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After a hot and sticky summer, mild weather conditions and the vibrant colors of Fall have finally arrived! The beautiful transition of this harvest season provides us all with a great opportunity to reflect on the current year's good fortune and to celebrate an early thanksgiving.

A promising start to the 3rd Quarter of 2023 for investors quickly transitioned into a challenging period. A reversal of momentum and wavering conditions in financial markets led to a surge in bearish sentiment, and investor anxiety was fueled by global recessionary fears, the European Central Bank and Federal Reserve's message of "higher rates for longer", the expansion of the United Auto Workers (UAW) strike, a partial government shutdown, housing market weakness, and higher prices for food and energy. Once again, the market anomaly dubbed "The September Effect" (an observation of historical data) proved to be correct when market uncertainty developed into broad based asset class declines.

The recent volatility was a pre-Halloween trick, but the year-to-date (YTD) performance in equities still provided most investors with a treat through the first nine months of 2023. The tech heavy NASDAQ index outpaced the field with a total return of 27.11%; the S&P 500 Index (domestic large cap stocks) followed with a total return of 13.07%; and international stocks (MSCI EAFE Index) came in third place with a solid total return of 7.08%. Positive but muted results were also recorded in small cap domestic stocks, emerging market stocks, short-term bonds, and cash. Unfortunately, the 2023 market segments that didn't make the positive cut line were real estate, commodities, and long-term bonds.

Economic news surprised to the upside during the quarter as U.S. Gross Domestic Product (GDP) registered stronger than expected growth of 2.1%. The resilience during the quarter was further marked by upside progress in job growth, low unemployment, improved manufacturing activity, higher investment spending by companies, solid corporate profits, and consumer spending strength. As good as conditions sounded, the recession narrative continued to make headlines and the stress of aggressive monetary policy persisted. Economic detractors included high interest rates, elevated inflation, slower housing activity, fluctuating consumer confidence, higher prices for goods, a spike in oil prices, and low personal savings rates.

The September meeting for the Federal Open Market Committee (FOMC) confirmed the better-than-expected results for the U.S. economy. Reports from the FOMC suggested that real GDP was rising at a solid pace, consumer and business spending appeared to be more resilient than expected, the labor market was strong, unemployment remained low, and elevated inflation continued to show signs of slowing. The Committee also stated that tighter credit conditions on households and businesses are likely to weigh on economic activity, hiring, and inflation, but the extent of these effects remains uncertain. Based on the available information, the Fed decided to raise the target range for the federal funds rate in July by .25 percent to 5-1/4 to 5-1/2 percent but maintained the target range in September in support of their maximum employment and inflation goals. Since the 2022 start, the Fed's aggressive policy to defeat red-hot inflation has raised the target range for rates by five percentage points, which is the highest level since the dot-com bust of 2001. In determining the extent of additional policy adjustments to return inflation to the long-term goal of two percent, the Committee will consider a wide range of information that includes readings on labor markets, inflation data, updated economic and financial developments, the cumulative tightening of monetary policy, and the lags with which monetary policy affects economic activity. As always, the FOMC said they will monitor the implications of new data and adjust the stance of monetary policy as appropriate if risks emerge.

Based on the guidance by the Fed, we expect the path for rates to remain elevated as they ensure the lower inflation trend is sustained. We also think that one more rate hike in November is still a probability before the cycle officially ends. The final landing point will be a difficult decision for the Fed, and since the September meeting, yields on 10-year Treasuries have continued to rise, with mortgage rates and corporate bond yields climbing. The steepening of the yield curve has tightened financial conditions, which weighs on both demand for housing and investment decisions. Unfortunately, the housing market will remain a significant challenge in the Fed's inflation fight. Decades-high mortgage rates, elevated prices, and a lack of inventory are having a powerful impact on potential homebuyers.

The Fed has a tricky balancing act left in front of them as the risk of overtightening or holding rates high for too long could change the prospects for economic prosperity. Therefore, we expect the Fed to proceed with extreme caution. If conditions are favorable, we could see a pivot strategy that would bring a rate cut sometime later in 2024. If momentum persists and inflation reignites, then rate easing will likely be further away.

Even with the recent financial market struggles, our forward-looking economic outlook is optimistic. We believe the U.S. economy's resilience provides a signal that growth should continue through the rest of 2023 and into 2024 despite one of the most aggressive monetary tightening phases in modern history. Our expectations for sustainable growth continue to be nominal, but we believe the data shows additional support for growth will come from a strong labor market, healthy consumer balance sheets, high cash levels (over $4 trillion in consumer checking accounts and $5.9 trillion in money market accounts), and the continuation of hiring and investment by companies. With this in mind, we don't believe a recession is imminent, but we do think the effects of monetary policy (over time) will impact economic growth to the downside. The Federal Reserve's inflation fight will continue as scheduled, but given the higher prices in energy, food, and shelter, we anticipate future inflation readings will stay elevated. As we mentioned, we expect the Fed will continue to keep rates elevated to battle inflation and help slow the economy. We also expect bond market yields to progress, but an inversion still exists that benefits bond investors on the short end of the curve. Rumors of the U.S. dollar's demise continued to be greatly exaggerated, and as long as rates remain high, we believe the dollar will trend upward versus other world currencies.

Overall, the international outlook is not as bright as the domestic situation. The recurring themes of high inflation, rising interest rates, and tight monetary policy are having a more pronounced impact on global economies. As a response to these pressures, the European Central Bank raised its key policy rate to the highest level (4%) since the creation of the single-currency bloc and lowered growth prospects for the eurozone economy. The post pandemic rebound in China (world's 2nd largest economy) continued to disappoint amidst a significant real estate crisis, local government financing challenges, and declining trade and foreign investment. While Europe and China have struggled, Japan's economic improvement remained steady with signs of broadening. This is welcome news for an economy that has battled deflation for 25 years. Emerging markets always offer a unique set of challenges, and recent events have resulted in uneven regional economic development. Unfortunately, a weaker environment overseas means the risk of recession is greater. This leads us to a more pessimistic outlook that we believe will continue until the Federal Reserve becomes less hawkish (eases rates) and U.S. dollar conditions weaken.

The risks to prosperity and exuberance are plentiful for the domestic and global economies. Heading into the last quarter of 2023, we are tracking the following: inflation progress, changes in monetary policy, fiscal policy uncertainties, political dysfunction and the potential of a government shutdown, evaporating consumer savings, labor market imbalances, energy and commodity price shocks, real estate weakness, natural disasters, cyberattacks, terrorism, and escalating geopolitical conflicts and instability.

Although the current trajectory in the financial markets seems promising for positive year-end results, investors know that financial outcomes are never guaranteed. This is why we always remind clients of our fundamental investment philosophy. ***We believe it is time---not timing---that matters most.*** Prudent investors focus on what they can control. They create an investment plan to fit their needs and risk tolerances; they diversify globally; they stay informed; they stay patient and disciplined through market dips and swings; and they don't panic when faced with challenging market conditions.

October is the official month for estate planning awareness, so we wanted to touch on some fundamental tools that can help with your estate planning needs. Keep in mind, it is never too early or too late in life to make prudent financial arrangements.

Estate planning basics

- Create or revisit your will. This one document is the foundation for all estate planning. A will identifies your executor (the person you've chosen to be in charge of your estate and follow the terms of your will), lists your assets, and names your beneficiaries. It's important to keep your will updated as your family grows or relationships change, and a valid will can save your family the headache of debating your desires and time waiting for probate. If you don't have a valid will, many states have one (probate) for you that you and your heirs may not like.

- Avoid confusion by reviewing and updating your beneficiaries on life insurance policies, retirement plans and annuities. This ensures the beneficiaries of your choice receive the proper assets at your death. In addition, avoid the common mistakes of naming minor children as your beneficiary and incorrect beneficiaries in place if you've been through a divorce. Consult with your attorney or advisor about other ways to transfer accounts to your beneficiaries. Specifically, the TOD (Transfer on Death) or POD (Payable on Death) can help funds skip the probate process altogether.

- Organize and make a list of all your estate planning documents. Your loved ones need to have clear instructions, so make sure to let them know whom to call or where the documents are stored. Everyone needs the big four: a will, an advance directive, a medical power of attorney, and a financial power of attorney. Depending on your estate, you may need other legal documents. Consider storing the power of attorney documents on your phone for quick access in an emergency.

- Keep an updated list of your assets and debts. Compiling all your assets and liabilities in one master list will make estate planning and end-of-life issues easier. Make sure your list details all bank and brokerage accounts, retirement accounts, insurance policies, credit card debts, mortgage, lines of credit, and any outstanding consumer loans. You should also include your real estate assets as well as valuable personal property items in your home, garage, backyard, warehouse, storage unit, or small business.

- Create a list of all digital accounts you use to manage your finances. Ensure a spouse or family member is authorized to manage those accounts and store your username and password information in a secure location.

- Work with a team of qualified advisors. Do-it-yourself estate planning is not recommended, especially if your estate is large enough to trigger financial, legal, or emotional issues. Furthermore, do-it-yourself estate planning usually costs more to correct than doing it right the first time. Contrary to popular belief, the best estate planning advice does not come from the internet. Estate planning attorneys are usually the authoritative source for all your estate planning needs.

In closing, I want to thank you for the opportunity of working with you and for your continued confidence and trust. If you would like to discuss any estate planning issues, or if you have any questions, please contact us.

With kindest personal regards, I am

Very truly yours,

WILLIAM HOWARD & CO. FINANCIAL ADVISORS, INC.

Bill

William B. Howard, Jr., ChFC®, CFP®

WBH/bdb

2023 Total Return Index Performance			
Asset Class	**Index**	**3rd Qtr.**	**YTD**
Cash	BofA/ML Three-Month U.S. Treasury	1.31%	3.60%
U.S. Bonds	Barclays Intermediate-Term Treasury	-0.81%	0.28%
U.S. Large Co. Stocks	S&P 500	-3.27%	13.07%
U.S. Small Co. Stocks	Russell 2000	-5.13%	2.54%
International Stocks	MSCI EAFE (net div.)	-4.11%	7.08%
Real Estate	DJ Select Real Estate Securities Total Return	-7.40%	-2.05%
Source: Morningstar			

U.S. Economic Data	
GDP	2.1% increase (annual rate) – 2nd Quarter 2023
Inflation	4.1% CPI (less food and energy) and 3.7% CPI (all items) over last 12-months ending September (Energy index down 0.5%; Food index up 3.7%).
Interest rates	Federal Funds Rate range = 5.25% – 5.50%. 2023 YTD increases = 100 bps. September pause. November increase expected.
Jobs	September 2023 data - Unemployment at 3.8%; non-farm payroll employment rose by 336,000 jobs; Labor force participation rate 62.8%; Employment gains occurred in leisure/hospitality, government, health care, professional, scientific, technical services, and social assistance.
Manufacturing	Economic activity in the manufacturing sector contracted for the 11th consecutive month following a 28th month period of growth; September ISM Manufacturing Index registered at 49%. This reading represents the third month of positive change, and the highest reading since November 2022.
Business Spending	Private non-residential investment continued to climb higher (23.92% increase since Jan 2022); New durable goods orders increased slightly by 0.1% in August (up five out six months).
Corporate Profits	2nd Quarter 2023 - U.S. corporate profits increased 0.2%. S&P 500 Earnings per share = $54.84 (one-year increase of 17.0%).
Housing	August 2023 year-over year data - New home sales rose 5.8%; Existing home sales declined 15.3%; Median sales price of existing homes increased 3.9% to $407,100; Housing starts sank 14.8%; Building permits fell 2.7%; Housing inventory dropped 14.1% from last year; Unsold inventory = 3.3 month supply; MBA fixed 30-yr mortgage rates = 7.41% ending 9/27/2023.
Consumer Spending	Disposable income remained low; Consumer Confidence Index declined; Retail and food services sales increased; Total vehicle sales trended higher; Personal durable and nondurable spending remained elevated; Personal savings rate fell to 3.9% .
Energy	Oil price (West Texas Intermediate) = $90.77/bbl – 09/29/2023 (2023 increase of 13.24%); Gas price (U.S. average regular unleaded) = $3.837/gal – 09/25/2023 (2023 increase of 24.13%)