Seth D. Rosenthal, CFA
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Market Update

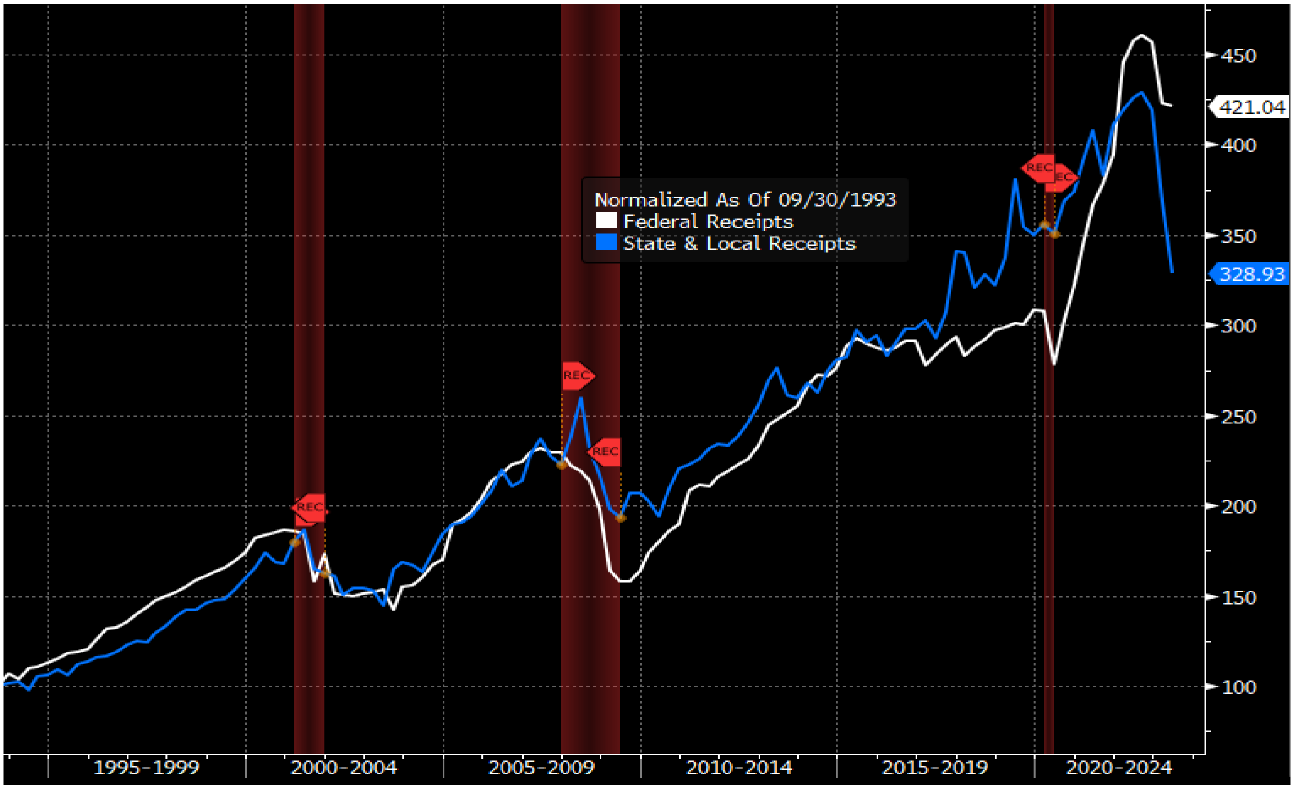
September 2023

We continue to hold the view that we will see a bumpy landing but that perspective is an increasingly lonely spot. However, the array of warning signals continues to multiply, making it increasingly difficult to overlook. This month we highlight the precipitous drop in tax receipts at the federal, state, and local levels. Furthermore, the consumer appears to be softening; credit card delinquency rates are rapidly increasing.

As we've previously emphasized, new banking regulations are poised to impact lending capacity and return targets for banks. Additionally, with the 10-year Treasury yield surpassing 4%, higher than during the three significant bank failures last March, it continues to erode banks' capital (AOCI), further impinging on their lending capacity. The private debt markets may partially compensate for the lending decline, but they won't bridge the entire gap.

Geopolitical headlines may appear subdued, but uncertainty is expected to linger in the foreseeable future. Just last month, the BRICS group of developing nations made the decision to admit Saudi Arabia, Iran, Ethiopia, Egypt, Argentina, and the United Arab Emirates. This strategic move aims to counterbalance the influence of the G7. It's crucial to monitor this development closely, given that the new BRICS consortium represents over 40% of the global oil supply and nearly 30% of global GDP.

Over the past 18 months, maintaining assets in money market funds has proven to be a prudent choice. However, we are advising clients to start creating the capability to extend duration, especially if their investment policies only allow cash-like investment alternatives. While there is a near term give up and potential for another FOMC maintenance tightening, the market will anticipate easing in advance and even a modest easing by the Fed would result in outperformance. While the market has priced in 100 bps of cuts from May 2024 through January 2025, it's worth noting that central banks often adopt an aggressive stance when implementing such measures, and this cut could occur over 1-2 meetings.



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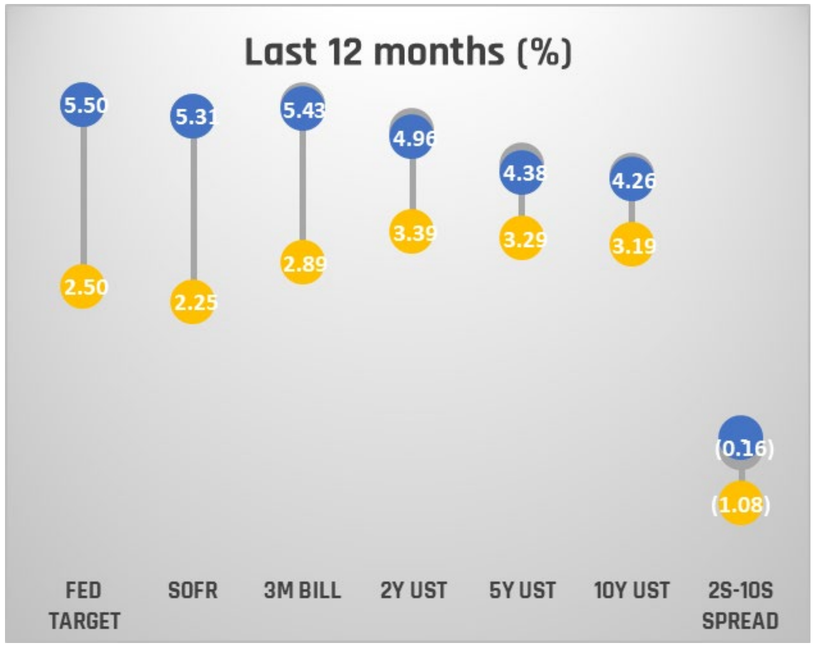
Product Views

Rates- The 3-year Treasury is currently trading at cycle highs and presents an opportunity as it stands 20 basis points below market expectations for future Federal Reserve policy. We are strategically extending our duration positions in response to the upward movement in yields.

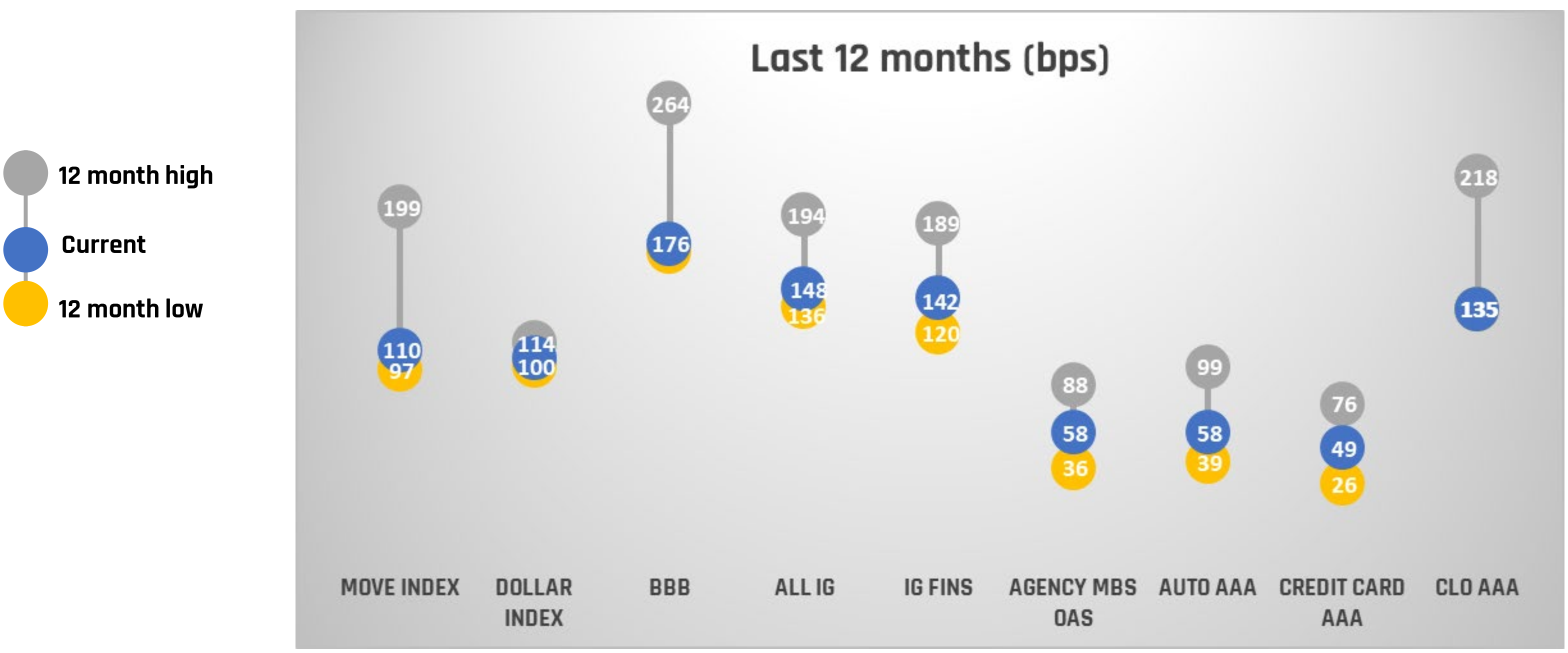
On the long end, the 10-year offers yields exceeding 4.25%. While we anticipate a temporary overshoot of inflation above the Fed's 2% target in the short term, market confidence in containing runaway inflation acts as a stabilizing force for longer duration yields.

Credit- September is typically the second-highest month for credit supply, and typically comes in the first few days after Labor Day. Use the primary market supply to optimize portfolio positioning.



Securitized- Our positive outlook on mortgage-backed securities (MBS) remains steadfast, offering an attractive choice when contrasted with alternative asset classes. MBS demonstrates compelling value, both in nominal and option-adjusted spreads (OAS).

Additionally, the dwindling supply of other securitized products sets a favorable stage for MBS investments. While we recognize the significance of consumer behavior as a market indicator, our primary focus is maintaining a strong credit position within the sector. We remain cautious about subprime lending, especially with the resumption of student loan repayments, as we prioritize prudent risk management practices.



The following risks could cause the Strategy's portfolio to lose money or perform more poorly than other investments.

Investments in bonds and other debt securities will change in value based on changes in interest rates. If rates rise, the value of these investments generally drops. Some investors may be subject to the Federal Alternative Minimum Tax and to certain state and local taxes.

Investing in fixed income products is subject to certain risks, including interest rate, credit, inflation, call, prepayment, and reinvestment risk. Any fixed-income security sold or redeemed prior to maturity may be subject to substantial gain or loss.

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