Weekly Investment Insights

November 13, 2023

Key Takeaways:

- Credit card debt surging.
- Confidence falls further.
- Inflation expectations highest since 2011.
- U.S. equities lead global equity rally.
- Yields higher on weak auction demand.
- Commodities fall sharply; oil near bear market.

Weekly Economic Recap –

Sentiment Deteriorates as Consumers Being Squeezed

The U.S. trade deficit widened the most in five months in September. Exports of goods and services climbed to the highest level since August 2022, with exports of capital goods increasing to its highest level on record.

Consumer credit increased in September after a sharp drop in August. Revolving credit (e.g., credit cards) led the gains, rising for the 28^{th} time in the past 29 months.

The NY Fed Survey showed U.S. total household debt levels increased in 3Q23 as consumers turned to credit cards to fuel their spending. Credit card borrowing rose by 4.7% to $1.08 trillion during the quarter, equating to an increase of $154 billion over the last year, the largest increase in the history of the data. Debt delinquencies increased by 3%.

Wholesale inventories unexpectedly increased in September at the fastest monthly pace in 10 months. Inventories of durable goods increased the most, led by machinery and automotive goods.

The preliminary reading on the University of Michigan Consumer Confidence Index declined for the fourth straight month in November. The decline was led by confidence on current economic conditions which fell at the fastest pace since November 2022. In addition, one year ahead inflation expectations rose to 4.4%, the highest level since April. Long-run inflation expectations (5-10 years) increased to the highest level since 2011.

Weekly Market Recap –

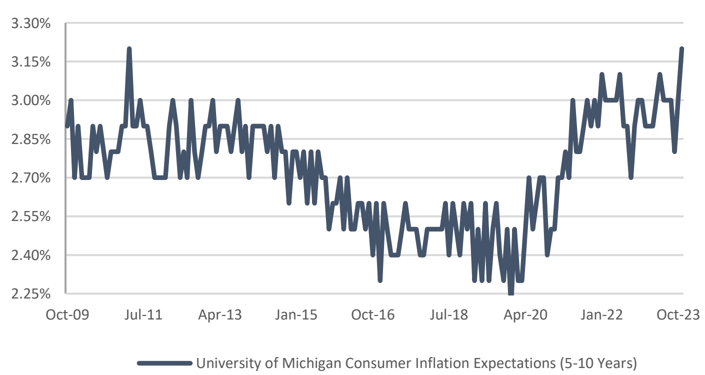
U.S. Leads Equity Rally; Weak Demand Sends Yields Higher

Equities: The MSCI AC World Index rose for the second consecutive week, the first back-to-back weekly equity gains in four months. However, the rally was not broad based as both developed international equities and emerging market equities were flat to lower for the week. Within the U.S., the rally was concentrated in technology and large cap growth. The Nasdaq posted its best back-to-back weekly gains in eight months.

Fixed Income: The Bloomberg Barclays Aggregate Index declined for the first time in three weeks as weak demand at Treasury auctions pushed yields higher. Treasuries led the weakness while investment grade and municipal bonds prices rose for the week.

Commodities/FX: The Bloomberg Commodity Index fell for the third consecutive week and posted its worst one week drop in eight months. Mixed economic data has fueled fears of demand for commodities. Crude oil led the weakness. Crude oil has approached bear market territory (-20% or more from its September high).

Inflation Expectations Surge



Footnotes: Data is as of November 10, 2023.
Source: Bloomberg Finance LP, Verdence Capital Advisors.

Megan Horneman | Chief Investment Officer
mhorneman@verdence.com

Past performance is not indicative of future returns

VERDENCE CAPITAL ADVISORS

Key Takeaways:

- Monetary policy typically acts on a lag.
- Aggressive tightening cycle starting to filter into the economy.
- Labor market is showing signs of weakening.
- Consumers are strained by high borrowing costs.
- Housing is paralyzed.

Lag Effect of Monetary Policy Showing Signs of Impact

Monetary policy typically filters into the economy with long and variable lags. Therefore, we have likely not felt the full effects of the most aggressive tightening cycle since the 1970s. However, recent economic data suggests consumers and businesses are starting to feel the negative effects of the Fed's aggressive tightening cycle. Consumers have maintained spending by using credit cards. Banks have kept lending standards tight, and the labor market is showing signs of softening. In this weekly, we explain how the Fed's monetary policy is catching up to certain areas of the economy.

- **Labor market cracks emerge:** The labor market is typically a lagging indicator as businesses wait until the economy has turned before letting go of employees. While there are currently more job postings than there are Americans unemployed, we are starting to see signs of softening in the labor market. The pace of job gains is slowing, and the unemployment rate is at the highest level since January 2022. In addition, manufacturing employment is contracting, hours worked are declining and temporary workers are falling. These are indications that the labor market will soften further.

- **Credit card rates high:** Americans have increasingly turned to credit cards to fuel their spending but with credit card rates near a record high this is problematic for the economy. According to the most recent New York Fed Survey, Americans owe $1.08 trillion on credit cards and delinquency rates have increased across all income levels. The average credit card balance is ~$6,000, the highest in 10 years, and at current APR rates, it would take borrowers an estimated 17 years to pay off the current balance (if only minimum payments were made).[1]

- **Bank lending conditions tight:** According to the most recent Fed Senior Loan Officer Survey, fewer banks tightened lending conditions in October compared to the July report. However, 62.7% of banks reported keeping lending conditions unchanged (after tightening sharply in 1H23) while demand across many loan types slowed due to the Fed's higher rates filtering into loan terms. In addition, the banks surveyed reported a "less favorable economic outlook," "a deterioration of credit quality of loans," and "concerns about funding costs."

- **Housing at a standstill:** The Fed's tightening cycle has resulted in a deterioration in the housing market. The 30YR mortgage rate reached the highest level since 2000 which has limited Americans' willingness to move because they don't want to sacrifice their locked in low rate from previous years. As a result, inventories are tight, prices are high and homeowner affordability is at a record low.

The Bottom Line:

The Fed's aggressive tightening cycle is starting to be felt across the economy. Housing was the first shoe to drop when rates surged and now we are seeing consumer confidence deteriorate as well as delinquencies and bankruptcies rise at the consumer and business level. In a speech last week, Federal Reserve Chairman, Jerome Powell, left the door open for additional rate hikes to get inflation to their target rate. Even if they do not raise rates again, they have reiterated time and time again that rate cuts are not on the horizon and we need to adjust for a higher for longer interest rate regime. This will likely put additional pressure on consumers and businesses.

Megan Horneman | Chief Investment Officer
mhorneman@verdence.com

U.S. Equities Lead Rally; Yields Rise

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	34,283	0.7%	1.7%	-2.0%	3.9%	5.3%
S&P 500	4,415	1.4%	1.4%	-0.8%	13.4%	16.6%
Russell 1000 Growth	2,837	3.0%	2.9%	3.0%	26.5%	32.5%
Russell 1000 Value	1,479	-1.0%	-1.0%	-5.7%	-0.5%	0.8%
Russell Midcap	2,738	-0.7%	-1.6%	-6.5%	-0.3%	2.8%
Russell 2000	1,705	-3.1%	-3.9%	-11.0%	-7.3%	-2.0%
Nasdaq	13,798	2.4%	1.8%	0.8%	25.2%	32.8%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	666	0.6%	0.5%	-2.8%	11.6%	11.8%
MSCI EAFE (USD)	2,012	-0.9%	-1.2%	-6.1%	10.5%	6.2%
MSCI Europe ex UK (USD)	2,241	-0.4%	-0.7%	-7.4%	11.5%	8.3%
MSCI Japan (USD)	3,403	-0.6%	-0.4%	-2.4%	15.3%	10.6%
MSCI UK (USD)	1,073	-1.9%	-3.7%	-6.3%	8.2%	3.6%
MSCI EM (USD)	948	0.0%	0.5%	-5.6%	9.5%	1.4%
MSCI Asia ex Japan (USD)	599	-0.1%	-0.4%	-6.2%	10.2%	-1.2%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	5.4%	-0.3%	0.7%	-1.8%	0.4%	-0.8%
U.S. Govt/Credit	5.3%	-0.2%	0.7%	-1.5%	0.9%	-0.5%
U.S. 10 Year Treasury	4.6%	-0.4%	0.5%	-3.1%	-2.8%	-3.4%
U.S. TIPS (1-10YR)	5.0%	-0.7%	0.6%	-0.6%	1.0%	1.0%
U.S. High Yield	8.9%	-0.3%	1.4%	0.1%	8.1%	6.9%
EM Bonds (USD)	8.1%	-0.2%	1.4%	-2.3%	6.4%	1.3%
Municipal Bonds	4.1%	0.8%	1.8%	-1.8%	3.6%	0.4%

Commodites	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	232	-3.3%	-1.5%	-2.7%	-7.9%	-5.8%
Crude Oil (USD/bbl)	$77.2	-4.2%	-8.8%	-5.7%	-9.3%	-3.1%
Gold ($/oz)	$1,940.2	-2.1%	0.2%	1.2%	9.3%	6.2%
Copper	$358.7	-2.4%	1.6%	-2.4%	-7.3%	-4.8%
Wheat	$575.3	-0.6%	-1.3%	-12.5%	-34.2%	-30.2%
U.S. Dollar	106	0.7%	-0.7%	3.0%	-0.4%	2.3%
VIX Index	14.2	-5.0%	-16.8%	-10.6%	-39.8%	-34.6%

[1]: https://www.cnbc.com/2023/11/09/average-credit-card-balances-top-6000-a-10-year-high.html

Footnotes: Data is as of November 10, 2023.
Source: Bloomberg Finance LP, Verdence Capital Advisors.

Disclaimer:

 The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index.

This material was prepared by Verdence Capital Advisors, LLC ("VCA" or "we", "our", "us"). VCA believes the information and data in this document were obtained from sources considered reliable and correct and cannot guarantee either their accuracy or completeness. VCA has not independently verified third-party sourced information and data. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. These projections, market outlooks or estimates are subject to change without notice. This material is being provided for informational purposes only and is not intended to provide, and should not be relied upon for, investment, accounting, legal, or tax advice. Past performance is not a guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product or any non-investment related content, made reference to directly or indirectly in these materials will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. You should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from VCA. Alternative investments are designed only for sophisticated investors who are able to bear the risk of the loss of their entire investment. Investing in alternative investments should be viewed as illiquid and generally not readily marketable or transferable. Investors should be prepared to bear the financial risks of investing in an alternative investment for an indefinite period of time. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. All indexes are unmanaged, and you cannot invest directly in an index. Index returns do not include fees or expenses. Sector Watch Use of this website is intended for U.S. residents only. Any recommendation, opinion or advice regarding securities or markets contained in such material does not reflect the views of Verdence Capital, and Verdence Capital does not verify any information included in such material. Verdence Capital assumes no responsibility for any fact, recommendation, opinion, or advice contained in any such research material and expressly disclaims any responsibility for any decisions or for the suitability of any security or transaction based on it. Any decisions you may make to buy, sell, or hold a security based on this research will be entirely your own and not in any way deemed to be endorsed or influenced by or attributed to Verdence Capital. It is understood that, without exception, any order based on such research that is placed for execution is and will be treated as an UNRECOMMENDED AND UNSOLICITED ORDER. Further, Verdence Capital assumes no responsibility for the accuracy, completeness, or timeliness of any such research or for updating such research, which is subject to change without notice at any time. Verdence Capital does not provide tax, or legal advice. Under no circumstance is the information contained within this research to be used or considered as an offer to sell or a solicitation of an offer to buy any particular investment/security. Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Lower rated securities are subject to greater credit risk, default risk, and liquidity risk. Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions, regardless of the length of time shares are held. Data is provided for information purposes only and is not intended for trading purposes. Verdence Capital shall not be liable for any errors or delay in the content, or for any action taken in reliance on any content. Weekly Insights/Qtrly & Annual Outlook The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index. Semi-Annual Chart Pack Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership, or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result, pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for your client. You should read, as applicable, the Prospectus, SAI, Composite Disclosure and/or performance disclosure associated with any product that you are considering for investment for your or your client's. Products shown may have minimum account sizes or minimum investments which may preclude retail and non-high net worth investors from being able to invest in these products. You should be aware that certain LPs may be closed to new investors and therefore your clients may be prevented from investing in these products. Portfolio Implementation and Rationales The SMA Asset Allocation Models do not represent a personalized recommendation of a particular investment strategy to you or your clients. You should not buy or sell an investment without first considering whether it is appropriate for your client's portfolio. Additionally, you should review and consider any recent market news. All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed. Supporting documentation for any claims or statistical information is available upon request. Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve. Diversification and asset allocation do not ensure a profit and do not protect against losses in declining markets. Any forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data. Investments in growth stocks may experience price volatility due to their sensitivity to market fluctuations and dependence on future earnings expectations. Sector allocation references to market capitalization ("smid cap" or "micro caps" etc.) may be subject to special risks given their characteristic narrow markets, limited financial resources, and less liquid stocks, all of which may cause price volatility. International/global investing can involve special risks, such as political changes and currency fluctuations. These risks are heightened in emerging markets. A significant percentage of the underlying investments in aggressive asset allocation portfolio investments have a higher-than-average risk exposure. You should consider your risk tolerance of each of your clients carefully before choosing such a strategy. An investment with multiple underlying investments (which may include asset-allocation or custom blended investments) may be subject to the expenses of those underlying investments in addition to those of the investment itself. Investments may reside in the specialty category due to 1) allowable investment flexibility that precludes classification in standard asset categories and/or 2) investment concentration in a limited group of securities or industry sectors. Investments in this category may be more volatile than less flexible and/or less concentrated investments and may be appropriate as only a minor component in an investor's overall portfolio. Investment Managers You and your clients should carefully consider investment objectives, risks, charges, and expenses of Funds discussed. This and other important information are contained in the respective Fund prospectuses and summary prospectuses, which should be read carefully before investing. Investment portfolio statistics change over time. Current performance may be lower or higher than return data quoted herein. The investment return and the principal value of an investment will fluctuate; so, an investor's shares/units, when redeemed, may be worth more or less than their original cost. Verdence relies heavily on unaudited third-party data. Data sources include public data, such as mutual fund data, and non-public data, such as information provided by other investment advisors and managers of limited partnership pooled accounts. Data and/or statistics included on this Portal, including references to performance, opinions, ratings, rankings, manager statistics and demographic information, product, or strategy descriptions, either quantitative or qualitative, are based upon information reasonably available to us as of the applicable date(s) then-published. Information has been obtained from sources that we believe to be reliable, but these sources cannot be guaranteed as to their accuracy or completeness. All data and information produced by a third party has the potential to be incorrect, incomplete, or otherwise misleading. No implication shall be created that the information contained on the Site is correct, including as of any time subsequent to the publish date, and Verdence does not undertake an obligation to update such information at any time after such date. Verdence makes not warranty or representation of the veracity of the data and information and its use of the information should not be implied as an endorsement of any material or statements made. Data, particularly non-public data, is subject to error and where the information is not audited, the potential for error is greater. Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership, or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result, pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for your client. You should read, as applicable, the Prospectus, SAI, Composite Disclosure and/or performance disclosure associated with any product that you are considering for investment for your or your client's. Certain products shown may have account minimums or minimum investment sizes that are

Megan Horneman | Chief Investment Officer
mhorneman@verdence.com