Raymond Capital Advisors, LLC

October 22, 2023

Stock & Bond Benchmark Total Returns (%) For Periods Ending September 29, 2023					
	QTR	**1-Year**	**3-Years**	**5-Years**	**10-Years**
Standard & Poor's 500	-3.27	21.62	10.15	9.92	11.91
Bloomberg Barclays U.S. Aggregate Bond	-3.23	0.64	-5.21	0.10	1.13
60% Stocks / 40% Bonds TAA Composite Index	-3.24	13.01	4.00	6.27	7.74
3-month Treasury Bills	1.20	4.45	1.81	1.66	1.10
Inflation (CPI)	0.88	3.70	5.75	4.04	2.77

Returns (%) include capital gains, dividends and interest. All data **annualized** for periods greater than one year.

60% Stocks / 40% Bonds TAA Composite Index is rebalanced monthly. Sources: S&P Dow Jones Indices, Morningstar, Federal Reserve.

Market Review: A Change in Perspective

After a strong start to the year, the S&P 500 Stock Index turned in a negative quarter for Q3. The financial landscape is complex, with a variety of factors at play. During the quarter one important shift by investors was the change from initial relief that a U.S. recession wasn't looming, to concerns about unexpectedly robust economic growth and the potential impact more persistent inflation could have on the Federal Reserve's monetary policy. As the quarter evolved, equity sectors tied to the economy and commodities, like Energy, performed well, while long-term Treasurys turned in their fourth-worst quarter since 1926. As of this writing, 6-month T-bills have now risen to yield 5.51%, the 10-year Treasury 4.96%, and 30-year mortgage rates have now hit 8%, their highest in 23 years.

During the quarter, RCA made adjustments to client portfolios. Within equity portfolios, we increased exposure to Industrials while reducing exposure to Consumer Staples. We also decreased the underweight position in Financials and changed our stance on Technology from overweight to modest underweight. In RCA's Multi-Cap Core Equity strategy, we maintained exposure to mid-cap and small-cap Value stocks, as well as international stocks through Exchange Traded Funds. We also adjusted fixed income portfolios in balanced strategies to align them with the benchmark early in the quarter, and removed exposure to inflation-protected bonds via an Exchange Traded Fund. Taxable balanced accounts will benefit from the tax-loss harvesting we implementing in fixed income portfolios.

Turning to inflation, we've seen progress with the Consumer Price Index now at 3.7% year-to-year, down from 9.1% in June 2022. However, it's still too early to say inflation is fully contained, as the slowdown in core prices has moderated, and we're still dealing with the effects of the pandemic on housing, labor, and other markets. **This suggests that the Federal Reserve will stick to its "higher for longer" stance on interest rates in its efforts to reach its 2% long-run inflation target.**

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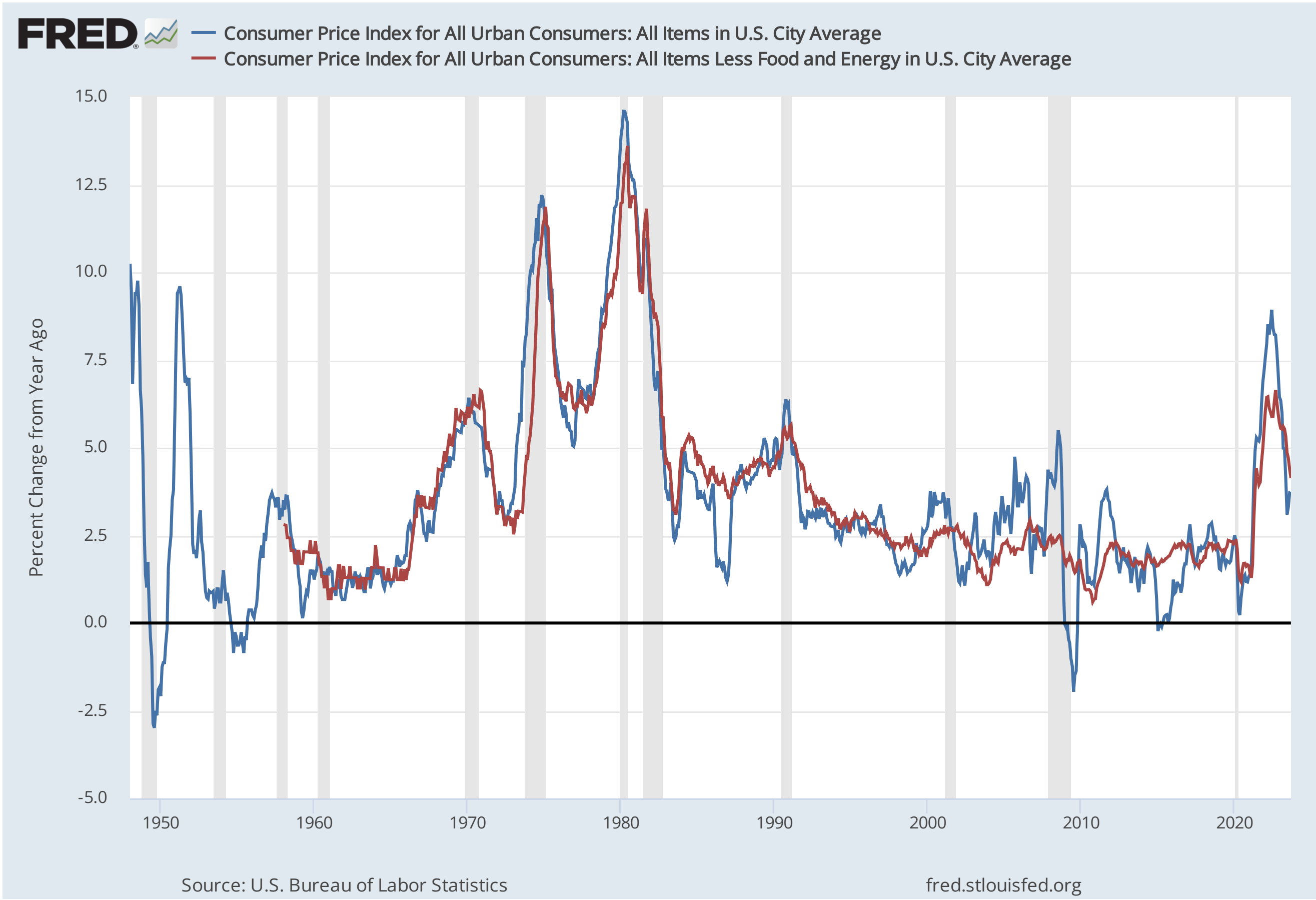
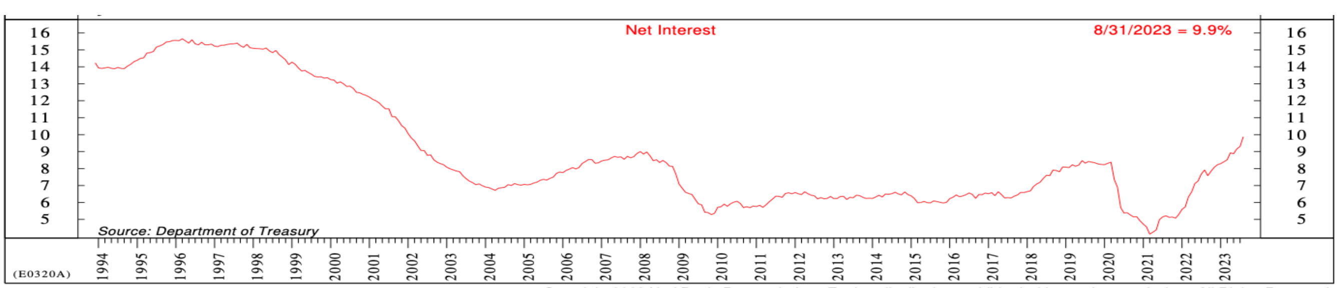


Outlook: All About Debt and Inflation… But Where's the Breaking Point?

Higher interest rates lead to higher interest expense. Recently, interest expense as percentage of total government outlays has accelerated to 9.9% (chart below). Rising expenses and not enough economic growth to pay for all of the spending is largely the root cause of our problems in Washington. Moreover, problems such as Hamas's recent attack on Israel, and Russia's war with Ukraine may indeed be necessary for world and national security, but also complicate government spending. Historically, an outright renege on government debt is a rare occurrence, as governments possess the ability to print money to service their debts, though this veiled form of default carries its own set of consequences: inflation, higher interest rates, and attenuated economic growth.



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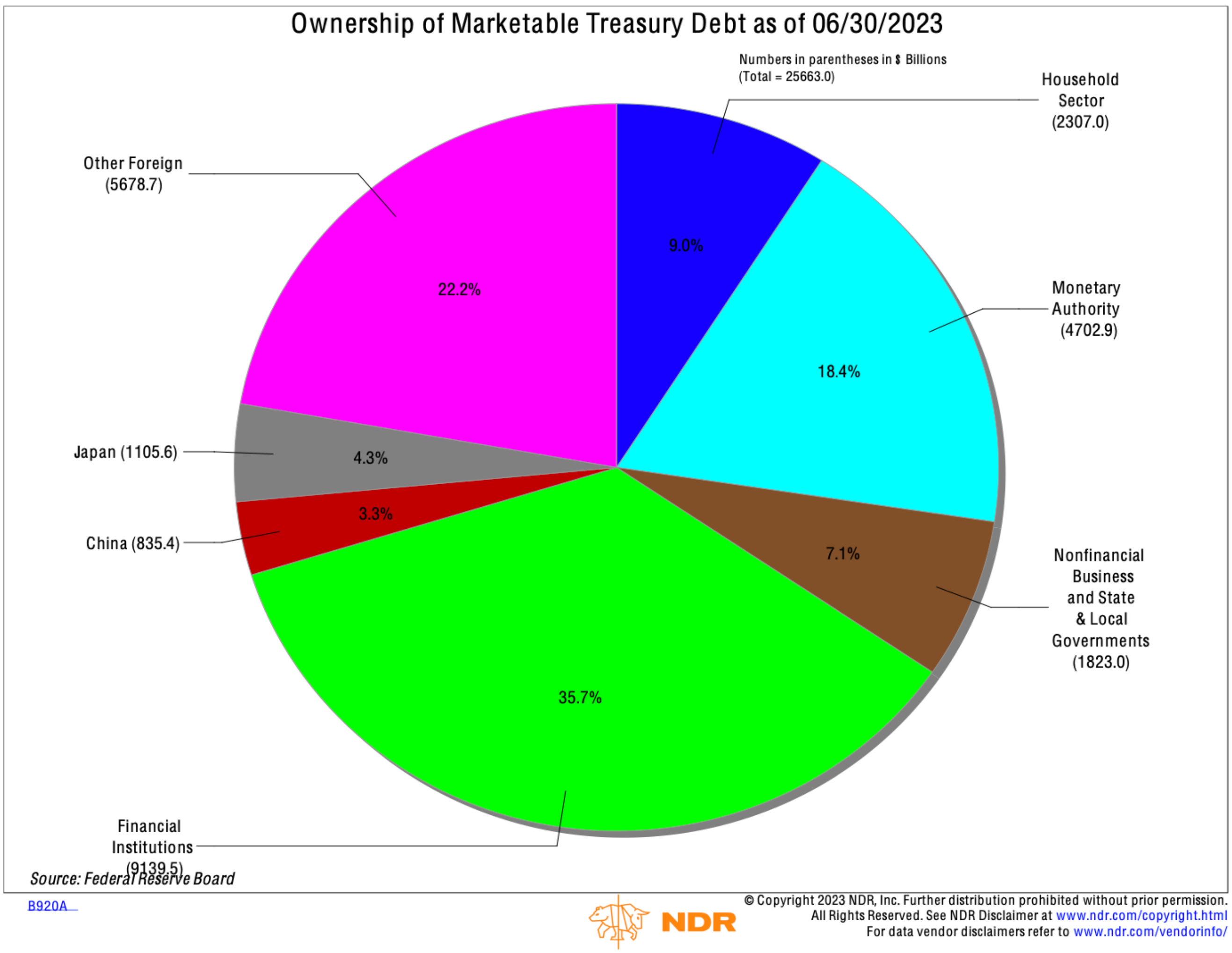
The "breaking point," or when creditors stop buying a country's debt, is uncertain. Research by Carmen Reinhardt and Kenneth Rogoff suggests that when public debt nears 90% of GDP, the risk of default increases.[1] However, the analysis has wide variations, and the debt-default relationship depends on various economic, political, and institutional factors. Countries with less "external debt" (debt owed to foreigners) are also less likely to default.

Currently, the United States has a publicly held debt of 105% of GDP, with about 30% of it being external. The U.S. also has the world's reserve currency, which facilitates 60% of global trade, a strong military and foreign aid, likely providing some protection against debt intolerance. Nonetheless, weak institutional structures (governance, credibility, corruption, etc.) and problematic political systems often lead to an **unwillingness** to make the hard choices about taxation/"tax fairness" and spending that help to keep countries out of the default risk zone. This appears to be where Washington is today.



[1] Carmen M. Reinhart & Kenneth S. Rogoff. This Time Is Different (2009). New Jersey. Princeton University Press.

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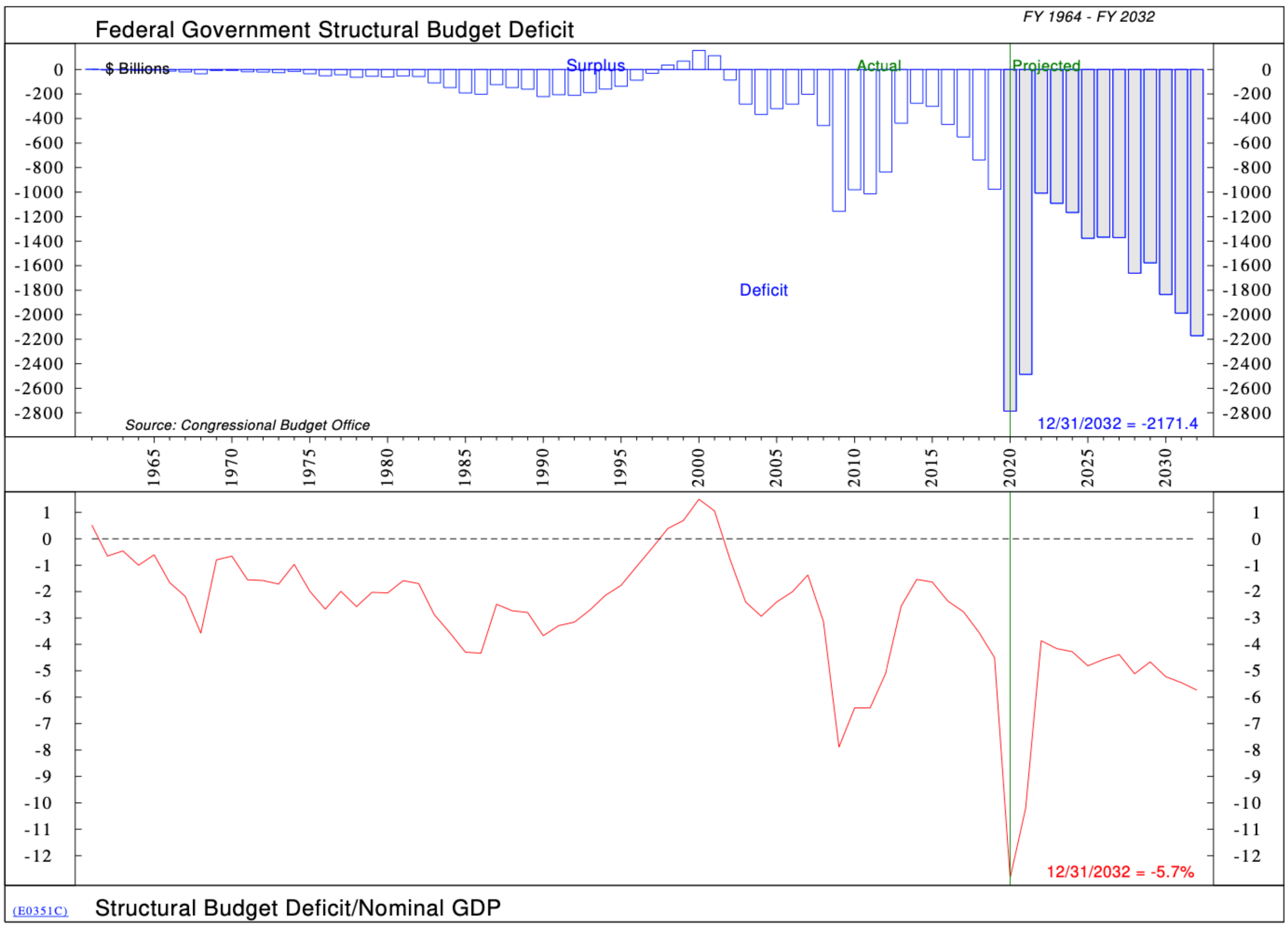
Further analysis from the University of Pennsylvania's Penn Wharton Budget Model suggests that the U.S. will not be able to exceed a level of debt held by the public equal to 200% of GDP without risking its **ability** to service the debt. This could lead to higher inflation and interest rates, affecting future generations. Penn Wharton currently estimates this situation to be about two decades away, but **markets will start factoring in these risks at some point if they don't believe corrective action will be forthcoming.** While this issue may be long-term, addressing it needs to start soon. Projections for future deficits do not look encouraging, although perhaps not quite as alarming when viewed as a percentage of GDP (chart below).



Turning back to markets, we are hopeful for year-end seasonal strength, but also acknowledge that interest rates have risen to levels where they pose competition for stocks. For now we stay the course, and will continue to diligently monitor the markets and provide you with timely updates.

Warm regards,
Geoff & Lance

Raymond Capital Advisors, LLC
A Retirement Wealth Advisor

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