauge of inflation, the Consumer Price Index (CPI) fell from May’s 4.0% reading to 3.0% in June.</li> </ol>	<p>Most asset classes extended their year-to-date rallies by posting very good results for the month.</p> <p>Consumers were relieved with this news as the rate is well-below peak inflation of 9.1% just one year ago.</p>
August	<ol style="list-style-type: none"> <li>1) The U.S. Federal Reserve (the Fed) Chairperson, Jerome Powell, reiterated his willingness to keep interest rates “higher for longer,” until inflation shows signs of maintaining a stable level.</li> <li>2) Fitch (a credit rating agency) downgraded the U.S. sovereign credit rating from AAA to AA+.</li> <li>3) Improved labor supply and ongoing job creation supported the good job report numbers and outlooks for economic growth.</li> </ol>	<p>Investors reacted negatively to the expectations that interest rates could remain at elevated levels and lost hope that interest rates would move lower sooner.</p> <p>The reasons outlined by Fitch for the downgrade weighed on consumer confidence. In turn, most major asset classes posted declines for the month despite continued improvements in the job market.</p>
September	<p>Fears of a looming U.S. government shutdown, autoworker strikes, surging oil prices and the prospect of higher interest rates for longer, clouded economic outlooks.</p>	<p>Most asset classes generated losses with stock segments leading the way down and extended modest losses posted in August.</p>



## How Have Financial Markets Performed in 2023?



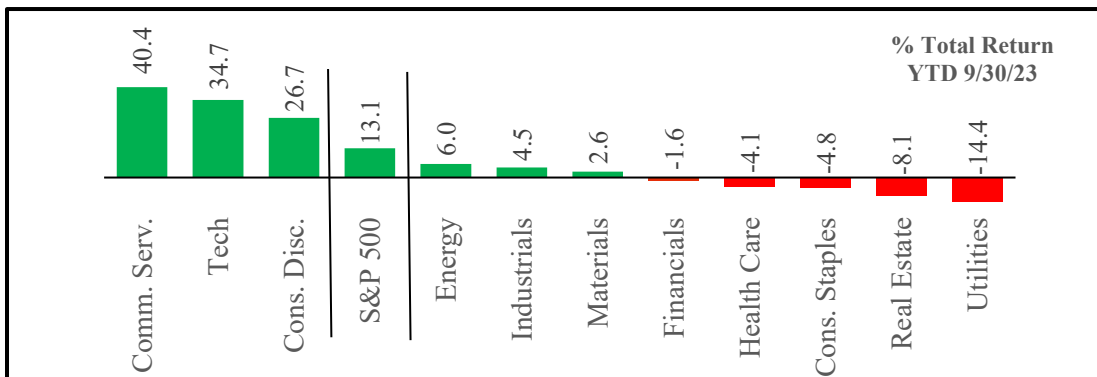
As noted in the chart above, performance for financial markets was surprisingly good for the first two quarters of 2023. The pullback by both stocks and bonds during the third quarter started in late August and picked up speed in September, which lowered results for the year. Money market returns improved each quarter and reflected the Fed's policy of increasing interest rates.

## How Did Stock Market Segments Perform?

STOCKS	Total Return*			YTD 2023
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	
U.S. Large Cap	7.5%	8.7%	-3.3%	13.1%
U.S. Mid Cap	4.1	4.8	-4.7	3.9
U.S. Small Cap	2.7	5.2	-5.1	2.5
Global ex. U.S.	6.9	2.4	-3.8	5.3

All stock segments listed in the table above posted excellent first and second quarter returns. U.S. large caps led on a relative basis each quarter by posting good earnings and the expectations for higher earnings due to breakthroughs in artificial intelligence (AI).

The bar chart below, and the grid of stock market style segments on the next page, provide insight as to which sectors of the U.S. large cap stock market led to impressive gains to-date in 2023.



Data Source - JPMorgan Asset Management

The three best performing sectors this year were some of the poorest performers in 2022. These sectors were favored by growth managers, especially large cap, and helps explain the recent powerful outperformance of growth versus value.

\*Representative benchmarks for all charts are detailed on the last page of this SIA Perspectives.



<b>Year To Date</b>			
	<b>Value</b>	<b>Blend</b>	<b>Growth</b>
<b>Large</b>	1.8%	13.1%	25.0%
<b>Mid</b>	0.5%	3.9%	9.9%
<b>Small</b>	-0.5%	2.5%	5.2%

Data Source - JPMorgan Asset Management

As detailed in the style grid to the left, the strong surge in large cap growth was driven by the largest names and include many of the “Magnificent Seven” and their outsized returns in 2023.

This group includes stocks of companies such as Amazon, Apple, Microsoft, Alphabet (Google’s parent) and the outsized triple digit gains from Nvidia’s 198%, Meta’s 149% (Facebook’s parent) and Tesla’s 103% to-date through September.

In fact, for 2023’s return through September, over 92% of the S&P 500 Index’s 13.1% return is attributed to its 10 largest stocks.

### What Happened to Bond Prices in 2023?

While the first quarter returns were a relief from losses posted in 2022, volatility crept back into bond markets during the second and third quarters. Investor hopes for lower interest rates were dashed when Fed officials announced that “interest rates may stay higher for longer.” Also of note is that money market fund yields, considered a risk-free rate of return, have improved dramatically after a decade of providing virtually zero percent returns.

<b>BONDS &amp; MONEY MARKET</b>	<b>Total Return</b>			<b>YTD 2023</b>
	<b>1<sup>st</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	
Taxable U.S.	3.0%	-0.8%	-3.2%	-1.2%
Taxable Global-ex U.S.	3.1	-2.2	-4.0	-3.2
Municipal Intermediate	2.3	-0.4	-2.9	-1.1
Money Market	1.0	1.1	1.2	3.4

Adding to bond investor anxiety was the announcement in August by one of the three major credit agencies (Fitch) that it downgraded its rating of the U.S. government’s debt from AAA to AA+. Reasons cited for the downgrade included expected fiscal deterioration, as the U.S. is on track to spend 10% of its federal revenue on debt interest payments by 2025. Because of this, U.S. financial metrics are worse than peer countries whose average is just 1% for triple-A rated countries.

### What Are the Impacts of Rising Interest Rates for Investors?

Noted in the table to the right are the quarter-end yields of various bond market segments. These rates are more attractive to investors now that some yields have reached highs not seen for a long time.

In fact, by mid-August the yield on the 10-year U.S. Treasury bond hit its highest level since June 2008 at 4.26%. This was right before the collapse of Lehman Brothers and the Fed ushering in policies that led to more than a decade of historically low bond yields.

This move is a far cry from expectations during the first half of the year when many investors and market strategists expected an economic slowdown (including a potential recession), which could force interest rates lower and boost the total return potential for bond investments.

<b>Bond Benchmark</b>	<b>9/30/2023 Yield</b>
U.S. Aggregate	5.4%
Corporates	6.0%
Municipals	4.3%
High Yield	8.9%
Global ex-US	3.5%

However, when interest rates finally start to come back down, bond investors can earn good total returns as prices may move upward. These attractive attributes led many investors to lower allocations to stocks and add to bond exposures.

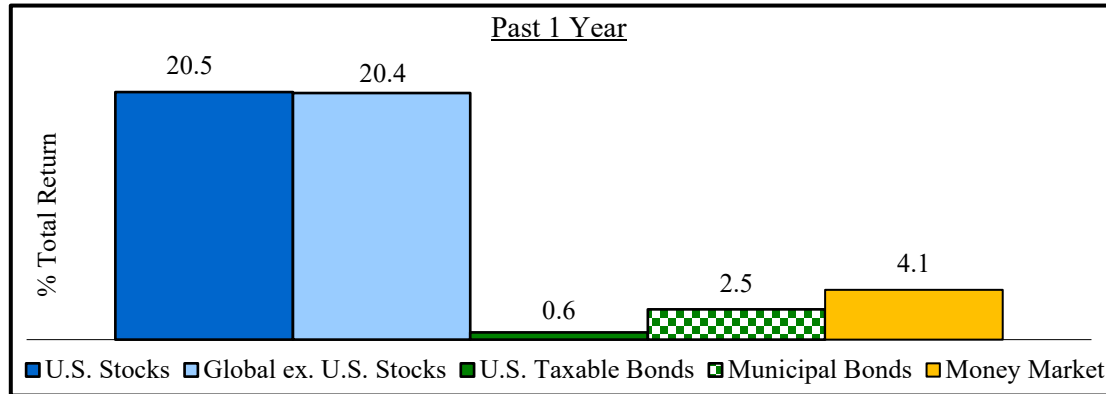


## How Have SIA's Investment Strategies Performed?

SIA is committed to providing clients with timely information and insights regarding investment performance and the impact on our investment strategies. This time last year, despite poor performances in 2022, we provided reassurance that the negative impact of current events on consumer confidence could prove to be a contrarian indicator that could help future results. In addition, our *SIA Perspectives* for the 3<sup>rd</sup> quarter of 2022 advised:

“However, once consumer sentiment improves from current historic lows, financial markets tend to rebound over the next twelve months. We remain confident that our investment discipline and strategies, crafted with you to reflect your goals, will be rewarded with improved returns in the future.”

As noted in the chart below, investors who heeded our advice were rewarded.



We are pleased with this year's absolute and relative results for most clients given the uncertainty surrounding financial markets just twelve months ago. In fact:

- Clients with an aggressive risk tolerance and a 100% exposure to our stock model allocations earned approximately 10% to-date in 2023 and 20% over the past twelve months.
- A moderately aggressive client, positioned with our recommended 70% stock and 30% bond allocation, is estimated to have earned a 7% return in 2023 and almost 15% during the past one year period.
- And finally, our recommended moderate allocation of 60% stocks and 40% bonds earned an estimated 6.0% for the first nine months of 2023 and almost 13% over the past twelve months.

These excellent absolute returns were also very competitive relative to index and peer group benchmarks.

## Our Role as Investment Consultants

In our role as investment consultants, we often review historic events that seemed insurmountable at the time as a means to educate our clients. While many of our clients experienced the events of twenty years ago detailed below, all readers might appreciate a recap of what was a very unsettling time for financial markets.

September 3, 2003, was the date that one of the biggest scandals in the mutual fund world was exposed. Twenty years ago, the Attorney General of New York, Eliot Spitzer, accused a New Jersey hedge fund of engaging in unsavory trading practices with several mutual funds and brokerage houses. The scandal spread quickly with almost daily announcements of several company executives resigning by the end of the year.

Over the next few years, the scandal ensnared more mutual funds and executives. Well known firms at the time were also accused including Janus, Strong Funds, and Bank One. Others drawn into the controversy included Alliance Bernstein, Invesco, Federated Investors, Alger, PBHG and Putnam.

Fortunately, SIA did not have exposure to any mutual fund family caught-up in this scandal, despite having used products of a few named firms earlier in our firm's history. Our investment discipline includes both quantitative and qualitative factors, and our reasons for pulling money from a few firms was due to our "gut" call about the management teams and their commitment to us as shareholders.

A few good outcomes from this scandal included investors receiving greater transparency of several key factors regarding the mutual fund industry. The Securities and Exchange Commission (SEC) strengthened rules around late trading and required additional disclosures and redemption fees to address market timing. The SEC also required portfolio managers to disclose, at least annually, how much money they invested in the funds that they manage.

### SIA's Outlook for Remainder of 2023



While investors are facing many headwinds with central banks trying to "blow down" inflation, no need to "be afraid of the big bad wolf" as the foundation for economic growth is sound, just slow.

Recent developments in the labor market suggest that we can expect continued support from this key driver of the U.S economy's resilience. In September, following three steady months of growth, investors were pleasantly surprised with nearly double the job creation than was expected.

According to the *Wall Street Journal's* quarterly survey in October, economists' forecasts improved from earlier dire predictions of an impending recession. Consensus expectations foresee the economy being strong enough to keep a downturn at bay.

### Behind the Scenes at SIA

- We recently launched a new and improved website! Please visit [StegnerInvestments.com](https://www.stegnerinvestments.com) to review specific services we offer to three types of clients: high net-worth individuals, non-profit institutions and retirement plans.
- Also at the website, you will be able to see updated profiles of our Team and pictures of the Associates who serve our clients.
- We remain committed to communicating and delivering information to our clients in a secure and user-friendly manner. In turn, we recently enhanced our technology through a new client portal platform. One of the enhancements from our previous technology is access to information from SIA and, for clients who use Schwab as their custodian, Schwab's monthly statements and year-end tax information, both of which can be accessed with a single secure log in. If you have not set up this new portal and are interested, we encourage you to take advantage of this enhancement. Please contact us to activate your personal client portal.
- For those interested in learning more about the mutual fund scandal, we posted our communication to clients from that time twenty years ago to our new website.

### An Informed Client is the Best Client

Each calendar quarter, we provide a set of reports to keep you informed. The [Investment Review](#) includes a [Portfolio Overview](#) of market values, performance returns, asset allocations and security holdings.

This report includes a pie chart and the dollar values of your account divided into asset class categories that have been determined with you based upon your specific investment objectives. This section is the best way to gauge your portfolio's allocation to various stock, bond and short-term money market segments.

The Portfolio Holdings report lists your specific investments by asset class, with the market value of each at the end of the third quarter of 2023. It also lists the percentage that each investment represents of the total portfolio.

Note the array of investment firms with which we have placed your monies. Industry leaders and their investment professionals are committed to investing your assets prudently and include Vanguard, T. Rowe Price, Dodge & Cox, PIMCO and iShares to name a few. There are also firms that you may not recognize, yet are well known to us because of their unique investment strategies.

The final report is a Billing Statement that details the calculation of the fee paid to us quarterly for our investment consulting services. As a reminder, our firm's only source of revenue is generated directly by the fees we bill to our clients.

We do not receive compensation from the investment managers we select, nor from advisors to whom we might refer you for other professional services.

SIA's experience proves that we are most successful as consultants when clients participate in our investment processes and strategies. We enjoy sharing our insights with you and receiving your feedback on issues that are of the most interest to you.

Wishing you a beautiful fall season,

The Associates of SIA