Market & Portfolio Commentary

Q3 2023

Third Quarter Market Review and Commentary

The Federal Reserve remains cautious with its rate hike decisions, hoping to pull off a soft, economic landing. The Fed's latest "hawkish pause" on rate increases pressured equity markets and helped continue to fuel an ongoing historic bear run in the bond markets.

IN THIS ISSUE

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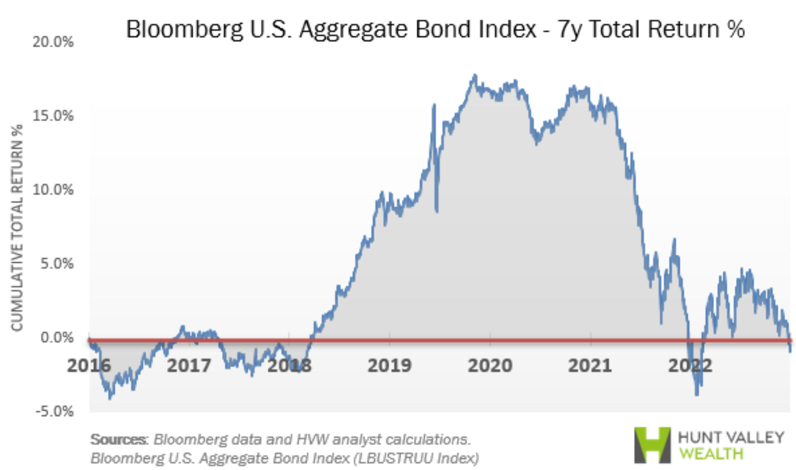
In its attempts to cool inflation, the Federal Reserve has quickly raised rates from near zero to 5.5% recently – a 22-year high. During its most recent meeting in September, the central bank decided to hold rates steady. This action by itself would seemingly be good news for both stocks and bonds; however, the Fed stated that they will need to stay restrictive for "some time" in order to get inflation back down to their 2% target. The central bank wants to see what the full effects of having raised short-term interest rates 11 times over the last 19 months will have on inflation.

Inflation, as measured by the Consumer Price Index (CPI), has fallen from around 9% last year to 3.7% at last read. The rapid and continual rise in interest rates has had a dramatically negative effect on bond prices. Using the Bloomberg U.S. Aggregate Bond Index as a proxy, an investment in the overall bond market has now provided a negative return for over seven years.



This period is especially significant because this is the only time an investor theoretically would have realized a negative return over any seven-year period since the Index's inception in 1976.

If we zoom out and look at bond market performance over the past few decades, we see that bear markets have been relatively common, but this current one is noteworthy. The following table (right) details the top ten bond bear markets since 1976, ranked by their duration in months. As you can see, at 38 months and counting, this is not only the longest-tenured bond bear market but also includes the most severe drawdown from its peak.

The silver lining to this is that current bond yields are at the highest level that we've seen in almost 16 years. Because of these higher yields, we think that bonds are finally starting to look like a reasonably attractive investment.

Bond Bear Markets (1976 - 2023)

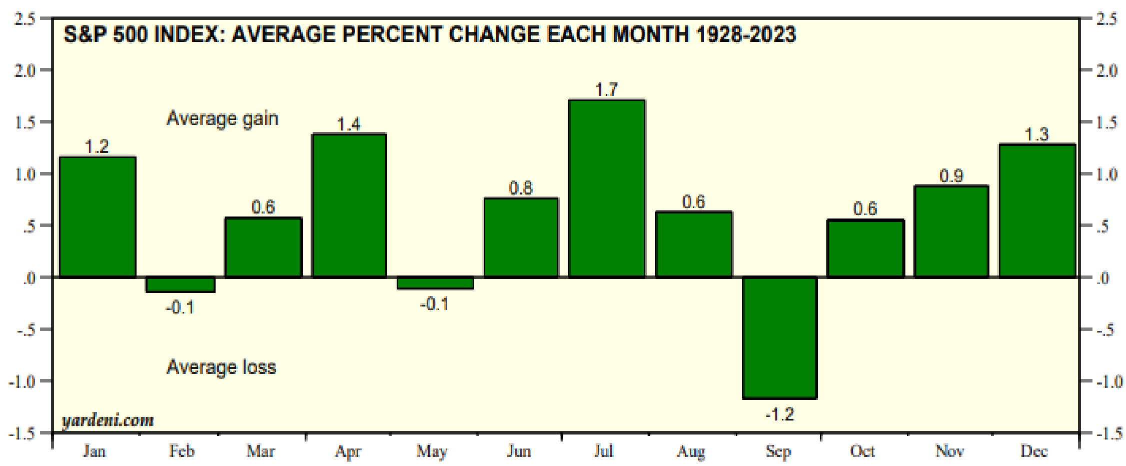
Bloomberg U.S. Aggregate Bond Index

Begin	End	Bear Market # Months	Max Cumulative Drawdown %
Aug 2020	Sep 2023 *	38	-18.4%
Oct 1998	Mar 2000	18	-3.7%
Jun 1980	Oct 1981	16	-9.0%
Sep 2017	Jan 2019	16	-3.3%
Jul 2016	Aug 2017	14	-4.4%
Jan 1994	Mar 1995	14	-6.6%
May 2013	May 2014	12	-4.9%
Feb 2015	Feb 2016	12	-2.8%
Feb 1987	Nov 1987	9	-4.9%
Jul 1979	Apr 1980	9	-12.7%

** Bear market still ongoing as of Sep 2023*

Sources: *Bloomberg data and HVW analyst calculations. Bloomberg U.S. Aggregate Bond Index (LBUSTRUU Index)*

HUNT VALLEY WEALTH



*No change (0.00%) month of September 1979. Data are through the end of September 2023.
Source: Standard & Poor's and Haver Analytics.

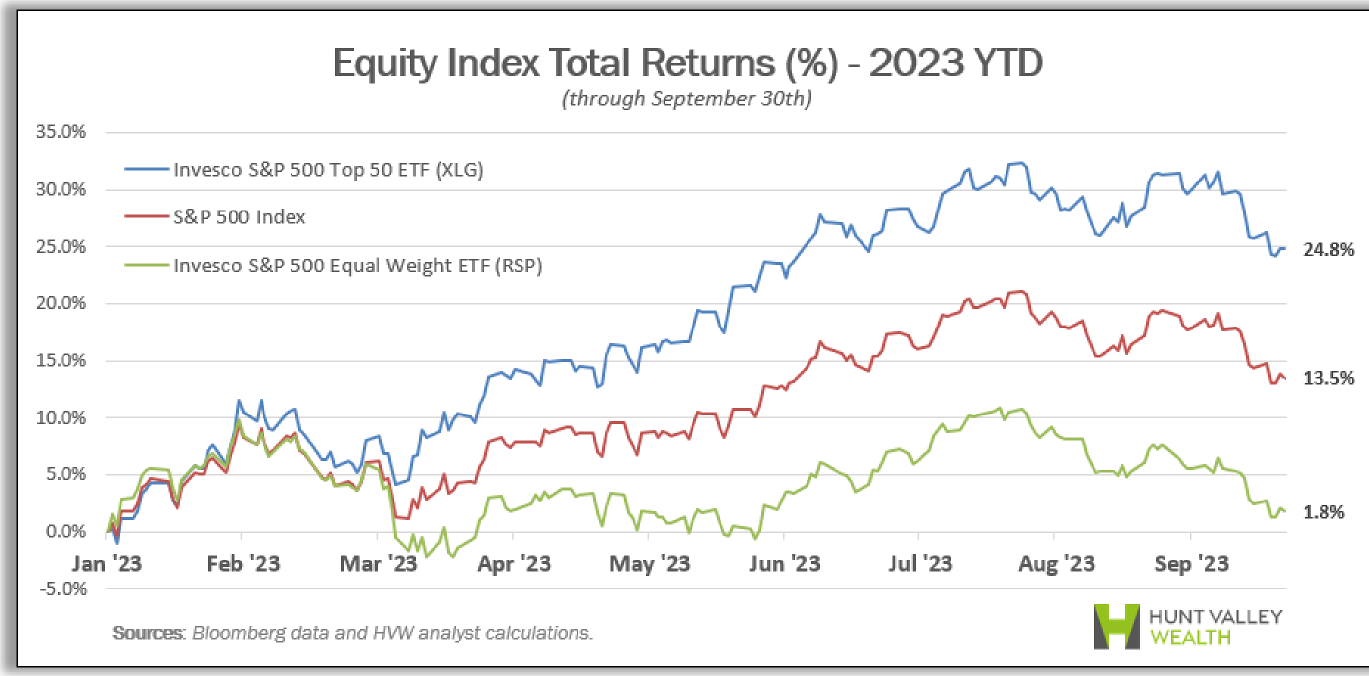
Page 1 / *September 29, 2023* / **Stock Market Indicators: Historical Monthly & Annual Returns** Yardeni Research, Inc.
www.yardeni.com

Turning our attention to the equity markets, September has historically been the worst month of the year for stock market performance. This September was no exception, as the S&P 500 index fell 4.8% for the month. Rising interest rates are typically bad for stock values as future cash flows are discounted by the higher rate, resulting in a lower value.

During the 3rd quarter, the Index pulled back 3.3%, but it still remains up 13.5% for the year. Despite the negative return this quarter, the year has been a fairly good one in terms of the Index's overall performance. However, if you look deeper, and as we noted in the Second Quarter Commentary, the performance has been almost entirely driven by a small group of Mega Cap stocks.

The S&P 500 index is a market cap-weighted index, which means that the larger companies have a larger weighting, and their performance has more influence on the Index's return. To illustrate this, Invesco's S&P top 50 ETF (XLG), which is composed of the top 50 largest stocks in the S&P 500, has gained nearly 25% year to date compared to 13.5% for the total Index.

Another way to isolate the influence these large companies hold over the overall Index's performance is to look at an equally weighted index where all positions carry the same weight regardless of size. As we would expect, Invesco's equal-weighted index ETF (RSP) generated only a 1.8% return so far in 2023. This dichotomy shows that the vast majority of individual stocks have not performed well so far this year.



The higher bond yields have no doubt rattled equity markets recently. As rates have risen, many investors have avoided and even sold stocks. As long term investors, we look for opportunities during these times. Some relief may be on the way as there is a possibility that the Fed's rate hikes may be nearing an end. We make no predictions about when this will happen so time will tell.

As we've said, it is our belief that equities provide a good long-term hedge against inflation. This is because companies have the ability to grow their cash flows to keep up with rising prices, unlike bonds which have fixed cash flows. With the prices of many stocks falling lower, we continue to seek opportunities to purchase great businesses at discounted valuations for the long term.

Company Spotlight

Q3-2023

Meta

Louis Foxwell, CFA
Portfolio Manager

Meta Platforms, Inc. (META) owns and operates Facebook, Instagram, Messenger, and WhatsApp. These platforms facilitate social interactions and entertainment for more than three billion users every day. Additionally, more than 160 million businesses use these apps to interact with customers, with many paying Meta for advertising placements. Meta also operates Reality Labs, a research division that aims to commercialize augmented and virtual reality. Oculus is the most notable commercial product from this division today.

In our experience, every company undergoes a *moat test* at least once in its lifetime – a situation where the business model is tested and the market asks, "Does this business need to exist?" The vast majority of businesses are too fragile and fail the moat test, fading into obscurity or mediocrity. Some are resilient and survive it. The rare ones, though, are antifragile, and the moat test actually makes them stronger. In our view, Meta falls into the third category.

It has faced numerous moat tests: the shift to mobile, privacy concerns, allegations of election interference, Apple's IDFA deprecation, anti-trust probes, and intense competition. Yet, as we look at Meta today, we see a company that is considerably stronger than ever.

Meta's *antifragility* is partly due to its billions of users being dependent on its apps for social connections. It is also due to the integration of its products and services into the millions of companies that built their own business models around Meta's advertising engine. The stability provided by user and customer lock-in allows Meta to adapt quickly to changing behaviors and market conditions. It also ensures the business is consistently cash-generative, providing internal financing for necessary growth investments. Lastly, we believe there is an additional factor in Meta's antifragility that is often overlooked: management's capital allocation philosophy and ability.

Zuckerberg and his team are not afraid to forego short-term profits for greater long-term earning power, especially when times get tough. A good example of this is the recent pivot to Reels in response to the popularity of TikTok's short-form videos. Management knew that allocating more resources to Reels would lower profits in the short term, but it would likely create a much more engaged userbase (and therefore higher profits) in the long term. Meta has also recently undergone a multi-year investment cycle in artificial intelligence, Reality Labs, and infrastructure. We think the artificial intelligence and infrastructure investments will allow the company to scale new products quickly and make the entire enterprise more efficient. We know Reality Labs will be a sore spot for many investors, and we will monitor the amount of investment in it. That said, we are fully supportive of the division at reasonable levels of spending, as we think it represents an insurance policy for owning the next computing platform.

All these investments have run in contrast to Wall Street's appetite for hitting quarterly earnings targets, which is why the stock dropped nearly every time they were announced. It wasn't until Meta revealed that it was cutting costs that the stock recovered earlier this year, but that too was a long-term decision. Meta's unique ownership/voting structure, which is often criticized, enables management to make long-term decisions like this, while its competition focuses on short-term performance. We believe this is an additional competitive advantage for the company, and it aligns quite well with our own investment philosophy.

Financial Planning Corner

Year-end financial planning to-do list

Dani Ryan, CFP®, CDFA®
Senior Wealth Advisor

With the year-end fast approaching, now is the perfect time to review your financial planning needs. This checklist can help you review your goals and assess year-end tax planning opportunities. Please consult with your wealth advisor and tax professional as you consider these options.

2023 End-of-Year Financial Planning Checklist

Retirement Planning

- ☐ Maximize retirement plan contributions
- ☐ Contribute to Traditional or Roth IRAs
- ☐ Consider back-door Roth IRA contributions
- ☐ Analyze Roth IRA conversion scenarios
- ☐ Take required minimum distributions
- ☐ Consider Social Security claiming options
- ☐ Review beneficiary elections

Tax Planning

- ☐ Complete annual exclusion gifts *($17,000 in 2023)*
- ☐ Fund 529 plans
- ☐ Open and fund Roth IRAs for kids
- ☐ Review charitable giving year-to-date and the remainder of the year
- ☐ Consider qualified charitable distributions from IRA *(if over 70.5 years old)*

Financial Planning

- ☐ Plan for large expenditures in 2024
- ☐ Review 2023 annual expenses and cash flow
- ☐ Revisit saving and income needs
- ☐ Review overall portfolio allocation

Insurance

- ☐ Confirm life/health/disability insurance coverages are appropriate
- ☐ Review auto and homeowners' policies
- ☐ Review group benefit options and make updates if needed
- ☐ Review Medicare enrollment options

Other

- ☐ Request an annual credit report
- ☐ Make Health Savings Account (HSA) contributions
- ☐ Spend remaining balances in a Flexible Spending Account (FSA)

Hunt Valley Wealth in the Community

One of our primary core values at Hunt Valley Wealth is collaboration. We greatly value the expertise and opinions of our fellow team members and look for ways to build connections in and out of the office. There are few better ways to do that than channeling that inner competitive spirit in a night of adult arcade and sporting games we all enjoyed as kids. Our latest team-building event took us to Wonderfly Arena, where a night of events like archery tag, dodgeball, and bubble ball soccer brought out the best in each of us while reminding us that work can also be fun.

Wonderfly Arena – August 2023

Of course, you can also build camaraderie by relaxing and enjoying the local countryside. The team also visited local favorite Prigel Family Creamery and sampled some of the best homemade ice cream our area has to offer, including their flavor of the day, custom made just for Hunt Valley Wealth – *Legacy Wealth Mint*. Not a bad way to celebrate National Eat Outside Day (August 31st).

Prigel Family Creamery – August 2023

Hunt Valley Wealth: Upcoming Webinar

In today's world, 54% of Americans in their 40s have a parent 65+ and a child younger than 18 that they care for.* Balancing the needs of two different age groups can be challenging. Our panel of experts will discuss the multifaceted aspects of maintaining a high quality of life while juggling care-giving responsibilities.

Join us for The Balancing Act: Wellness, Family and Retirement for the Sandwich Generation on Wednesday, November 8, 2023 at 2:00PM-2:45PM ET.

Our expert panel will explore three key areas:

- Travel & Wellness: Travel trends such as multi-generational family vacations, the importance of having digital documents, and how travel can serve as a vital component of your self-care toolkit.
- Care Management: Insights into effective care management, avoiding care-giver burn-out, and helpful resources to ensure the well-being of your aging parents and family members.
- Retirement Planning: Financial planning strategies to help you create a plan for your own retirement while meeting the needs of your family.

Gain practical advice for managing the complex responsibilities of the Sandwich Generation. Register for our webinar and take steps towards a more fulfilling life.

Scan To Register

**Citation: Pew Research Center Survey*

We are here to support you and your wealth management objectives.

Especially now, we invite you to connect with your advisory team to discuss the markets, inflation, or your personalized wealth management strategy. We remain committed to your goals, both near and long-term.

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