WEISS WEALTH MANAGEMENT GROUP of RAYMOND JAMES®

THE WEISS REPORT

SMART AND STEADY

Volume 26, Number 4 | October 7, 2023

LEONARD A. WEISS
SENIOR VICE PRESIDENT, INVESTMENTS
LEONARD.WEISS@RAYMONDJAMES.COM

LOWELL J. WEISS, J.D., CFP®
FINANCIAL ADVISOR
LOWELL.WEISS@RAYMONDJAMES.COM

WEISSWEALTHMANAGEMENT.COM

DJIA: 34,288 | NASDAQ: 13,791*

Higher Interest Rates Weigh on Stocks in the Third Quarter

The S&P 500 rose to the highest level since March 2022 early in the third quarter but rising global bond yields, fears of a rebound in inflation and concerns about a future economic slowdown weighed on the major indices in August and September and the S&P 500 finished the third quarter with a modest loss.
The S&P 500 started the third quarter largely the same way it ended the second quarter – with gains. Stocks rose broadly in July thanks primarily to "Goldilocks" economic data, meaning the data showed solid economic growth but not to the extent that would have implied the Federal Reserve needed to hike rates further than investors expected. That solid economic data combined with a decline in inflation metrics to further boost stock prices, as investors embraced reduced near-term recession risks and steadily declining inflation. The Federal Reserve, meanwhile, increased interest rates in late July but also signaled that could be the last rate hike of the cycle. That tone and commentary further fueled optimism that one of the most aggressive rate hike cycles in history was soon coming to an end. Finally, Q2 earnings season was better-than-feared with mostly favorable corporate guidance which supported expectations for strong earnings growth into 2024. The S&P 500 rose to the highest level since March 2022 and the index finished with a strong monthly gain of more than 3%.

The market dynamic changed on the first day of August, however, when Fitch Ratings, one of the larger U.S. credit rating agencies, downgraded U.S. sovereign debt. Fitch cited long-term risks of the current U.S. fiscal trajectory as the main reason for the downgrade, but while that lacked any near-term specific justification for the downgrade, the action itself put immediate downward pressure on U.S. Treasuries, sending their yields meaningfully higher. The Fitch downgrade kickstarted a rise in Treasury yields that lasted the entire month, as the downgrade combined with a rebound in anecdotal inflation indicators and a large increase in Treasury sales stemming from the debt ceiling drama pushed yields sharply higher. The 10-year Treasury yield rose from 4.05% on August 1st to a high of 4.34% on August 21st, the highest level since mid-2007. That rapid rise in yields weighed on stock prices throughout August and the S&P 500 posted its first negative monthly return since February, as higher rates pressured equity valuations and raised concerns about a future economic slowdown. The S&P 500 finished August down 1.59%.

The August volatility subsided in early September, however, as solid economic data and a pause in the rise in Treasury yields allowed the S&P 500 to stabilize through the first half of the month. But volatility returned following the September Fed decision as the FOMC delivered markets a "hawkish" surprise, despite not increasing interest rates. Specifically, the majority of Fed members reiterated that they anticipated the need for an additional rate hike before the end of the year and forecasted only two rate cuts for all of 2024, down from four rate cuts forecasted at the June meeting. Then, late in the month, two additional developments weighed further on both stocks and bonds. First, the United Auto Workers labor union began a general strike, a move that would disrupt automobile production and temporarily weigh on economic growth. Second, the U.S. careened towards another government shutdown as Republicans and Democrats failed to agree on a "Continuing Resolution" to fund the government. The shutdown was avoided at the last minute, but the funding extension only lasts until November 17th meaning there will likely be another budget battle in the coming months. The S&P 500 declined towards the end of the month to hit a fresh three-month low, ending September down modestly.

In sum, volatility returned to markets during the third quarter, as rising bond yields pressured stock valuations, some inflation indicators pointed to a bounce back in inflation and the Fed reiterated a "higher for longer" interest rate outlook.

Third Quarter Performance Review

Rising bond yields were the main driver of the markets in the third quarter as high Treasury yields caused reversals in performance on a sector and index basis, relative to the first and second quarters.

Starting with market capitalization, large caps once again outperformed small caps, as they did in the first two quarters of 2023, although both posted negative returns. That relative outperformance by large caps is consistent with rising Treasury yields, as smaller companies are typically more reliant on debt financing to sustain operations and rising interest rates create stronger financial headwinds for smaller companies when compared to their larger peers.

From an investment style standpoint, however, we did see a performance reversal from the first two quarters of the year as value relatively outperformed growth in the third quarter, although both investment styles finished with a negative quarterly return. Rising bond yields tend to weigh more heavily on companies with higher valuations and since most growth funds overweight higher P/E tech stocks, those funds lagged last quarter. Value funds that include stocks with lower P/E ratios are less sensitive to higher yields, and as such, they outperformed in the third quarter.

On a sector level, nine of the 11 S&P 500 sectors finished the third quarter with a negative return, which is a stark reversal from the broad gains of the second quarter. Energy was, by far, the best performing S&P 500 sector in the third quarter thanks to a surge in oil prices. Communications Services also finished Q3 with a slightly positive quarterly return on hopes integration of advanced artificial intelligence would boost search and social media companies' future advertising revenues.

Looking at sector laggards, the impact of rising bond yields was again clearly visible as consumer staples, utilities and real estate were the worst performing sectors in the third quarter. Those sectors offer some of the highest dividend yields in the market, but with bond yields quickly rising those dividend yields become less attractive and investors rotated out of the high-dividend sectors and into less-volatile bond funds as a result.

US Equity Indexes	Q3 Return	YTD
S&P 500	-2.08%	13.07%
DJ Industrial Average	-1.28%	2.73%
NASDAQ 100	-1.30%	35.37%
S&P MidCap 400	-3.57%	4.27%
Russell 2000	-4.76%	2.54%

Source: YCharts

Internationally, foreign markets saw moderate declines and again lagged the S&P 500 in the third quarter as disappointing economic data in Europe and China bolstered regional recession fears. Emerging markets did relatively outperform developed markets, however, thanks to the announcement of larger-scale Chinese economic stimulus late in the quarter.

Commodities saw substantial gains and were the best performing major asset class in the third quarter thanks to a significant rally in the energy complex. Oil rose throughout the quarter on continued supply concerns as Saudi Arabia and Russia extended voluntary supply cuts to the end of the year. Meanwhile, demand estimates rose late in the third quarter following the aforementioned announcement of the large-scale Chinese stimulus plans, causing prices to rise sharply late in the quarter. Gold, meanwhile, declined moderately thanks primarily to the stronger U.S. dollar, which rallied steadily over the course of the third quarter, hitting a fresh 2023 high in September.

Switching to fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) declined moderately for a second consecutive quarter as hawkish Fed rhetoric and hints of a rebound in inflation weighed broadly on fixed income markets.

Looking deeper into the bond markets, shorter-duration debt securities posted a positive quarterly return and outperformed those with longer durations in the third quarter, as the Fed did not signal it intended to raise interest rates any higher than previously expected. Longer-duration bonds, however, were pressured by the combination of a rebound in some inflation indicators and as investors digested that the Fed may well delay any rate cuts in 2024, keeping rates "higher for longer."

Turning to the corporate bond market, lower-quality but higher-yielding "junk" bonds rose slightly while higher-rated, investment-grade debt declined moderately in Q3. The large performance gap reflected continued optimism from investors regarding future economic growth, as investors "reached" for higher yields offered by riskier companies amidst broadly rising bond yields.

Fourth Quarter Market Outlook

Markets begin the fourth quarter decidedly more anxious than they started the third quarter, but it's important to realize that while the S&P 500 did hit multi-month lows in September and there are legitimate risks to the outlook, underlying fundamentals remain generally strong.

First, while there are reasonable concerns about a future economic slowdown, the latest economic data remains solid. Employment, consumer spending and business investment were all resilient in the third quarter and there simply isn't much actual economic data that points to an imminent economic slowdown. So, while a future economic slowdown is certainly possible given higher interest rates, the resumption of student loan payments and declining U.S. savings, the actual economic data is clear: It isn't happening yet. Second, fears that inflation may bounce back are also legitimate, given the rally in oil prices in the third quarter. But the Federal Reserve and other central banks typically look past commodity-driven inflation and instead focus on "core" inflation and that metric continued to decline throughout the third quarter.

Additionally, declines in housing prices from the recent peak are only now beginning to work into the official inflation statistics, and that should see core inflation continue to move lower in the months and quarters ahead.

Finally, regarding monetary policy, the Federal Reserve's historic rate hike campaign is nearing an end. And while we should expect the Fed to keep rates "higher for longer," high interest rates do not automatically result in an economic slowdown. Interest rates have merely returned to levels that were typical in the 1990s and early 2000s, before the financial crisis, and the economy performed well during those periods. Yes, the risk of higher rates causing an economic slowdown is one that must be monitored closely, but for now, higher rates are not causing a material loss of economic momentum.

In sum, there are real risks to both the markets and the economy as we begin the final three months of the year. But these are largely the same risks that markets have faced throughout 2023 and over that period the economy and markets have remained impressively resilient. So, while these risks and others must be monitored closely, they don't present any new significant headwinds on stocks that haven't existed for much of the year.

That said, as we begin the final quarter of 2023, we remain vigilant towards economic and market risks and are focused on managing both risk and return potential. We remain firm believers that a well-prepared, long-term-focused, and diversified financial plan can withstand virtually any market surprise and related bout of volatility, including "higher for longer" interest rates, stubbornly high inflation, geopolitical tensions, and recession risks.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility is unlikely to alter a diversified approach set up to meet your long-term investment goals.

We thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you accomplish your financial goals.
Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Enclosure #1 – Our first enclosure is the Investment Strategy Quarterly piece from Raymond James. This provides a quick understanding of relevant themes in the investment world. Additionally, it provides an economic snapshot as well as a tactical outlook. We like to include this in the Weiss Report as a handy two-page reference.

Enclosure #2 – Our second enclosure brings back one of our preferred economists, Brian Wesbury. In his most recent Monday Morning Outlook he provides a quick discussion of his expectation for Tax Policy in the coming year.

Enclosure #3 – Our third enclosure provides key things to look out for regarding cyber security and the increase of AI related identity theft. Over the years, an increasingly growing number of clients have been impacted by attempts like these.

in an individual sector, including limited diversification. Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. Bond prices and yields are subject to change based upon market conditions and availability. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

*Prices of DJIA and NASDAQ as of 7/6/2023 close.

INVESTMENT STRATEGY QUARTERLY QUICKVIEW

OCTOBER 2023

THEMES

Redefining Resilience

Despite high interest rates and elevated levels of inflation, fiscal policy and money transfers meant to cushion any potential downfall due to the pandemic have propelled consumers to continue to spend over the last three years. Household debt has increased but as a percentage of GDP is still lower than during the Great Financial Crisis and the cost of debt servicing is the lowest it has ever been. Although COVID savings have been depleted, consumers have been able to continue to spend because they have jobs. If employment remains as strong as it is today, it will be enough to support consumer demand, as well as economic growth.

Adapting to a Water Shortage

Water security is a geopolitical issue like energy security. Total water demand divided by water supply provides the metric known as 'water stress,' which is most problematic in the Middle East and parts of Asia, but it is worsening everywhere over time. Water usage can be optimized via improved planning and incentives, thereby avoiding the knee-jerk response of emergency rationing after a genuine crisis emerges.

A 2020 Rematch in 2024?

The 2024 presidential race is looking like a 2020 rematch between President Biden and former President Trump. Democrats hold a slim 51-49 majority in the Senate and are defending 23 Senate seats, so any losses could tip the balance of power. Republicans hold a majority in the House. Democrats would need to flip six seats to take control. Key market issues for investors to watch will include headline risk around the appropriations process in DC and the impacts of a potential government shutdown.

Cracks in Commercial Real Estate?

The shift to remote and hybrid work during the pandemic has shaken up commercial real estate (CRE) and now the cracks are starting to deepen. However, even if the office space continues to weaken, even with some defaults, we do not anticipate a contagion throughout the real estate sector or the larger market. The weakness in CRE tends to be regionally concentrated—the situation in New York City is worse than Texas, for example. Investors could see a negative impact on commercial mortgage-backed securities with exposure to certain properties. As far as banks are concerned, we don't anticipate some sort of domino effect of failures among regional banks exposed to CRE loans.

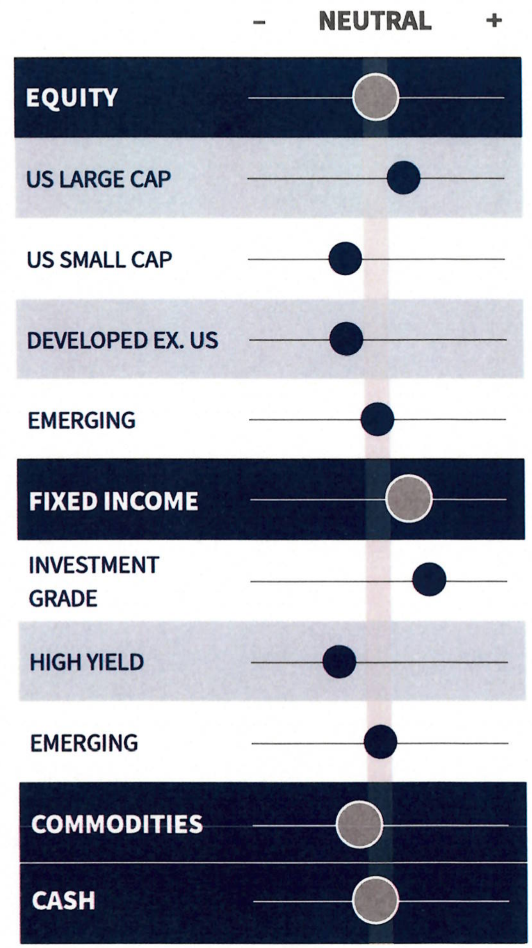
Economic Snapshot

Economic Indicator

FAVORABLE	THE DOLLAR
NEUTRAL	GROWTH
	EMPLOYMENT
	CONSUMER SPENDING
	BUSINESS INVESTMENT
	HOUSING AND RESIDENTIAL CONSTRUCTION
	INFLATION
	MONETARY POLICY
	LONG-TERM INTEREST RATES
	FISCAL POLICY
	REST OF THE WORLD
UNFAVORABLE	MANUFACTURING

Eugenio J. Alemán, PhD
Chief Economist, Raymond James

Tactical Outlook



The tactical asset allocation outlook above reflects the Raymond James Investment Strategy Committee's recommendations for current positioning. Your financial advisor can help you interpret each recommendation within this material relative to your individual asset allocation policy, risk tolerance and investment objectives.

For more information, refer to the full Investment Strategy Quarterly.

RAYMOND JAMES®

INVESTMENT STRATEGY QUARTERLY QUICKVIEW

OCTOBER 2023

Capital Markets Snapshot

EQUITY	AS OF 9/3/2023	3Q 2023 RETURN**	12-MONTH RETURN**
DOW JONES INDUSTRIAL AVERAGE	33,507.50	-2.62%	16.65%
S&P 500 INDEX	4,288.05	-3.65%	19.59%
NASDAQ COMPOSITE INDEX	13,219.32	-4.12%	25.00%
MSCI EAFE INDEX	2,031.26	-4.05%	26.31%
RATES	AS OF 9/30/2023	AS OF 6/30/2023	AS OF 9/30/2022
FED FUNDS RATE TARGET RANGE	5.25-5.50	5.00-5.25	3.00-3.25
SOFR	5.26	4.99	2.12
2-YEAR TREASURY	5.04	4.87	4.20
10-YEAR TREASURY	4.57	3.81	3.80
30-YEAR MORTGAGE	7.41	6.85	6.75
PRIME RATE	8.50	8.25	6.25
COMMODITIES	AS OF 9/30/2023	3Q 2023 RETURN	12-MONTH RETURN
GOLD	$1,866.10	-3.28%	11.61%
CRUDE OIL	$90.79	28.52%	14.22%

*Price Level
**Total Return

Sector Snapshot

	SECTOR	S&P WEIGHT
OVERWEIGHT	HEALTH CARE	13.2%
	COMMUNICATION SERVICES	8.9%
	INDUSTRIALS	8.3%
	ENERGY	4.6%
EQUAL WEIGHT	INFORMATION TECHNOLOGY	27.3%
	CONSUMER DISCRETIONARY	10.8%
	MATERIALS	2.5%
UNDERWEIGHT	FINANCIALS	12.8%
	CONSUMER STAPLES	6.6%
	UTILITIES	2.5%
	REAL ESTATE	2.4%

First Trust
Monday Morning OUTLOOK

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Strider Elass – *Senior Economist*
Andrew Opdyke, CFA – *Senior Economist*
Bryce Gill – *Economist*
Nate Gerze – *Economic Analyst*

630-517-7756 • www.ftportfolios.com October 2, 2023

Tax Policy Outlook

The fiscal year ended last week, alarms went off both literally and figuratively, and a last-minute deal was reached to keep the government open for another forty-five days. Later in October the Treasury Department will figure out the final budget numbers for last year and we estimate the deficit will come in a little north of $1.7 trillion, or 6.5% of GDP.

In a fiscal year when unemployment averaged only 3.6%, that's a horribly high budget deficit to run, and a sign that something is deeply wrong with US fiscal policy. Worse, this past year's deficit was artificially and temporarily held down by the Supreme Court striking down much of President Biden's plan to forgive student debt. Without that decision, the deficit would have been close to 8% of GDP.

The bottom line is that the US is approaching a fiscal reckoning sometime in the next few years where it will need to either reduce future spending or find more future revenue. Even tougher, this will have to happen in a geo-political backdrop where the US may have to ramp up military spending to project more power in the Pacific.

We root for spending cuts, particularly to entitlements. But, given that politicians who advocate for spending cuts using any tool they can find (debt ceiling or shutdowns) are verbally flayed by the establishment, we are not holding our breath. The establishment wants tax hikes, and that's likely what we will get.

The good news is that we don't think tax hikes will hit until at least 2026. Why that year? Because significant parts of the tax cuts enacted in 2017 under President Trump are set to expire at the very end of 2025. That expiration will focus the minds of politicians running for federal office in 2024, House, Senate, and President. In turn, in 2025, depending on the outcome of the election, some sort of deal will be reached about extending those tax cuts.

We think there's about a 35% chance of a Republican sweep in 2024 (the presidency and majorities in both House and Senate). If that happens, we will likely get an extension of all the Trump tax cuts. However, unless that extension is coupled with aggressive spending cuts or entitlement reforms, it will be tough to sustain those tax cuts well beyond 2026.

We also think there is about a 20% chance of a Democratic sweep. If that happens, we're likely to get significant across-the-board tax hikes. Policymakers will claim they are only raising income tax rates on "the rich," but we think other kinds of tax hikes would be on the table, like higher gas taxes or maybe a carbon tax like the Clinton Administration proposed in 1993. In addition, taxes would likely go up on corporations, even though much of the burden from such a tax hike would be felt by their workers and their customers.

That leaves a 45% chance of having mixed government in 2025-26, with each party having control of at least one of the White House, the House or the Senate. In that case, expect most of the Trump tax cuts to be extended, except at upper income levels, where tax rates would likely revert to where they were under President Obama. This would be similar to the compromise that was reached for 2013, when the Bush tax cuts enacted in 2001 and 2003 were set to expire.

The one thing we know for sure is the US is on an unsustainable path. If we don't cut spending, tax hikes are eventually on the way.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-2 / 9:00 am	ISM Index – Sep	47.9	**47.7**	49.0	47.6
9:00 am	Construction Spending – Aug	+0.5%	**+0.5%**	+0.5%	+0.7%
10-3 / *afternoon*	Total Car/Truck Sales – Sep	15.4 Mil	**15.2 Mil**		15.0 Mil
afternoon	Domestic Car/Truck Sales – Sep	12.0 Mil	**12.0 Mil**		11.6 Mil
10-4 / 9:00 am	ISM Non Mfg Index – Sep	53.5	**53.8**		54.5
9:00 am	Factory Orders – Aug	+0.3%	**+0.6%**		-2.1%
10-5 / 7:30 am	Initial Claims – Sept 30	210K	**209K**		204K
7:30 am	Int'l Trade Balance – Aug	-$59.7 Bil	**-$58.1 Bil**		-$65.0 Bil
10-6 / 7:30 am	Non-Farm Payrolls – Sep	168K	**160K**		187K
7:30 am	Private Payrolls – Sep	155K	**150K**		179K
7:30 am	Manufacturing Payrolls – Sep	5K	**5K**		16K
7:30 am	Unemployment Rate – Sep	3.7%	**3.7%**		3.8%
7:30 am	Average Hourly Earnings – Sep	+0.3%	**+0.3%**		+0.2%
7:30 am	Average Weekly Hours – Sep	34.4	**34.3**		34.4
2:00 pm	Consumer Credit – Aug	$11.7 Bil	**$11.7 Bil**		$10.4 Bil

The Weiss Report
Volume 26, Number 4
Enclosure #3

Protect Yourself from AI Fraud

As you navigate the digital landscape, it is important to be aware of the evolving fraud risks posed by Artificial Intelligence (AI). Scammers embrace AI because it enables them to analyze large amounts of data quickly, identify potential targets more efficiently, and personalize their scams to appear genuine, increasing the chances of success.

In the past two years we have seen multiple clients impacted by cyber scams. While we have no way of knowing whether AI was involved, we do believe that the most important thing for all of our readers is that they are able to identify potential problems before they occur.

By equipping yourself with the right knowledge and skills, you can mitigate many of these risks. Much of this comes down to staying informed about the latest scams and fraud tactics. By doing this, you're improving your ability to detect potential risks before they ensnare you in their deceptive web. Here are a few of the most popular:

Phishing Scams

Phishing scams are a time-tested strategy and have only gotten better through AI. Scammers use AI to craft convincing emails or messages impersonating reputable organizations.[1] For example, you might receive an email that appears to be from your bank, asking you to update your account details by clicking on a link. The look and feel of the site may be spot-on, but it's not your bank, it's an imposter looking to gain your login credentials.

Imposter Scams

Imposter scams involve fraudsters posing as trusted individuals or organizations, such as government agencies or utility companies.[2] AI technology enables scammers to mimic voices and manipulate victims into believing their authenticity. For example, you may receive a call from someone claiming to be from the IRS, pressuring you to provide personal information or make immediate payments. It might sound legitimate, but the IRS will never call you for an immediate payment.

Tech Support Scams

Tech support scams pretend to offer assistance with computer issues. Scammers may use pop-ups or phone calls to convince individuals to provide access to their devices or pay for unnecessary services.[3] For example, you may encounter a pop-up claiming your computer is infected and urging you to call a toll-free number for immediate assistance. Once again, this is a scam trying to separate you and your hard-earned money.

Grandparent Scams

Grandparent scams exploit emotions by pretending to be a grandchild in distress, often requesting money urgently.[4] AI technology enables scammers to research and personalize their approach, making the scam more convincing. For example, you might receive a phone call from someone claiming to be your grandson, asking for money to bail him out of jail. Rest assured, your grandson is probably not in jail, this is a scam and you should hang up.

Deepfake Scams

Deepfake technology, fueled by AI, is a growing concern in the realm of fraud. Scammers can use AI algorithms to manipulate videos or images, creating realistic yet fraudulent content that appears to feature well-known individuals. This can be leveraged for various scams, such as impersonating celebrities or public figures to deceive individuals into believing false narratives or engaging in financial transactions. For example, you might see a video featuring a famous person encouraging you to invest in an exciting new opportunity. It might look real, but it's computer-generated.

Malware Attacks

AI-powered malware attacks have become more sophisticated, making it harder to detect and prevent them. Scammers leverage AI to create intelligent malware that can evade traditional security measures and exploit vulnerabilities in computer systems or networks. For example, you might download a seemingly innocent file, but behind the scenes, the malware is infiltrating your computer.[5]

Protecting oneself from AI-driven fraud requires a combination of awareness, caution, and education. Be cautious of unsolicited requests for personal information, immediate payments, or access to your devices, whether it's an email, phone call, or pop-up.

Independently verify the identity of individuals or organizations contacting you. Don't rely solely on the information provided by the caller or the content of an email. Use official contact information from trusted sources to reach out and confirm the authenticity of the communication.

By staying informed about the latest scams, recognizing the signs of AI-driven fraud, and implementing the tips provided by reputable sources, you can safeguard your financial well-being in the digital age.