MISSION WEALTH

Market Perspectives

Q4 | 2023

Presented By

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Kieran Osborne is responsible for all portfolio management, trading, analysis, investment, and economic research functions and leads the firm's Investment Committee.

Mr. Osborne oversees portfolio construction and implementation, conducts in-depth manager research and due diligence, and monitors fund performance on an ongoing basis.

Key Themes

KEY THEMES	COMMENTARY
Market Update	Stocks have largely moved higher this year, supported by contained banking concerns, moderating inflation, resilient labor markets, robust economic growth, and an increased likelihood of a "soft" or "no landing" economic outcome. With that said, more recent concerns over higher-for-longer interest rates and geopolitics have driven an increase in volatility. Increased divergence in performance – such as Growth vs. Value stocks – has led to enhanced rebalancing opportunities. The backdrop of higher-for-longer interest rates drove bond yields higher, weighing on bond returns. On the other hand, less liquid and credit-oriented strategies have performed relatively well this year.
The Economy	Economic growth forecasts have been revised higher throughout 2023, with less impact than feared from regional banking concerns, while labor market strength and consumer spending have underpinned the economy. The chances of a "soft" or "no landing" economic outcome have increased. However, tighter credit conditions and a slowdown in the labor market may weigh on economic activity moving forward. Inflation has moderated but is expected to stay above the Fed's target of 2% over the near-term. The Fed may pause soon but are unlikely to cut rates for some time. We believe we have already entered a structural shift with respect to monetary policy, where the years ahead will be marked by higher interest rates and quantitative tightening.
Asset Class Outlook	A Fed pause would be supportive of both stock and bond returns. Longer-term, we believe expectations should be reset for stock returns more in-line with historic averages of mid- to high-single digits, given the structural shift in monetary policy. Bond yields are more attractive today and may be supported by macroeconomic dynamics. We believe alternative strategies offer attractive risk-adjusted return potential and income, which may be increasingly important should we experience a moderation in stock market returns in the years ahead.

Mission Wealth Actions

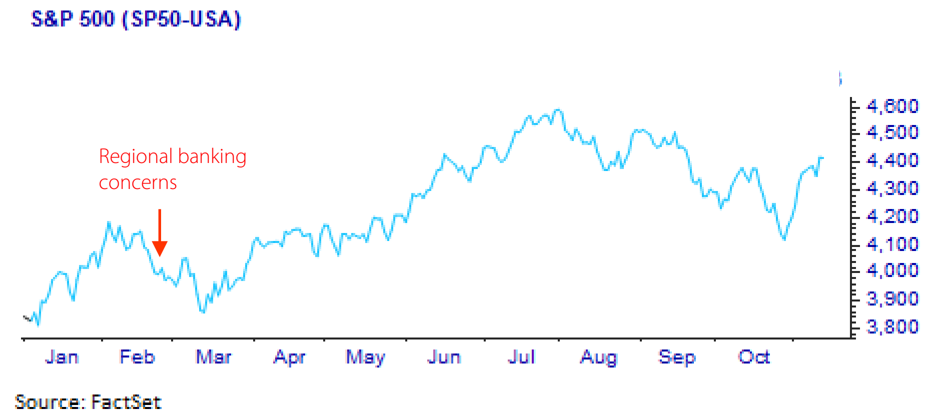
- Recent volatility and divergence in performance across asset classes continues to provide us with **enhanced rebalancing opportunities**.
- We are **constructive on the outlook for stocks**, though we believe **expectations for the long-term should be reset to mid- to high-single digit annual returns**. Any near-term volatility may offer us the opportunity to add on weakness.
- We are also more **constructive on the outlook for bonds**, given **yields are more attractive today and macroeconomic forces may be supportive.** Many of our preferred bond funds are **yielding mid- to high-single digits**.
- We have increased our exposure to alternative strategies, which we believe offer **attractive risk-adjusted returns and compelling income streams,** which may be increasingly important should we experience a moderation in stock market returns.
- Ultimately, we continue to focus on long-term fundamentals and believe our portfolios are **well-positioned** to continue to **meet the financial goals of our clients**.

PART 1:
MARKET UPDATE

Market Update

Stocks Higher, Though Off Highs

- **Stocks have been supported** by progress on several fronts:
    - Banking crisis was contained.
    - Headline inflation was cut in half.
    - Labor markets softened but are still resilient.
    - Economic growth and company earnings are stronger than anticipated.
    - "Soft" or "no landing" economic outcome increasingly priced in by the market.



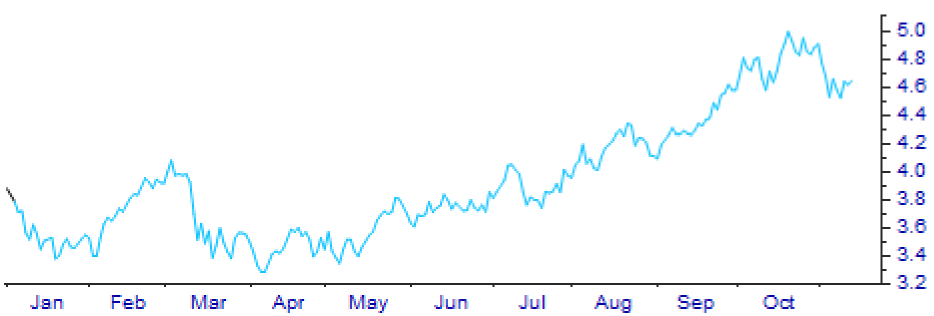
- More recent **concerns about higher-for-longer interest rates, sticky inflation, and geopolitical concerns** caused an uptick in volatility.

Market Update

Bond Yields Higher, Bond Prices Lower

- **Bond yields have trended higher** for much of the year, driven by:
    - A backdrop of higher-for-longer interest rates.
    - Consistently improving economic growth expectations.
    - Moderating, but still heightened, inflation.
- As a result, **bond prices have been challenged.**
    - Though, we believe the current yield environment represents an attractive entry point.

US 10Y T-Note Yield (TPI) (US10YY-TU1)



Source: FactSet

Market Update

Crises in Perspective

- Some of the recent market volatility has been attributed to geopolitical concerns.
- **Global events occur time and again**. Despite near-term volatility, **markets tend to hold up well over the long haul**.

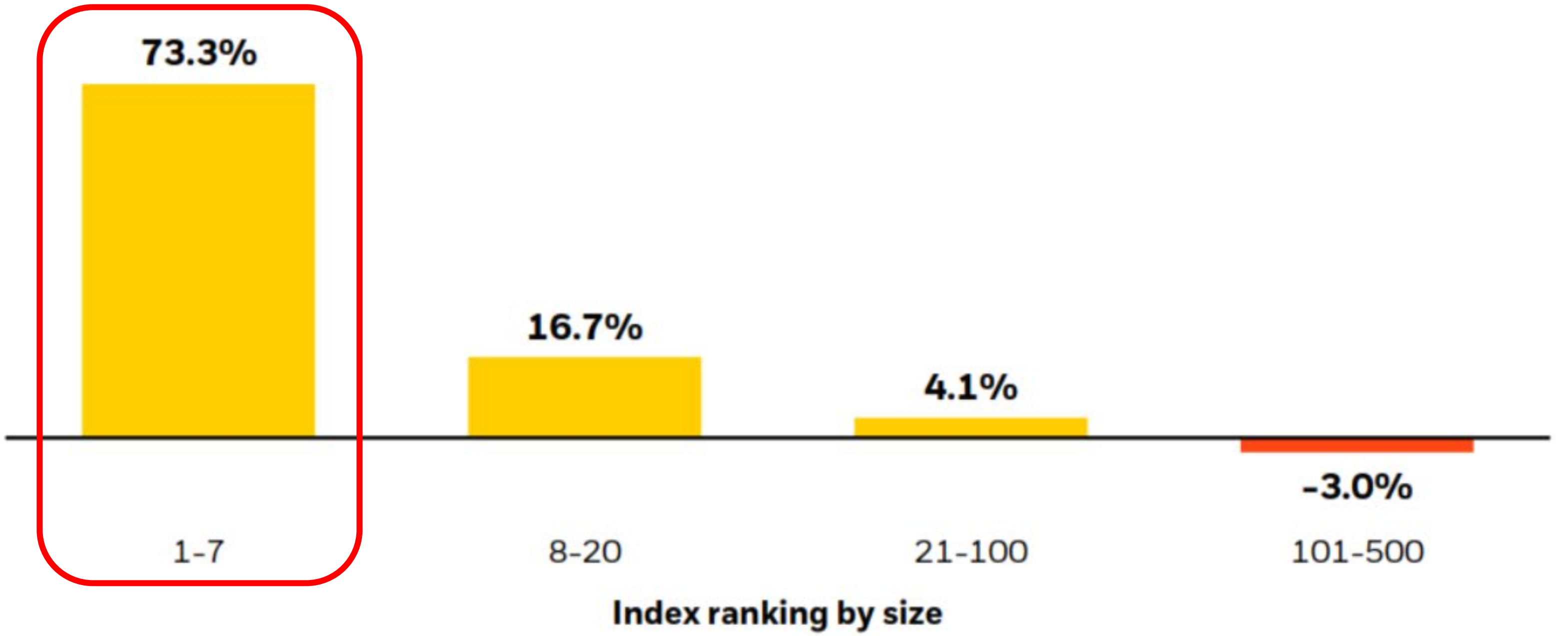
Source: Dimensional Fund Advisors.

Market Update

Stock Market Returns Dominated by Largest Names

- Largest stocks have driven S&P 500 performance this year.

Average 2023 YTD performance of individual companies in the S&P 500 Index, grouped by rank according to market cap size (1/1/23 - 10/31/23)

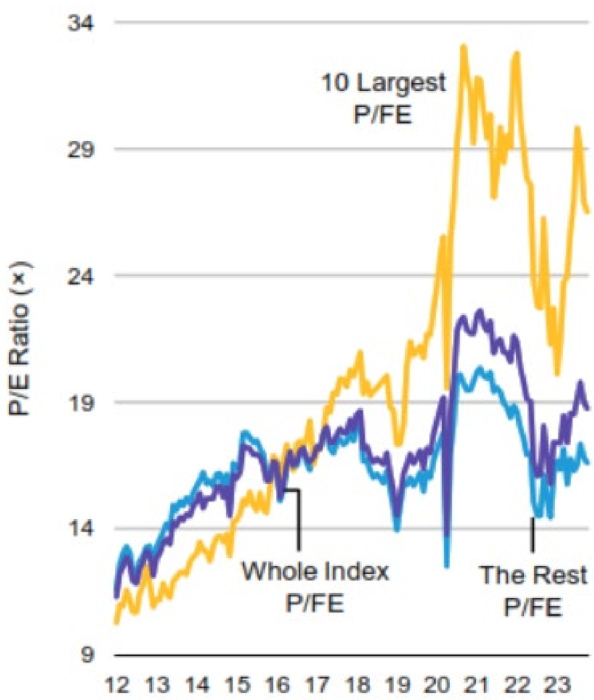


Source: Morningstar as of 10/31/23. Stocks represented by the individual stocks of the S&P 500 Index, non-voting dual-class shares excluded. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

Market Update

Largest Names Expensive

- …but those **largest firms trade at a significant premium** to the rest of the market, despite some recent volatility.



Ten names include: Alphabet Inc., Amazon, Apple, Berkshire Hathaway, Exxon Mobil Corporation, Meta Platforms, Microsoft, NVIDIA, Tesla and UnitedHealth Group.
As of September 30, 2023
Source: Bloomberg, S&P and AB

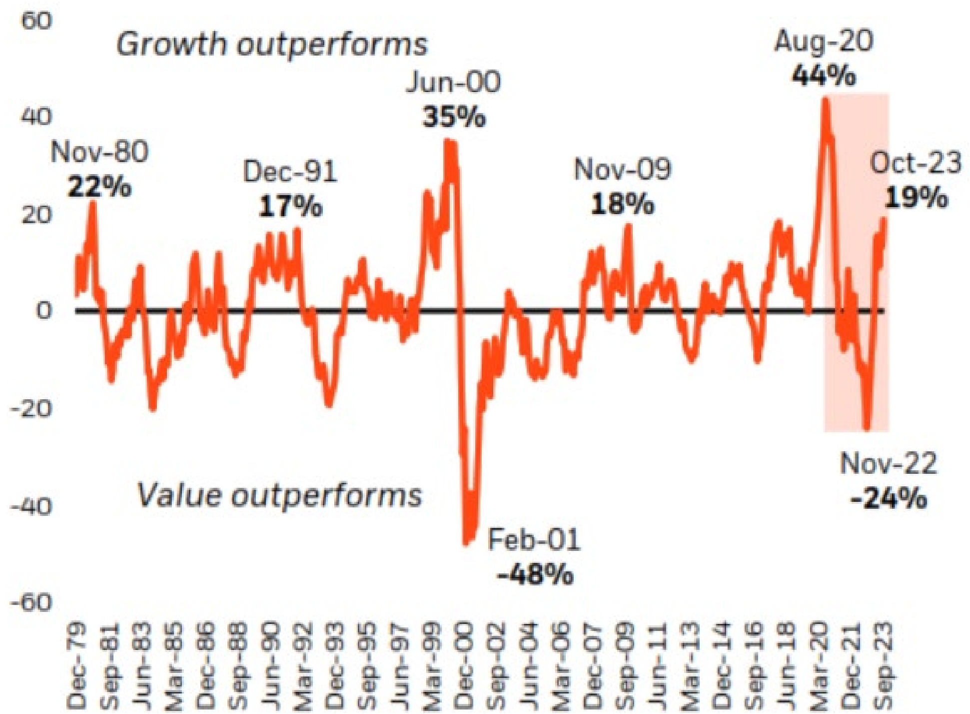
Market Update

Disparity in Performance

- After significantly underperforming in 2022, **Growth stocks have outperformed** in 2023.
- The **increased divergence** in Value vs. Growth stocks has led to **increased rebalancing opportunities**.
- Our **disciplined approach** to rebalancing forces us to **"sell high, buy low" periodically, which has proven to add value** over the long-haul.
- Underscores the **importance of disciplined, proactive rebalancing.**

1-year outperformance, growth vs value

Large growth performance minus large value performance, since 1979 (%)

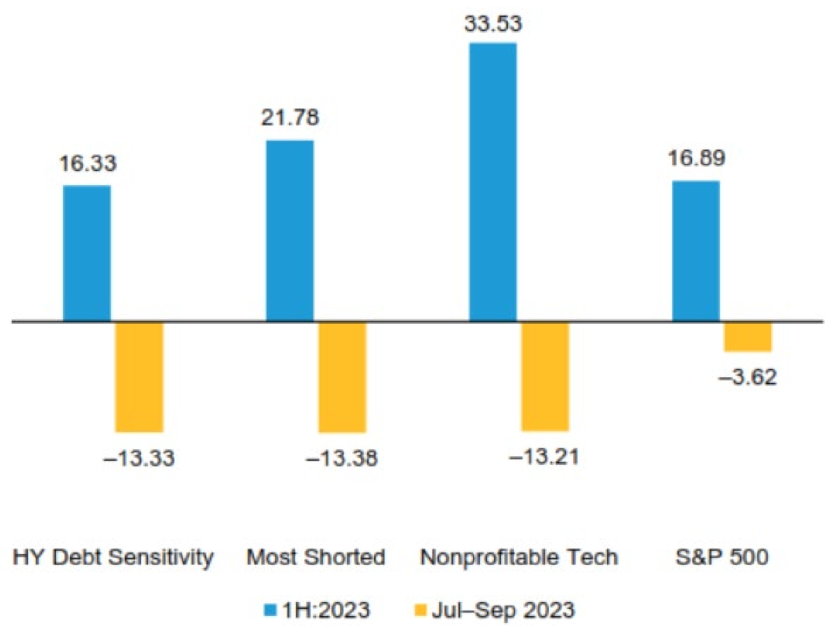


Source: Morningstar as of 10/31/23.

Market Update

Disparity in Performance

- Speculative stocks reversed course in the third quarter, after posting strength through the first half of the year.
- Higher interest rates and stretched valuations may have particularly weighed on this cohort.



As of September 30, 2023
Source: Bloomberg, Goldman Sachs and AB

Market Update

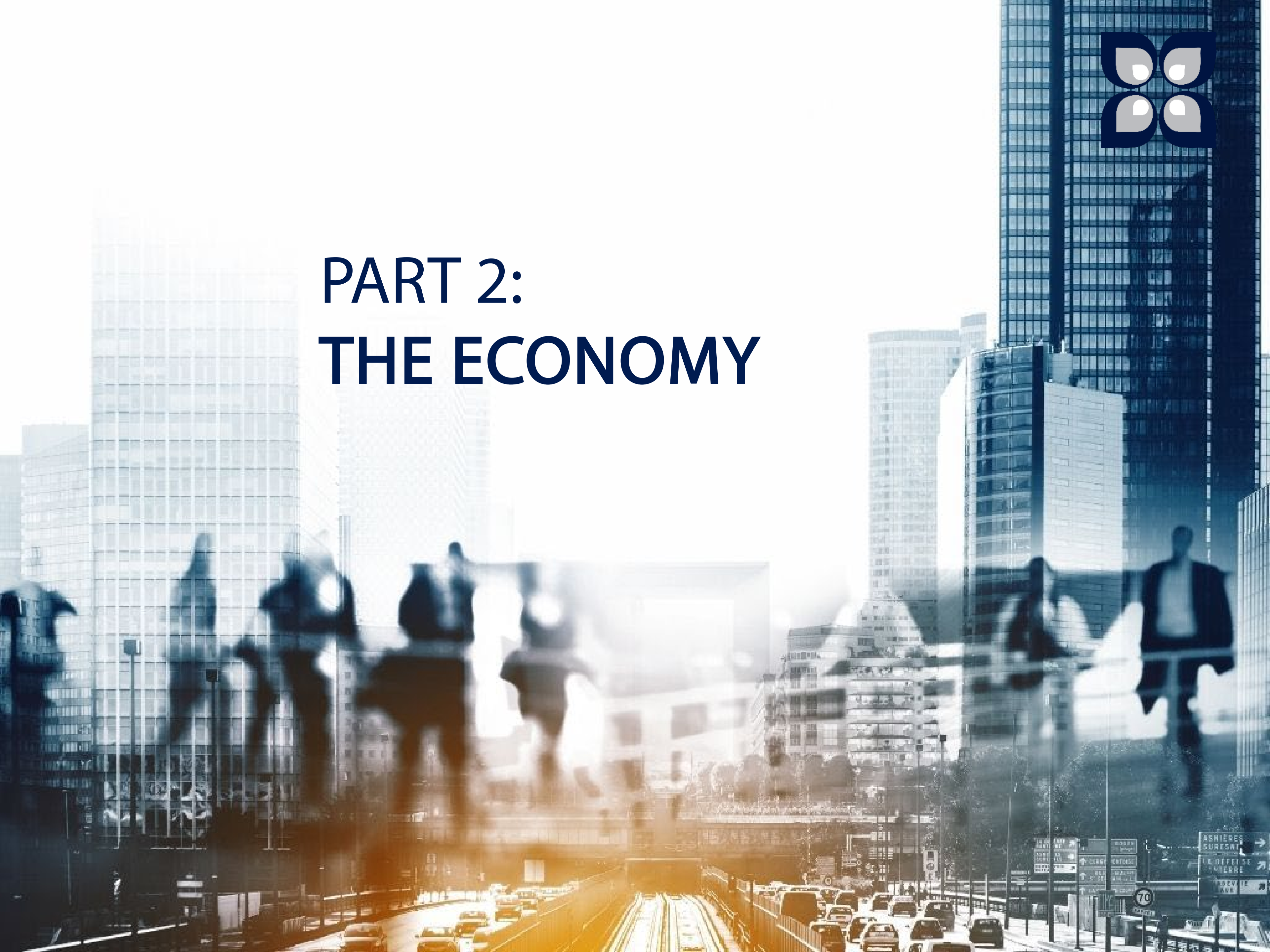
Bonds: Credit & Less Liquid Strategies Outperform

- **Bond yields have trended higher** as economic data has exceeded expectations and **Fed policy rate assessments have been revised to the upside.**
- As a result, the broad bond market – as measured by the Bloomberg U.S. Aggregate Index – is marginally lower this year.
- On the other hand, **less-liquid strategies have outperformed**, with **direct lending leading the charge**, while credit-oriented corporate bonds are also positive on the year.

2023 YTD Performance

Source: FactSet

PART 2:
THE ECONOMY



The Economy

Economic Growth Outlook

- **Economic growth forecasts have been revised higher throughout 2023**, with less impact than feared from regional banking concerns, while **labor market strength and consumer spending have underpinned the economy**.
- Q3 GDP growth came in at 4.9% annualized Q-o-Q growth and consensus estimates the **U.S. economy will expand +2.2% in 2023**. That estimate had been below 1% earlier in the year.
- The market also anticipates **inflation will remain above the Fed's long-term target of 2%** through at least 2025.

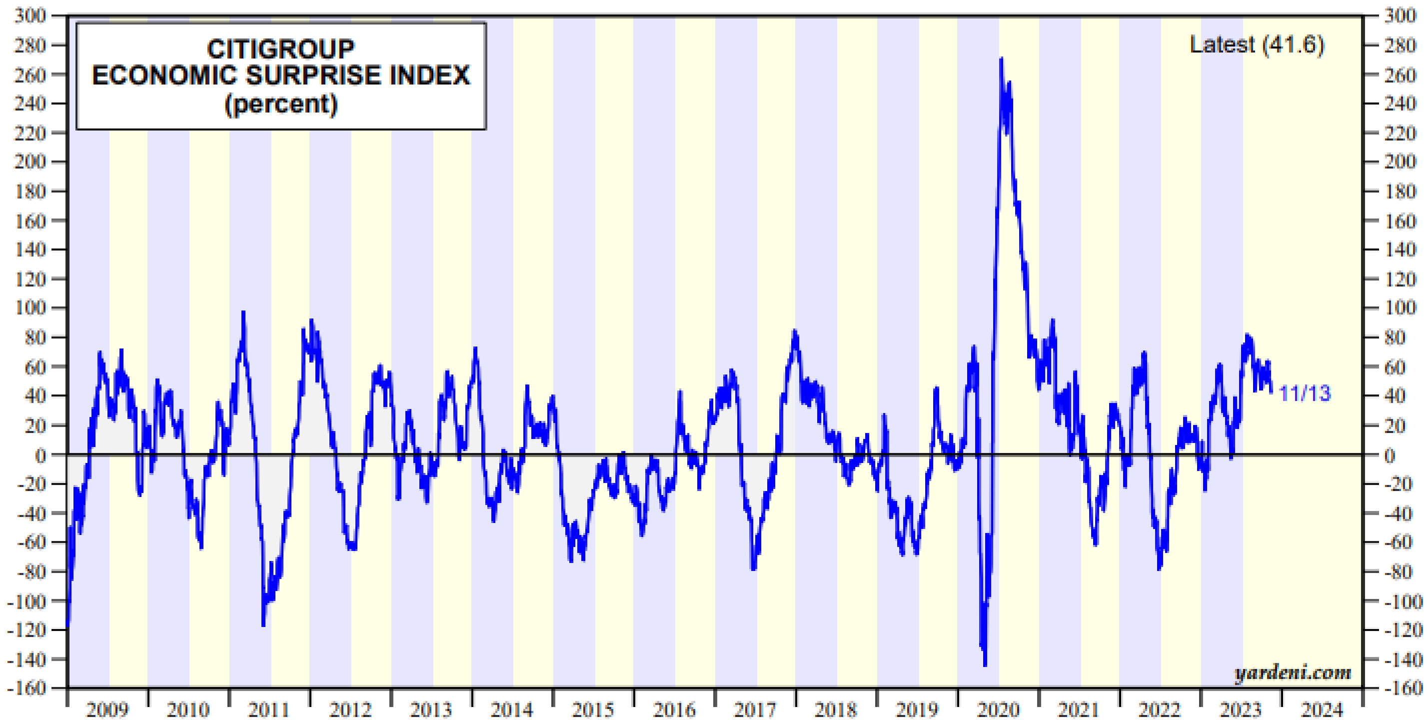
United States Economy	2021	2022	*2023 Est.*	*2024 Est.*	*2025 Est.*
Real GDP (%y/y)	5.8	1.9	***2.2***	*1.1*	*1.7*
Household Consumption (Real, %y/y)	8.4	2.5	*2.2*	*0.9*	*1.4*
Government Consumption (Real, %y/y)	-0.3	-0.9	*3.4*	*1.3*	*0.8*
Gross Private Domestic Investment, Residential (Real, %y/y)	10.7	-9.0	*-11.2*	*0.5*	*3.8*
Gross Private Domestic Investment, Non-Residential (Real, %y/y)	5.9	5.2	*3.3*	*0.7*	*2.2*
Inflation					
CPI (%q/q, SAAR)	4.7	8.0	*4.2*	*2.7*	*2.2*
Core CPI (%q/q, SAAR)	3.6	6.1	*4.8*	*2.9*	*2.1*
PPI (%y/y)	7.0	9.5	*1.8*	*1.7*	*1.3*

Source: FactSet

The Economy

Positive Economic Surprise Momentum

- **Economic data has surprised to the upside since May 2023.** Both Q2 and Q3 GDP beat consensus on the back of **strong consumer spending**.

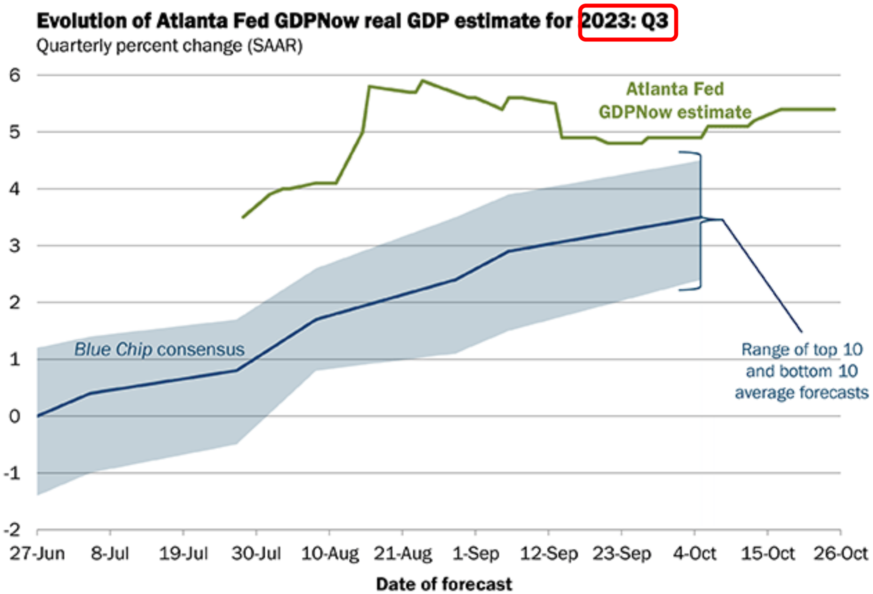


Note: Blue shaded areas are first half of each year.
Source: Citigroup.

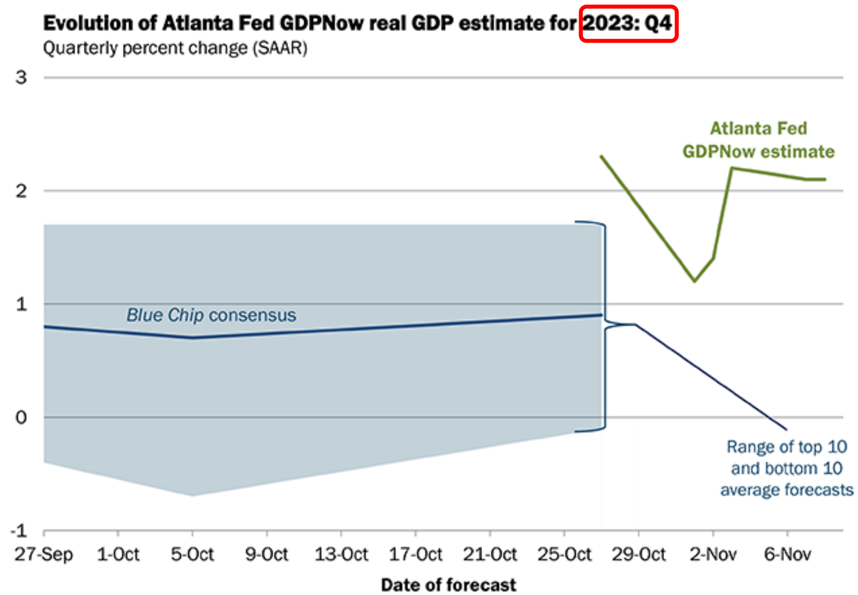
The Economy

Economic Growth Continues to Beat Expectations

- **GDP growth has exceeded expectations** this year, with better-than-expected data underpinning the robustness of the economy and **heightening the chance for a "no landing" or "soft landing"** outcome.



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.



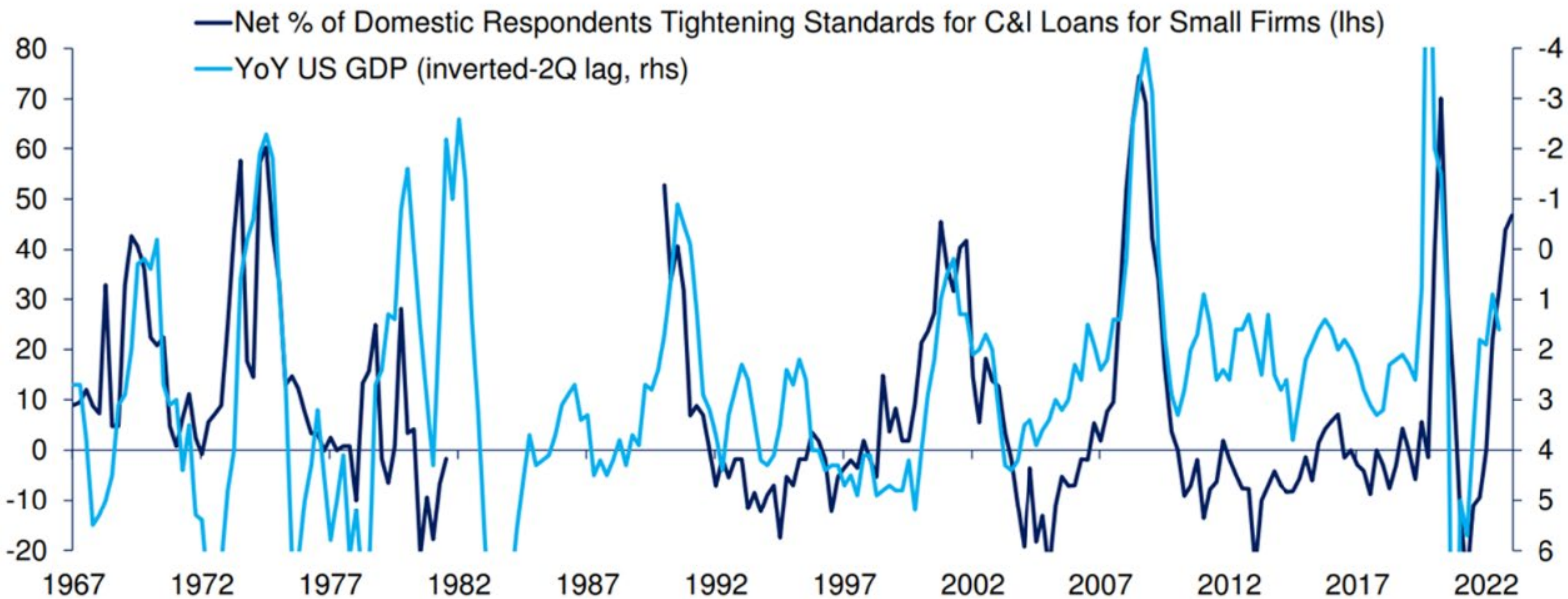
Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

The Economy

Tighter Credit Standards Point to Moderating Growth

- It's not all one-way for the economy. Historically, lending standards lead real GDP growth by approximately 2 quarters.
- As long as lending remains restrictive, there is a higher the chance it weighs on economic growth.

US Senior Loan Officers Survey (SLOOS) leads GDP by around a couple of quarters.



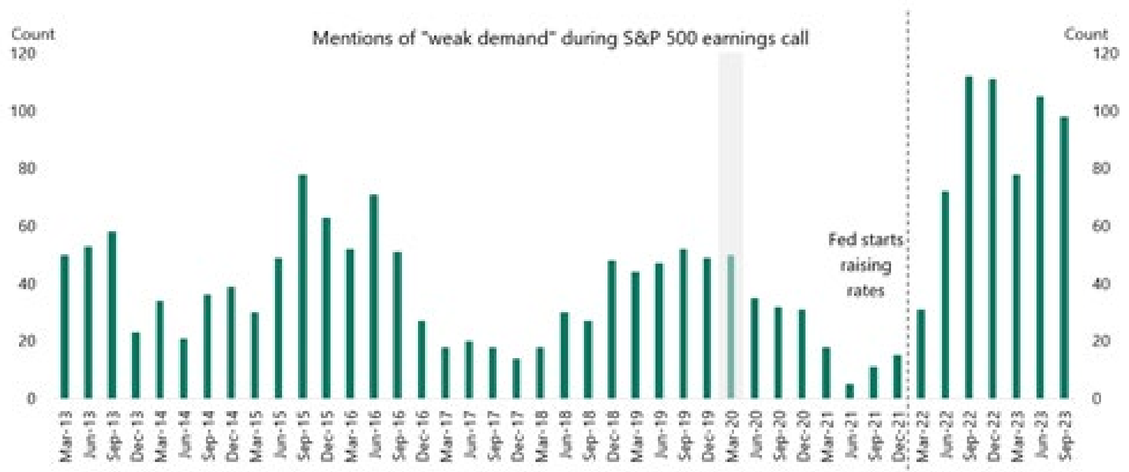
Source:FRB, BEA, Bloomberg Finance LP, Deutsche Bank

The Economy

Higher Rates May Weigh on Demand

- It typically takes 12 months for a rate hike to fully work its way through the economy.
- Since the fed started hiking in March 2022, **companies have increasingly talked about weak demand** on earnings calls.

Since the Fed started raising rates, more companies have on earnings calls been talking about "weak demand"

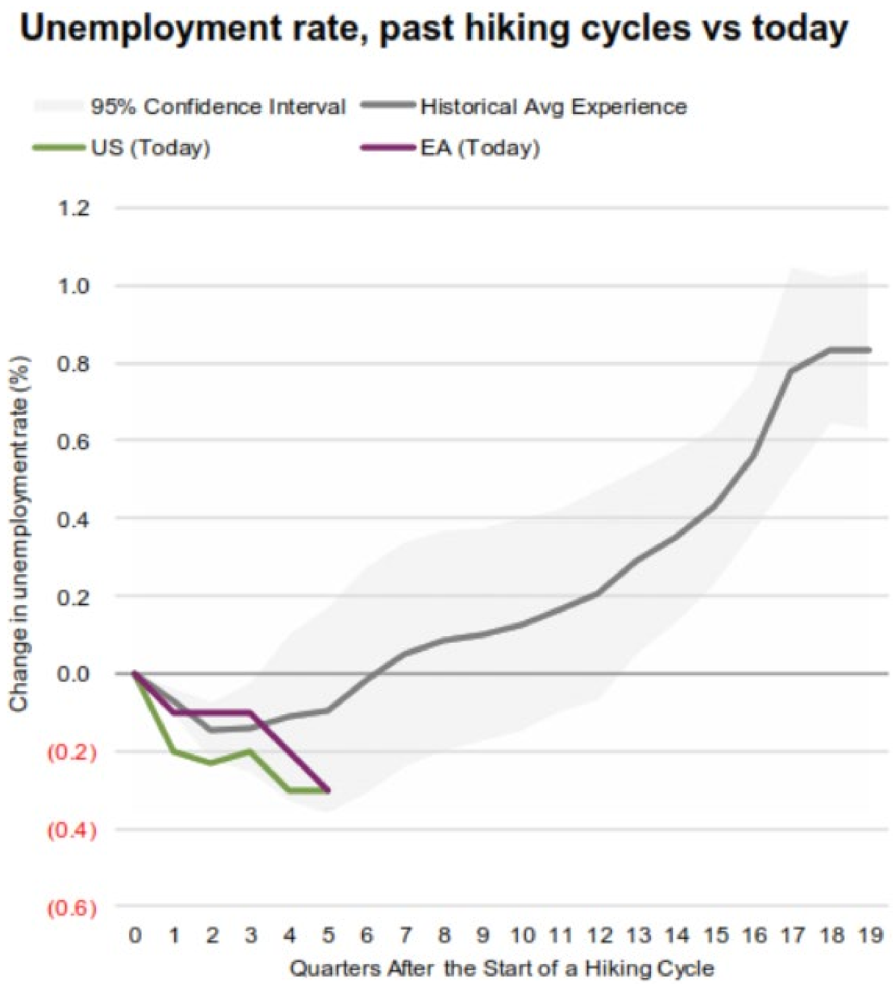


Source: Bloomberg, Apollo Chief Economist. Note: "weak demand" includes consumer demand, consumption demand, deteriorate, decelerate, demand side, end market, erode, market demand, sluggish, soften, softer, softening, weaken, weakening, and worsen.

The Economy

Unemployment Rate Set to Increase

- Historically – and contrary to conventional wisdom – **the unemployment rate *falls* as central banks start hiking interest rates.**
- We expect the **unemployment rate to migrate higher from here,** in-line with historic trends.
- This may **weigh on consumer spending and act to moderate economic growth.**



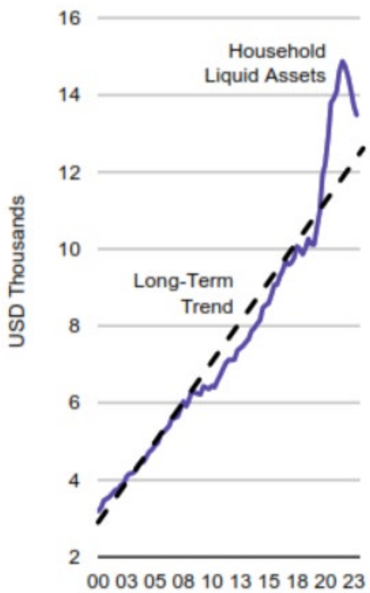
As of 30 September 2023. Source: Haver, PIMCO calculations.

The Economy

Watching the Consumer…

- As hiring slows, fewer job openings may mean **lower wage growth.**
- …while **excess savings have largely been drawn down.**
  - ➢ Could **decrease consumer spending** moving forward.
- Important, as **consumer spending is the single largest input for GDP**.

Source: Refinitiv and AB

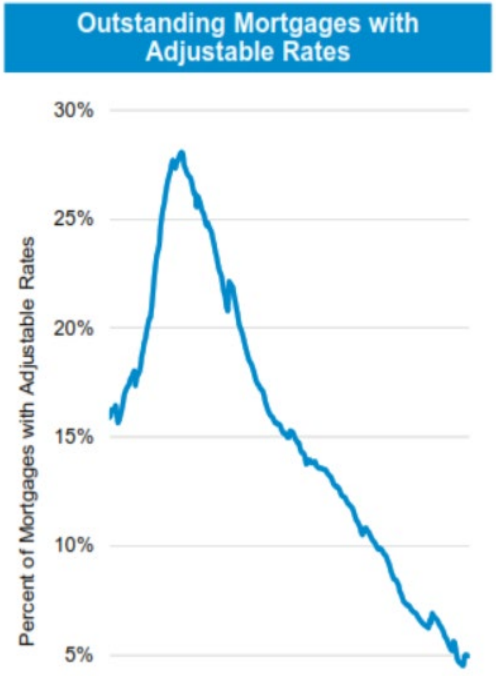


Source: Refinitiv and AB

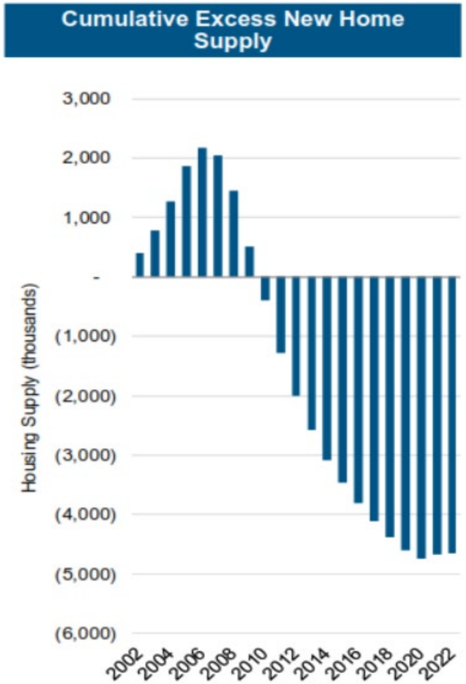
The Economy

Housing Market: this isn't 2008

- Very few mortgages in the U.S. are directly exposed to rising interest rate risk.
- The **undersupply of housing** that has existed since the Global Financial Crisis of 2008 continues to **support housing pricing dynamics**.



Source: PIMCO, Bloomberg as of 31 December 2022.

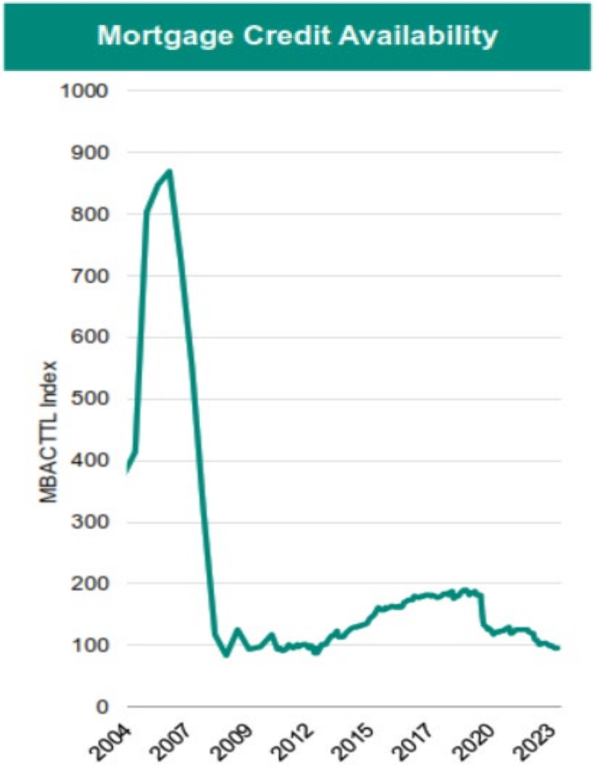


Source: PIMCO, Bloomberg as of 31 December 2022.

The Economy

Housing Market: this isn't 2008

- …while **underwriting standards have remained tight** since the Global Financial Crisis, **constraining demand and helping to contain any excess build up** in the housing market.

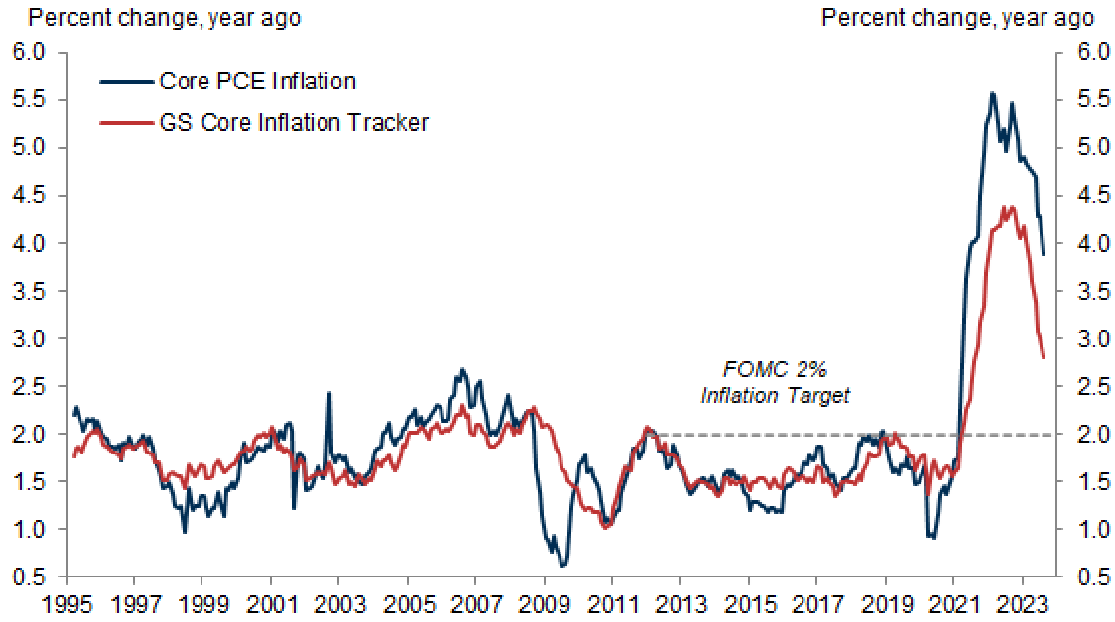


Source: PIMCO, Bloomberg as of 31 August 2023.

The Economy – Inflation

Inflation Trending Lower, But Remains Above the Fed's Target

- **Inflation measures continue to trend lower**, but inflation remains above the Fed's long-term target of 2% and is anticipated to stay elevated for the foreseeable future.
- Continued declines in inflation **increase the chance of a near-term Fed pause,** but we don't anticipate the Fed is likely to rush to cut rates until they see continued movement towards their goal.

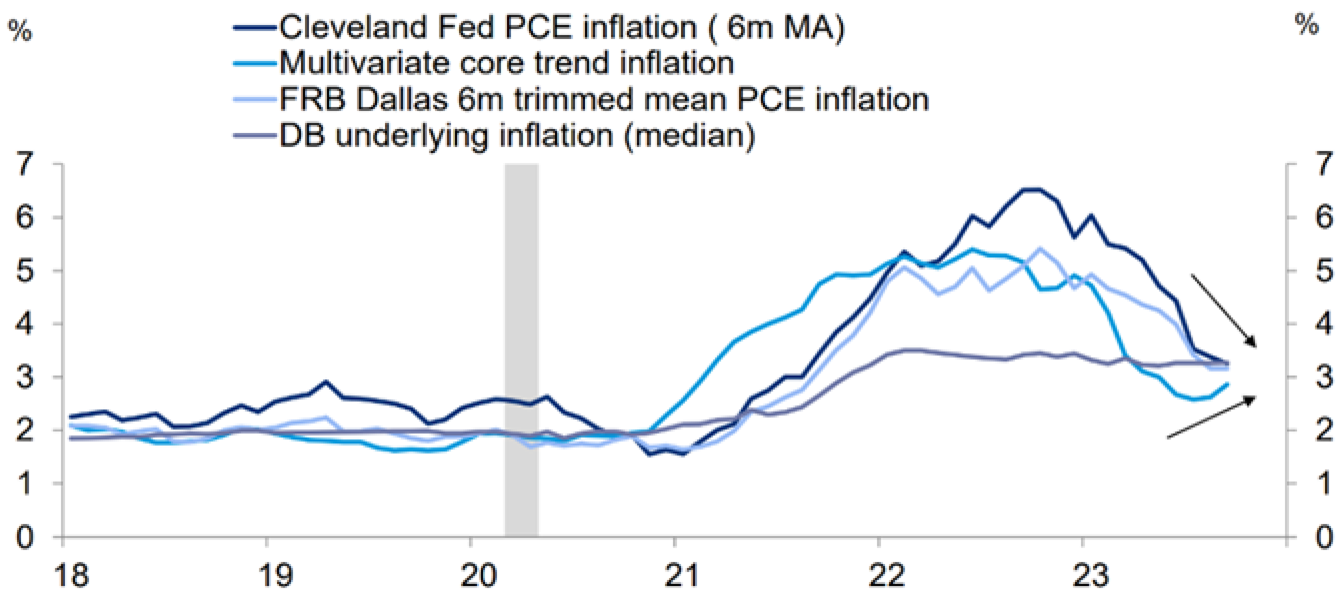


Source: Department of Commerce, Goldman Sachs Global Investment Research

The Economy – Inflation

Inflation Trending Lower, But Remains Above the Fed's Target

- Historically, the last phase of returning inflation back to target is the hardest, and **data indicate inflation may be sticky around the 3% level near-term**, in-line with consensus, which believes inflation won't approach the Fed's 2% goal until at least 2025.



Source: FRB Dallas, FRB Cleveland, FRB New York, Haver Analytics, Deutsche Bank

The Economy – Fed Policy

Fed Pause on the Horizon

- The Fed's most recent economic projections ("dot plot" forecasts) indicate **one more rate hike may be likely this year before pausing**.
- **The Fed anticipates a "soft landing"** – rosier near-term economic growth outlook, continued strength in the labor market, and elevated (albeit moderating) inflation.
- Fed rhetoric has emphasized that once they are done hiking, **rates are unlikely to come down in a hurry**.
- We believe the Fed would need to see a **significant deterioration in economic fundamentals** such that inflation rapidly moves towards its 2% target **for the Fed to consider cutting rates earlier** than their current timeline suggests.

Economic Projections of Fed Board members and presidents, September 2023

Percent

Variable	Median[1]				
	2023	2024	2025	2026	Longer run
Change in real GDP	2.1	1.5	1.8	1.8	1.8
June projection	1.0	1.1	1.8		1.8
Unemployment rate	3.8	4.1	4.1	4.0	4.0
June projection	4.1	4.5	4.5		4.0
PCE inflation	3.3	2.5	2.2	2.0	2.0
June projection	3.2	2.5	2.1		2.0
Core PCE inflation[4]	3.7	2.6	2.3	2.0	
June projection	3.9	2.6	2.2		
Memo: Projected appropriate policy path	+0.25%				
Federal funds rate	5.6	5.1	3.9	2.9	2.5
June projection	5.6	4.6	3.4		2.5

Source: Federal Reserve

The Economy – Fed Policy

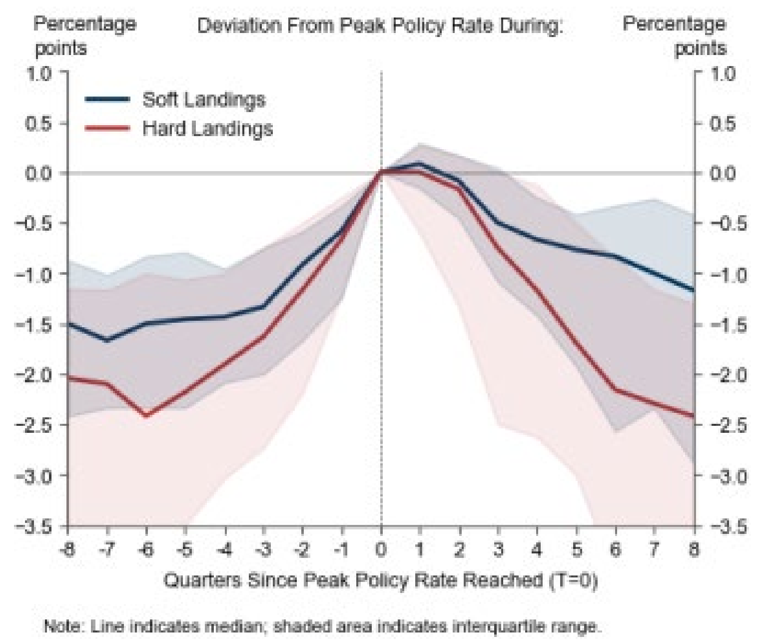
Higher-for-Longer Interest Rates

- Assuming we experience a "soft landing" economic outcome – if history is a guide – we should **expect relatively shallow and gradual rate cuts.**

- Historically, in approx. half of prior "soft landing" scenarios, major central banks **maintained the peak policy rate for at least three quarters** before cutting.

- During soft landings central banks tend to **cut by less than half as much as "hard landings,"** and in two-thirds of cases, cut by **less than 2% in the two years after finishing their hiking cycle**.

    - ➢ Supports the outlook for **higher-for longer interest rates.**



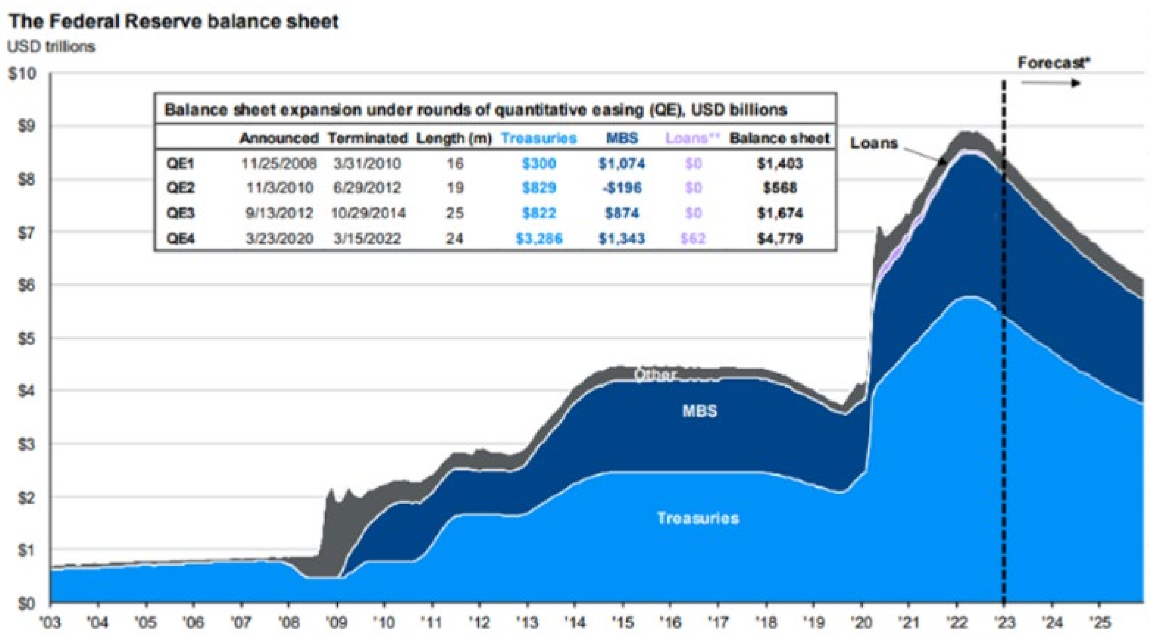
Source: Haver Analytics, Goldman Sachs Global Investment Research

The Economy – Fed Policy

New Phase for Monetary Policy

- We anticipate **tighter monetary policies in the years ahead** relative to those experienced post-2008 through 2021. Expect **higher interest rates & continued Quantitative Tightening (QT).**

- Even if the Fed gets the fed funds rate back to their long-term target rate of 2.5%, combined with QT, it will **still represent tighter monetary policy relative to the 2008-2021 era.**



Balance sheet expansion under rounds of quantitative easing (QE), USD billions

	Announced	Terminated	Length (m)	Treasuries	MBS	Loans**	Balance sheet
QE1	11/25/2008	3/31/2010	16	$300	$1,074	$0	$1,403
QE2	11/3/2010	6/29/2012	19	$829	-$196	$0	$568
QE3	9/13/2012	10/29/2014	25	$822	$874	$0	$1,674
QE4	3/23/2020	3/15/2022	24	$3,286	$1,343	$62	$4,779

Source: FactSet, Federal Reserve, J.P. Morgan Investment Bank, J.P. Morgan Asset Management

PART 3:
OUTLOOK

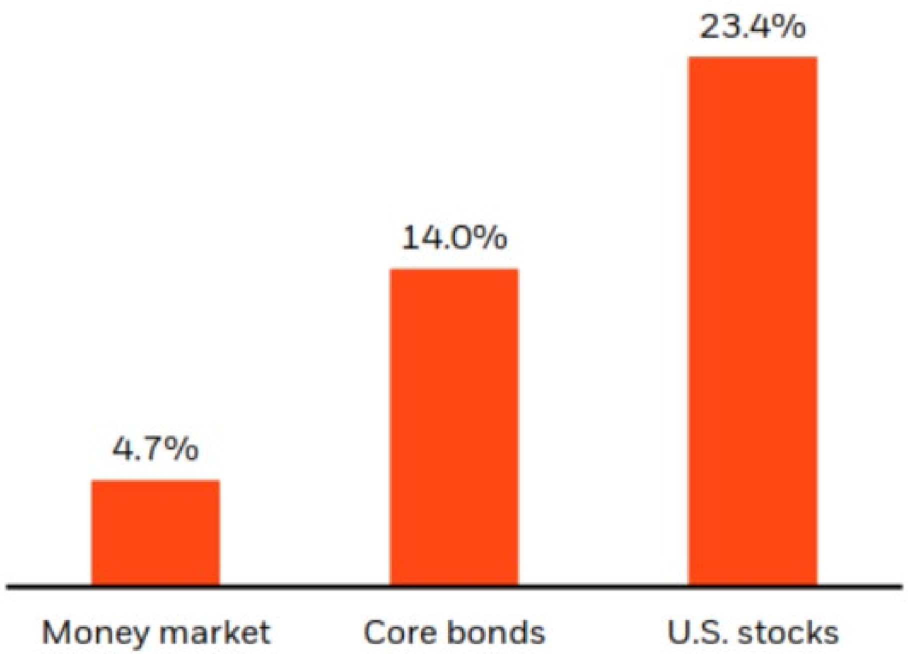
Outlook

Monetary Policy Implications

- Historically, a Fed pause has helped underpin strength in both stocks and bonds.
- Bonds: historically, core bonds have consistently outperformed cash between the last Fed hike and the first Fed cut.
- Stocks: Longer term, we believe expectations need to be reset for stock market returns more commensurate with historic averages, in the mid- to high-single digit range, given the structural shift to tighter monetary policies.

Strong performance during periods between Fed's last hike and first cut

Average annualized returns (%), 1990 – 2023[1]

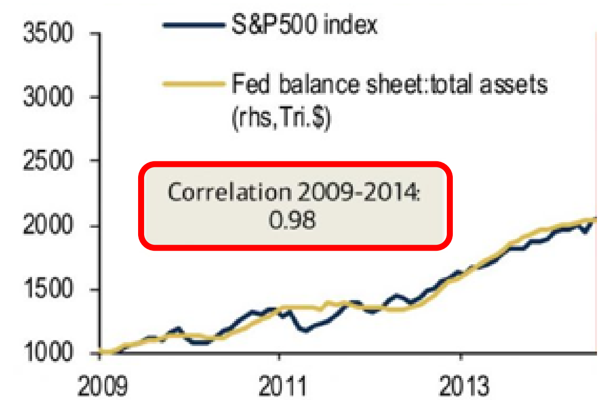


Source: Morningstar, Federal Reserve as of 10/31/23.

Outlook – Stocks

Moderation in Returns

- Longer term, the **importance of monetary policy on stock returns cannot be overstated**.
- Fed policy influences financial markets; **there is a very high correlation between the Fed's balance sheet and the S&P 500**.
- The tailwind of easy policies that were in place in the post-2008 years ending 2021 has been removed.
- For context, the 10-year annualized return ending 2021 for the S&P 500 was +16.5%. That is simply unsustainable.



Source: Standard & Poor's; Federal Reserve Board

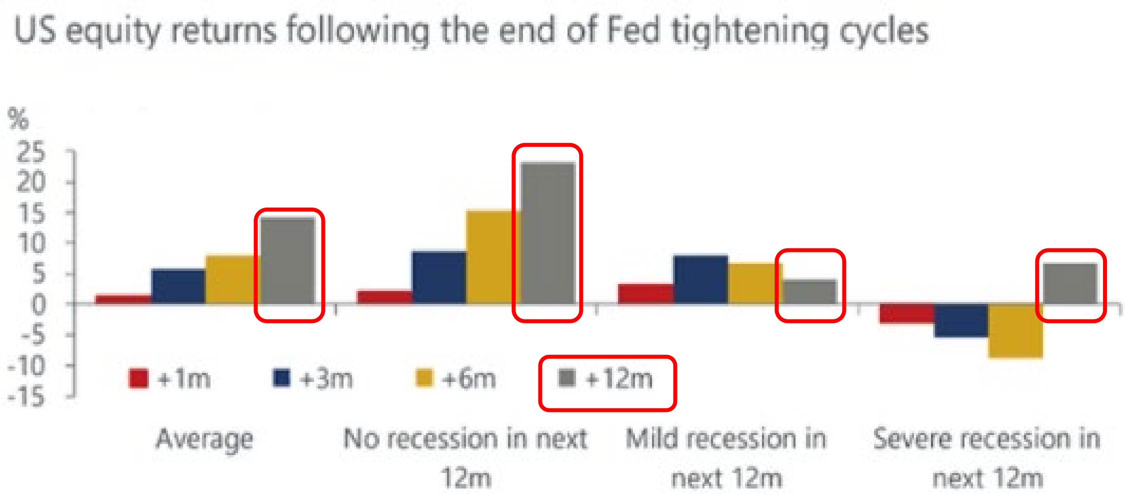
S&P500 performance and Fed net QE since the pandemic began

Source: Federal Reserve Board, Bloomberg, Apollo Chief Economist. (FED QE = Fed total assets – Balance of the Treasury General Account – Temporary cash added/drained through Overnight Reverse Repo).

Outlook – Stocks

Fed Pause May Help

- Stocks have, on average, historically experienced **strong performance in the 12 months following a Fed tightening cycle.**
- Historically and even in the case of a severe recession in the 12 months following a Fed hiking cycle (not our base case), the **subsequent 12-month stock market returns were positive.**

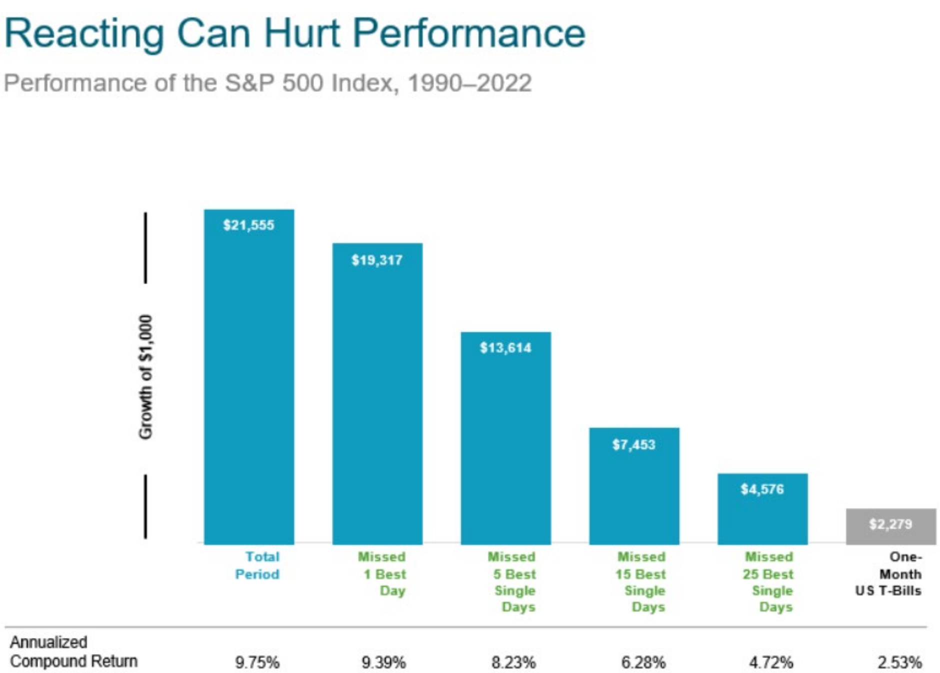


Source: Oxford Economics/Refinitiv Datastream/Bloomberg

Outlook – Stocks

Look Through the Noise

- Staying disciplined and fully invested is key. The best stock market days often follow some of the worst days; **missing only a few of those best days can dramatically reduce long-term investment performance.**

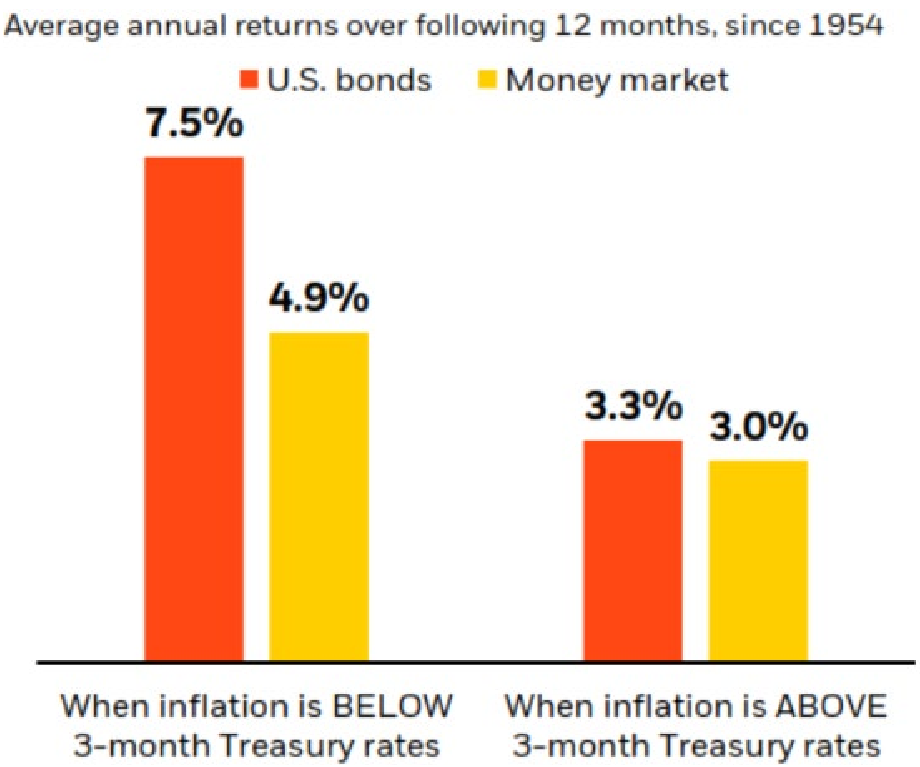


Source: Dimensional Fund Advisors.

Outlook – Bonds

Bonds: Constructive on Outlook

- With inflation trending lower amid potentially slowing economic growth, the **elevated yield environment may support the bond market.**
- Inflation is trending towards the 3% level, while 3-month Treasuries remain north of 5%.
- **Bonds have historically outperformed when short-term rates are above inflation.**
- **Heightened bond yields also offer more downside protection** today, should yields rise further.

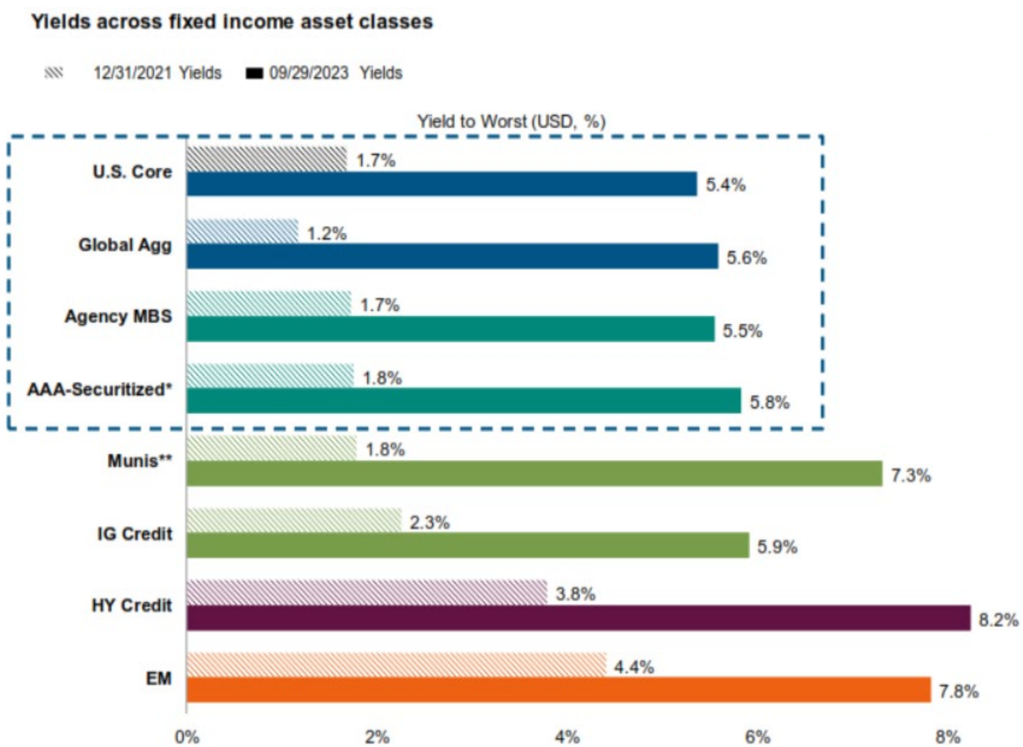


Source: Morningstar and the St Louis Federal Reserve as of 10/31/23.

Outlook – Bonds

Bonds: Constructive on Outlook

- **Bond yields are much more attractive today** relative to the end of 2021. Many of our preferred bond funds are **currently yielding mid-to-high single digits**.

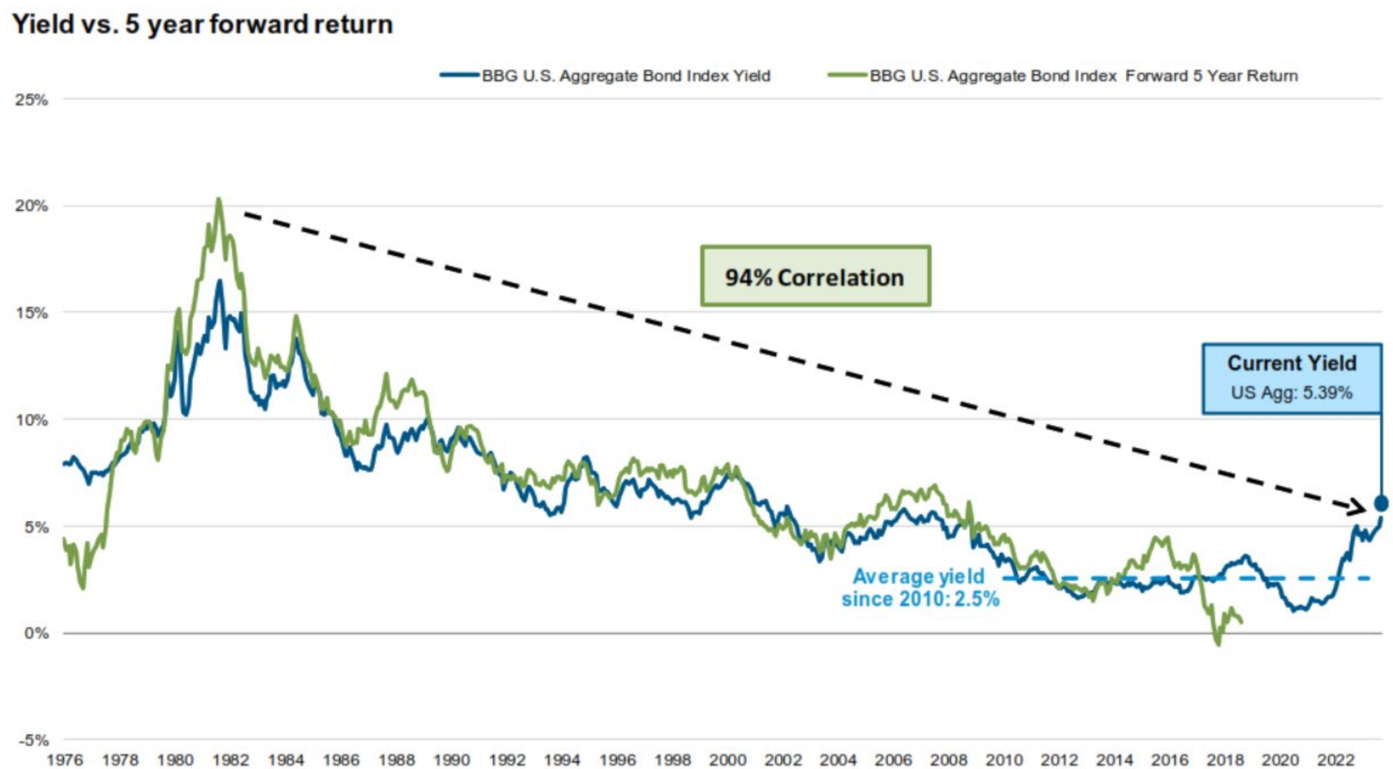


As of 30 September 2023. SOURCE: Bloomberg, PIMCO.

Outlook – Bonds

Bonds: Constructive on Outlook

- …and the **current yield is the strongest determining factor** for forward looking bond returns.



As of 30 September 2023. Source: Bloomberg, PIMCO

Outlook - Alternatives

Private Equity

- We believe private equity offers **attractive upside return potential** which may be particularly important in the years ahead should public stocks experience a moderation in returns.

Real Assets

- We believe infrastructure offers investors long-term **consistency in returns and yield**, in assets like power and utilities, ports, airports, toll roads, data centers, cell towers and fiber networks. **Trillions of dollars in spending is required in these areas over the coming years** to sustain ongoing economic growth.

- Real Estate has **already cycled cap rate increases** and we are **positive on the outlook moving forward**, particularly for multifamily, industrial logistics, along with select data center exposures.

Direct Lending

- We consider it to be a **favorable environment for direct lending strategies**, with higher interest rates more than compensating for the potential for any increase in default rates. **Business fundamentals continue to be robust**, supporting credit.

Disclosures

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