Market & Economic Outlook 2023 – October Update: Are We There Yet?

Major Indices	Value (9/30/2023)	3Q23 (6/30/23 - 9/30/23) Price Return	3Q23 (6/30/23 - 9/30/23) Total Return*	2023 YTD (12/31/22 - 9/30/23) Price Return	2023 YTD (12/31/22 - 9/30/23) Total Return*
S&P 500	4,288.05	-3.6%	-3.3%	11.7%	13.1%
Dow Jones Industrial Average	33,507.50	-2.6%	-2.1%	1.1%	2.7%
NASDAQ Composite	13,219.32	-4.1%	-3.9%	26.3%	27.1%
Russell 2000	1,785.10	-5.5%	-5.1%	1.4%	2.5%
MSCI EAFE (USD)	2,031.26	-4.7%	-4.0%	4.5%	7.6%
MSCI Emerging Markets (USD)	952.78	-3.7%	-2.8%	-0.4%	2.2%
Bloomberg Commodity Index	104.84	3.3%	4.7%	-7.1%	-3.4%
Bloomberg U.S. Aggregate Bond	86.33	-3.9%	-3.2%	-2.9%	-1.2%

*Data source: FactSet through 9/30/23; Further discussion of market indices can be found in the Appendix section; Price Returns refer to the change in prices from the beginning of the period (6/30/23) to the end of the period (9/30/23); *Total Returns include dividends paid.*

Outlook Summary:

Global equities moved lower in the third quarter (3Q23) as both August and September declined, but for the 9-month year-to-date (YTD) period, each of the major domestic indices we track remained positive. We attribute equity market weakness over the past two months to concerns over rapidly rising, long-term interest rates even as the U.S. Federal Reserve Bank (Fed) slowed the pace of its restrictive policy of hiking short-term interest rates (using its overnight bank lending fed funds target). The rise in long-term rates (we point to the yield on the U.S. 10-year Treasury bond), on one hand, reflects solid U.S. economic growth trends pointing to no near-term recession, but on the other hand, creates increasingly tight credit conditions that can slow consumer spending and business investment. An improving growth outlook is likely not the sole contributor to higher interest rates as investors have also worried about an increase in U.S. Treasury debt issuance (due to a high level of debt maturities and ongoing budget deficits) and a dysfunctional U.S. Congress that has been unable to approve necessary appropriation bills to avoid a government shutdown. Interest rate "angst" creates valuation challenges for equities (as higher interest rates lower the present value of future cash flows), keeping our outlook for U.S. equities moderately cautious over the next several months. A trend of higher borrowing rates for mortgages, car loans, and credit cards, as well as an October 2023 resumption in federal student loan payments, could limit consumer spending growth in the months ahead, despite a stronger-than-expected labor market (jobs growth). Although we see continued challenges ahead for investors, we acknowledge several positive factors that could limit equity market downside and could even help drive a market rally in the fourth quarter. These positive factors include healthy jobs growth and wage gains, a rebound in business investment that, along with consumer spending, has driven upside surprises to U.S. economic growth in 2023, S&P 500 earnings results that are expected to turn positive on a year-over-year basis in 3Q23, and a Fed that is likely very near the end of its fed funds rate hiking cycle.

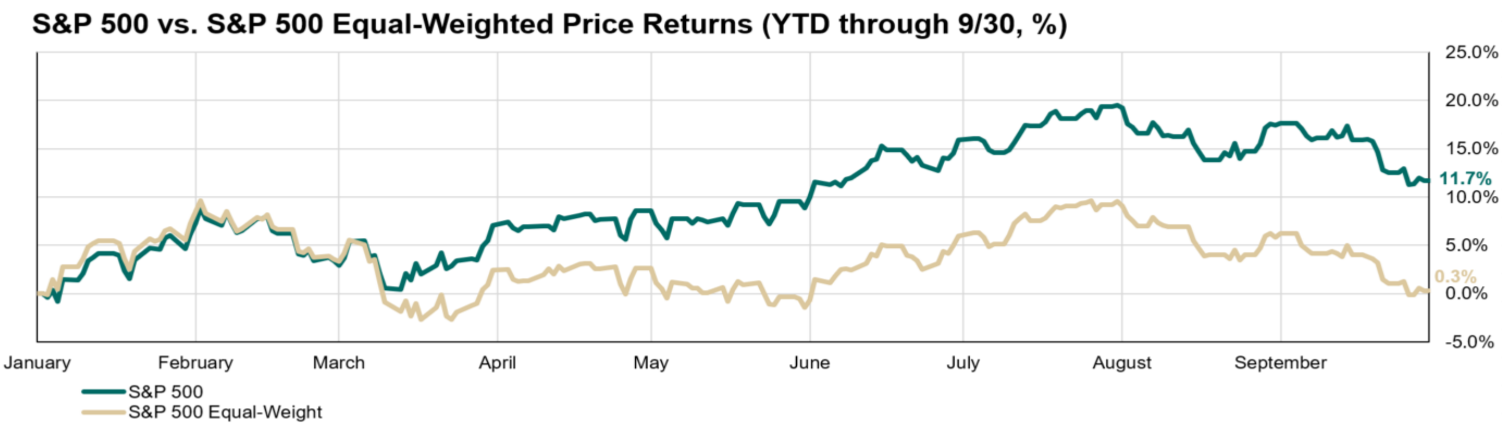
Our S&P 500 fair value (FV) estimate of 4,200 is slightly above our 4,100 FV estimate in July but is -2.1% below the index closing price of 4,288 as of 9/30/23. We also see a FV range of 3,900 to 4,500 as investors balance both positive and negative drivers, creating the potential for ongoing volatility. The index has remained in this range over the past 11 months (since November 2022), which we believe can continue until earnings growth and interest rate visibility improves. In a range-bound environment, we advise building diversified (by sector) equity portfolios of high-quality stocks and looking to rebalance (trim positions that become overweight and add to underweight positions) during periods of volatility. Near-term challenges, not the least of which are geopolitical given the recent terror attacks in Israel, but also include U.S. budget battles, are balanced by a strong economy that can support corporate revenue and earnings growth.

Third Quarter Equity Review. The S&P 500 dropped -3.7% in 3Q23 (down -3.3% including dividends), which was the first quarterly decline for the index since 3Q22 (one year ago). The quarter began with a rally in July as the S&P 500 gained +3.1% and on 7/31/23 closed at 4,589, which, at that point, placed the index up +19.5% (price return) for 2023 through 7/31/23. But lower equity prices in both August (-1.8%) and September (-4.9%) more than erased the July gains. As of 9/30/23, the S&P 500 was still up +11.7% (+13.1% including dividends) year-to-date (YTD), and other widely followed indices posted YTD gains as well. However, a wide variance of returns across these indices suggests to us that investors are cautious and pricing in considerable uncertainty.

Data Source: FactSet as of 9/30/23. S&P 500 Daily Closing Prices 12/31/19 to 9/30/23

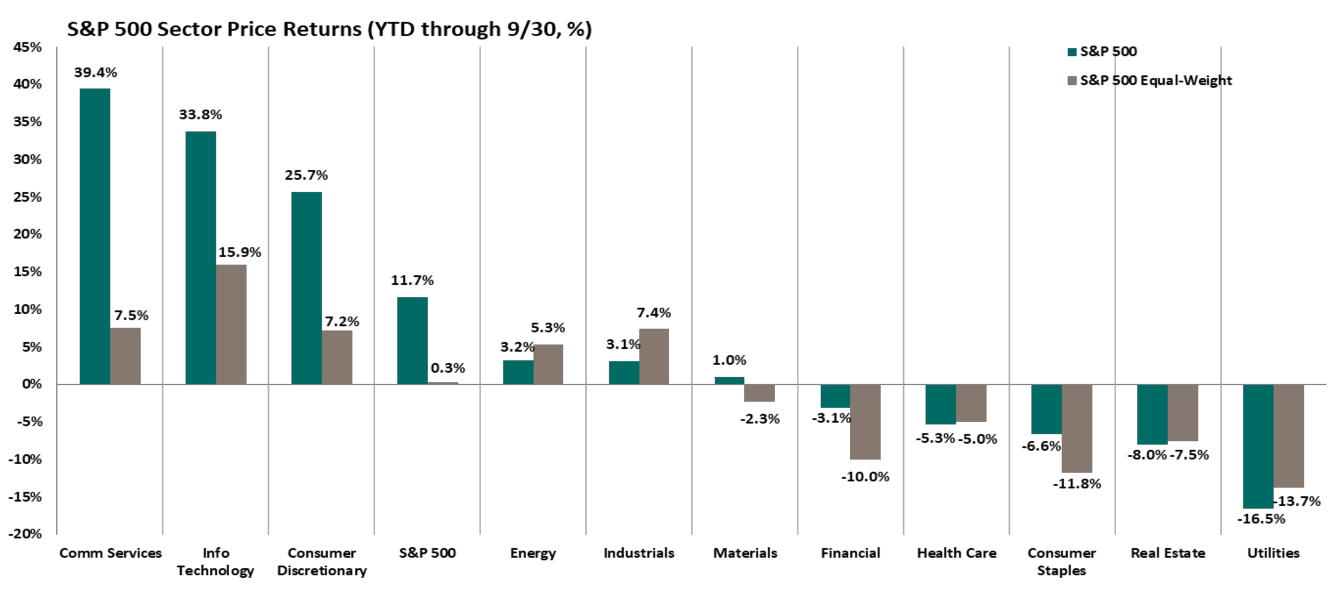
Through 9/30/23, the large-company, growth-centric Nasdaq Composite index was up +26.3% YTD, exceeding the S&P 500's price return, while the small-company Russell 2000 index YTD return was just +2.5%. In addition to the index disparities, returns varied among growth and value factors as well. Within the large- and mid-sized-company Russell 1000 index (designed to track the 1,000 largest U.S. equities by market capitalization), the Russell 1000 growth component (defined by expected above-average earnings growth) increased +24.1% YTD through September, while the Russell 1000 value component (defined by below-peer group valuations) increased only +0.3% (not including dividends). The S&P 500 remained significantly above the bear-market lows established nearly one year ago on 10/12/22. On a one-year basis, from 9/30/22 to 9/30/23, the S&P 500 increased +19.6% including dividends. But over a two-year period, 9/30/21 to 9/30/23, the S&P 500 price return was -0.5% (+2.8% including two years of dividends). As of 9/30/23, the S&P 500 all-time closing high of 4,797 was +11.9% above the quarter-end index value. Using our definition of an S&P 500 bear market occurring when the index sees a peak-to-trough decline of at least 20%, there have been 10 bear markets since 1960 (including 2022). Over the previous nine bear markets, the number of months from the bear market low to making a new high was 27 months on average, but for the three bear markets that did not include a recession, the average was 14 months. As of this writing, it has been 12 months since the October 2022 bear market low.

2023 Narrow Leadership. The wide variability and narrow leadership of 2023 U.S. equity market returns is best revealed when comparing the returns of the S&P 500 (which is a market capitalization-weighted index) to the Equal Weight S&P 500 index (which assigns an equal weight to all 500+ index constituents). Through 9/30/23, while the S&P 500 posted a YTD price return of +11.7%, the Equal Weight S&P 500 gained just +0.3%. This tells us that for the first 9 months of 2023, the return of the average stock in the S&P 500 performed below the overall index, and that many of the companies comprising a larger percentage of the index were the outperformers. As of 10/6/23, the top ten most highly valued companies comprised 31.3% of the value of the S&P 500 (per FactSet and S&P Global); we estimate that those ten constituents contributed about 92% of the nine-month YTD index return. Or, put another way, collectively, the other 490+ companies contributed just 8% of the return. The dramatic underperformance of the average stock was also a factor through the first half of 2023, which we discussed in our July Market Outlook. That poor relative performance continued in 3Q23 as the S&P 500 Equal Weight index declined -5.4%. In our view, a sustained relative recovery of the "average" is necessary to ultimately drive the S&P 500 to new highs. A sustained, broad participation rally, so far, has not developed in 2023. Since the end of 2009 through 2022 (13 years), the price return of the equal-weighted S&P 500 has compounded annually at 10.3%, while the S&P 500 has compounded annually at 10.0%.



Data Source: FactSet and closing index prices from 12/31/22 to 9/30/23. Price return excludes dividends.

S&P 500 Sector Price Return



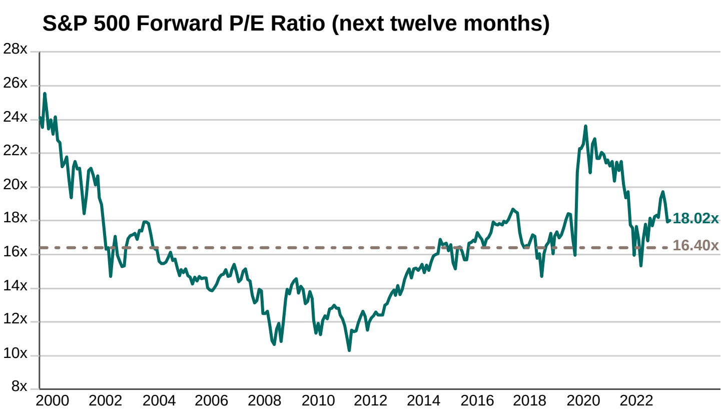
Data Source: FactSet and S&P Global as of 9/30/23. Please see appendix for a description of GICS sectors.

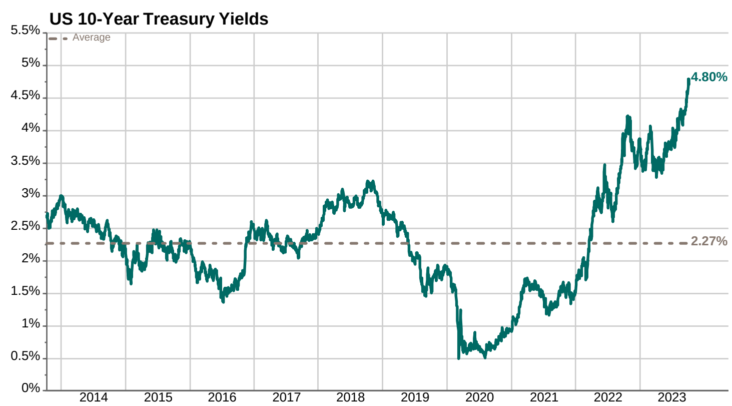
The narrow rally and large company concentration is further shown by looking at the 9-month YTD returns of the eleven macro industry groups comprising the S&P 500 sectors (using MSCI's Global Industry Classification Standards, or GICS). Just three sectors – Communication Services, Information Technology, and Consumer Discretionary – generated returns above the index (green bars), while all other eight posted substantially lower YTD returns. Five sectors decreased YTD through September, led by Utilities down -16.5%. Among the ten securities referenced earlier that comprised 92% of the 2023 YTD index return, eight reside in the three performance-leading sectors.

On an equal-weighted basis (gray bars), Information Technology posted a +15.9% YTD gain, the only sector with a double-digit percentage gain. While five sectors exceeded the equal-weight performance of the index (compared to just three for the S&P 500), the bar was relatively low as the YTD return for the Equal Weight S&P 500 was just +0.3%. Six of the equal-weight sectors decreased YTD through September. In past difficult market environments amid economic uncertainty, we have seen better relative performance from Utilities and Consumer Staples as those sectors considered "defensive" can generate more consistent earnings results in a slow economy. We attribute the underperformance to the rapid rise in interest rates, which has created alternatives to dividend-paying stocks, and lead investors to assign a lower earnings multiple on these sectors. In our view, this has also contributed to weak performance in the Financials and Real Estate sectors. Over the near term, Utilities and Real Estate appear oversold and we see some attractive opportunities for long-term investors.

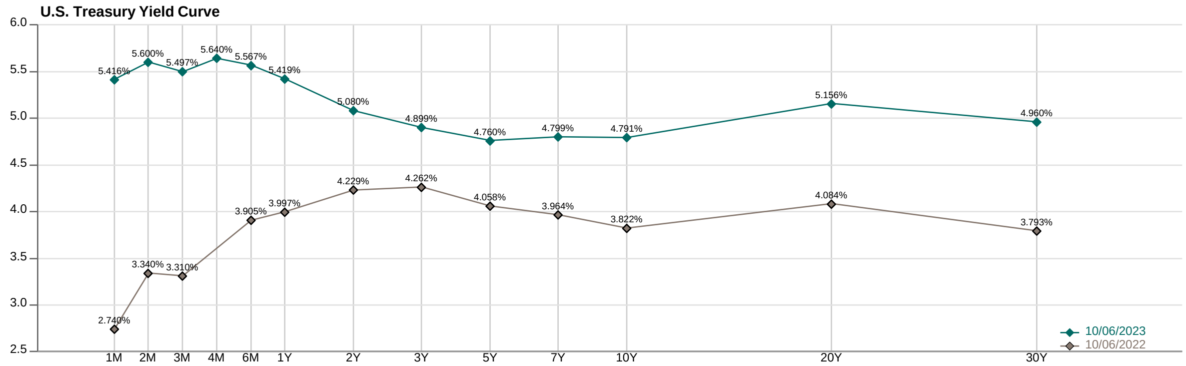
Market valuation. Our S&P 500 fair value estimate of 4,200 represents a price-to-earnings (P/E) ratio of 17.6x the next-twelve-months (4Q23 to 3Q24) S&P 500 FactSet consensus EPS estimate of $238. After moving lower for the first eight months of 2023, consensus earnings estimates (from FactSet) have stabilized since late August, and we expect Y/Y quarterly earnings growth to resume in 3Q23. We continue to see considerable uncertainty in potential earnings growth in 2024, with consensus estimates still reflecting +12% growth to $247 after 2023's +2% EPS growth estimate. Our earnings growth caution (still growth but at a lower growth rate) considers surging interest rates, creating potential challenges for many companies (due to consumer restraint, higher cost of capital for business investment, and higher interest expense). If we assume that 2024 S&P 500 earnings grow at +6% (half the current projected growth rate), our 4,200 fair value reflects 18.0x that estimate. Over the past 10 years, excluding the pandemic and post-pandemic years 2020 and 2021 (a period of volatile valuation metrics), the S&P 500 P/E ratio (using index price divided by forward 12-month earnings estimates), has ranged roughly between 14x to 18x. Generally, we would expect lower P/E multiples as interest rates move higher, although other factors are involved such as expectations for economic expansion and earnings growth. With the U.S. 10-year Treasury bond trading to a yield of 4.80%, a 16-year high, the current S&P 500 P/E valuation appears elevated.

Our view is that changes in the S&P 500 from current levels will be tied to reported and estimated earnings results. Our most likely S&P 500 trading range of 3,900 to 4,500 is based on a view that if the 2024 earnings growth of +12% is realized, 4,500 is 18.3x that estimate. The lower bound of 3,900 reflects 2024 earnings growth of +2% and applies a 17.4x P/E multiple. While the FactSet consensus estimate is a bottom-up consensus number as FactSet compiles all S&P 500 company earnings estimates from submitting analysts to compile a market-weighted index estimate, an alternative S&P 500 earnings estimate, from Bloomberg, uses the mean estimate from Wall Street strategists. This "top-down" estimate for 2024 earnings growth was +5% at the end of September. Given the index's nearly -5% decline in September, there appears to be some investor debate over earnings growth and valuation multiples but with the S&P 500 at 4,288 to close September (near the high end of our 3,900 to 4,500 range), investors appear to expect: 1) a "soft landing" (no recession) economic outcome, 2) potential upside to earnings estimates, and 3) some reversal in the recent surge in long-term interest rates. If all three of these expectations materialize, we could see a rally by year-end. If one or more disappoint, or are delayed, equity market upside will be limited, in our opinion.



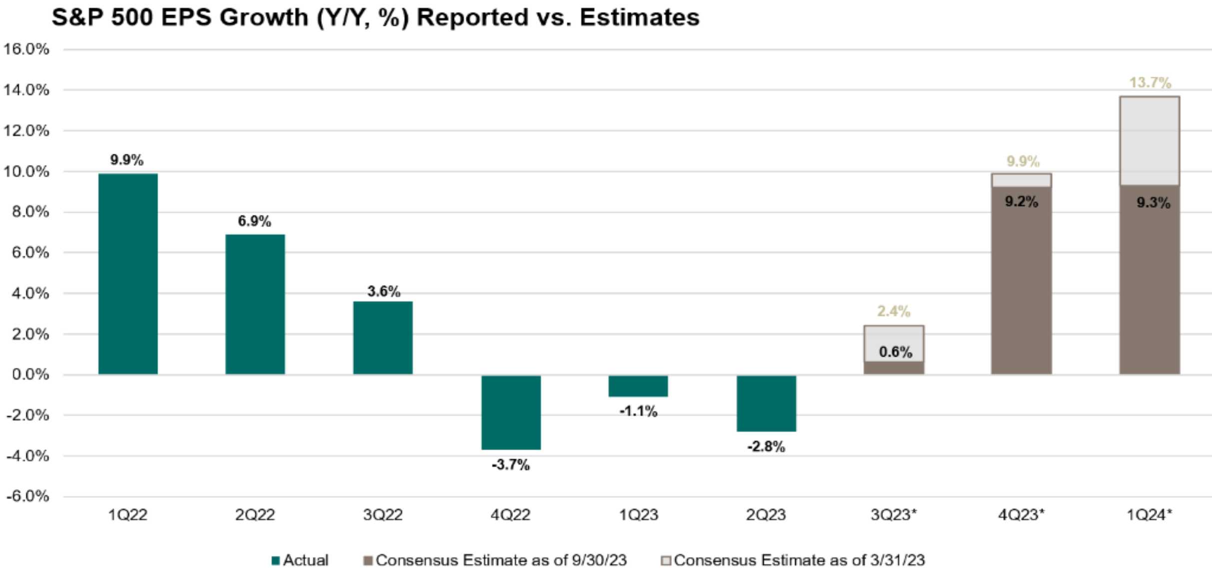


Data source: FactSet, using exchange data, as of 10/9/23 (see Other Disclosures on page 8 for further discussion of P/Es and Treasury yields)



Data source: FactSet, U.S. Treasury as of 10/6/23

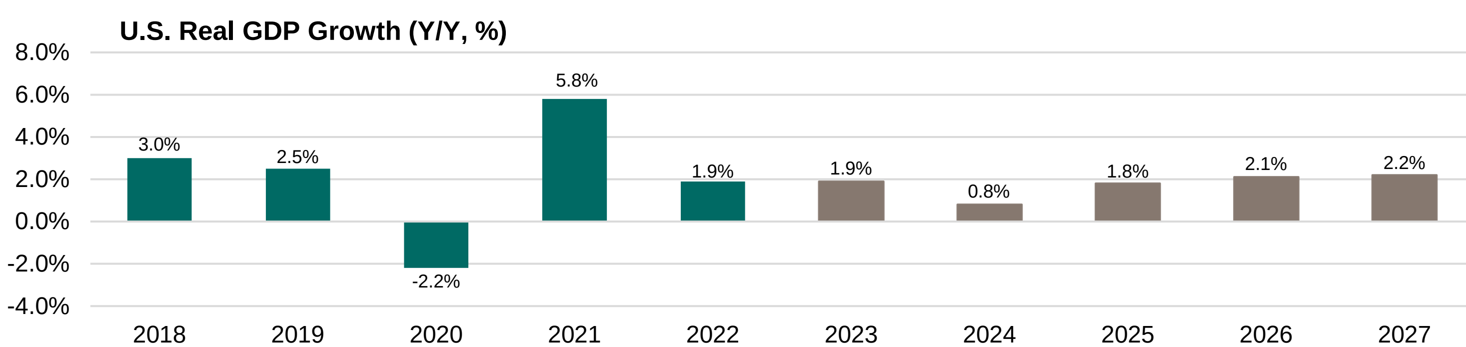
S&P 500 Earnings Growth to Resume. Following three consecutive quarters of lower Y/Y earnings (as measured by earnings per share, or EPS) for the S&P 500, EPS growth is expected to resume in 3Q23 (the bulk of 3Q23 earnings will be reported in late October and November). The chart below shows the six most recently reported S&P 500 earnings quarters (in green 1Q22 through 2Q23) as a Y/Y EPS percentage change, and the next three quarters of Y/Y consensus estimates (in gray 3Q23 through 1Q24). The dark gray shading reflects the current Y/Y percentage growth estimates as of 9/30/23, and the light gray shading represents those estimates six months ago, as of 3/31/23. Earnings estimates have trended lower over the past six months, but the trajectory remains the same, with Y/Y growth expected going forward. It is not unusual for estimates to trend lower as the reporting quarter comes to a close (for the third quarter ended 9/30/23), leading to actual results exceeding those estimates. While the 3Q23 EPS growth estimate is just +0.6% (basically flat), we look for actual results to exceed that estimate as economic data trends throughout the quarter were positive. Monthly data on consumer spending (including retail sales) and business investment (including industrial production) showed resilient growth and should contribute to Y/Y revenue gains, enabling companies to meet or exceed cautious EPS expectations. Looking ahead, the 4Q23 and 1Q24 Y/Y EPS expectations of +9.2% and +9.3%, respectively, appear optimistic, even when factoring in easier comparisons (vs. Y/Y EPS declines in the year earlier quarters). We would not be surprised to see 3Q23 EPS above plan, with estimates lowered for 4Q23. This could lead to market gains over the near-term, but with upside limited due to ongoing 2024 uncertainty.



Data source: FactSet consensus estimates (from Wall Street analysts) as of 9/30/23. S&P 500 earnings are weighted by market capitalization for all constituents.

2023 GDP Growth a Positive Surprise. When measuring U.S. economic activity, we use real gross domestic product (GDP), which is the inflation-adjusted value of goods and services produced, reported by the Bureau of Economic Analysis (BEA). Prior to the pandemic, U.S. GDP growth averaged +2.3% for the eight years through 2019. The government-imposed shutdown in 2020 and subsequent reopening and stimulus in 2021 led to negative and positive distortions, respectively, but largely stabilized in 2022, with +1.9% full-year reported GDP growth. The FactSet consensus GDP growth estimates for 2023, 2024, and 2025, respectively, all remain below +2.0%. Coming into 2023, we were cautious on expected GDP growth as consumer spending in the second half of 2022 was relatively weak. However, consumer spending exceeded expectations in the first half of the year and business investment accelerated as well. This drove 1Q23 and 2Q23 real GDP growth of +2.2% and +2.1%, respectively, and the FactSet consensus estimate for 3Q23 is +2.5% (as of 10/9/23), recently revised higher from +0.9% at the end of August.

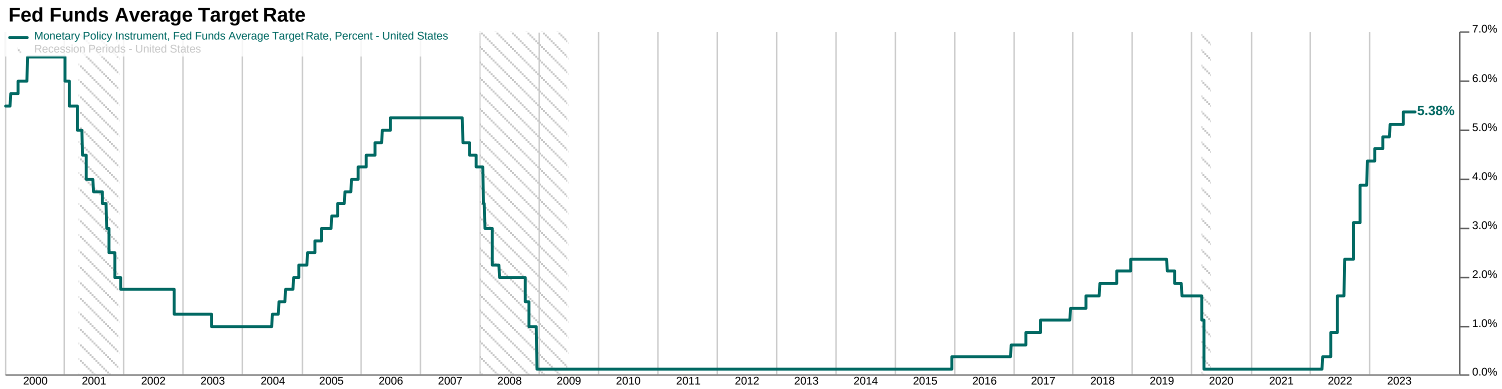
While consumer spending growth may have peaked, continued strength in the labor market makes that less certain, and a wave of technology spending to support investments in generative artificial intelligence (GAI) do not suggest near-term economic weakness, in our opinion. Investors appear to have embraced a soft landing (no recession) economic scenario, although economic caution remains, as evidenced by the +0.8% consensus GDP estimate for 2024. An environment of positive, yet below-trend, GDP growth and elevated interest rates contributes to our expectation for a range-bound market where, although upside might be limited, downside is limited as well. Companies with strong market share, diversified debt maturities, and consistent cash flow that can be used for growth could continue to outperform.



Data Source: FactSet consensus estimates and Bureau of Economic Analysis, as of 9/30/23. Chart shows annual real GDP reported by the BEA 2018-2022 (green bars), and FactSet consensus estimates 2023-2027 (gray bars).

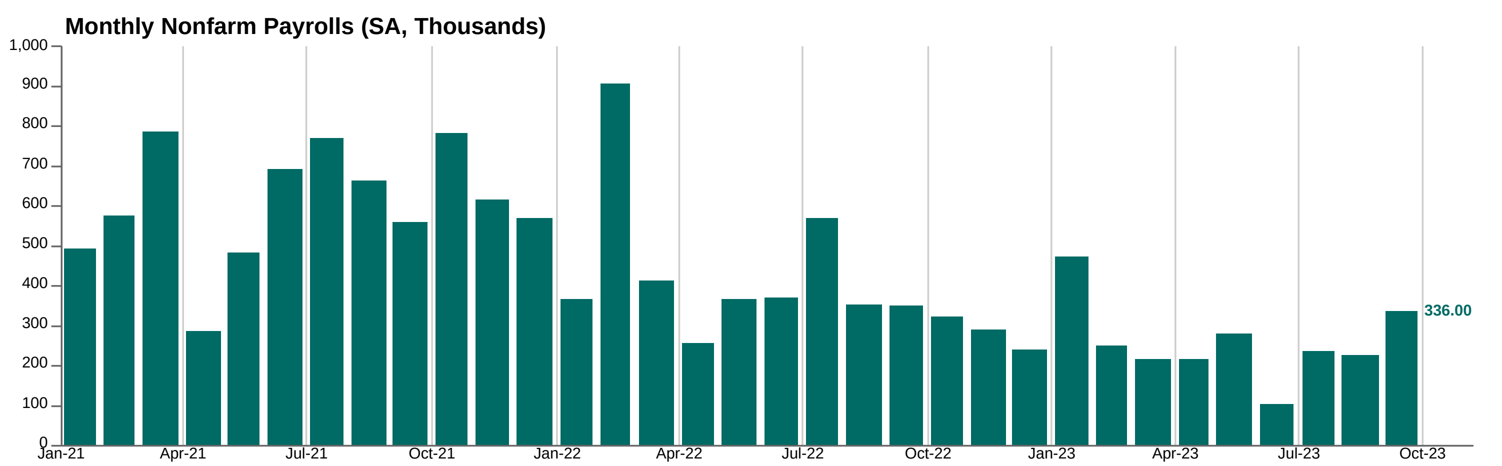
The Fed raised its fed funds target by 0.25% in 3Q23. From March 2022 to May 2023, the Fed's Open Market Committee (FOMC) raised its overnight bank lending fed funds target at ten consecutive meetings (approximately every six weeks). The cumulative increase was 500 basis points. Over the three meetings since May 2023, the FOMC made just one 0.25% rate hike (in July), taking its fed funds target range to 5.25% to 5.50%, where it remains today. The target rate "pause" (no hike) at two of the past three meetings (June and September) was not a surprise due to improving inflation data, which has been the Fed's most consistent concern. Although the Fed did not increase its target rate in September, changes were evident in the Summary of Economic Projections (SEP), which records individual economic forecasts of 19 Fed Board members and bank presidents. The September SEP showed a stronger GDP growth number than was estimated in the prior SEP (June 2023). The September median 2023 GDP estimate was +2.1%, up from +1.0% in June, and the 2024 median GDP estimate moved to +1.5% from +1.1% prior. In addition, while the 2023 estimated year-end fed funds mid-point target range was unchanged at 5.6%, the 2024 estimated fed funds level was revised higher to 5.1% from 4.6% in June. This reflects an expectation for one more 0.25% interest rate increase this year (two 2023 Fed meetings remain) and then 0.50% of rate cuts next year (the June SEP estimated 1.00% of rate cuts in 2024). In recent days, following the terrorist attacks in Israel, futures market expectations for additional hikes in the fed funds target have evaporated, and it appears increasingly likely that the Fed is done hiking for now.

The Fed projections of higher GDP growth, along with rate cuts next year, tell us that Fed voters believe that an economic "soft landing" (no recession) remains achievable and, along with improving (lower) inflation, could support lower fed funds targets because rates could move from restrictive (slowing economic activity) levels to a neutral range. In our opinion, that view offers only one path for potential lower interest rates next year, while a second, more negative path to lower interest rates remains possible. That second path would be a weaker economy caused by today's higher interest rates, and a slowdown in consumer spending in the months ahead. We are watching several data points to monitor the health of the consumer.



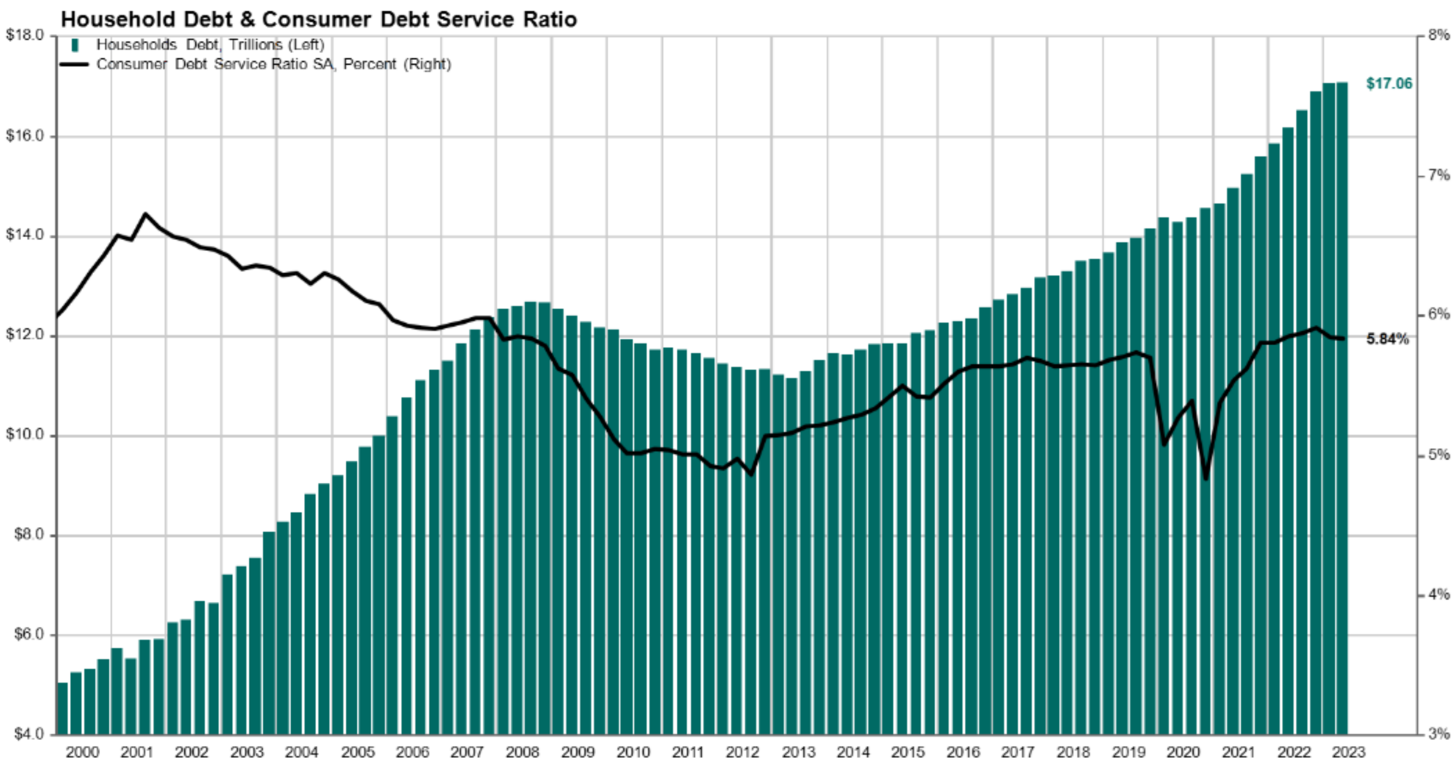
Data source: FactSet and Board of Governors of the Federal Reserve System, as of 9/20/23. Prior to December 2008, the Fed provided a single point fed funds target (shown on the chart). Since December 2008, the fed funds target is given in a 25bp range (chart shows the average).

A Healthy Jobs Market. According to the Bureau of Labor Statistics (BLS), U.S. nonfarm payrolls (jobs) increased by 336 thousand (K) in September, surging past the 162K FactSet consensus estimate and representing the highest monthly jobs increase since January 2023. In addition, both July and August jobs gains (previously reported) were revised higher by a combined 199K, reflecting a sizable surge in the 3Q23 average monthly jobs increase (up 266K) compared to the prior quarter (2Q23, up 201K). September jobs gains were broad-based by category, including leisure and hospitality +96K, government +73K, health care +41K, and professional services +29K. The September unemployment rate held steady at 3.8%. Two measures of worker wages in the BLS September labor report, average hourly earnings (AHE) and average weekly earnings (AWE), both moderated on a Y/Y basis. AHE increased +4.2%; while only modestly below the +4.3% increase in August, it was the lowest monthly Y/Y increase since June 2021. AWE were up +3.5% Y/Y in September compared to +4.0% in the prior month. Investors appeared to cheer the lower wage growth data as jobs exceeded expectations without exerting excess wage pressure.



Data source: FactSet and Bureau of Labor Statistics, as of 9/30/23. BLS employment report published 10/6/23.

Possible Consumer Headwinds Involving Credit. According to the BEA, nominal consumer spending (personal consumption expenditures) was $18.4 trillion (T) annualized in 2Q23, comprising 68% of total nominal GDP ($27.1T). Within consumer spending, about two-thirds are spent on services and one-third on goods. During the pandemic, many consumers benefitted from government transfer payments (stimulus) and others, while working remotely and largely staying home, accumulated excess savings. As the economy reopened, the unemployed found jobs, and many continued to receive various forms of stimulus, fueling a spending boom that was accelerated by pent-up demand and those accumulated excess savings. A paper from the Federal Reserve Bank of San Francisco on 8/16/23 estimated that U.S. households accumulated $2.1T in excess savings during the pandemic, but that excess had dropped to $190 billion in June of this year and that could be depleted during the third quarter. In addition, an 8/8/23 release from the Federal Reserve Bank of New York showed that U.S. consumer credit card balances increased +4.6% from 1Q23 to 2Q23, exceeding $1.0T for the first time, and the percentage of credit card and automobile loans that became delinquent (at least 30 days late) exceeded 7% for the first time since 2019/2020, prior to the pandemic. Through 2Q23, total consumer debt, which includes mortgages, student loans, car loans, credit card balances and personal loans, moved to a record $17.06T. With both debt levels and interest rates rising, consumers must prepare for an increase in debt service and monthly payments. While overall debt service as a percentage of disposable personal income, at 14.5% (Federal Reserve) in 2Q23, remained below the peak of 18.0% in 4Q07 (the cusp of the global financial crisis), it is trending higher in 2022 and 2023, and is at the highest level since early 2020. A subset of consumer debt obligations is consumer debt service payments, which includes credit cards, car loans and personal loans. As a percentage of disposable income, monthly consumer debt service moved to 5.84% in 2Q23 and was above pre-pandemic levels. In our view, this data, while not showing an alarm, does suggest the possibility of consumers becoming more cautious with spending; if not immediately, possibly in the quarters ahead.



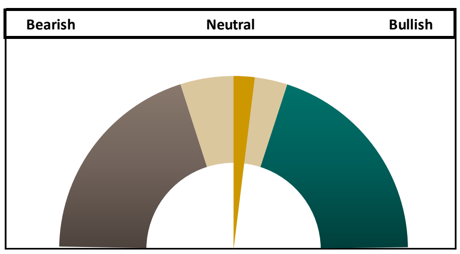
Data source: Board of Governors of the Federal Reserve and FactSet, as of 6/30/23.

Student Loans and Mortgage Rates. Other consumer debt liabilities have seen changes as well, including the return of federal student loan payments (resuming in October for many borrowers) after a more than 3-year hiatus. According to the Federal Reserve Bank of New York, outstanding federal student loan balances were $1.6T in June 2023. We have seen estimates for the average monthly payment ranging from $250 to $500. For holders of these student loans, this could further limit spending in the months ahead as interest expense and debt service crowd out other spending. Higher interest rates have also impacted the mortgage market as shown by the average U.S. borrowing rate on a 30-year fixed mortgage, according to Freddie Mac. The mortgage interest rate, after surging above 7.00% in November 2022, retreated to nearly 6.00% by April 2023. But more recently, as of 10/5/23, the 30-year fixed mortgage rate was 7.49%, the highest level in 23 years. While this doesn't directly affect homeowners with fixed rate loans that were locked in at lower rates in prior years, it does impact the number of new homes for sale and limits the pool of new buyers. For homebuyers in the current environment, their monthly payment will be substantially higher than even one year ago for the same loan amount. In addition, potential homebuyers looking at homes are more likely to curtail spending in other areas leading up to the purchase. Eventually, we would expect the higher mortgage rates to impact rents as well, although that is difficult to measure as many other factors are involved. In summary, while the recent surge in U.S. interest rates has led to higher interest rates on consumer loans, there is limited evidence at this point that consumer spending has been harmed, and the U.S. economy could still avoid a recession. However, should long-term interest rates remain elevated, we would expect some consumer moderation, which creates uncertainty for U.S. GDP growth as we approach 2024. This supports our S&P 500 thesis which contemplates a range-bound market.

Data Source: Freddie Mac, Federal Reserve bank, FactSet, as of 10/6/23

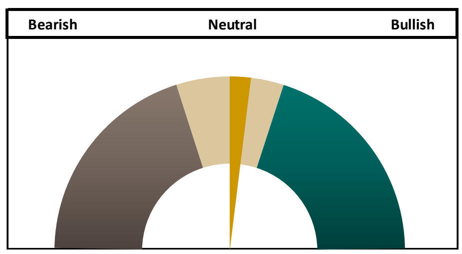
Wealth Management Research Investment Cycle Gauge

Economic Indicator (2023)



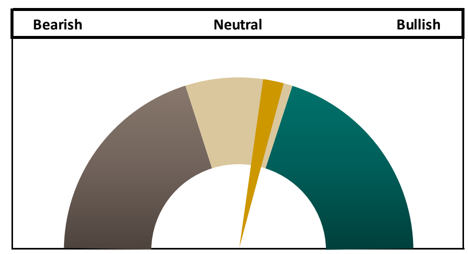
Changes from prior Indicator:
2023 recession risk has faded, will 2024 slow?

Earnings Indicator (2023)



Changes from prior Indicator:
earnings growth to resume in Q3, but 2024 uncertainty

Equity Market Indicator (2023)



Changes from prior Indicator:
range-bound market, Q3 pullback, Q4 rally?

Data Source: D.A. Davidson & Co. as of 10/12/23

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

Other Disclosures:

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data on a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months;" and also looks at the depth, diffusion, and duration of the downturn.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet Consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

The annual price returns of the S&P 500 index are calculated using index closing value on 12/31 of one year to 12/31 of the next year. 2023 returns are calculated as of 9/30/2023. Intra-year peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean. For a discussion of past peak-to-trough declines and subsequent new highs for the S&P 500 index refer to our report "S&P 500 Performance Following a 22% decline, dated 6/14/22.

S&P 500 earnings growth reflect the year over year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members--the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The Federal Reserve Summary of Economic Projections (SEP) is sourced from federalreserve.gov, as of 3/31/23. Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The Summary of Economic Projections is compiled from Federal Reserve Board members and Federal Reserve Bank presidents.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and in this way alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury bonds, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury bonds are widely followed barometers of the current U.S. interest rate environment. Treasury bond data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

U.S. Personal Consumption Expenditures (PCE) is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis.

Personal income is the income received by, or on behalf of, all persons from all sources: from participation as laborers in production, from owning a home or business, from the ownership of financial assets, and from government and business in the form of transfers. It includes income from domestic sources as well as the rest of world. It does not include realized or unrealized capital gains or losses.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics; the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey are drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). The index is published monthly by the U.S. Bureau of Economic Analysis.

Volatility is how much and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices is often a sign of rising uncertainty.

We define a Bear Market as a peak-to-trough decline (using closing prices) of 20% or more. We generally use the S&P 500 index as a proxy for the broad market for large, leading U.S. companies.

The U.S. Treasury regularly issues press releases to provide updates on its borrowing needs in the months ahead. The 7/31/23 release is linked. https://home.treasury.gov/news/press-releases/jy1662.

Congressional Budget Office. Since 1975, CBO has produced independent analyses of budgetary and economic issues to support the Congressional budget process. Each year, the agency's economists and budget analysts produce dozens of reports and hundreds of cost estimates for proposed legislation. The May 2023 update to 10-year budget projections: https://www.cbo.gov/data/budget-economic-data#3.

Fitch Ratings is a global credit agency that investors use to assess an entity's credit worthiness and estimated ability to pay back its debts. It is one of three widely-used global ratings agencies. Investment grade ratings are AAA, AA, A, and BBB. On 8/1/23 Fitch moved its ratings on U.S. Government debt to AA+ from AAA.

https://www.fitchratings.com/research/sovereigns/fitch-downgrades-united-states-long-term-ratingsto-aa-from-aaa-outlook-stable-01-08-2023.

On August 24-26, 2023, the Kansas City Federal Reserve Bank held its annual Economic Symposium in Jackson Hole, WY. The 2023 conference was titled "Structural Shifts in the Global Economy." Federal Reserve Chair Jerome Powell made opening comments on 8/25/23. Those comments are linked here: https://www.federalreserve.gov/newsevents/speech/powell20230825a.htms

The Federal Reserve Bank of Atlanta produces a widely-followed GDPNow estimate of the current quarter GDP trends. It is not a forecast but rather an estimate of current GDP trends using only economic data that has already been reported (most data is reported on a monthly basis). The most recent estimate is here: https://www.atlantafed.org/cqer/research/gdpnow.

New York Federal Reserve Bank data on household debt and credit balances can be found here: https://www.newyorkfed.org/microeconomics/hhdc.html,
https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2023Q2

San Francisco Federal Reserve Bank data on consumer excess savings can be found here: https://www.frbsf.org/our-district/about/sf-fedblog/excess-no-more-dwindling-pandemic-savings/

Data on 30-year fixed mortgage rates are published weekly by FreddieMac.

https://freddiemac.gcs-web.com/news-releases/news-release-details/mortgage-rates-continue-surge-0?_gl=1*344lcj*_gcl_au*MTM5Mjc1MDYyNy4xNjk2OTY5NDc2&_ga=2.36614499.211451760.1696969476-1005141445.1696969476