Strategas Research Partners

Jason De Sena Trennert	(212) 906-0133	jtrennert@strategasrp.com
Nicholas Bohnsack	(212) 906-0132	nbohnsack@strategasrp.com
Don Rissmiller	(212) 906-0134	drissmiller@strategasrp.com
Daniel Clifton	(202) 290-8262	dclifton@strategasrp.com
Chris Verrone, CMT	(212) 906-0135	cverrone@strategasrp.com
Tom Tzitzouris	(202) 223-7646	ttzitzouris@strategasrp.com

3Q'2023 REVIEW IN CHARTS

To the extent to which the market felt that "airy lightness of aspiration" to start the third quarter of the year, it has started to feel the solid weight of Earth in recent weeks. The most proximate cause in this change in sentiment has been some recognition on the part of holders of Treasury securities that the Fed is likely to keep short-term interest rates higher for longer than previously anticipated. Perhaps to the consternation of the central bank, bond investors have been slow to heed its warnings about its commitment to a 2% inflation target. And who could blame them? Central banks the world over have been exceedingly slow to give up their shiny new toy of quantitative easing, especially in times of market stress.

Remarkably, the year-to-date gain on the S&P was a mere +58 basis points on the Friday before Silicon Valley Bank failed. What followed was akin to violently shaking a can of carbonated government-issued alphabet soup and then opening it – the Fed's BTFP (Bank Term Funding Program) led to an increase in the amount of assets on its balance sheet of $300 billion in a mere three weeks, the Treasury Department's TGA (Treasury General Account) injected roughly $550 billion into the economy in the first five months of the year, and the SPR (Strategic Petroleum Reserve) kept oil prices contained through July. By July 31st, the S&P was up a stunning +19.5% YTD.

While the cynic might attribute the strength in stocks through July to these extraordinary measures on the part of the Fed and the Administration, the optimist would say that a greater appreciation of the potential power of generative artitifical intelligence was the root cause of the Index's stellar performance and the Magnificent Seven's dominance was merely a recognition of the new technology's economies of scale. Of course, both interpretations of events can be true.

What has changed meaningfully in recent weeks however has been some sense that the bill for our own fiscal profligacy is coming due. Whether by choice (Saudi Arabia) or by circumstance (Japan and China), foreign lenders are demanding higher yields on U.S. Treasuries. To the extent to which more than 50% of America's outstanding debt matures in the next three years, it is not difficult to imagine continued upward pressure on long-term bond yields. While this isn't, at least theoretically, the Fed's problem, the central bank has other issues about which it must worry. Despite aggressive monetary tightening over the past 18 months, it would seem as if the balance of power between capital and labor has shifted decidedly toward private sector unions. The settlements achieved by the Airline Pilots Association, the Teamsters, and likely the United Auto Workers are a testament to this trend.

Without meaningful improvements in productivity, it would seem as if it will be very difficult for the Fed to maintain even a 3% inflation target without continued monetary tightening. Ten-year Treasury yields broke through the 2022 high of 4.2% in mid-August 2023, rising from a low of roughly 3.3% in early April to about 4.6% today. Naturally a financial crisis could herald the end of the central bank's tightening campaign, but it is difficult to see such a development being positive for risk assets – at least in the short term.

The third quarter was also witness to meaningful change in both the factors and the sectors driving performance of the broader market. Companies sporting lower valuations and higher Return on Invested Capital proved dominant in the quarter. And of the 30 best performing stocks in the Index during 3Q, nine were in Energy while only one was in the Consumer Discretionary sector. We continue to favor shorter duration equities during a period of time when inflation and by extension, long-term interest rates, may be sticky to the upside.

We remain humbled and grateful for your support of Strategas. The 59 pages that follow are filled with charts and tables that we hope will add some insight into the past three quarters and the remainder of the year. Please contact your Strategas salesperson if any of these materials might prove useful in writing your own letters to clients.

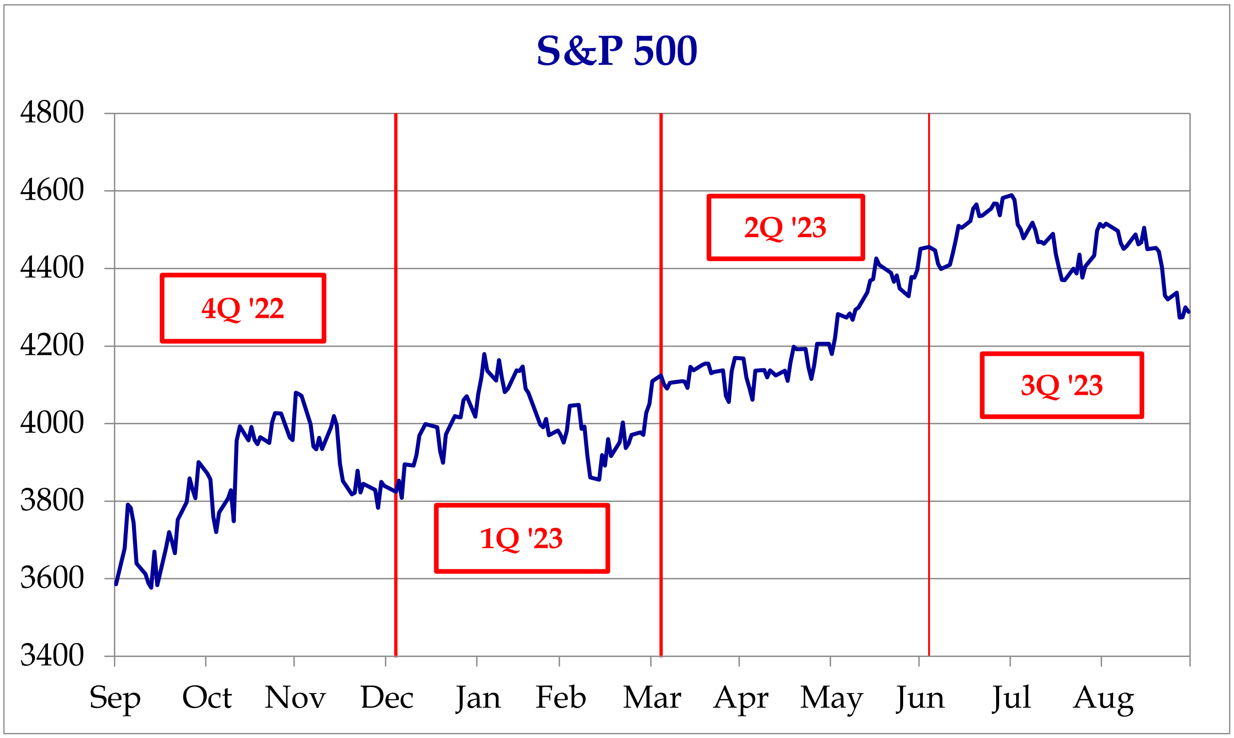
QUARTERLY STATISTICS

Leading US Indices (Total Return)	1Q'22	2Q'22	3Q'22	4Q'22	1Q'23	2Q'23	3Q'23 (sorted)	TTM
S&P/Citigroup Growth	-8.6%	-20.8%	-3.9%	1.4%	9.6%	10.6%	-2.6%	19.8%
S&P 100 Mega-Cap	-4.6%	-16.9%	-5.4%	5.6%	10.1%	11.1%	-2.8%	25.7%
S&P 500 Total Return	**-4.6%**	**-16.1%**	**-4.9%**	**7.6%**	**7.5%**	**8.7%**	**-3.3%**	**21.6%**
Nasdaq	-8.9%	-22.3%	-3.9%	-0.8%	17.0%	13.1%	-3.9%	26.1%
S&P/Citigroup Value	-0.2%	-11.3%	-5.8%	13.6%	5.2%	6.6%	-4.1%	22.2%
S&P 400 Mid-Cap	-4.9%	-15.4%	-2.5%	10.8%	3.8%	4.9%	-4.2%	15.5%
S&P 600 Small-Cap	-5.6%	-14.1%	-5.2%	9.2%	2.6%	3.4%	-4.9%	10.1%
Russell 2000	-7.5%	-17.2%	-2.2%	6.2%	2.7%	5.2%	-5.1%	8.9%

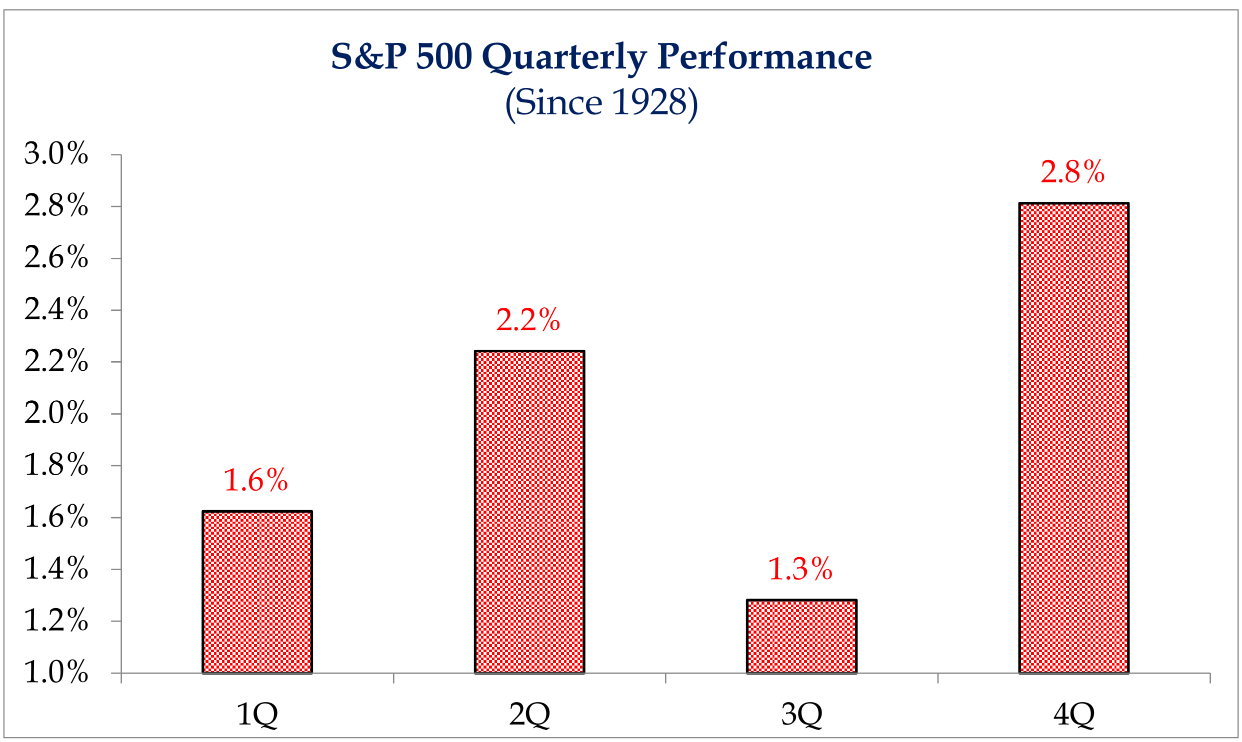
S&P 500 Sectors (Total Return)	1Q'22	2Q'22	3Q'22	4Q'22	1Q'23	2Q'23	3Q'23 (sorted)	TTM
Energy	39.0%	-5.2%	2.3%	22.8%	-4.7%	-0.9%	12.2%	30.2%
Communication Services	-11.9%	-20.7%	-12.7%	-1.4%	20.5%	13.1%	3.1%	38.5%
Financials	-1.5%	-17.5%	-3.1%	13.6%	-5.6%	5.3%	-1.1%	11.7%
Health Care	-2.6%	-5.9%	-5.2%	12.8%	-4.3%	3.0%	-2.7%	8.2%
S&P 500 Total Return	**-4.6%**	**-16.1%**	**-4.9%**	**7.6%**	**7.5%**	**8.7%**	**-3.3%**	**21.6%**
Materials	-2.4%	-15.9%	-7.1%	15.0%	4.3%	3.3%	-4.8%	18.0%
Discretionary	-9.0%	-26.2%	4.4%	-10.2%	16.1%	14.6%	-4.8%	13.8%
Industrials	-2.4%	-14.8%	-4.7%	19.2%	3.5%	6.5%	-5.2%	24.6%
Technology	-8.4%	-20.2%	-6.2%	4.7%	21.8%	17.2%	-5.6%	41.1%
Staples	-1.0%	-4.6%	-6.6%	12.7%	0.8%	0.5%	-6.0%	7.3%
Real Estate	-6.2%	-14.7%	-11.0%	3.8%	1.9%	1.8%	-8.9%	-1.8%
Utilities	4.8%	-5.1%	-6.0%	8.6%	-3.2%	-2.5%	-9.2%	-7.0%

US Yields	2Q'22	3Q'22	4Q'22	1Q'23	2Q'23	3Q'23	Q/Q Chg (bps)	Y/Y Chg (bps)
Fed Funds Target Rate	1.8	3.3	4.5	5.0	5.3	5.5	25	225
3-Month T-Bill	1.7	3.3	4.4	4.9	5.4	5.6	12	222
2-Year Note	2.9	4.2	4.4	4.1	4.9	5.0	16	82
5-Year Note	3.0	4.1	4.0	3.6	4.1	4.6	48	55
10-Year Note	3.0	3.9	3.9	3.5	3.8	4.6	76	71
30-Year Bond	3.1	3.8	3.9	3.7	3.9	4.7	85	94

International Indices (Price Chg)	1Q'22	2Q'22	3Q'22	4Q'22	1Q'23	2Q'23	3Q'23 (sorted)	TTM
Sensex (India)	0.5%	-9.5%	8.3%	5.9%	-3.0%	9.7%	1.7%	14.6%
FTSE 100 (UK)	1.8%	-4.6%	-3.8%	8.1%	2.4%	-1.3%	1.0%	10.4%
Bovespa (Brazil)	14.5%	-17.9%	11.7%	-0.3%	-7.2%	15.9%	-1.3%	5.9%
IBEX 35 (Spain)	-3.1%	-4.1%	-9.0%	11.7%	12.2%	3.9%	-1.7%	28.0%
MSCI EAFE	**-4.4%**	**-8.8%**	**-4.3%**	**8.4%**	**6.7%**	**3.2%**	**-1.9%**	**17.1%**
All Ordinaries (Australia)	0.1%	-13.4%	-1.0%	8.1%	2.1%	0.4%	-2.1%	8.5%
Swiss Market Index	-5.5%	-11.7%	-4.4%	4.5%	3.5%	1.6%	-2.8%	6.8%
MSCI AC World	**-5.1%**	**-14.1%**	**-5.3%**	**7.0%**	**6.5%**	**6.0%**	**-2.9%**	**17.3%**
S&P/TSX (Canada)	3.1%	-13.8%	-2.2%	5.1%	3.7%	0.3%	-3.0%	5.9%
CAC 40 (France)	-6.9%	-11.1%	-2.7%	12.3%	13.1%	1.1%	-3.6%	23.8%
Bolsa (Mexico)	6.1%	-15.9%	-6.1%	8.6%	11.2%	-0.7%	-3.7%	15.5%
Kospi (South Korea)	-7.4%	-15.4%	-7.6%	3.8%	10.8%	3.5%	-3.9%	14.4%
Nikkei 225 (Japan)	-3.4%	-5.1%	-1.7%	0.6%	7.5%	18.4%	-4.0%	22.8%
DAX (Germany)	-9.5%	-13.8%	-5.3%	14.9%	11.9%	0.3%	-4.7%	22.9%
Hang Seng (Hong Kong)	-6.0%	-0.6%	-21.2%	14.9%	3.1%	-7.3%	-5.9%	3.4%



TAKING A LOOK AT SEASONALS



3Q 2023 S&P 500 INDEX REPLACEMENTS

S&P 500 Index Additions & Deletions - 3Q 2023

Date	Company Deleted	Ticker	Company Added	Ticker
5/3/2023	First Republic Bank	FRC	Axon Enterprise	AXON
6/16/2023	DISH Network	DISH	Palo Alto Networks	PANW
8/24/2023	Advance Auto Parts	AAP	Kenvue Inc	KVUE

3Q 2023 BEST & WORST PERFORMERS

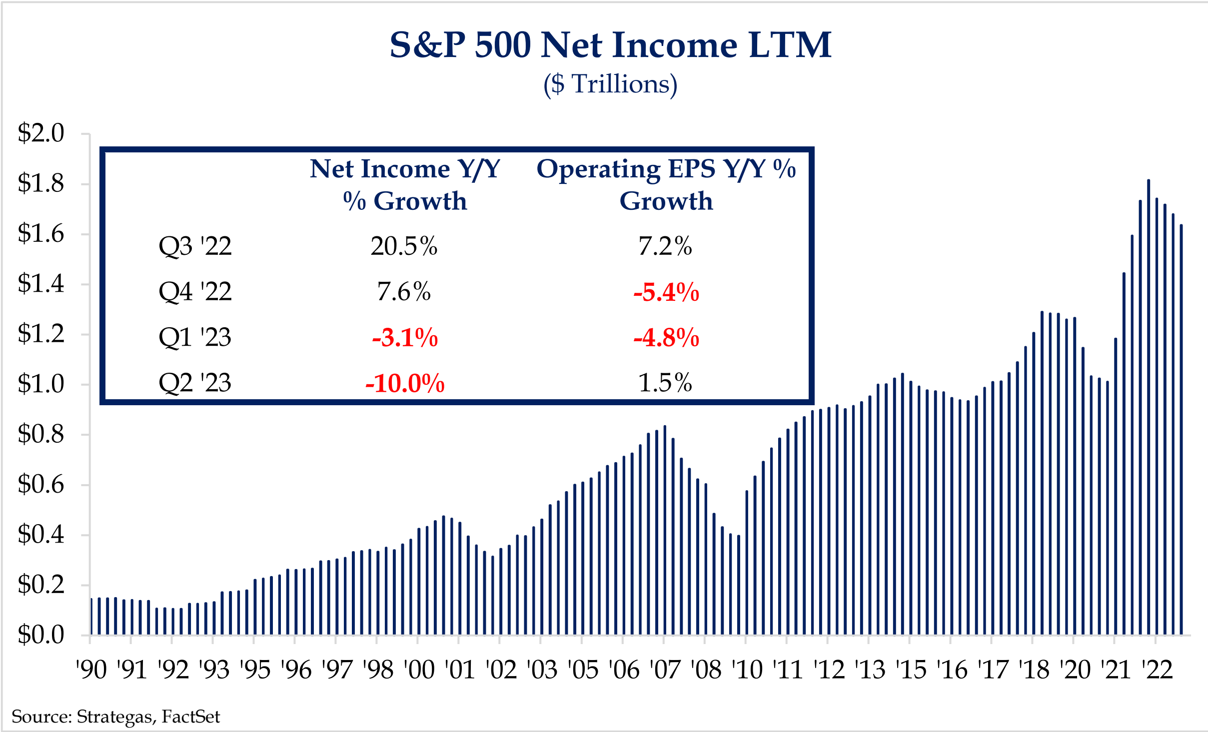
30 BEST S&P 500 Performers, 3Q 2023

	Company	Sector	Perf.
ZION	Zions Bancorporation, N.A.	Financials	31%
MPC	Marathon Petroleum Corporation	Energy	30%
PSX	Phillips 66	Energy	27%
CF	CF Industries Holdings, Inc.	Materials	24%
WRK	WestRock Company	Materials	24%
HAL	Halliburton Company	Energy	23%
AMGN	Amgen Inc.	Health Care	22%
VLO	Valero Energy Corporation	Energy	22%
APA	APA Corporation	Energy	21%
WDC	Western Digital Corporation	Technology	20%
CHTR	Charter Communications, Inc	Communication	20%
CEG	Constellation Energy Corporation	Utilities	19%
SLB	Schlumberger N.V.	Energy	19%
KEY	KeyCorp	Financials	19%
FANG	Diamondback Energy, Inc.	Energy	19%
AKAM	Akamai Technologies, Inc.	Technology	19%
GPN	Global Payments Inc.	Financials	17%
PKG	Packaging Corporation of America	Materials	17%
COP	ConocoPhillips	Energy	17%
MRO	Marathon Oil Corporation	Energy	17%
BX	Blackstone Inc.	Financials	16%
TXT	Textron Inc.	Industrials	16%
BG	Bunge Limited	Staples	15%
J	Jacobs Solutions Inc.	Industrials	15%
AIZ	Assurant, Inc.	Financials	15%
LLY	Eli Lilly and Company	Health Care	15%
REGN	Regeneron Pharmaceuticals, Inc.	Health Care	15%
BKNG	Booking Holdings Inc.	Discretionary	14%
EPAM	EPAM Systems, Inc.	Technology	14%
CBOE	Cboe Global Markets Inc	Financials	14%

30 WORST S&P 500 Performers, 3Q 2023

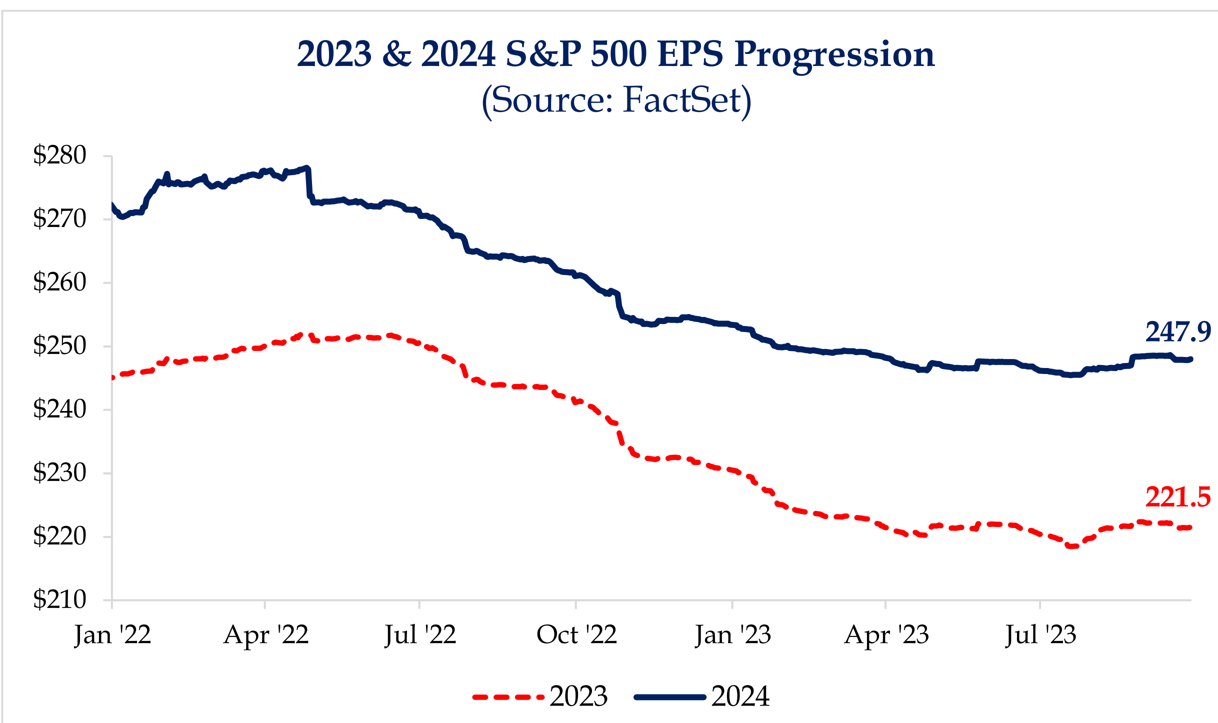
	Company	Sector	Perf.
NEE	NextEra Energy, Inc.	Utilities	-22%
FTNT	Fortinet, Inc.	Technology	-22%
ZBH	Zimmer Biomet Holdings, Inc.	Health Care	-23%
UAL	United Airlines Holdings, Inc.	Industrials	-23%
KVUE	Kenvue, Inc.	Staples	-23%
ALB	Albemarle Corporation	Materials	-24%
ETSY	Etsy, Inc.	Discretionary	-24%
NCLH	Norwegian Cruise Line	Discretionary	-24%
LUV	Southwest Airlines Co.	Industrials	-25%
IPG	Interpublic Group of Companies.	Communication	-25%
DFS	Discover Financial Services	Financials	-25%
DLTR	Dollar Tree, Inc.	Staples	-26%
RTX	RTX Corp.	Industrials	-26%
EL	Estee Lauder Companies Inc.	Staples	-26%
AES	AES Corporation	Utilities	-26%
EW	Edwards Lifesciences Corp.	Health Care	-27%
ILMN	Illumina, Inc.	Health Care	-27%
GNRC	Generac Holdings Inc.	Industrials	-27%
CCL	Carnival Corporation	Discretionary	-27%
DXCM	DexCom, Inc.	Health Care	-27%
ENPH	Enphase Energy, Inc.	Technology	-28%
AAL	American Airlines Group Inc.	Industrials	-29%
ALK	Alaska Air Group, Inc.	Industrials	-30%
TPR	Tapestry, Inc.	Discretionary	-32%
RMD	ResMed Inc.	Health Care	-32%
FMC	FMC Corporation	Materials	-35%
DG	Dollar General Corporation	Staples	-37%
AAP	Advance Auto Parts, Inc.	Discretionary	-41%
PODD	Insulet Corporation	Health Care	-45%
SEDG	SolarEdge Technologies, Inc.	Technology	-52%

NET INCOME TELLING DIFFERENT STORY THAN EPS

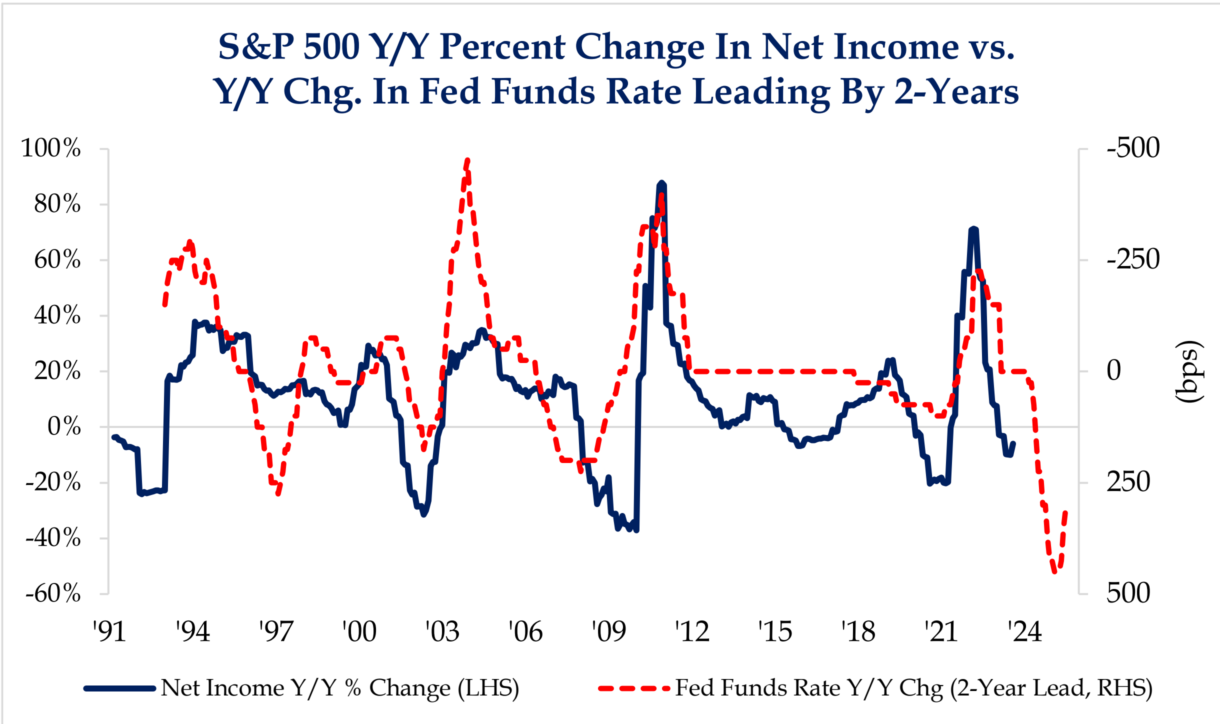


	Net Income Y/Y % Growth	Operating EPS Y/Y % Growth
Q3 '22	20.5%	7.2%
Q4 '22	7.6%	-5.4%
Q1 '23	-3.1%	-4.8%
Q2 '23	-10.0%	1.5%

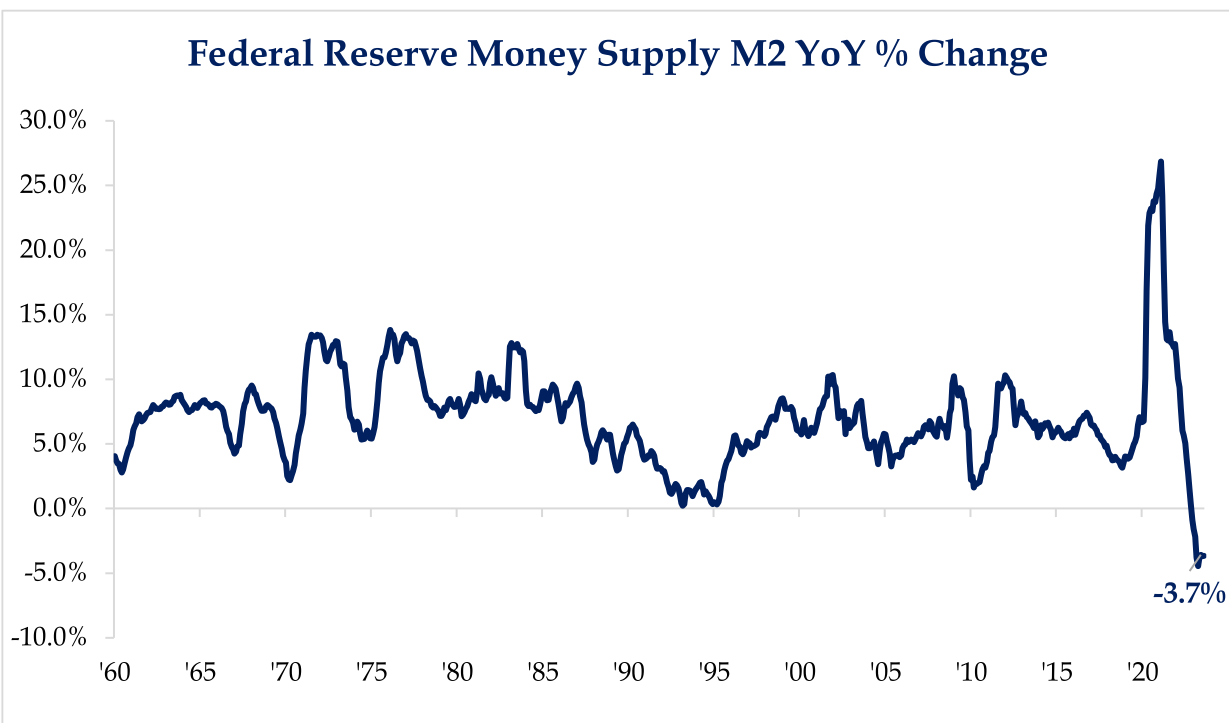
EARNINGS REVISIONS CONTINUE TO TREND LOWER



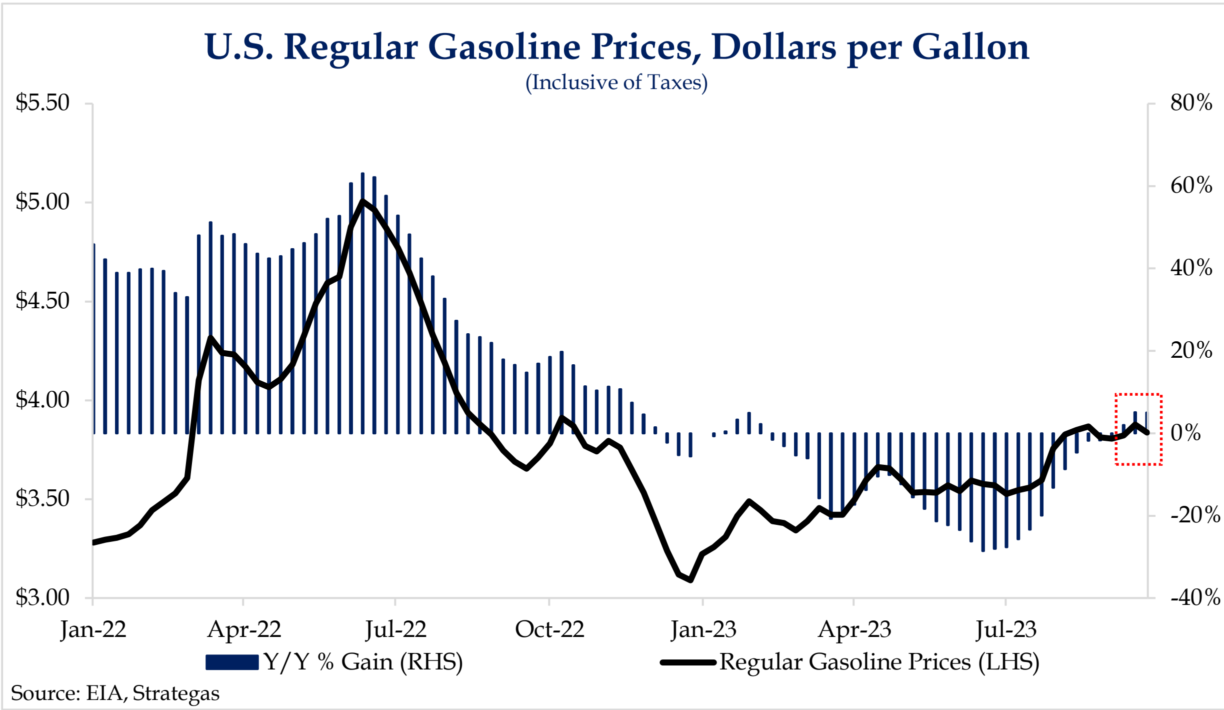
MONETARY POLICY TENDS TO ACT WITH LONG & VARIABLE LAGS



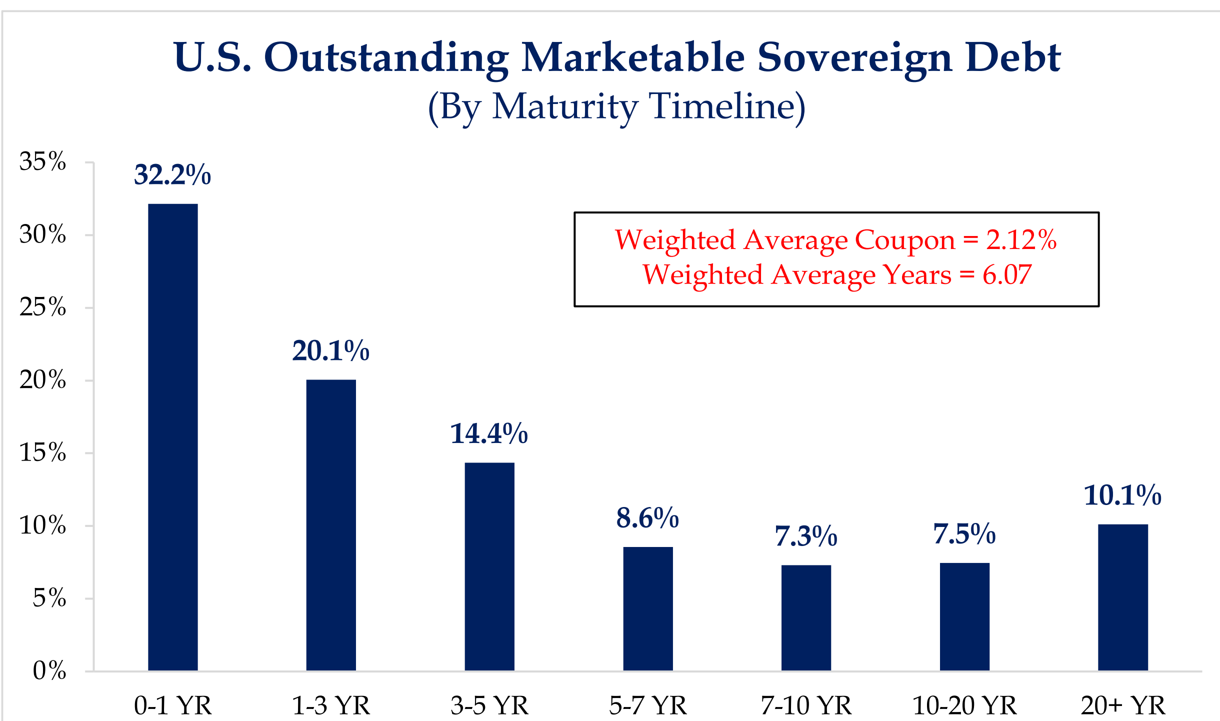
UNPRECEDENTED CONTRACTION IN MONEY SUPPLY



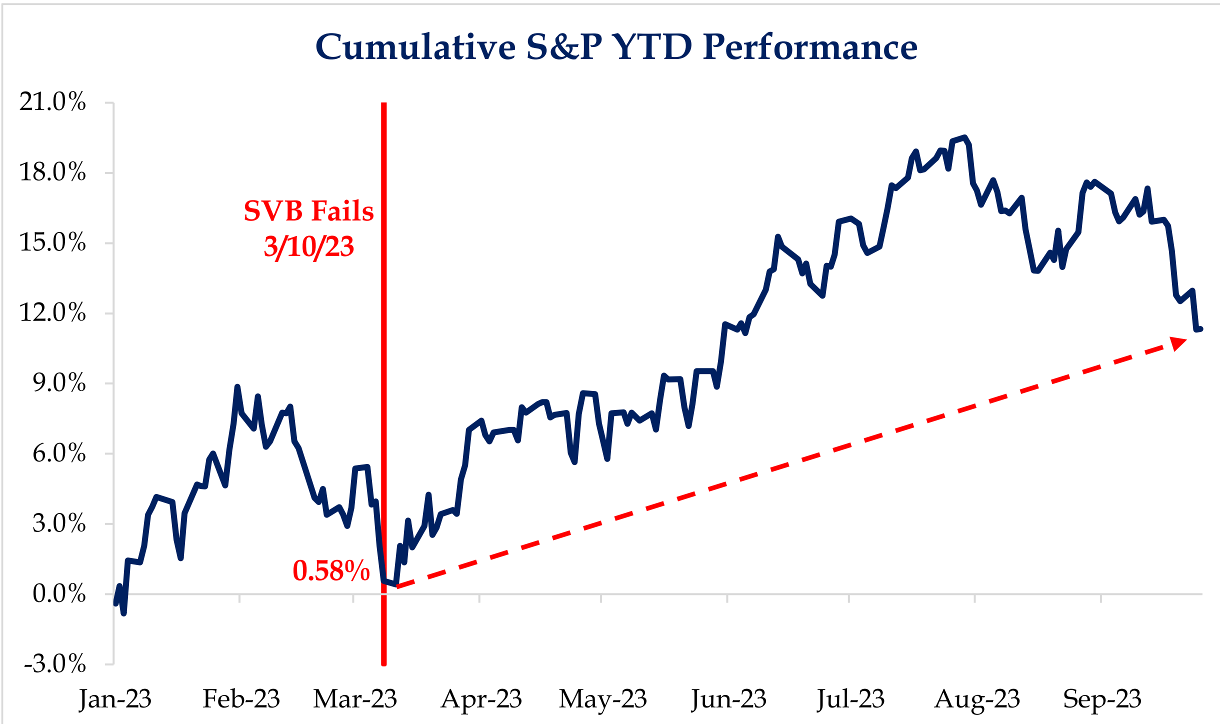
CONSUMER LIKELY TO FEEL THE SQUEEZE FROM GAS PRICES…



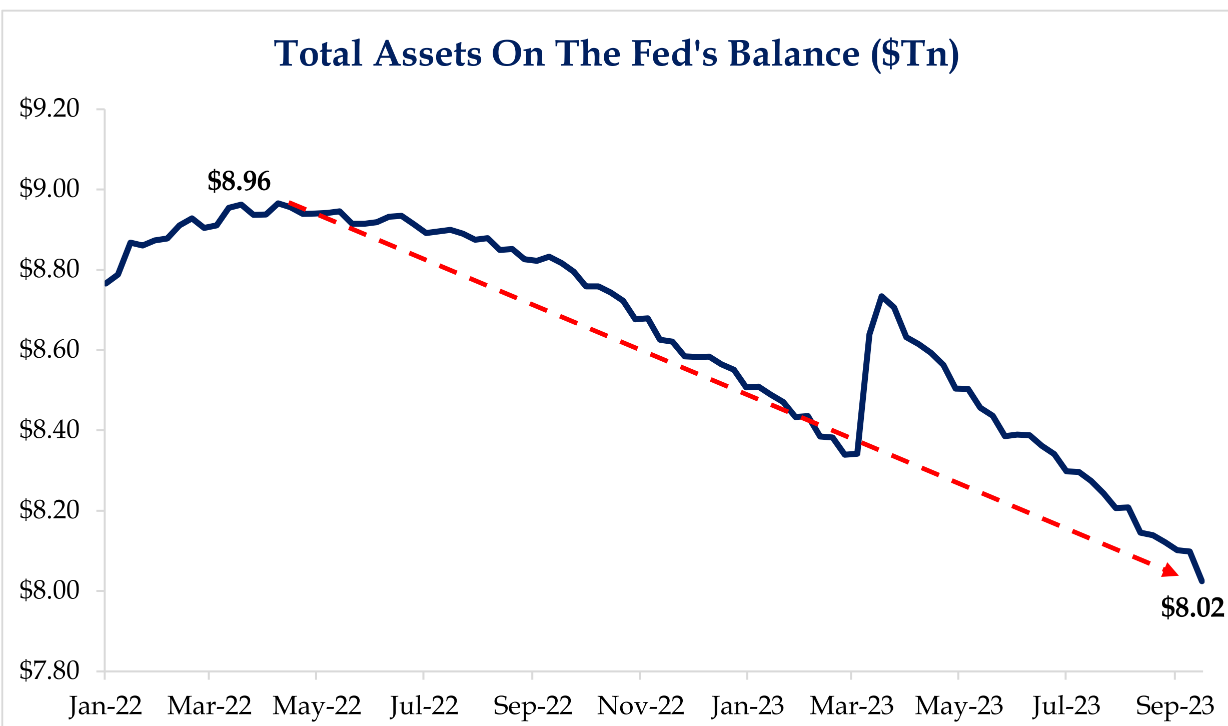
…FISCAL LIKELY TO FEEL THE SQUEEZE FROM HIGHER RATES



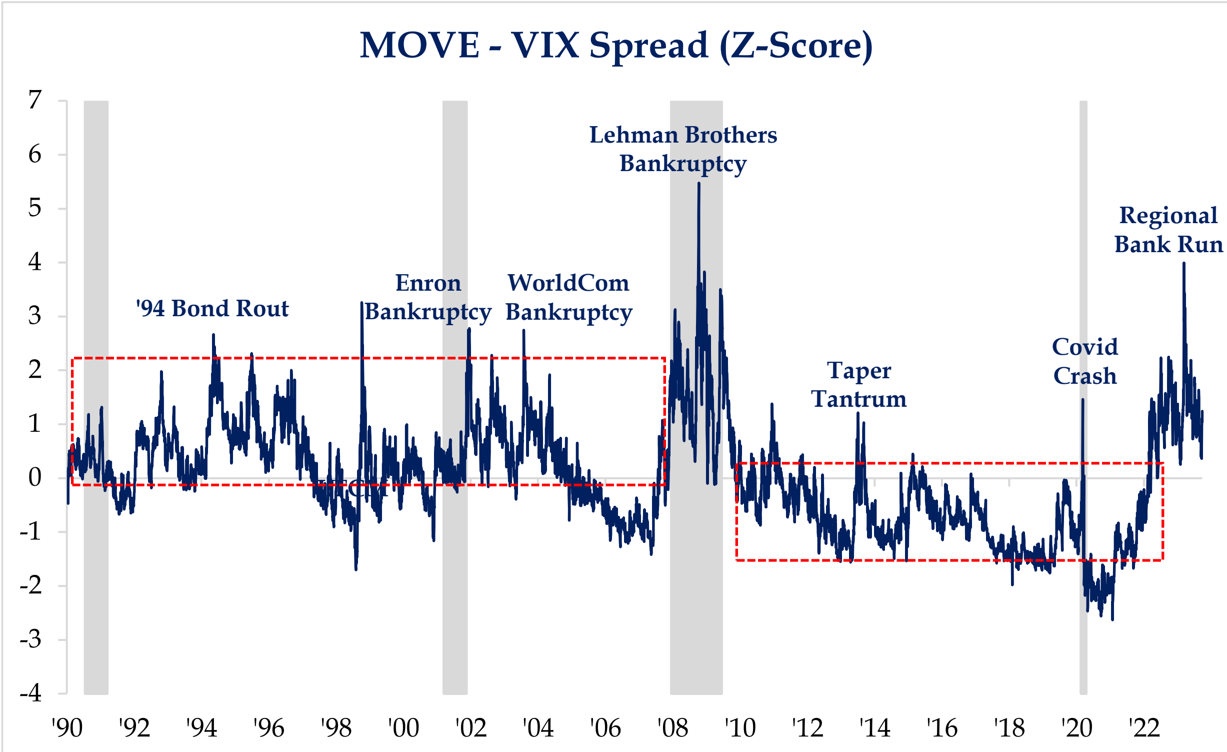
BULK OF S&P 500 GAINS AFTER SVB FAILURE



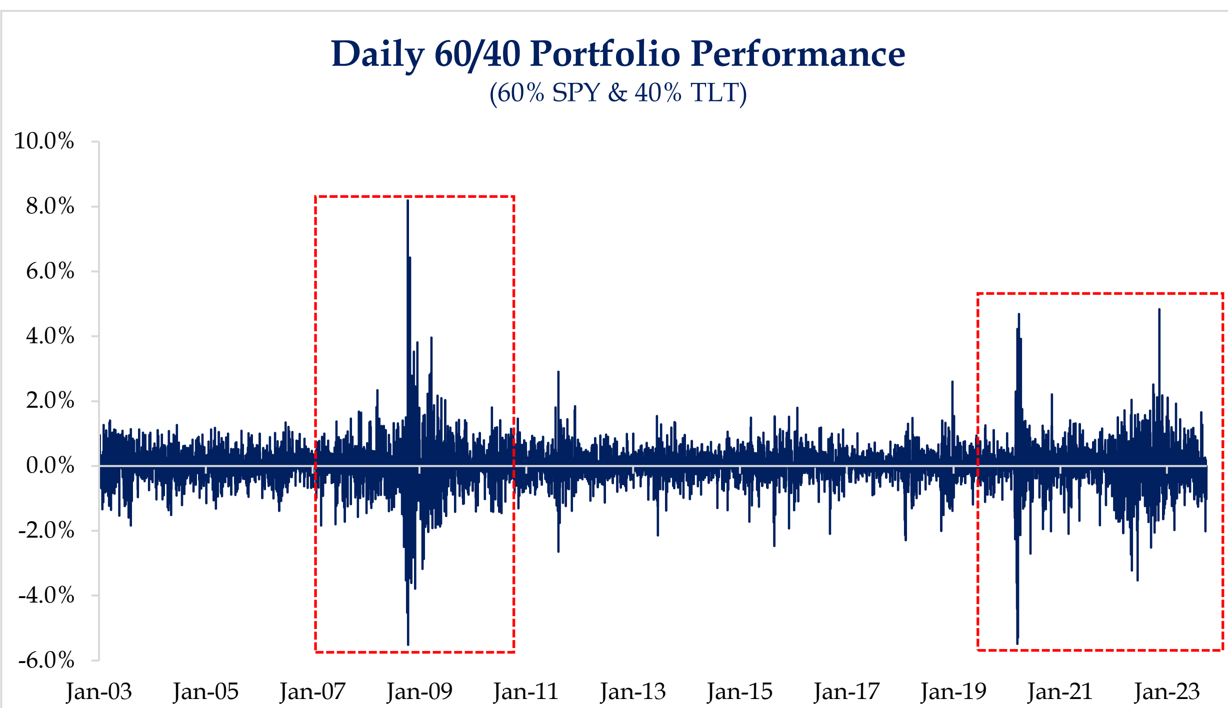
FED BALANCE SHEET DOWN ALMOST $1 TRILLION & COUNTING



VOLATILITY MORE PRONOUNCED IN BONDS RELATIVE TO STOCKS



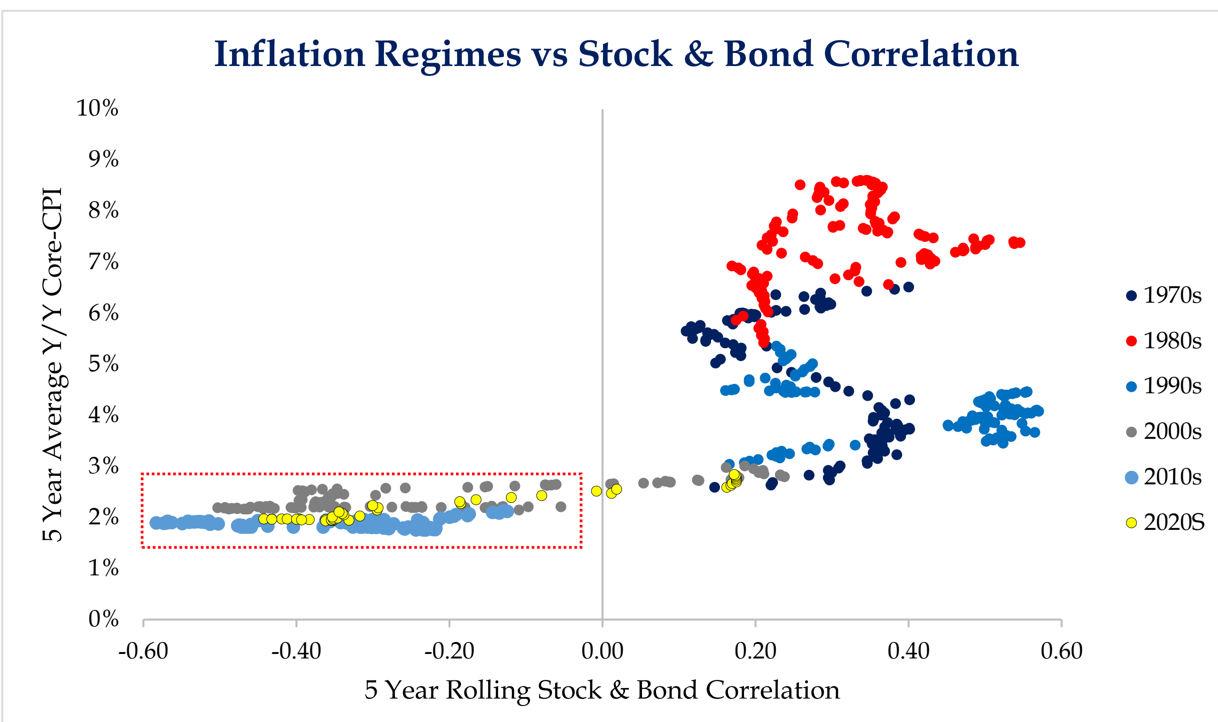
A 60/40 PORTFOLIO HAS NOT SEEN VOLATILITY LIKE THIS SINCE THE GFC



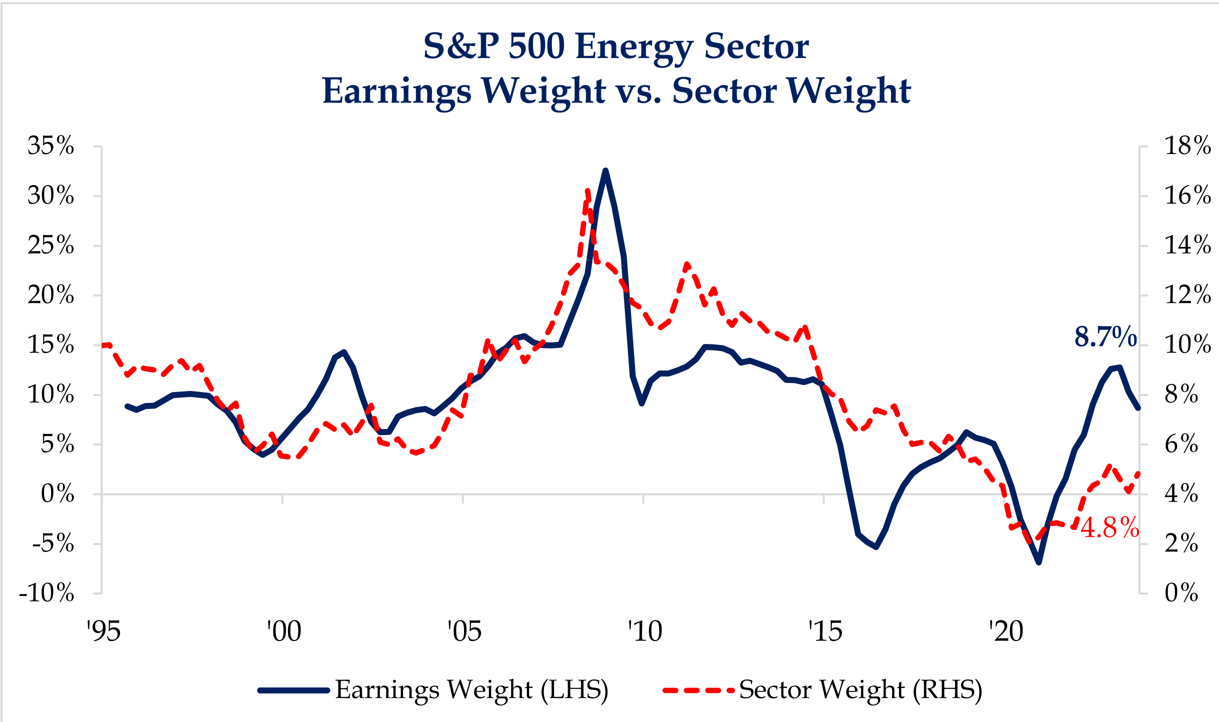
Source: Strategas, FactSet

THE STOCK & BOND CORRELATION HAS FLIPPED POSITIVE

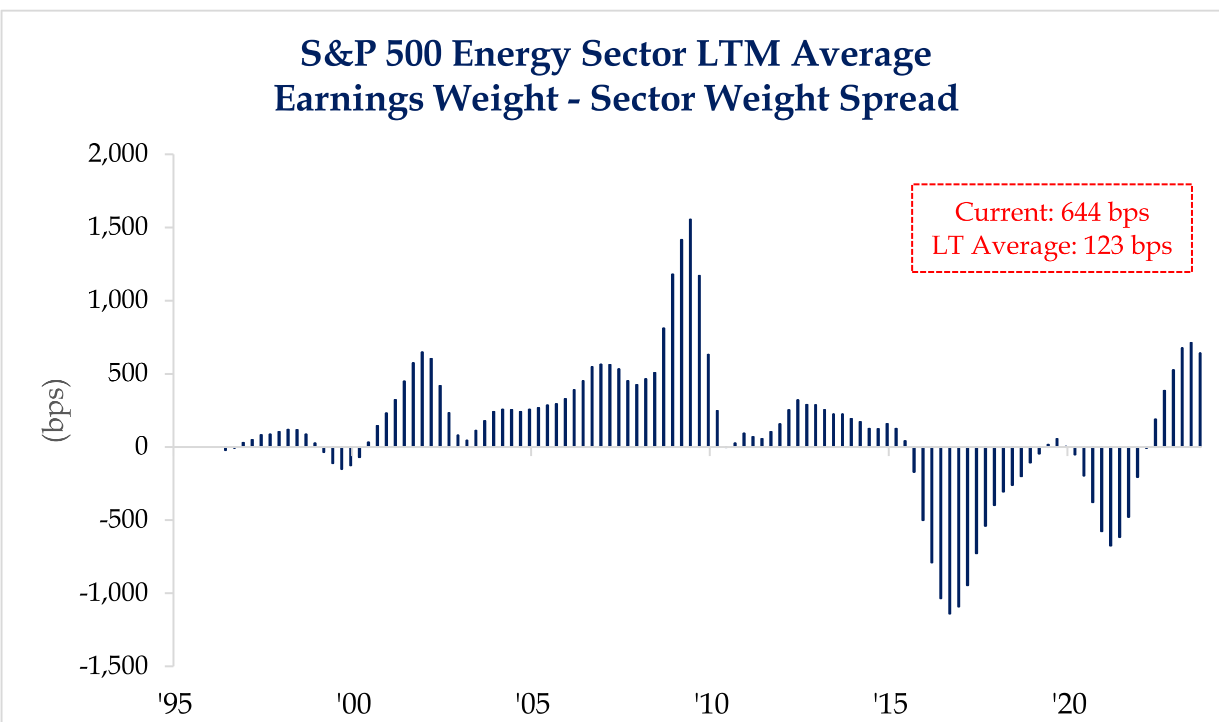
WHICH COINCIDES WITH A HIGHER INFLATION ENVIRONMENT



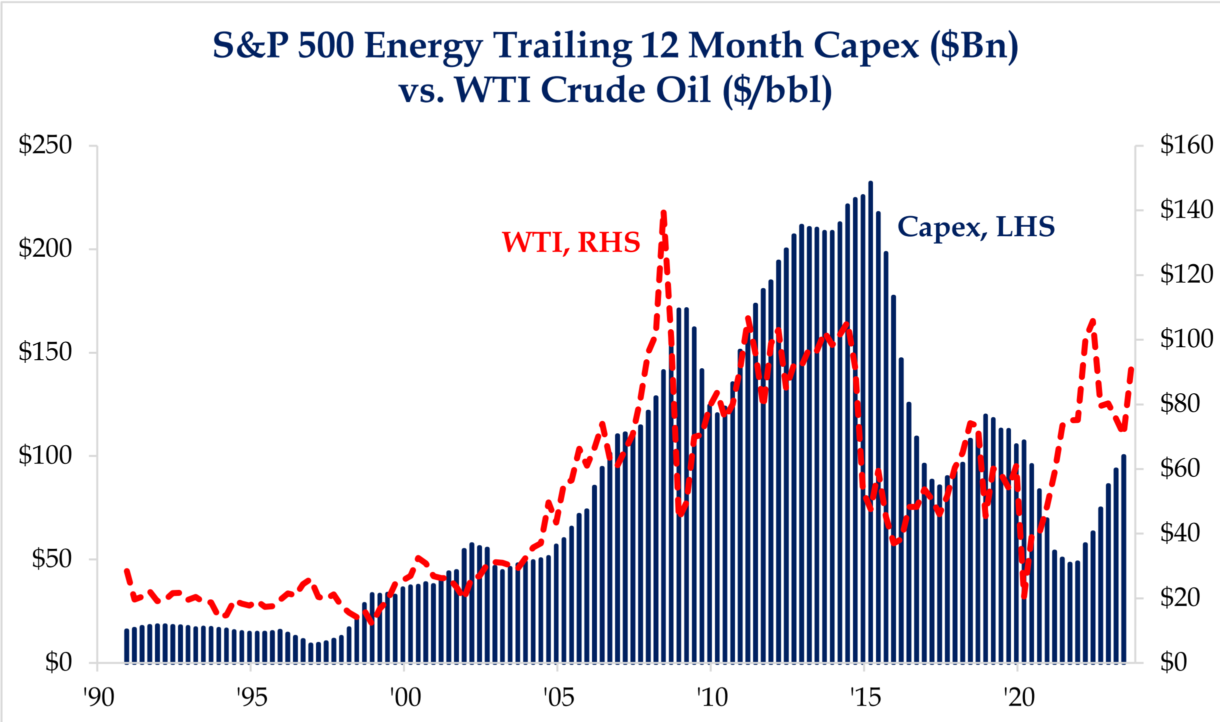
ENERGY PUNCHING ABOVE ITS WEIGHT FROM AN EARNINGS STANDPOINT



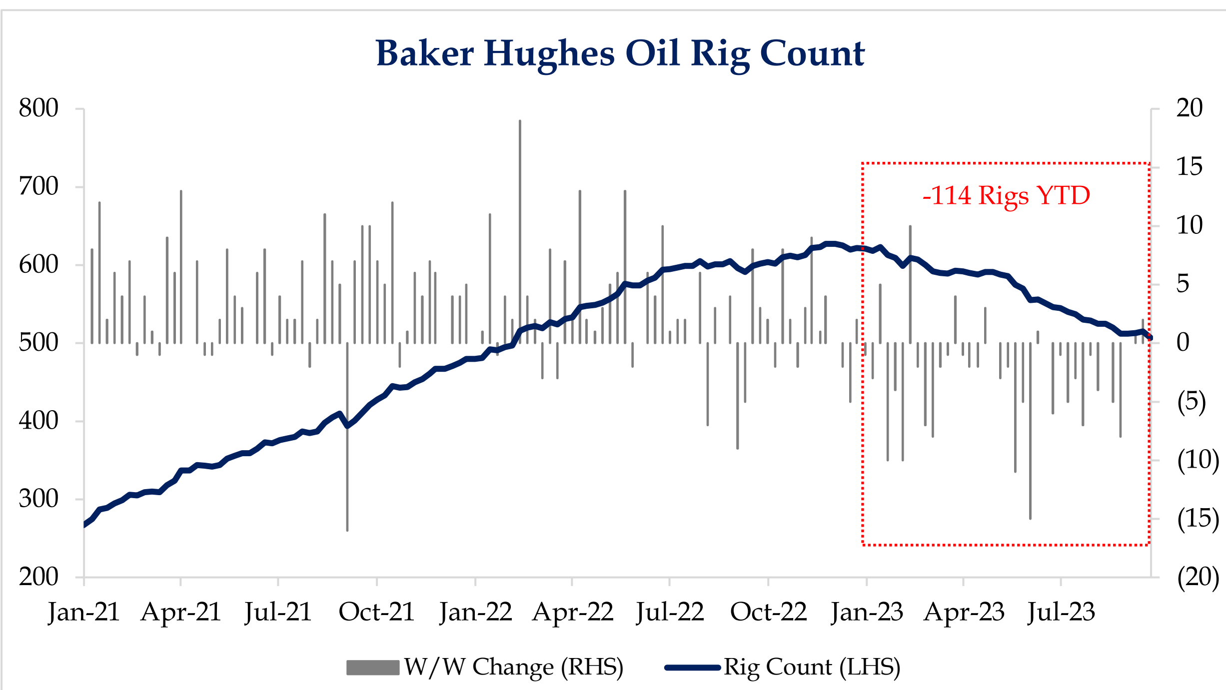
LOOKING FOR THIS SPREAD TO NORMALIZE



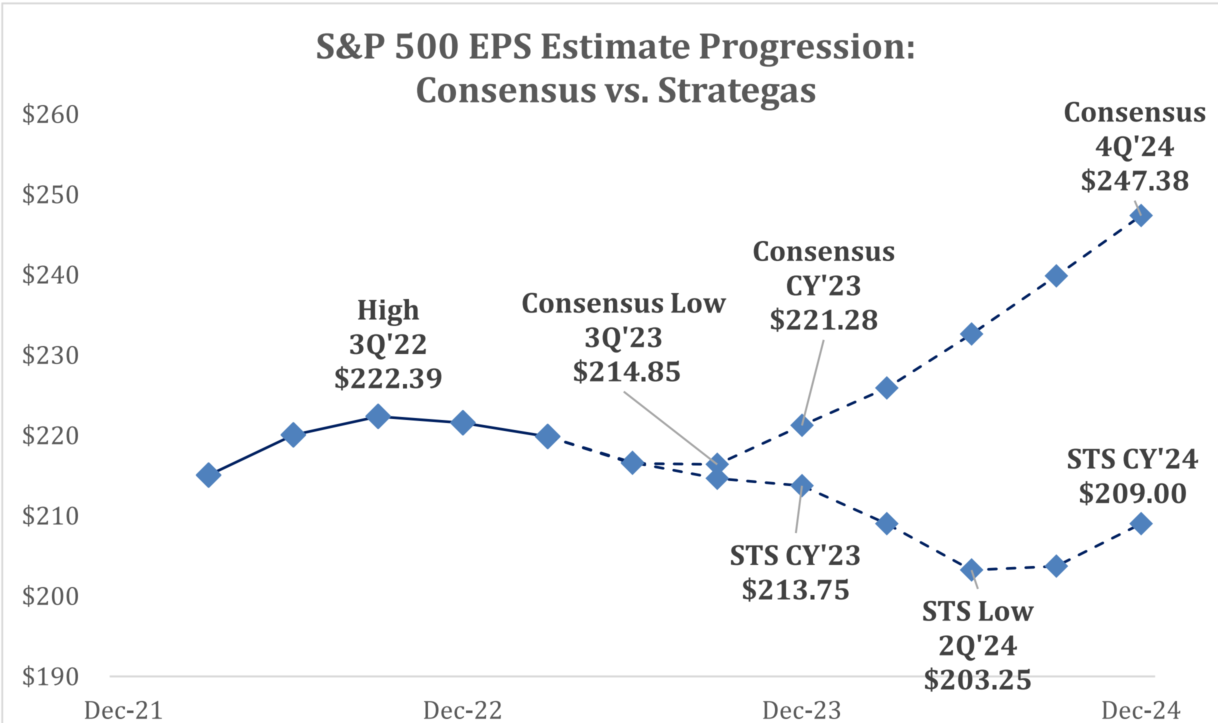
CAPITAL DISCIPLINE STORY STILL INTACT



RIG COUNT HAS NOT FOLLOWED PRICES HIGHER IN 2H '23



STRATEGAS ESTIMATES REMAIN BELOW CONSENSUS

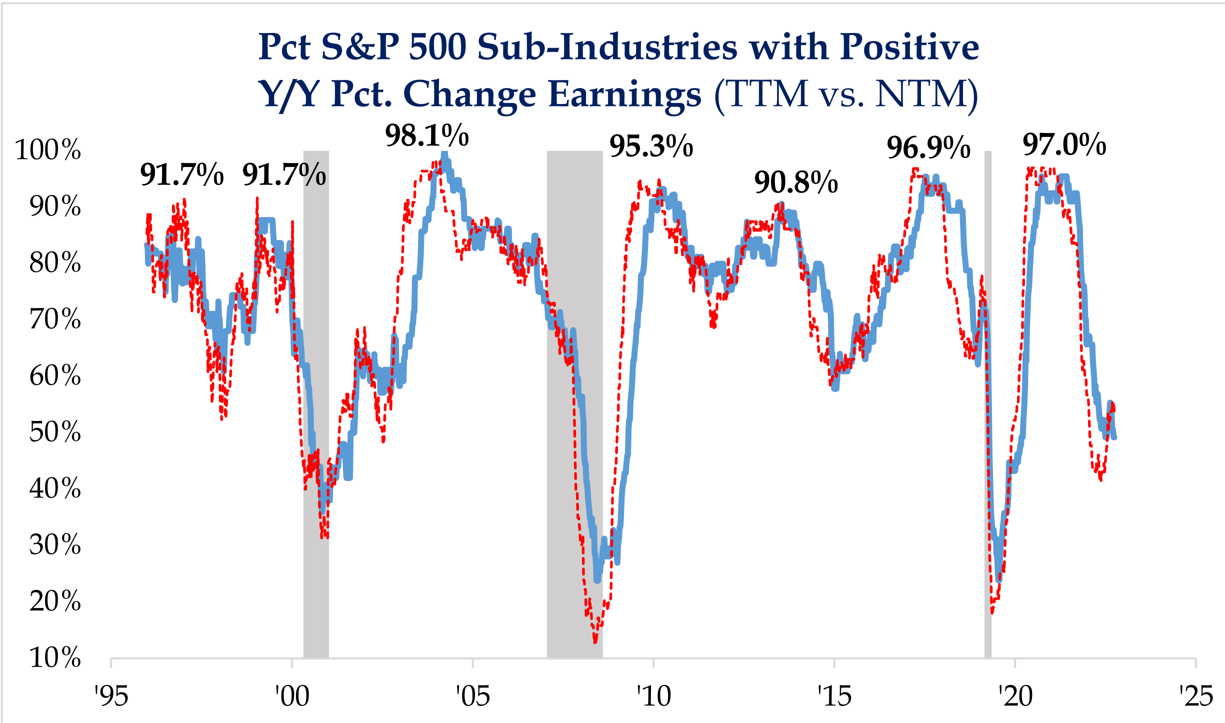


Implied S&P 500 Fair Value Worksheet:
Average S&P TTM P/E by CPI Y/Y Tranche (1950-2022)

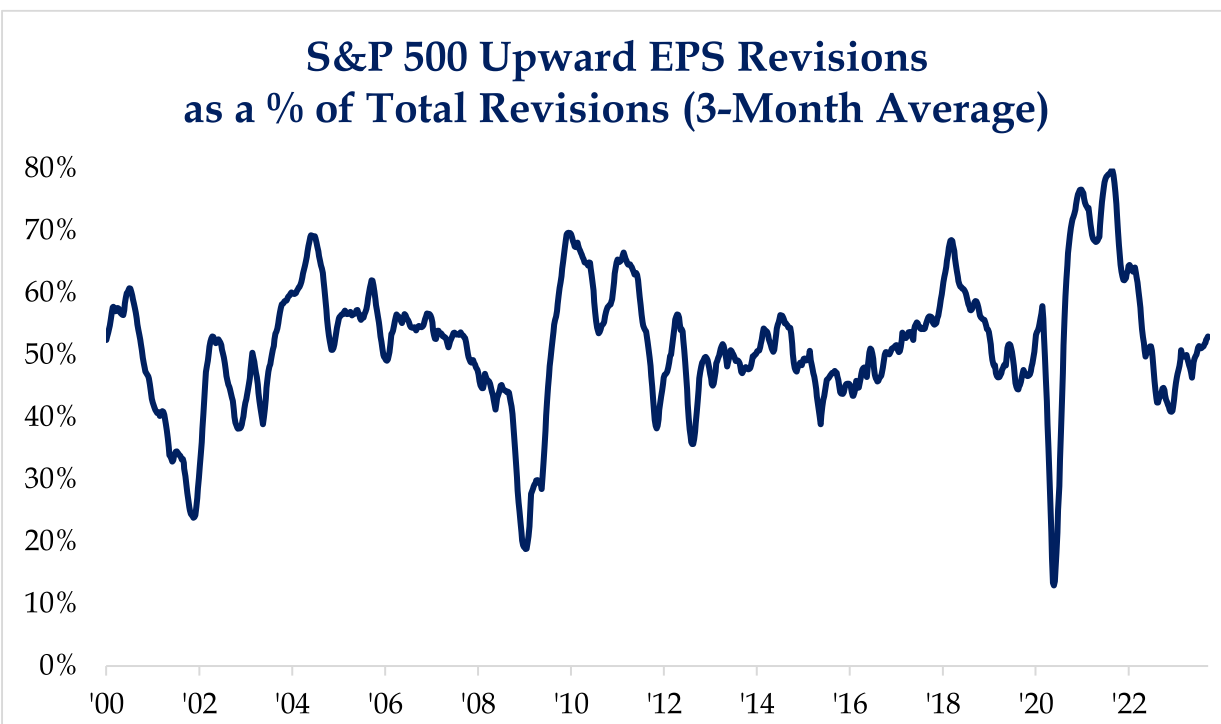
	CPI Tranche	-2-0%	0-2%	2-4%	4-6%	6-8%	8-10%	10-12%
	Avg Tranche P/E	16.8x	18.6x	17.4x	15.1x	12.0x	11.6x	8.5x
Estimates		**Fair Value**						
Average EPS Decline in Recession: **-31.6%***	$152.11	2,556	2,829	2,647	2,297	1,825	1,765	1,293
Median EPS Decline in Recession: **-22.0%***	$173.46	2,914	3,226	3,018	2,619	2,082	2,012	1,474
Strategas Cycle Low (2Q'24)	$203.25	3,415	3,780	3,537	3,069	2,439	2,358	1,728
Strategas CY'24	$209.00	3,511	3,887	3,637	3,156	2,508	2,424	1,777
Strategas CY'23	$213.75	3,591	3,976	3,719	3,228	2,565	2,480	1,817
Consensus CY'23	$221.28	3,718	4,116	3,850	3,341	2,655	2,567	1,881
Cycle Peak (3Q'22)*	$222.39	3,736	4,136	3,870	3,358	2,669	2,580	1,890
Consensus CY'24	$247.38	4,156	4,601	4,304	3,735	2,969	2,870	2,103

* Recession-related peak-to-trough earnings decline estimates assumes cycle earnings peak in 3Q'22 at $222.39, i.e. the sum of 4Q'21-3Q'22 actual operating EPS

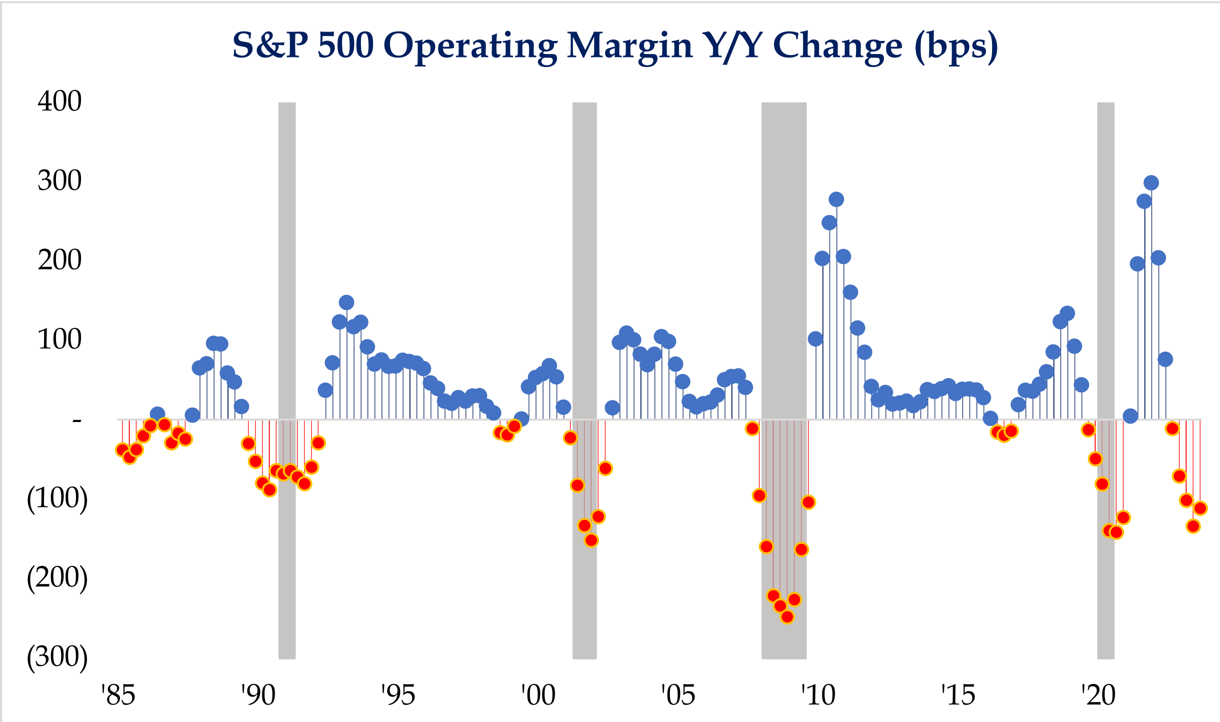
EARNINGS BREADTH MAY BE BOTTOMING



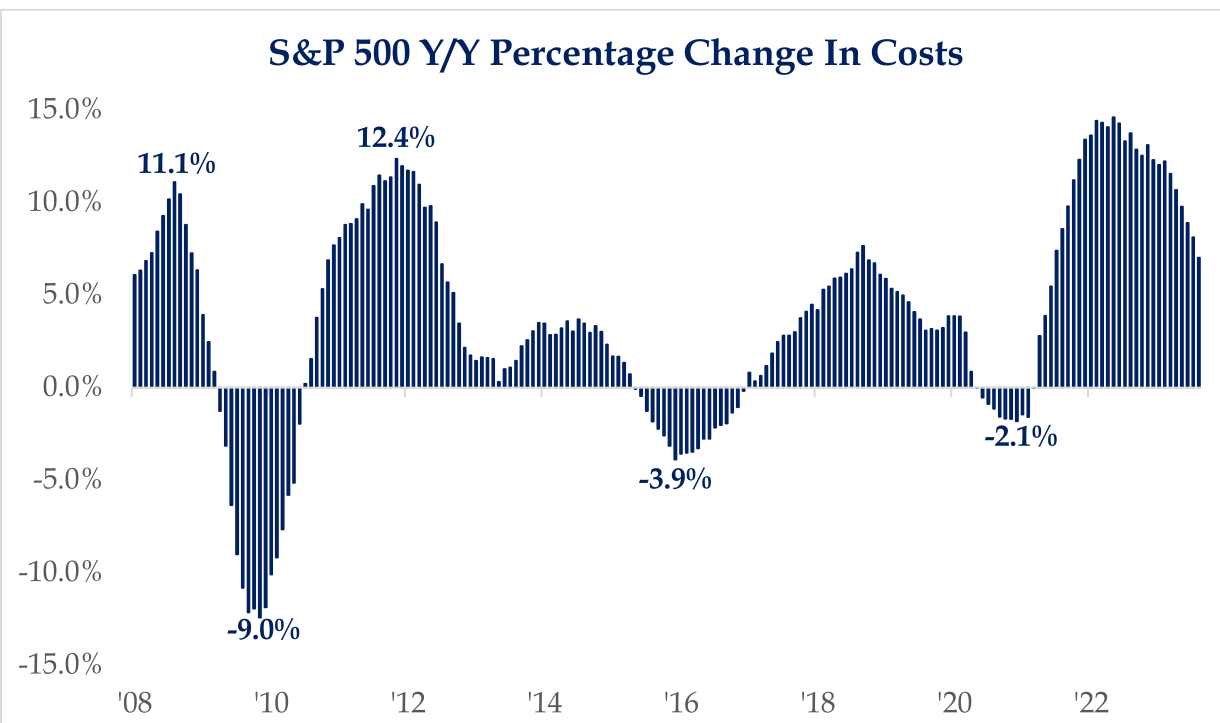
UPWARD EARNINGS REVISIONS PUSHING HIGHER



MARGIN COMPRESSION Y/Y POSSIBLY MODERATING



NORMALIZATION IN COSTS LIKELY A TAILWIND



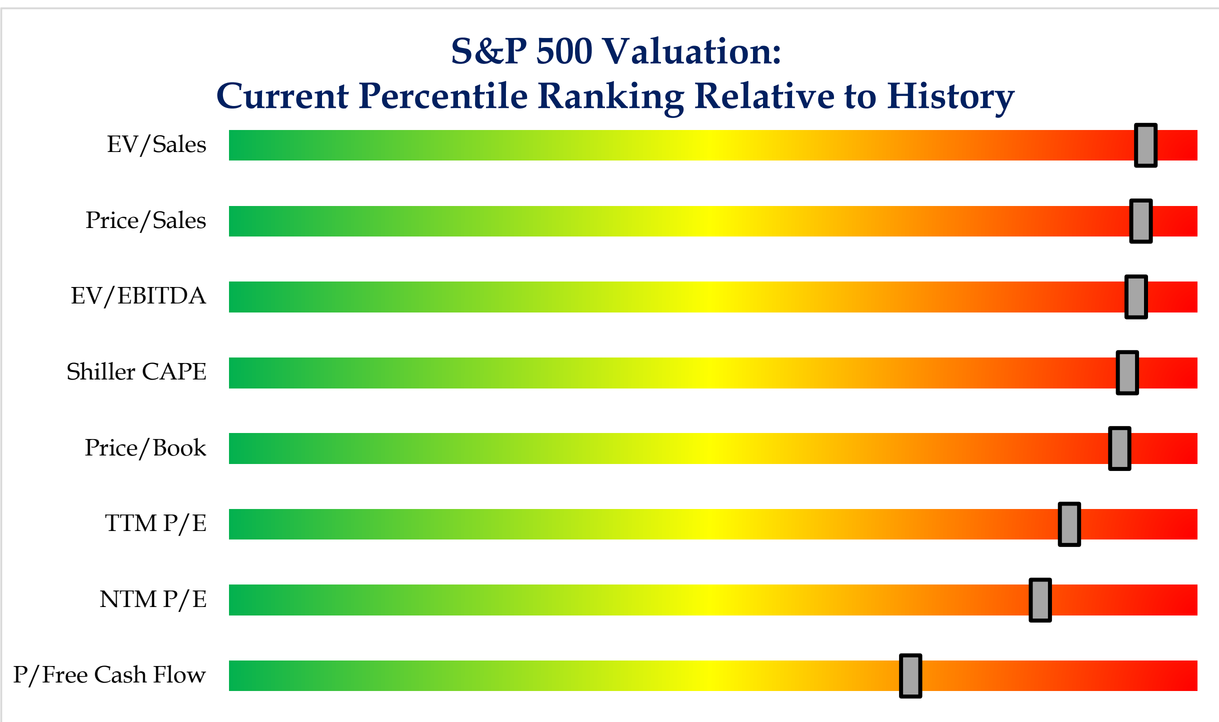
EQUITIES: UNDERWEIGHT & CYCLICALLY CAUTIOUS

Strategas Recommended EQUITY Allocation (Sep'23)

Sleeve	Strategas Equity Only	Strategas Blended Allocation	Benchmark MSCI AC World Index B'Mark	Benchmark MSCI AC World Index Blended Allocation	Strategas Portfolio Exposures
	100%	**56%**	**100%**	**60%**	
Domestic	56%	31%	59%	36%	
International	44%	25%	41%	24%	
	100%	56%	100%	60%	
Dev AC Core	35%	20%	30%	18%	iShares MSCI EAFE Core ETF (IEFA)
US LC Value	26%	15%	19%	11%	iShares S&P 500 Value ETF (IVE)
US LC Core	10%	6%	15%	9%	iShares S&P 500 Core ETF (IVV)
EM AC Core	9%	5%	11%	7%	iShares MSCI EM Core ETF (IEMG)
US LC Growth	9%	5%	18%	11%	iShares S&P 500 Growth ETF (IVW)
US MC Value	8%	4%	3%	2%	iShares S&P Mid-Cap 400 Value ETF (IJJ)
US SC Core	2%	1%	1%	1%	iShares S&P Small-Cap Core ETF (IJR)
US MC Growth	1%	1%	1%	1%	iShares S&P Mid-Cap 400 Growth ETF (IJK)
US MC Core	0%	0%	2%	1%	iShares S&P Core Mid-Cap ETF (IJH)
	100%	*56%*	*100%*	*60%*	

Published 9/14/23 Strategas Asset Allocation Report

EQUITY VALUATIONS REMAIN HISTORICALLY EXTREME



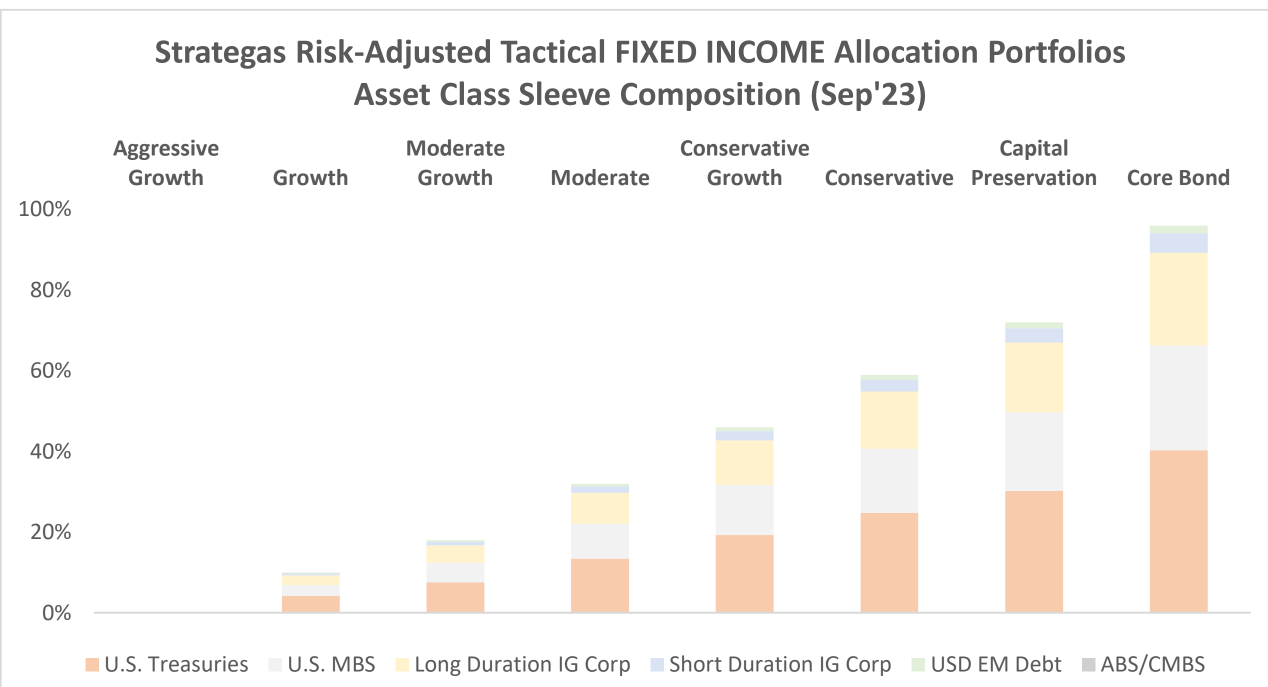
FIXED INCOME: ADDING TO OUR DURATION LONG

Strategas Recommended FIXED INCOME Allocation (Sep'23)

Sleeve	Strategas Fixed Only	Strategas Blended Allocation	Benchmark Barclays Aggregate B'Mark	Benchmark Barclays Aggregate Blended Allocation	Strategas Portfolio Exposures
	100%	**36%**	**100%**	**38%**	
Core Credit	98.0%	35%	100%	38%	
Extended Credit*	2.0%	1%	0%	0%	
	100%	36%	100%	38%	
U.S. Treasuries^	42%	15%	43%	16%	*See Notes...*
IG Corporates#	29%	10%	26%	10%	*See Notes...*
US MBS	27%	10%	26%	10%	iShares MBS ETF (MBB)
ABS/CMBS	0%	0%	2%	1%	iShares CMBS ETF (CMBS)
US Dollar EMD*	2%	1%	0%	0%	iShares JPM USD EM Bond ETF (EMB)
Agencies	0%	0%	2%	1%	iShares Agency Bond ETF (AGZ)
Bank Loans*	0%	0%	0%	0%	Invesco Senior Loan ETF (BKLN)
TIPS	0%	0%	0%	0%	iShares TIPS Bond ETF (TIP)
Local EMD*	0%	0%	0%	0%	iShares JPM EM Local Curr Bond ETF (LEMB)
High Yield*	0%	0%	0%	0%	iShares iBoxx High Yield Corp Bond ETF (HYG)
Convertibles*	0%	0%	0%	0%	SPDR BBG Barclays Covertible Securities ETF (CWB)
	100%	36%	100%	38%	

*^ U.S. Treasury portfolio exposure consists of **40%** Total Treasury market exposure and **2%** Long-Duration Treasury market exposure; **Strategas Asset Management** 's Tactical Allocation Portfolios use the iShares U.S. Treasury Bond ETF (GOVT) for total market exposure and the iShares 20+ Year Treasury Bond ETF (TLT) for Long-Duration exposure; # IG Corporate portfolio exposure consists of **24%** Long-Duration and **5%** Short-Duration; the Tactical Allocation Portfolios use the iShares Broad USD IG Corp Bond ETF (USIG) for LD IG Corporates exposure and SPDR Portfolio Short-Term Corp Bond (SPSB) for SD IG Corporates; Strategas currently has a 6% allocation to Cash, inclusive of 2% in Gold, compared to a benchmark weight of 2%*

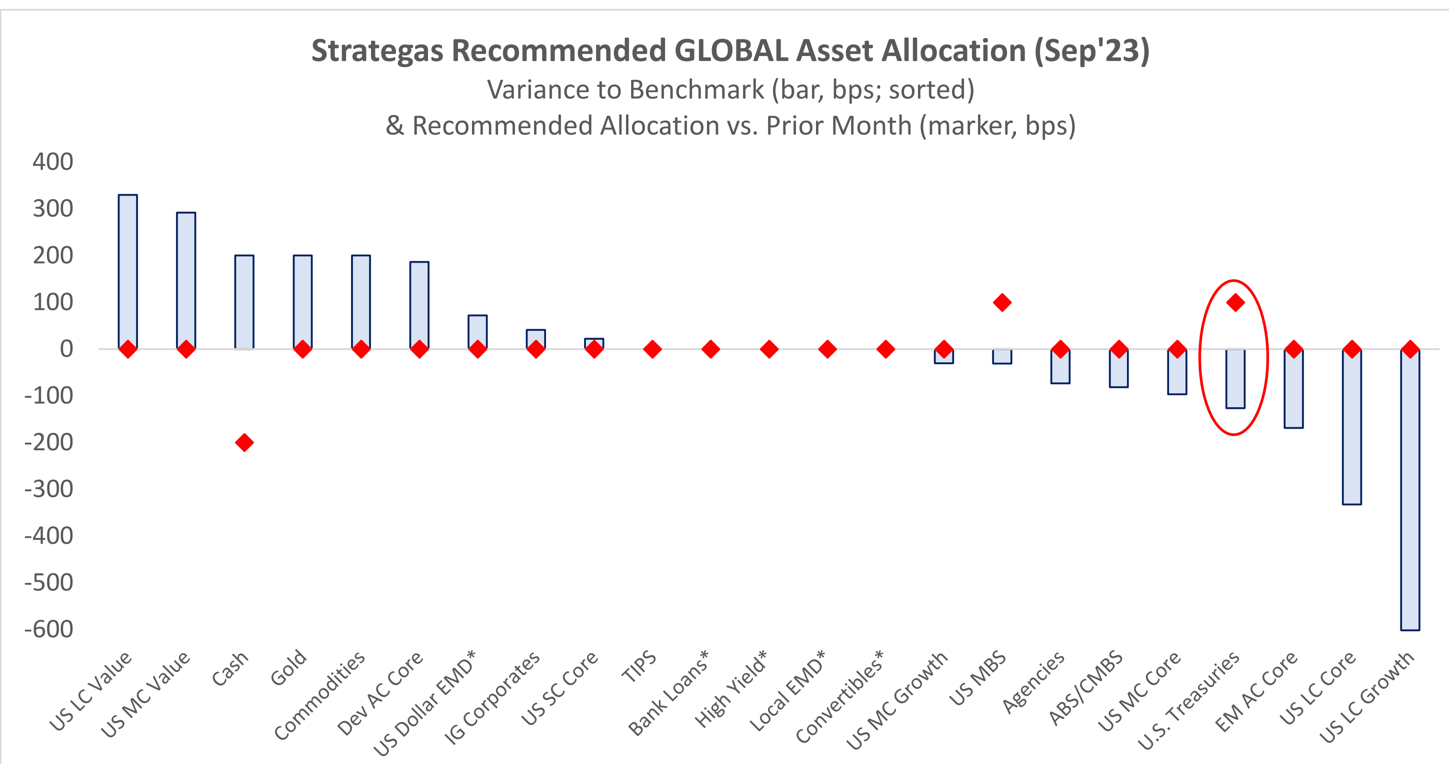
Published 9/21/23 Strategas Asset Allocation Report



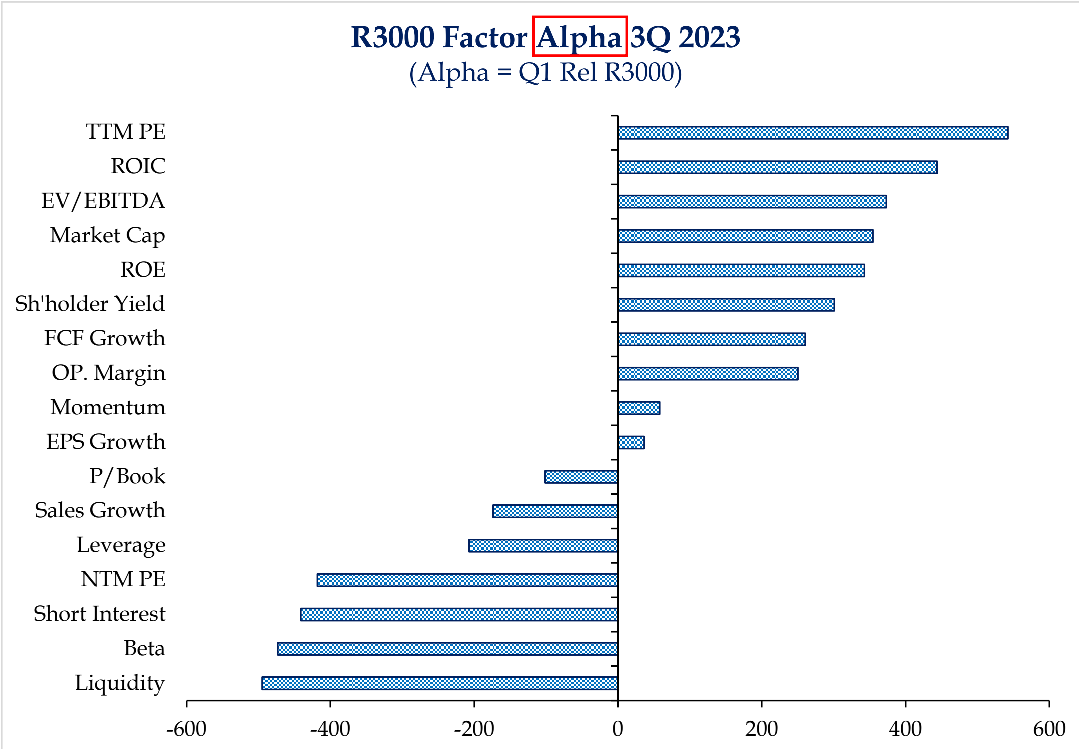
Strategas Recommended GLOBAL Asset Allocation (Sep'23)

		Equities			Bonds			Cash & Equivalents			Alternatives		
Strategas			**56%**			**36%**	+200bps		**6%**	-200bps		**2%**	
B'mark		MSCI ACWI	60%		Barclays Agg	38%		Cash	2%		N/A	0%	
				M/M CHG			M/M CHG			M/M CHG			M/M CHG
		Domestic	31%		Core Credit	35%	+200bps	Cash	4%	-200bps	Commodities	2%	
		International	25%		Extended Credit*	1%		Gold	2%				
			56%			36%			6%			2%	
Overweight		Dev AC Core	20%					Cash	4%		Commodities	2%	
		US LC Value	15%					Gold	2%				
		US MC Value	4%										
Neutral		EM AC Core	5%		IG Corporates	10%							
		US MC Growth	1%		US MBS	10%	+100bps						
		US SC Core	1%		US Dollar EMD*	1%							
Underweight		US LC Core	6%		U.S. Treasuries	15%	+100bps						
		US LC Growth	5%		ABS/CMBS	0%							
			56%			36%			6%			2%	

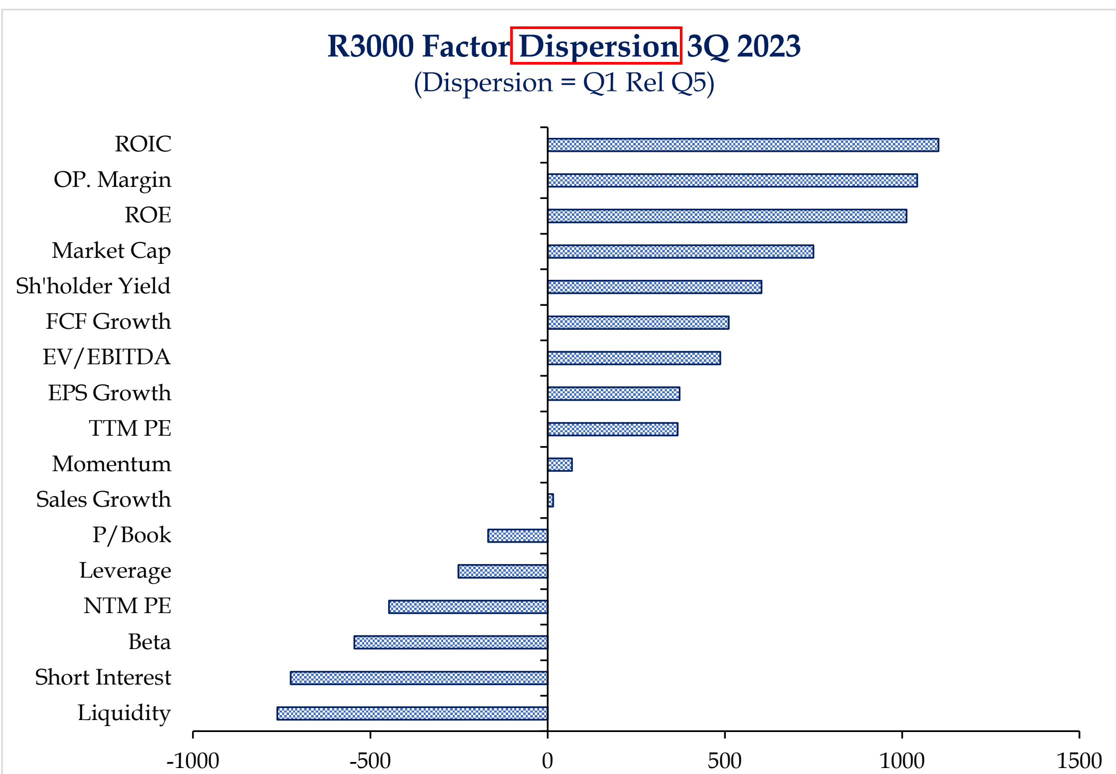
Published 9/21/23 Strategas Asset Allocation Report



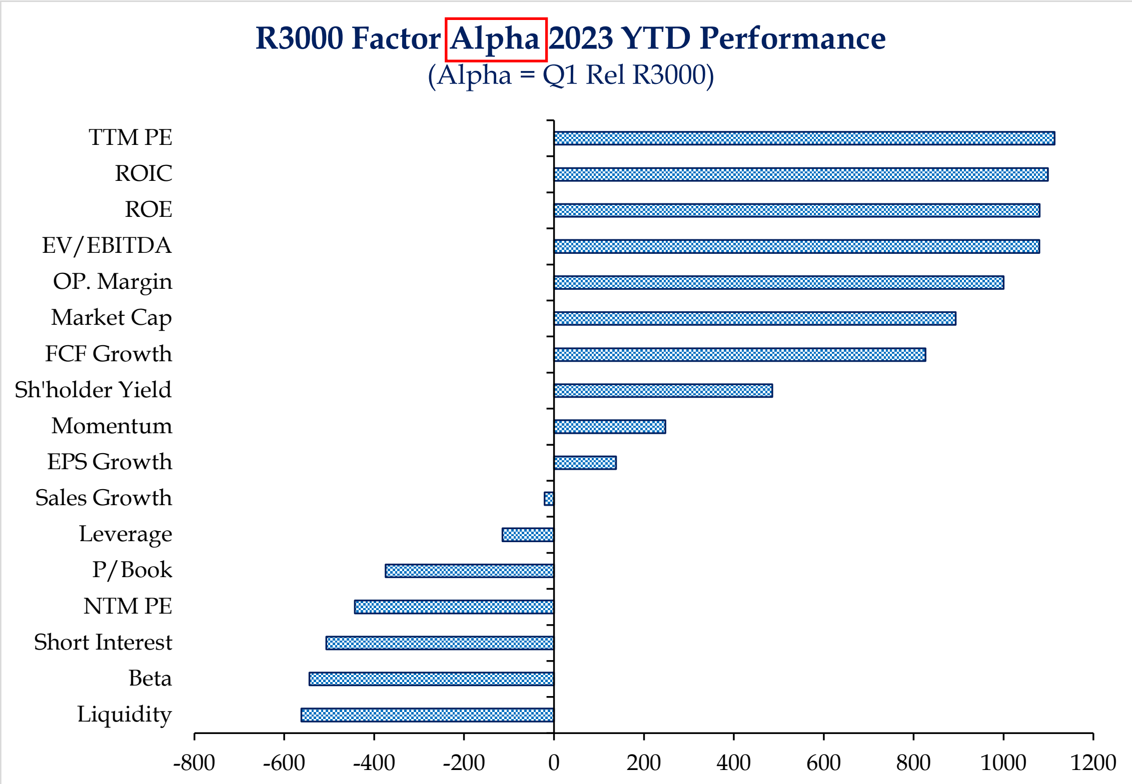
LOW VALUATION AND HIGH ROIC LED IN 3Q

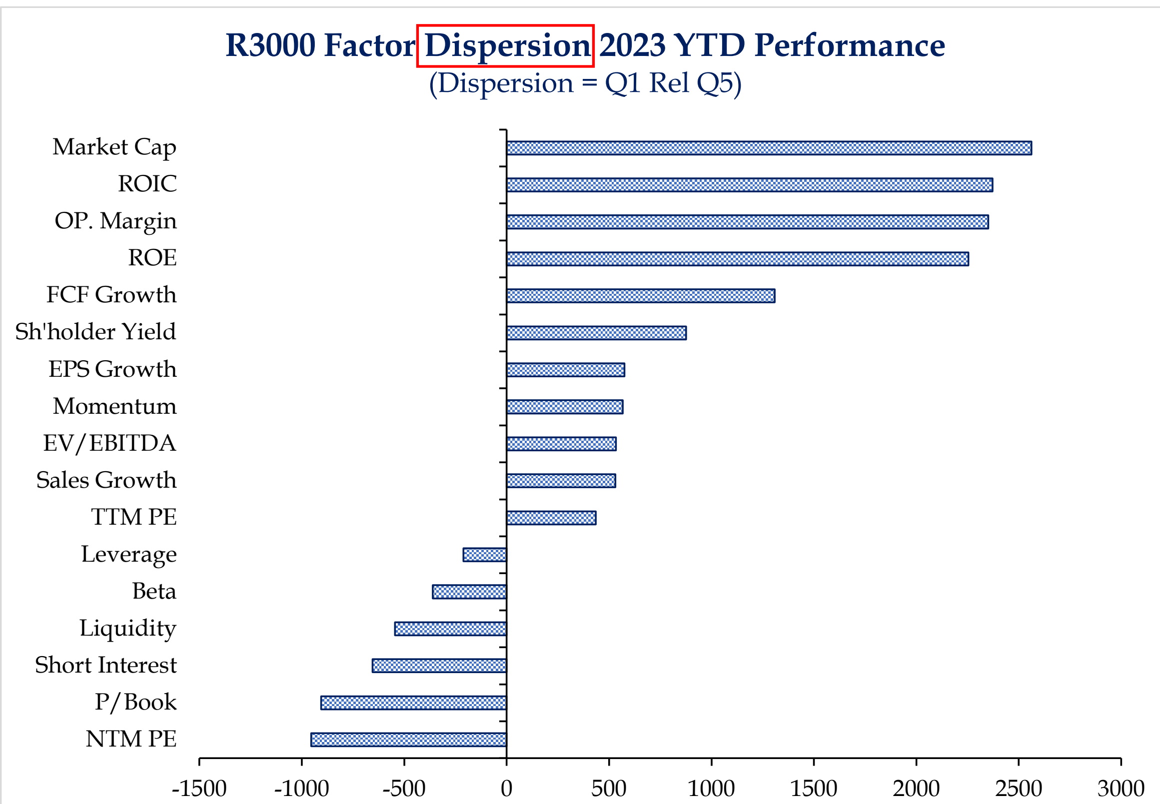


HIGH QUALITY & MEGA-CAPS STRONGEST FROM DISPERSION PERSPECTIVE



HIGH ROE/ROIC AMONG BEST YTD FACTORS FROM BOTH ALPHA & DISPERSION PERSPECTIVE





Strategas Recommended Sector Weights

Overweight: Energy, Industrials, Health Care
Neutral Weight: Technology, Discretionary, Materials
Underweight: Staples, Utilities, Real Estate, Financials, Communications

Industrials – We are **Overweight** as activity reaccelerates in some pockets of the economy and sector relative strength holds up. **Rationale:** Covid-related supply chain pressures have abated, infrastructure spending contributing to improvement in fundamentals during recent cycle upswing in activity. Our SLIM Survey (although choppy) suggests New Orders may improve in coming months – *tough to ignore your own data*. Diversity of sector constituent business a plus relative to concentrated sectors. **Risks:** Cost growth in many segments remains higher than nominal activity levels; given the elevated risk of a U.S. recession – *in our view* – and the historically low probability the Fed can engineer a soft landing for an economy already imbalanced, we would keep stops tight.

Energy – We are **Overweight** Energy due to their strict stewardship of capital and our view that the sector remains undercapitalized. **Rationale:** Energy fund flows remain contrarian and sector exhibiting strong internal trends. On the back of higher crude prices versus prior years, the sector has enjoyed significant free cash flow generation (though this has moderated in recent quarters given swings in crude prices). Crude prices remain well above field rates for most projects. **Risks:** A global recession would impact demand. A breakdown in OPEC+ agreements could stress energy markets though global supply appears robust given non-OPEC production growth. Not out-of-line to argue crude prices have bottomed but E&P are not immune to inflation (labor). Concentration risk within sector is present with XOM+CVX composing nearly half the sector's market weight.

Health Care – We are **Overweight** given the sector's defensive attributes. **Rationale:** Fundamentally, the sector is in good shape with ACA growth +12% last year and +35% over the past two years. Congress prevented $750bn in Medicare cuts from coming into effect in CY'23. Higher taxes also appear unlikely. **Risks:** The sector would likely lag in a protracted cyclical upswing. Congress failed to fix the R&D tax credit as part of the omnibus spending bill. As a result, companies will have to amortize their R&D expenses over 5 years, and this cash tax increase is eating into cash flow of companies in tech, health care, and defense. Costs and margins are likely to remain pressured as a result.

Technology – We are **Neutral Weight** anticipating absolute and relative sector performance cools as the sector's advance off the Oct'22 low fades. **Rationale:** Capital will follow "AI." Is it enough to save the economy from recession? We're skeptical the theme should prove to be a durable long-term target for capex and investment capital. Sector bellwethers are no longer the growth darlings of the past but cash generating behemoths capable of leadership throughout the cycle; sector follow through, however, is a good indicator of whether we're early or late cycle – i.e., narrow leadership/little follow through suggests late-cycle whereas broad participation suggest early-cycle.

Continued U.S. Dollar strength, the likes of which we've seen since mid-July '23, will pose a headwind for fundamentals given the sectors high foreign revenue exposure. **Risks:** Does the sector only look over-owned if you're underinvested or don't own it? Pure growth could struggle in an operating environment of higher interest rates and elevated inflation, but Technology did work pre-QE, so could the sector continue to outperform?

Discretionary – We are **Neutral Weight** given residual strength in the labor market and improvement in previously stiff consumption headwinds – i.e., headline inflation continues to fall, but could be jagged in trajectory. **Rationale:** Wage gains may prove to be sticky, and with inflation rolling over, may give the consumer increased confidence to spend. Consumers remain in better shape than anticipated, but pandemic savings are mostly depleted. Homebuilders have been strong. **Risks:** The sector is heavily influenced by AMZN and TSLA. More broadly, a recession would hamper consumer spending habits and likely result in more restrained activity though avoiding, or further delaying, a recession could lead to a protracted cyclical bid in the market. Consumer savings cushion from pandemic appears depleted.

Materials – We are **Neutral Weight** with a similar fundamental view to Energy though the sector is more exposed to China's struggles with post-Covid re-opening. **Rationale:** As long as EV remains the lodestar of the renewable energy movement, commodity prices (copper specifically) should benefit. Commodities are at secular lows relative to stocks. **Risks:** A recession would hamper economic activity and a stronger U.S. Dollar would hurt global revenue. China may not be a panacea should activity pick-up as economy reorients toward domestic consumption and away from infrastructure build and Belt & Road.

Financials – We are **Underweight** given the pressure of tighter financial conditions globally and the potential for higher capital requirements and regulation. **Rationale:** Credit availability is slowing as banks' willingness to lend decreases and the sector tightens lending standards. If not for the intervention of the Fed during the regional bank delinquencies in March, the U.S. economy would likely be in recession. Sector earnings estimates have further to fall to reflect weakness in loan portfolio and net interest margins remain under pressure. **Risks:** Capital market activity, off trough levels, may show some signs of life in 4Q'23. The banking crisis is contained, and the banks recover quickly, leading to outperformance. Banks valuations serve as attractive entry point for investors.

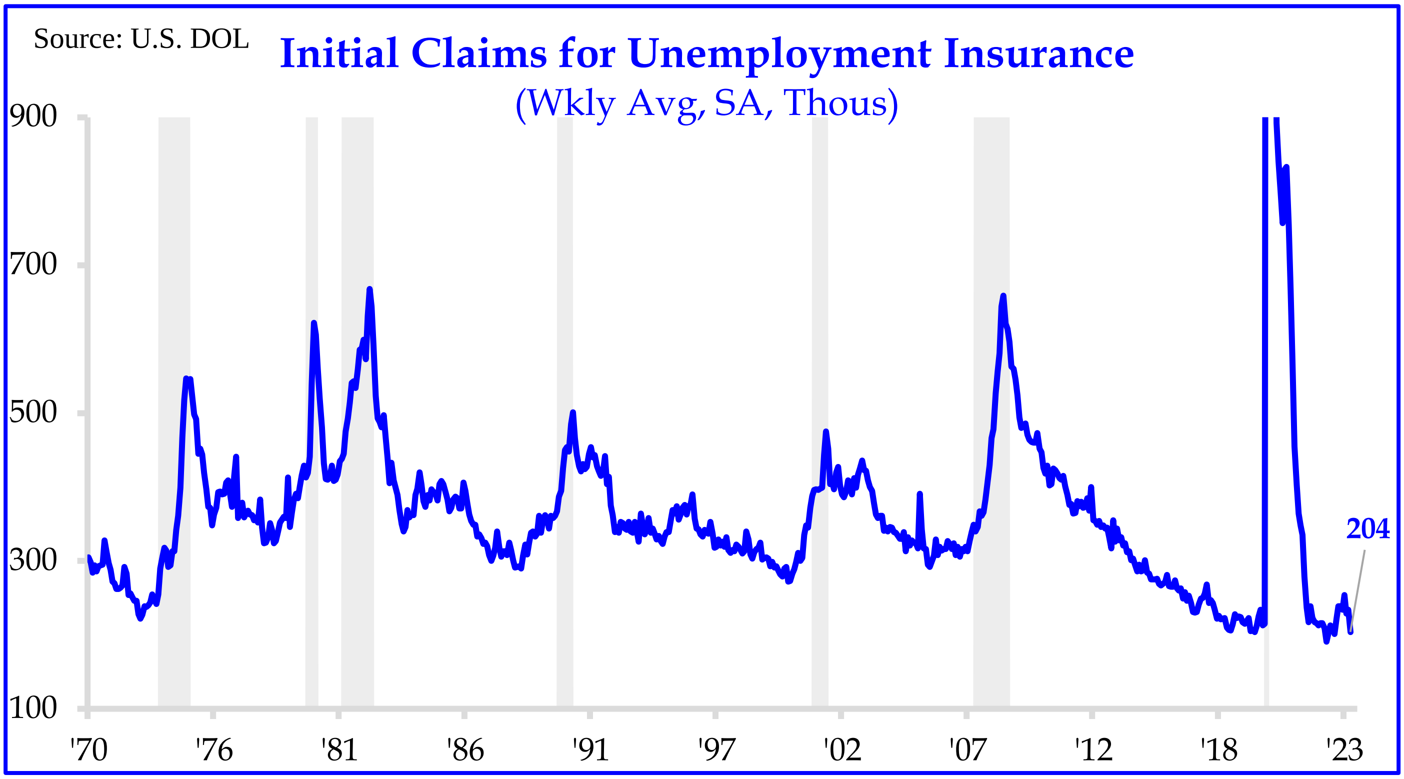
Communications – We are **Underweight** due to our cautious outlook on the economy and the historical performance profile of long duration assets in a period of high, and rising, interest rates. **Rationale:** Legacy Telecom is likely to be a drag given debt burden and advent of potential lead class action lawsuits. Mounting pressure from higher interest rates and a deteriorating economic environment are likely headwinds and could severely impact advertising spending though valuations remain elevated and unattractive given the interest rate and inflation environment. Bearishness on the Growth style, in which META and GOOGL are heavyweights in both Growth and the Communications sector overall. **Risks:** The structural trend of digital content and advertising seems poised to continue; the "arms race" is likely to persist for some time. Business use case for "AI" is realized more quickly. The concentration risk associated with META and GOOGL has weighed positively on the sector.

Staples – We are **Underweight** given the sector's tendency to underperform in a rising rate environment. **Rationale:** T.A.R.A > T.I.N.A. With interest rates now above the sector's dividend yield there is a reasonable alternative that has not existed for income-seeking investors in nearly fifteen years. The sector has seemingly maintained pricing power as inflation has started to moderate though input price pressures make it difficult to expand margins moving forward. Raw input cost inflation may be behind us but wage inflation is far stickier. **Risks:** Sector still embodies defensive attributes, a track record of outperforming in the nascent stages of a recession / economic slowdown.

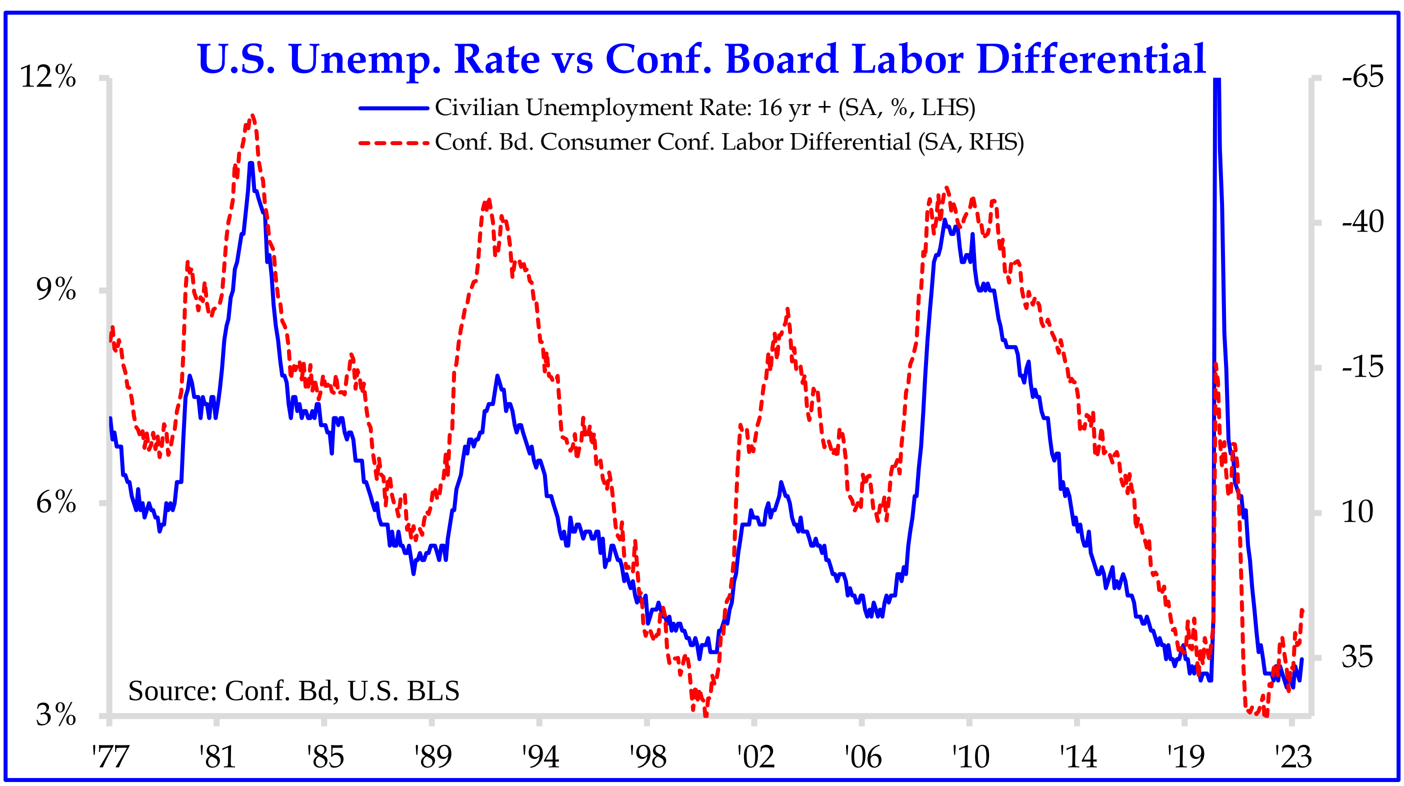
Utilities – We are **Underweight** given the increasingly difficult environment of yield competition impacting the shares. **Rationale:** The sector's dividend yield is facing heightened competition from the fixed income asset class. The sector does have some defensive hedge properties in the wake of a recession, but also faces fundamental struggles like volatile natural gas prices and rising leverage. **Risks:** A recession could give a bid to the sector. A sharp decline in yields could enhance the yield attractiveness of the sector. Rubber band effect from being deeply oversold leads to a bout of outperformance.

Real Estate – We are **Underweight** given the persistent ambiguity concerning CRE valuations and general sector weakness. **Rationale:** Return to office continues a jagged recovery to pre-pandemic office occupancy levels and has consequently negatively impacted commercial property valuations. Globally, real estate companies have similarly poor longer-term trends. **Risks:** A fall in yields could make the interest and dividend income from Real Estate more attractive. Cloud-based infrastructure is not going away, will need to be built and housed. Elevated mortgage rates could be tailwind for apartment REITs (rent vs. buy). Sentiment is extremely negative.

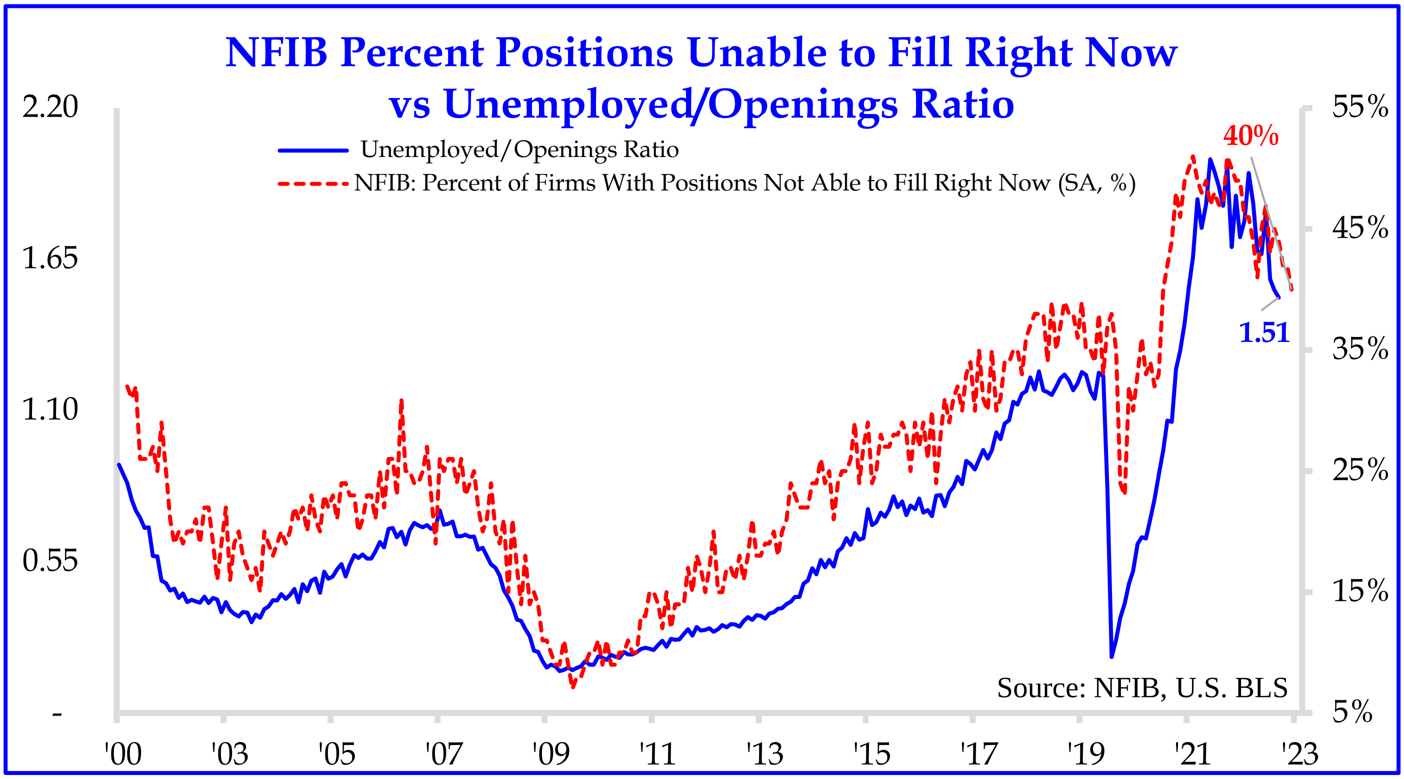
U.S. LABOR MKT STILL TIGHT WITH INITIAL CLAIMS LOW



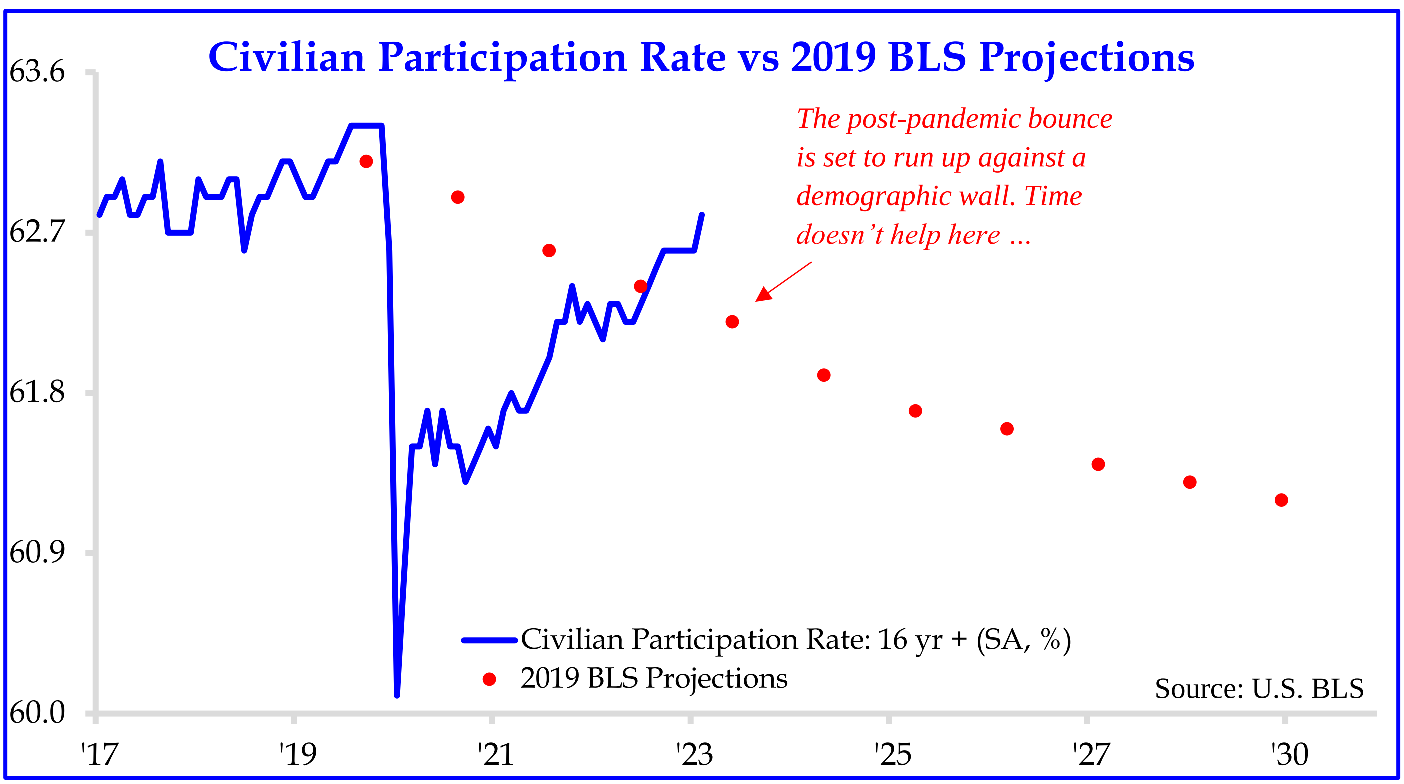
BUT CONF. BD. JOBS HARD MINUS JOBS EASY TURNING



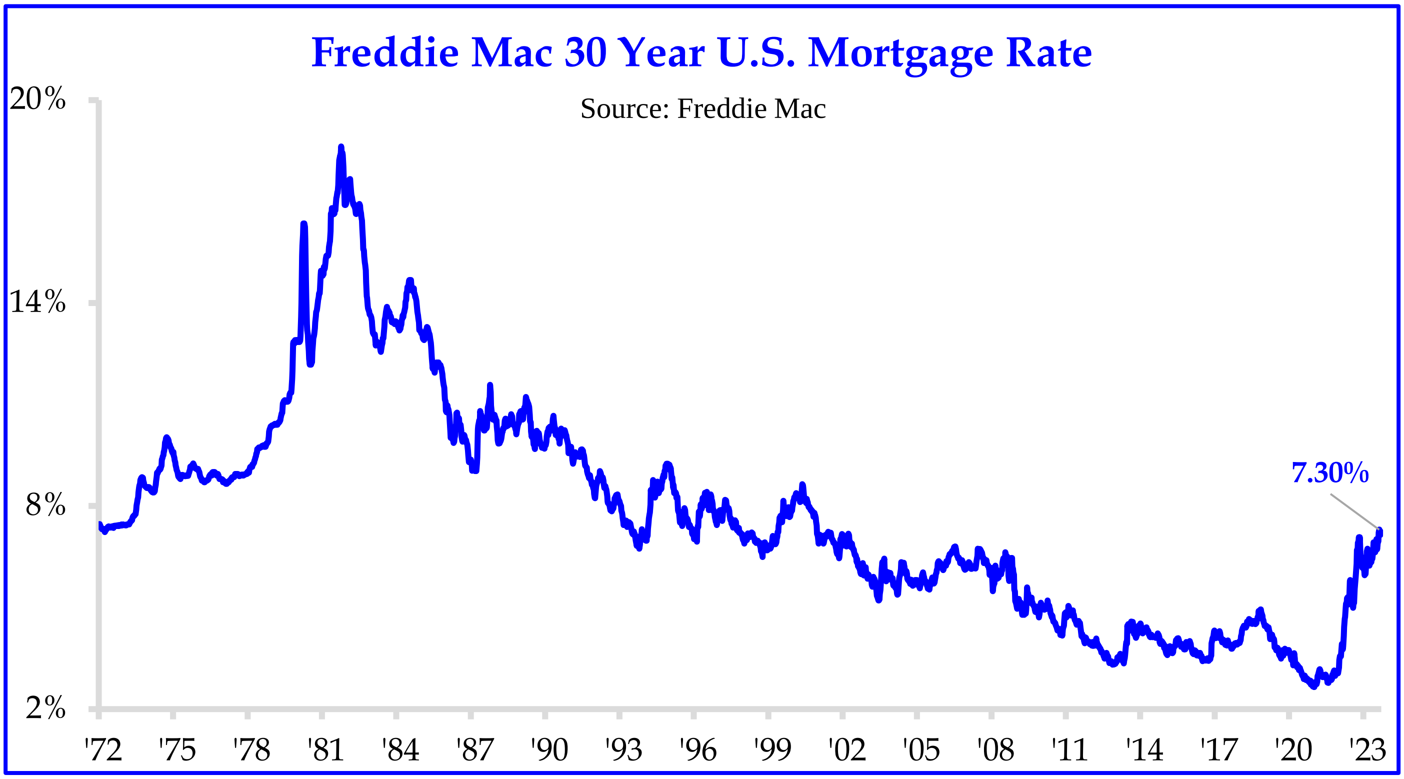
THE U.S. HAS BEEN DESTROYING JOB OPENINGS RATHER THAN JOBS THUS FAR



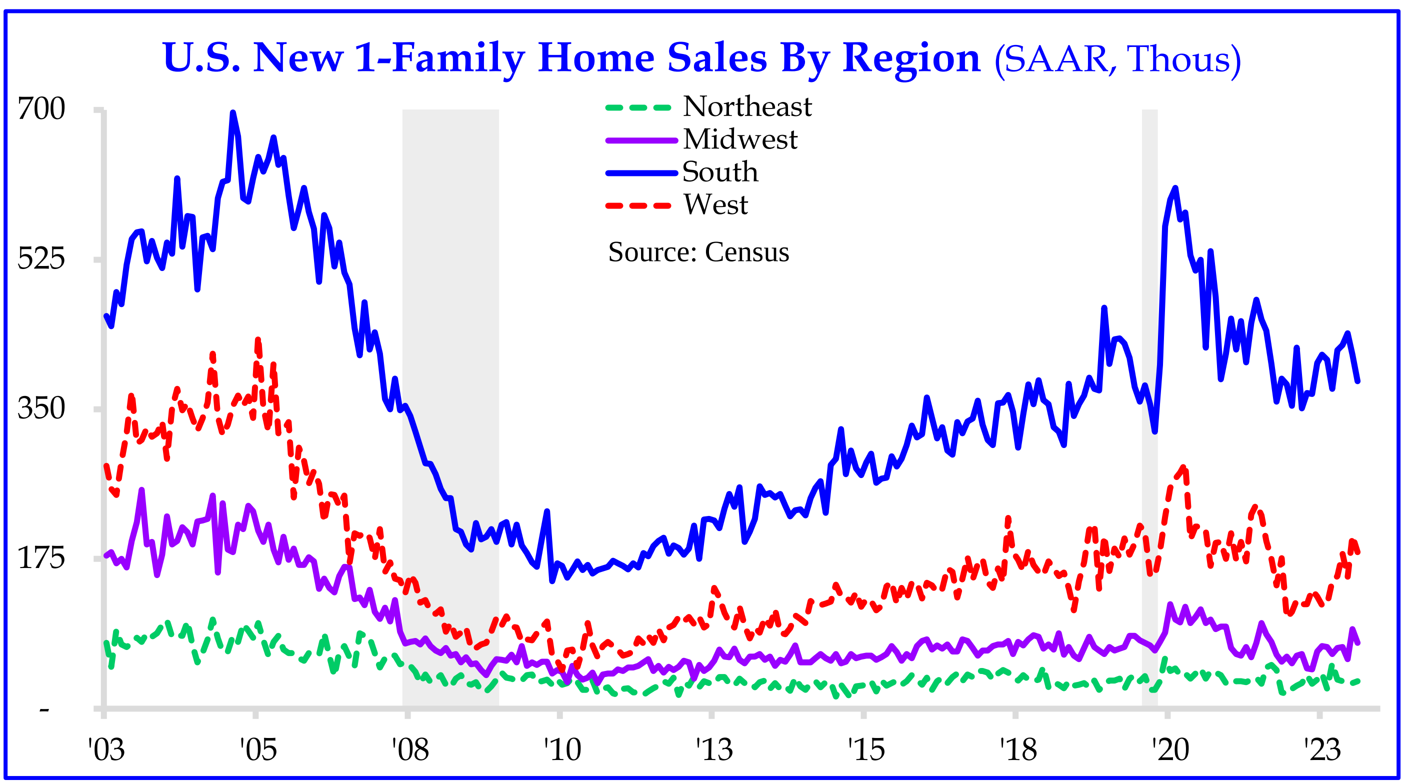
U.S. DEMOGRAPHICS STILL A KEY ISSUE GOING FORWARD



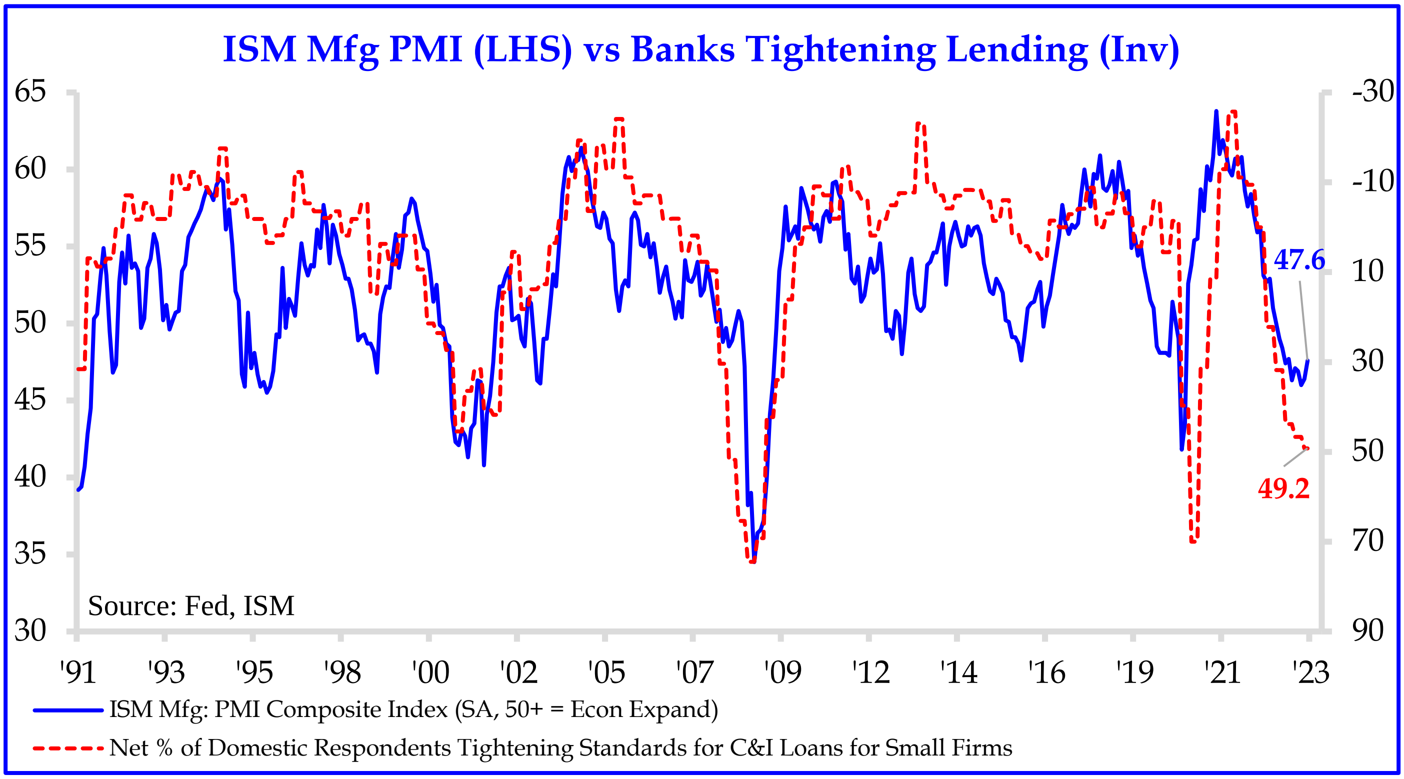
U.S. MTG RATES RISING TO HIGHEST LEVELS IN 20+ YEARS



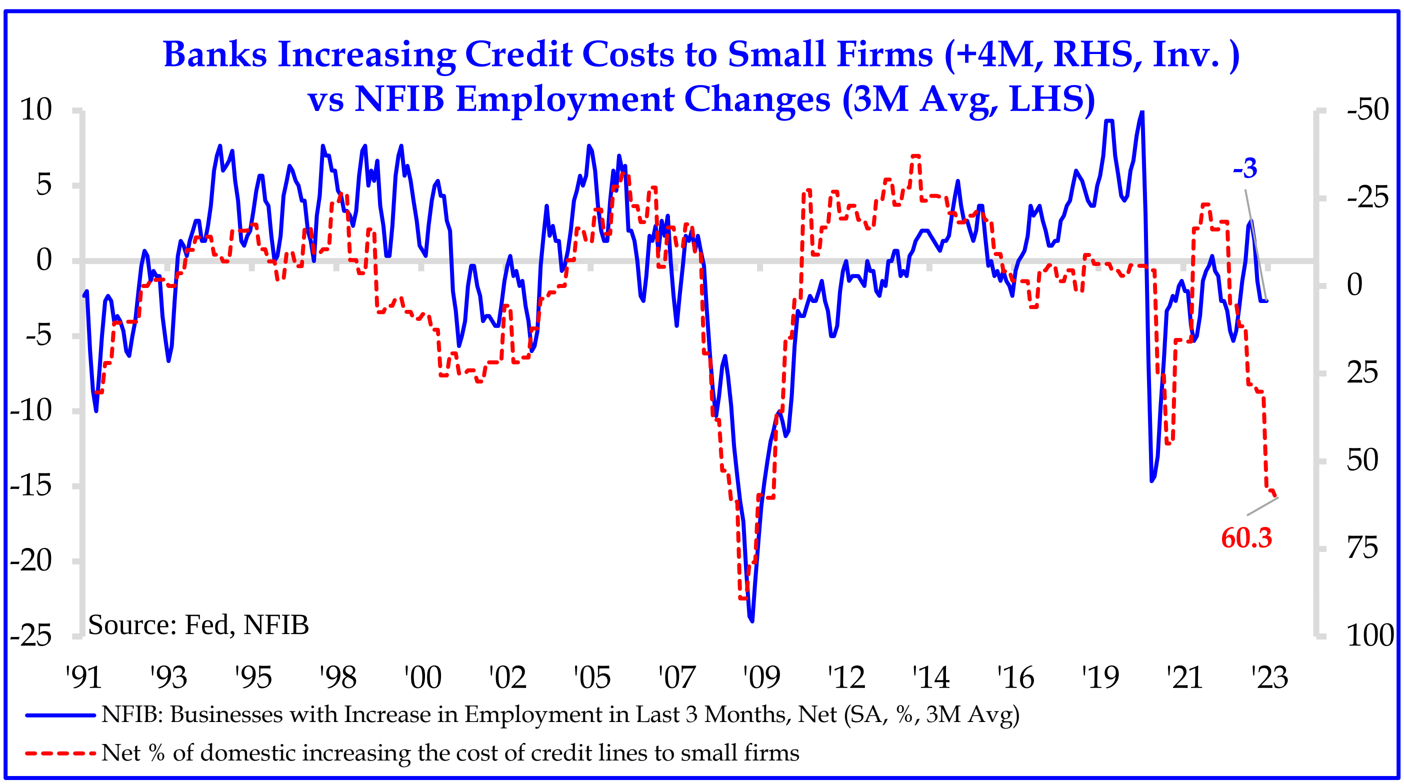
U.S. HOUSING HAS TRIED TO STABILIZE … NOT SO EASY



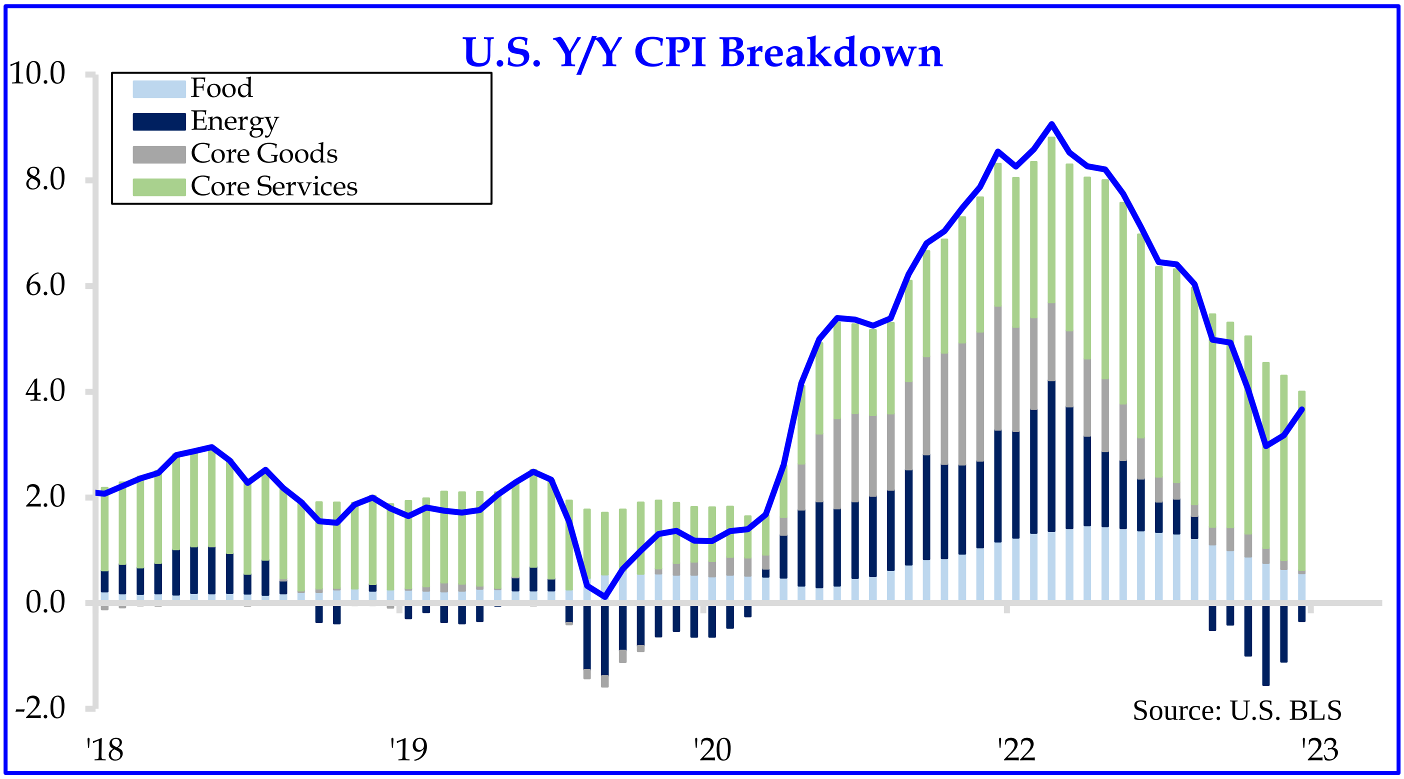
BANKS TIGHTENING OF LENDING STANDARDS COULD MEAN THE RECENT PMI BOUNCE IS A HEAD FAKE



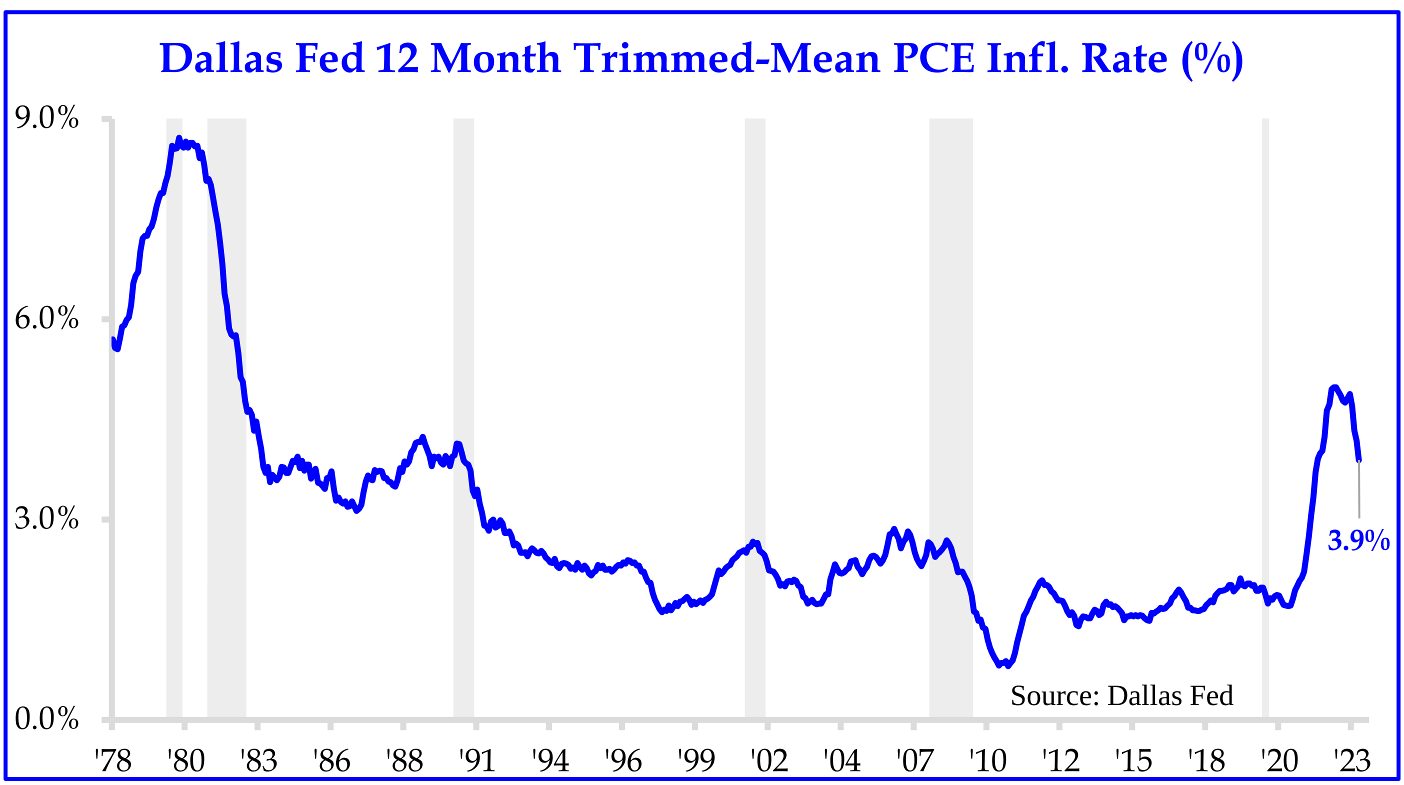
BANKS INCREASING CREDIT COSTS TO SMALL FIRMS SHOULD WEAKEN SMALL BIZ. EMP AS WELL



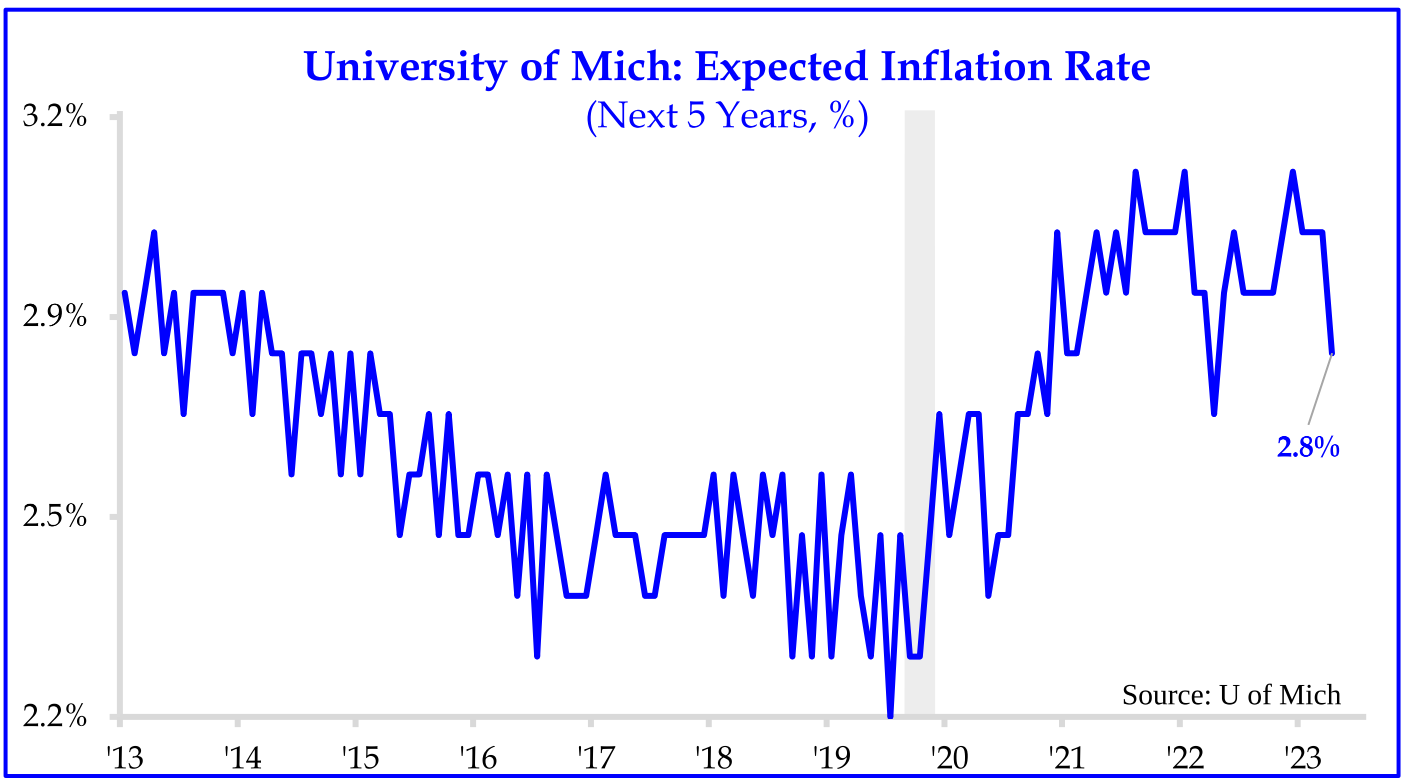
ENERGY HAS BEEN A BIG SWING FACTOR IN THE HEADLINE CPI



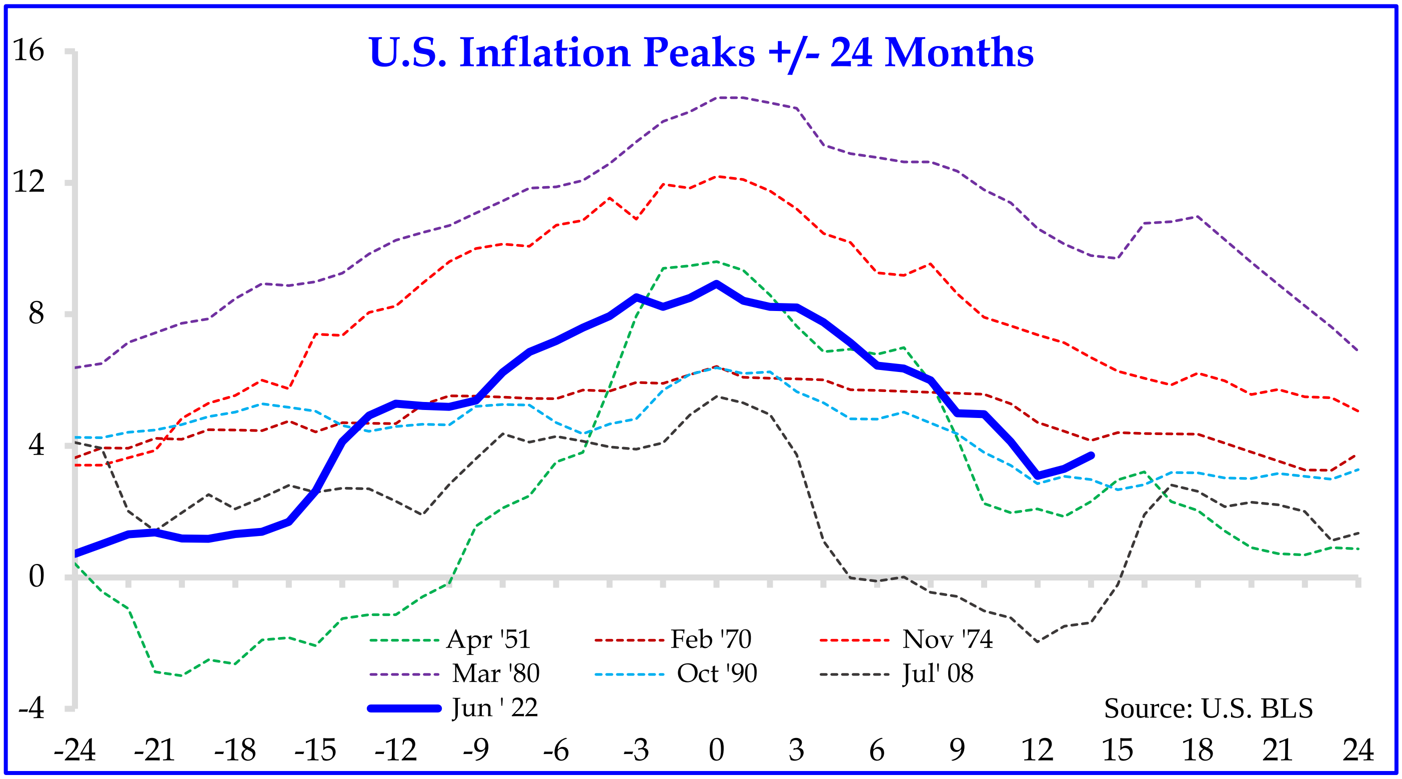
MEAN PCE INFLATION PEAKED, BUT ABOVE PAST 20 YEARS



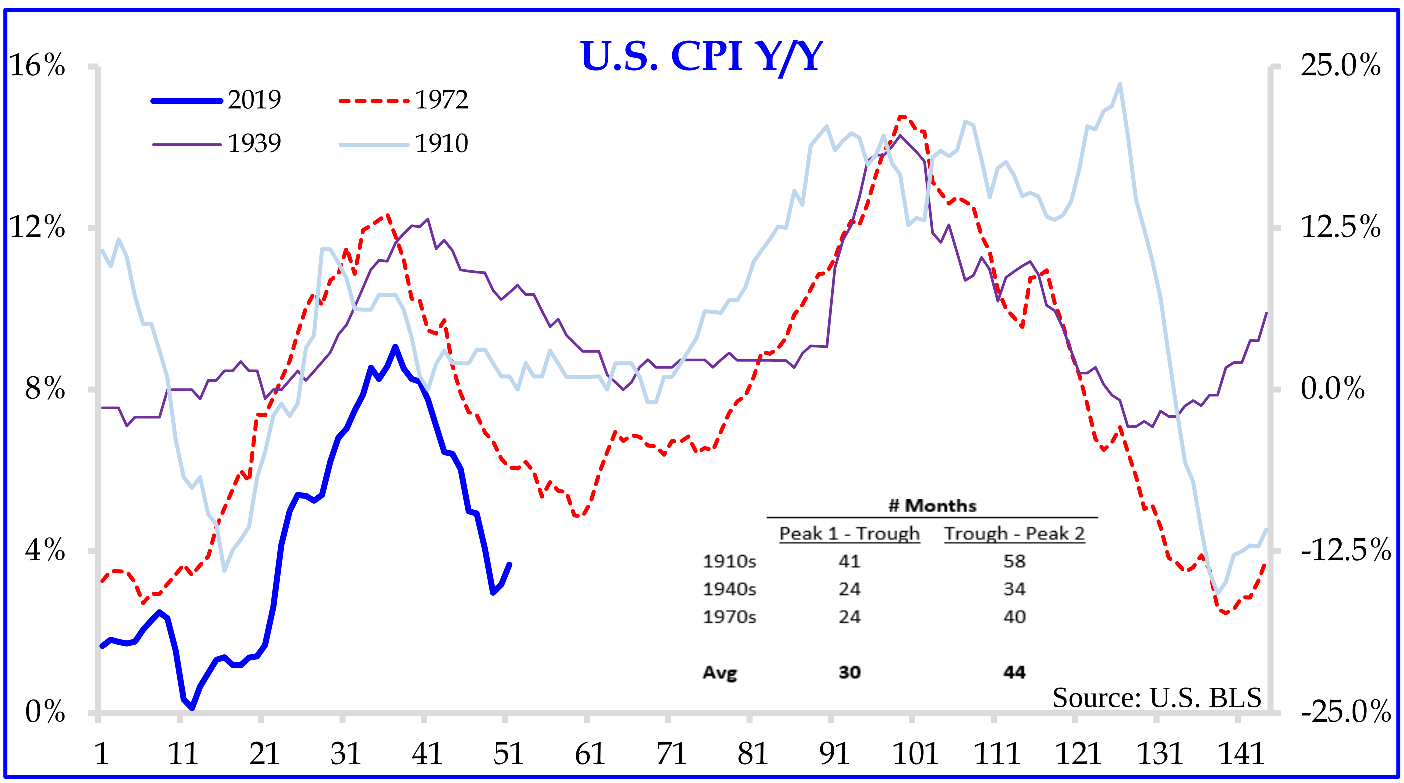
THE FED MUST ENSURE THAT LONG RUN INFLATION EXPECTATIONS REMAIN ANCHORED … SO FAR OK



U.S. INFLATION HAS BEEN SYMMETRIC HISTORICALLY

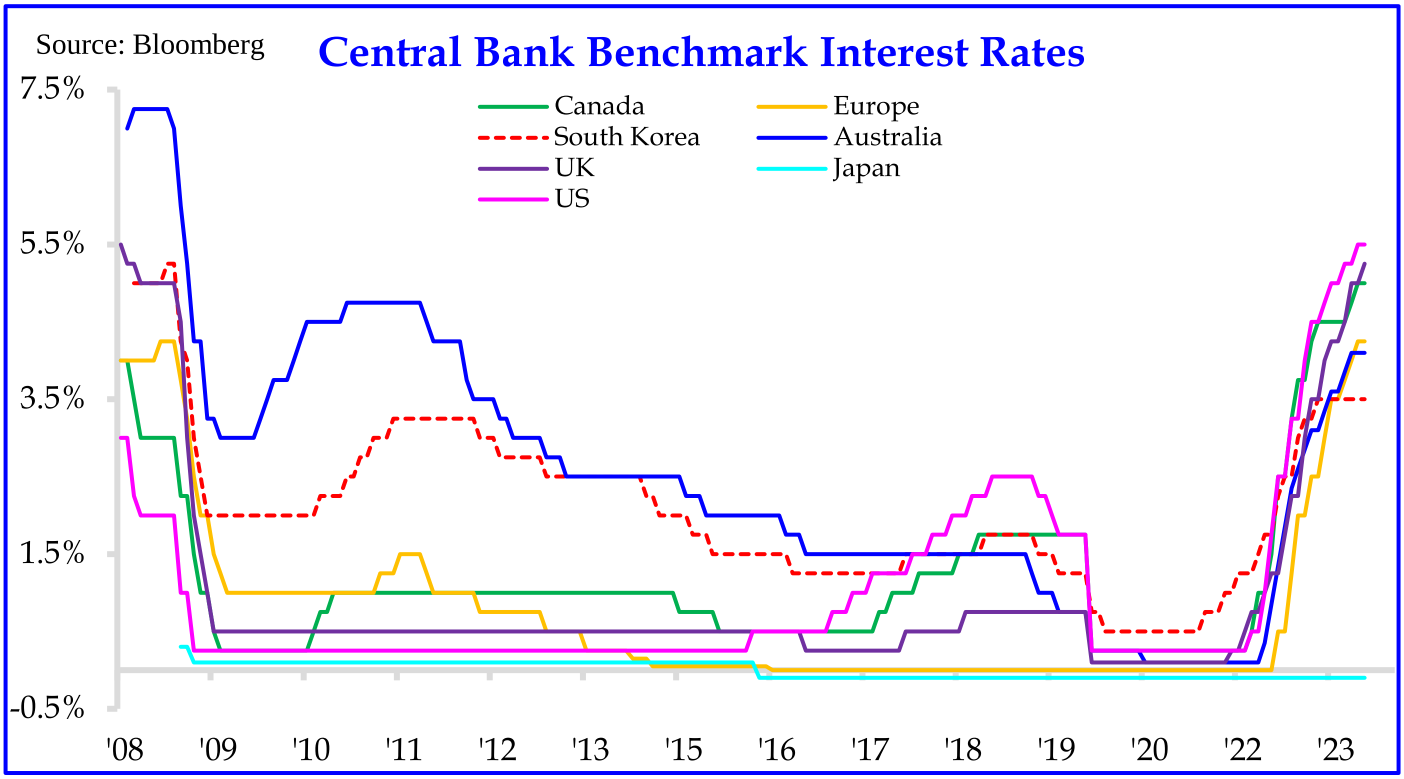


BUT U.S. INFL. HAS HISTORICALLY HAD MULTIPLE WAVES

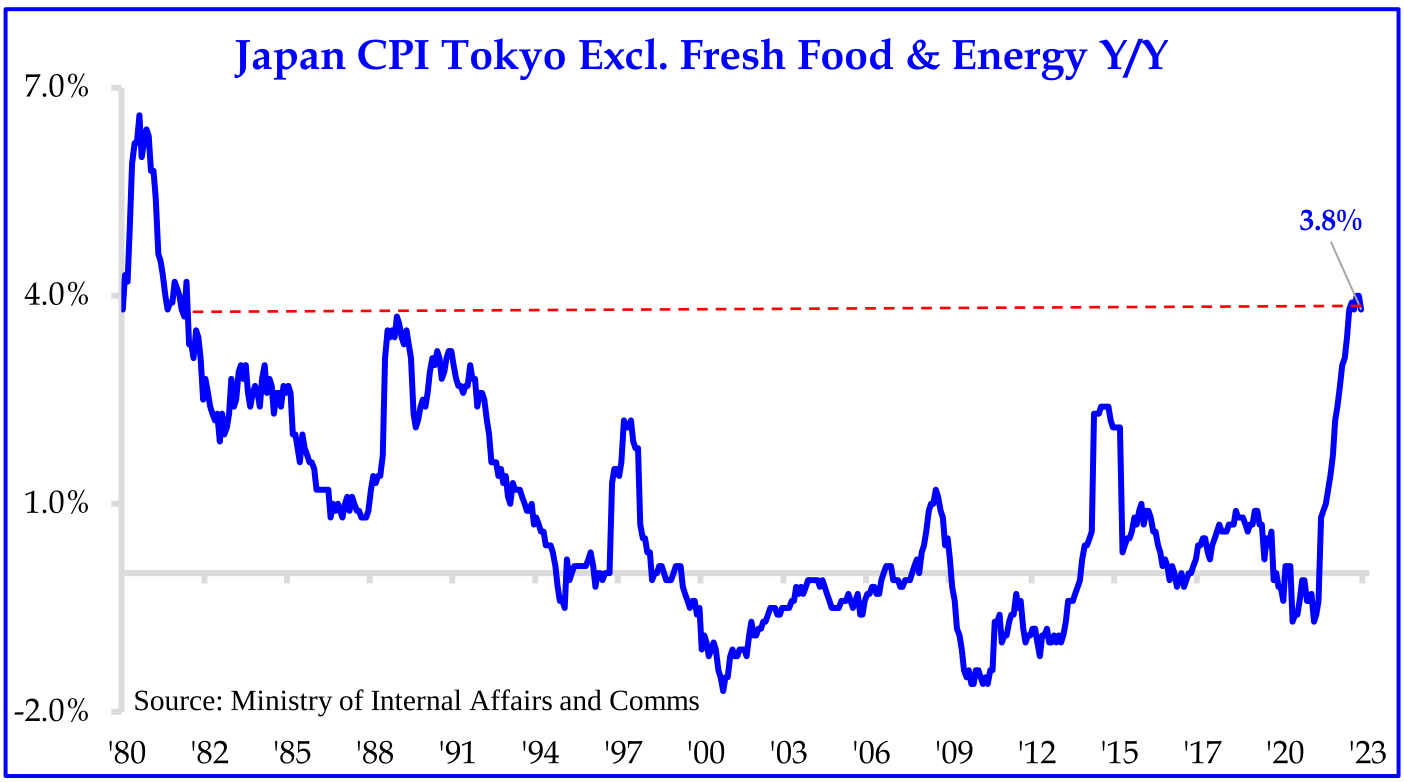


	# Months	
	Peak 1 - Trough	Trough - Peak 2
1910s	41	58
1940s	24	34
1970s	24	40
Avg	30	44

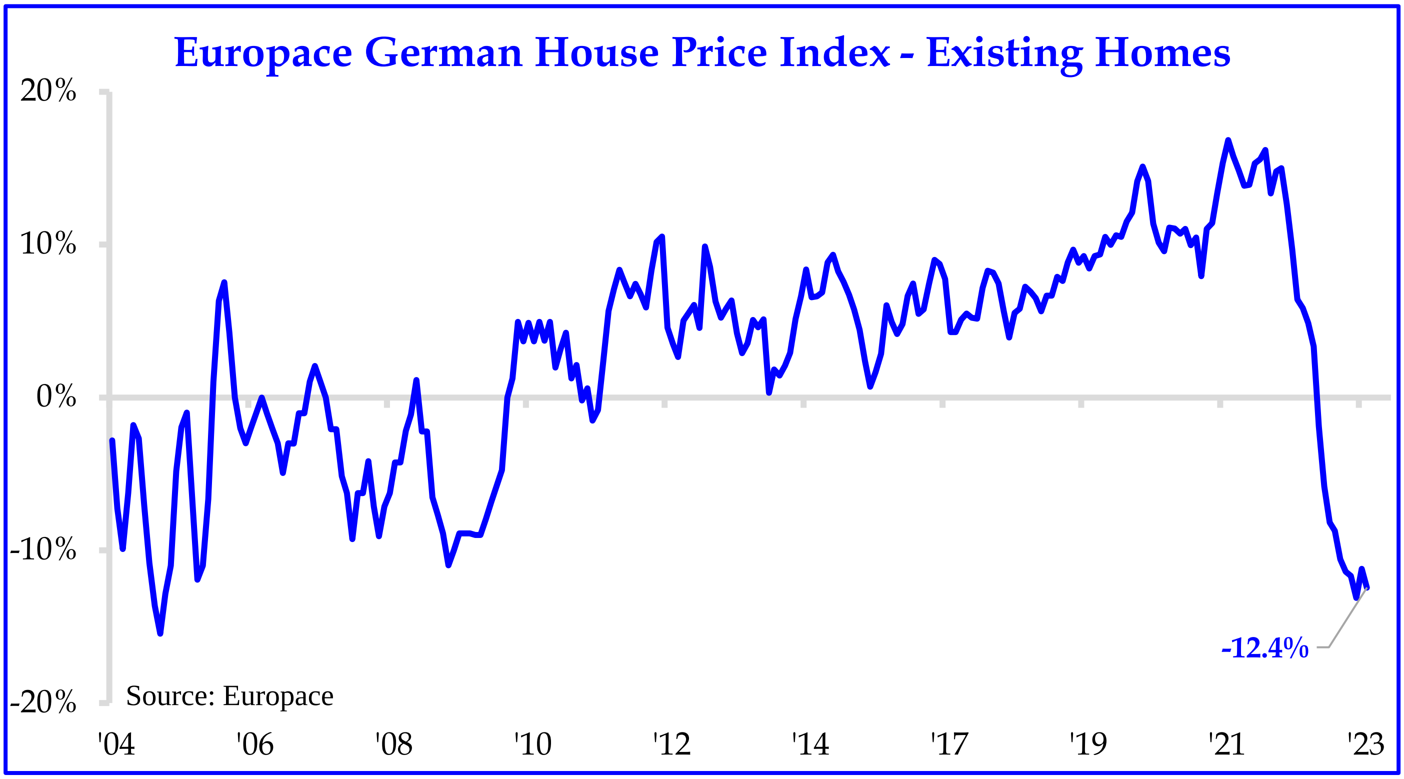
GLOBAL CENTRAL BANKS HAVE HIKED AGGRESSIVELY, PAUSE TIME NOW?



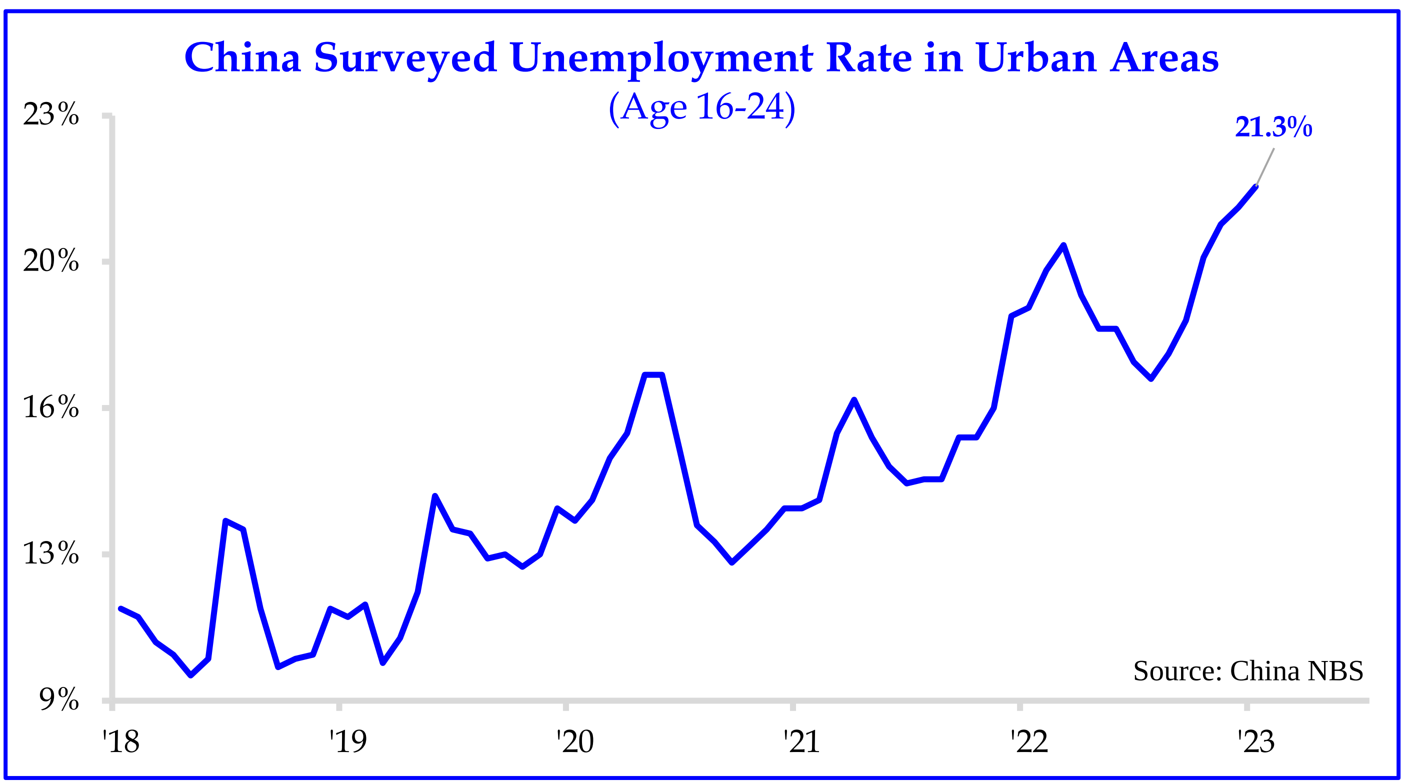
JAPAN CORE INFLATION NEAR MULTI-DECADE HIGH



GERMAN HOME PRICES HAVE PLUNGED IN PAST YEAR

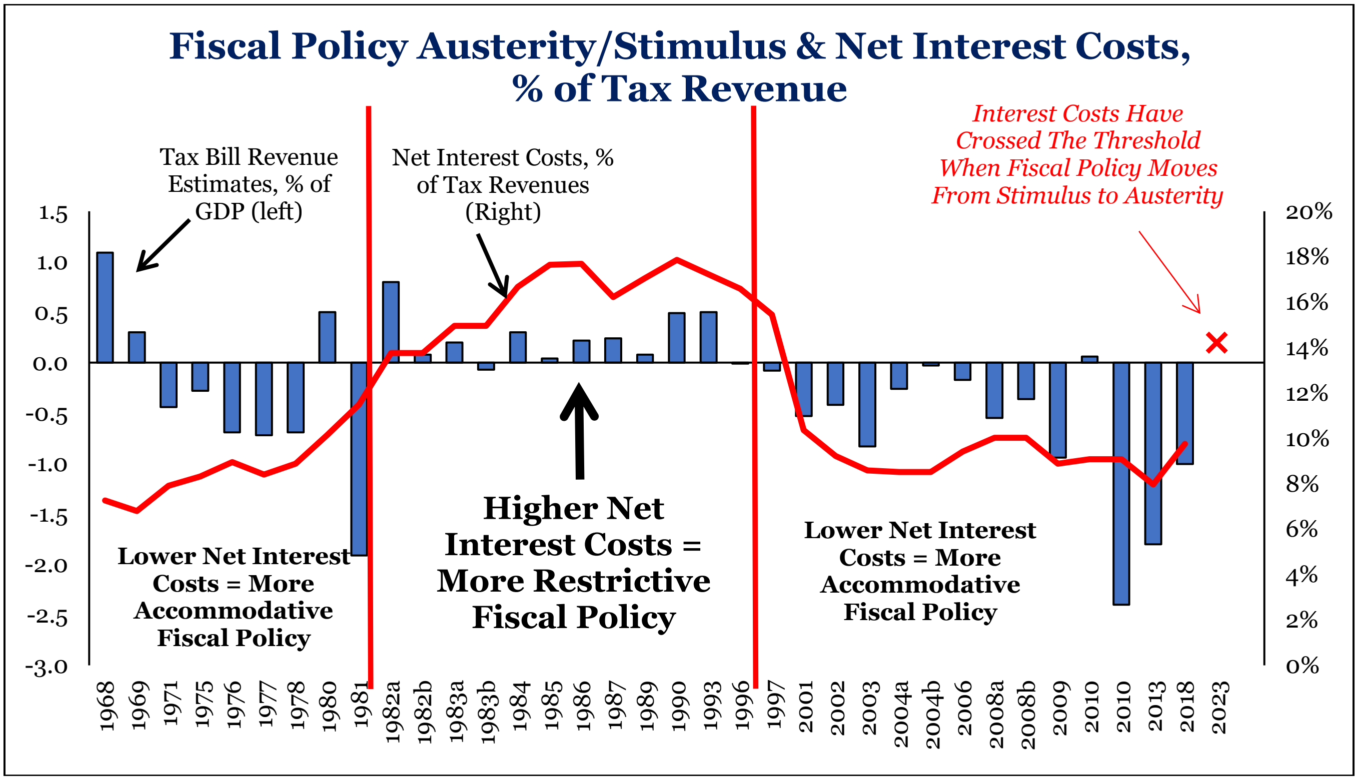


THE CHINA YOUTH UNEMPLOYMENT RATE WAS OVER 20% PRIOR TO BEING DISCONTINUED IN JULY

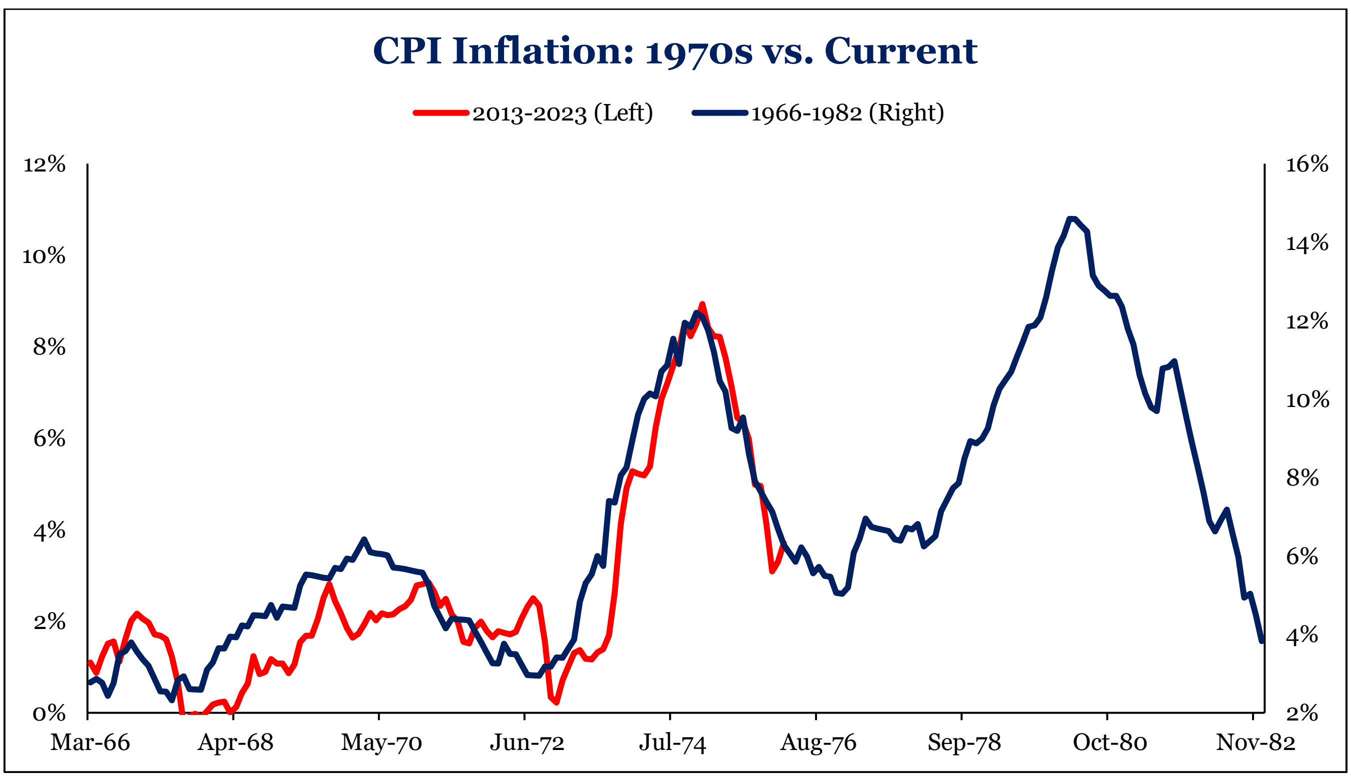


ALL THREE LEGS OF STRATEGAS' POLICY FRAMEWORKS ARE GOING THROUGH A ONCE-IN-40-YEAR SHIFT

FISCAL POLICY IS MOVING TO AN AUSTERITY PERIOD

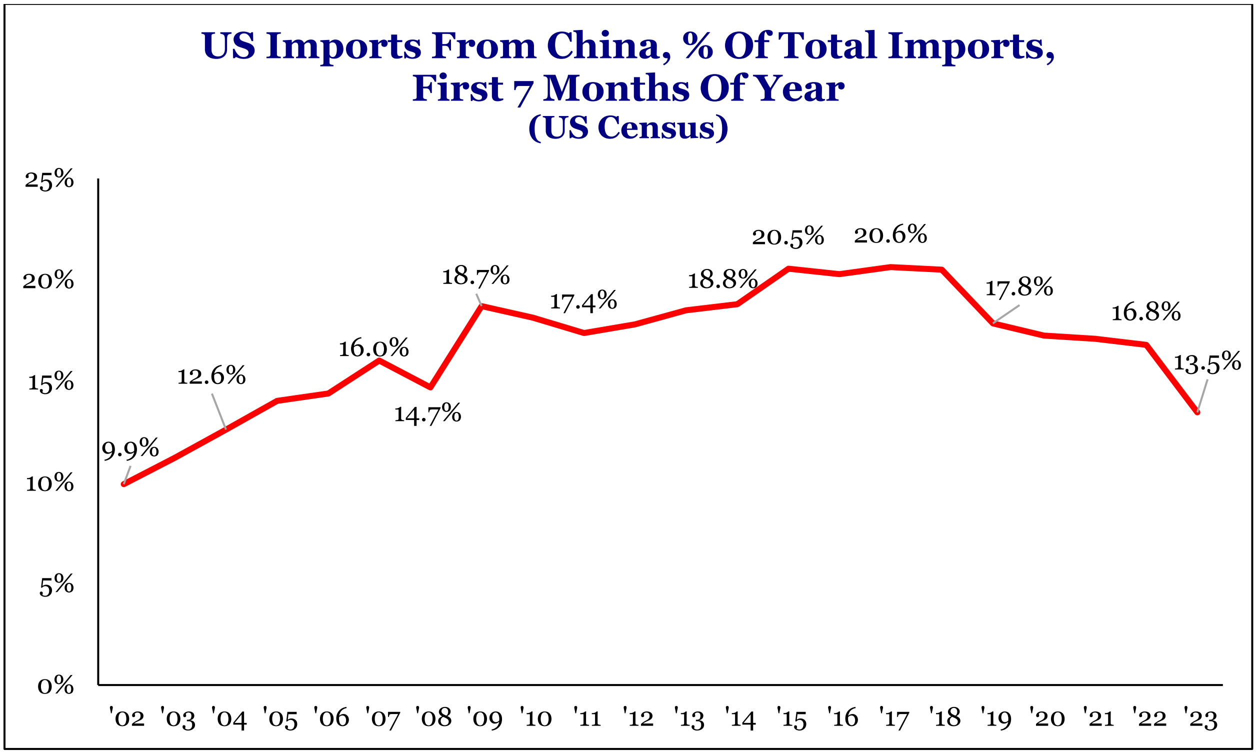


MONETARY POLICY: INFLATION COMES IN WAVES

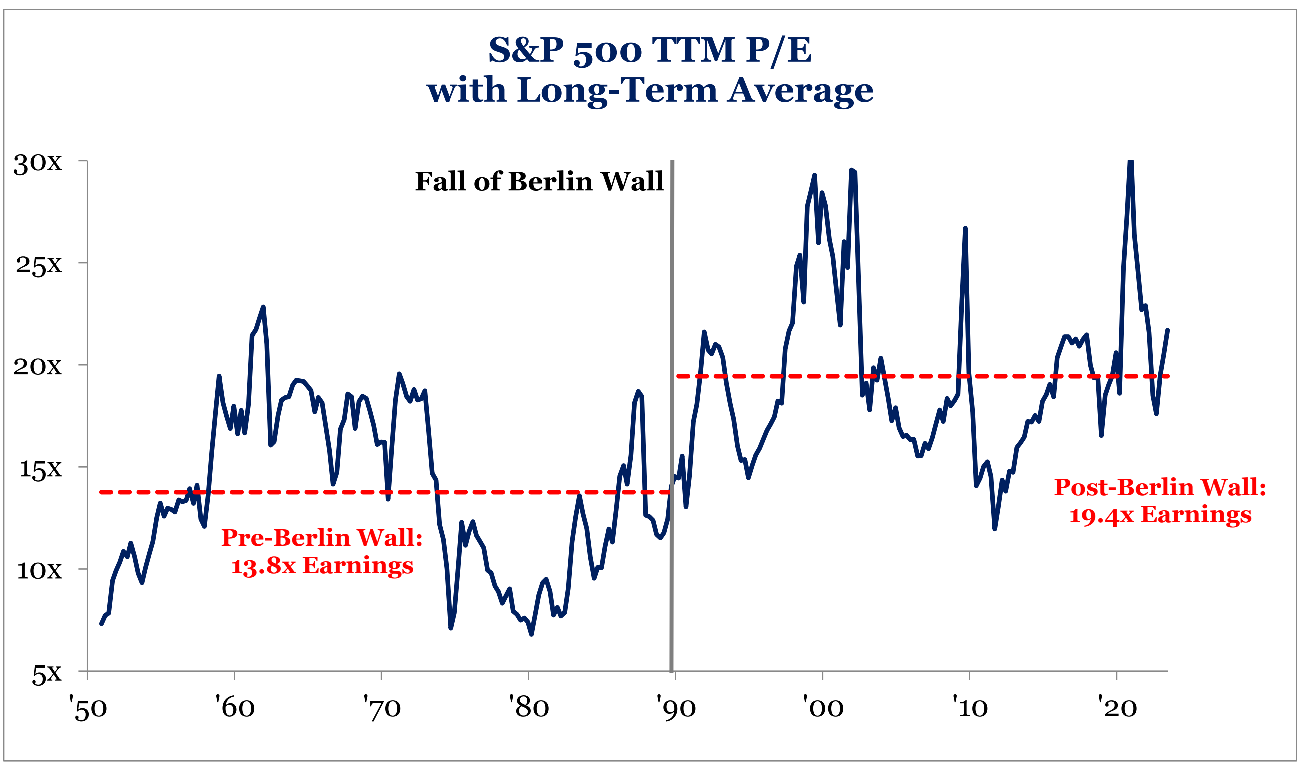


ALL THREE LEGS OF STRATEGAS' POLICY FRAMEWORKS ARE GOING THROUGH A ONCE-IN-40-YEAR SHIFT

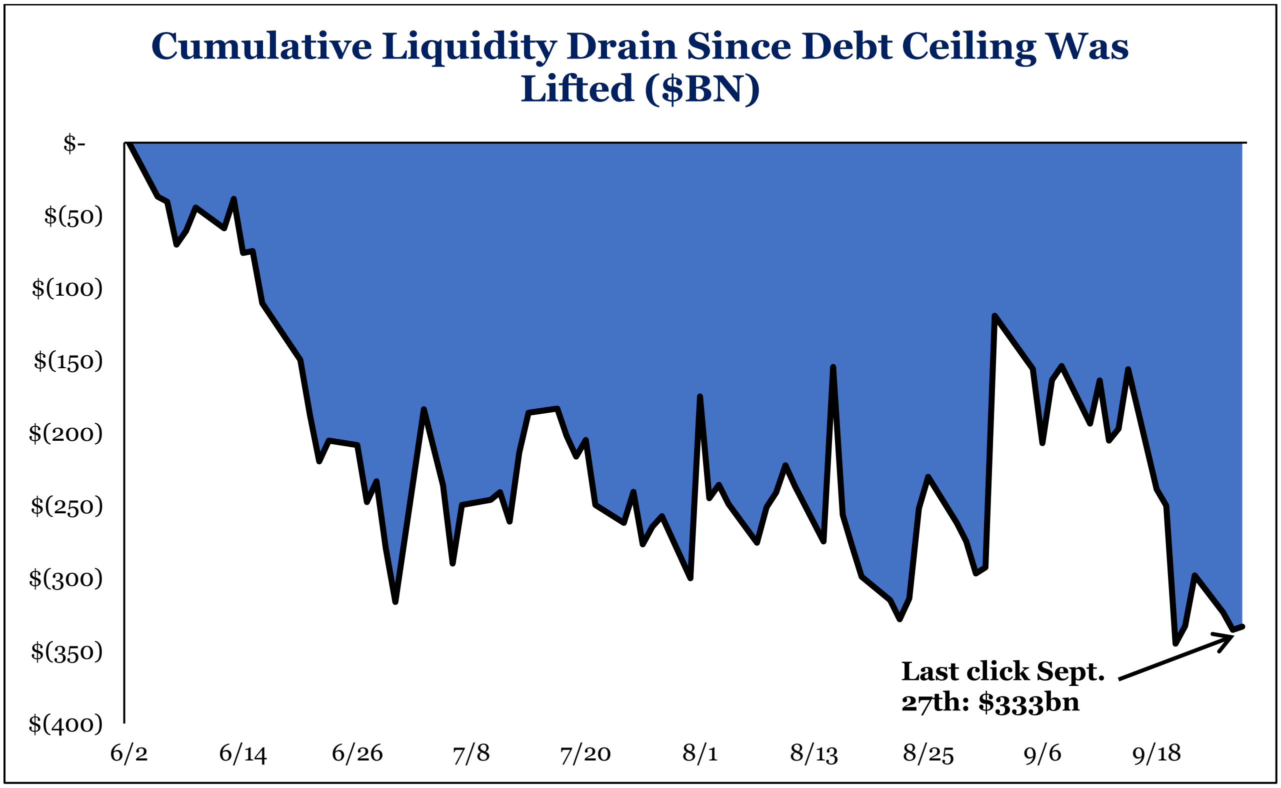
GEOPOLITICS: SUPPLY CHAINS ARE COMING HOME



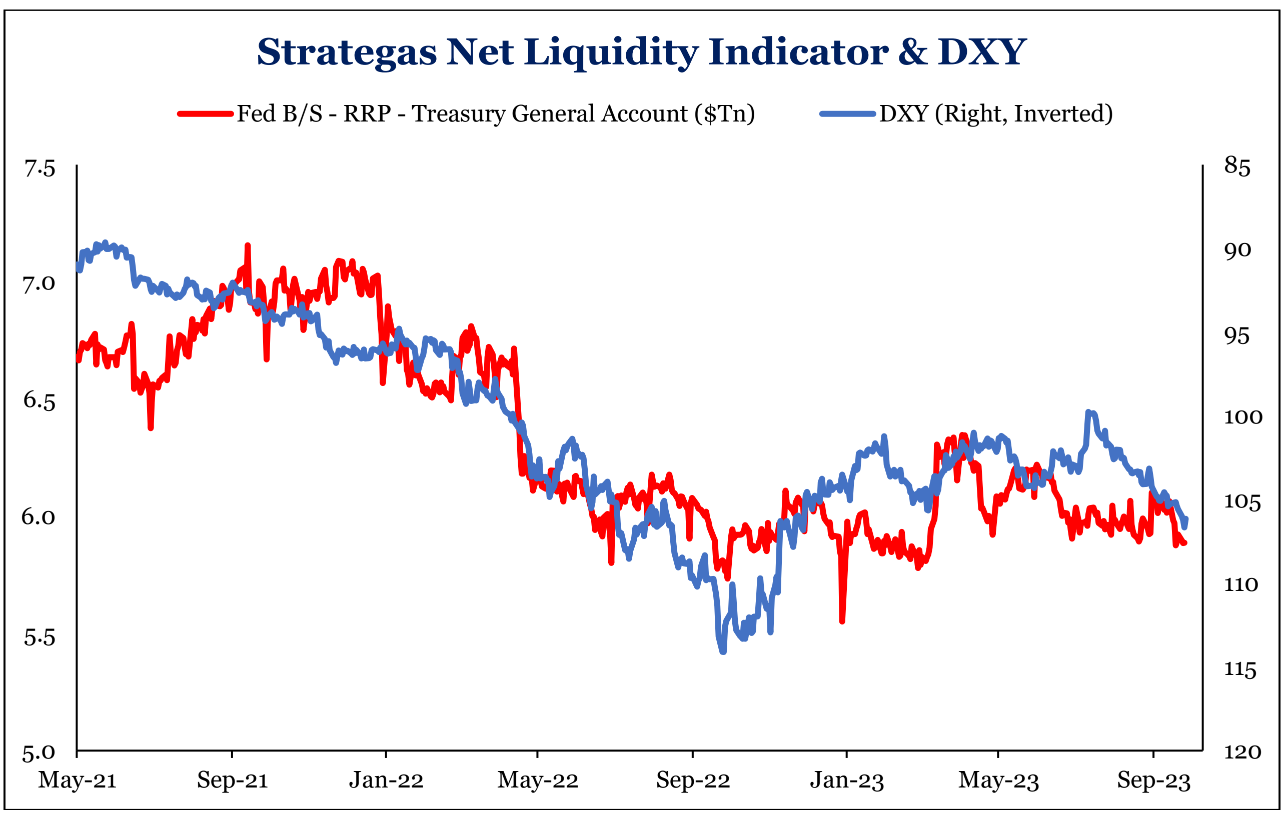
LIKELY RESULT IS SLIGHTLY HIGHER INFLATION AND INTEREST RATES AND LOWER PEs



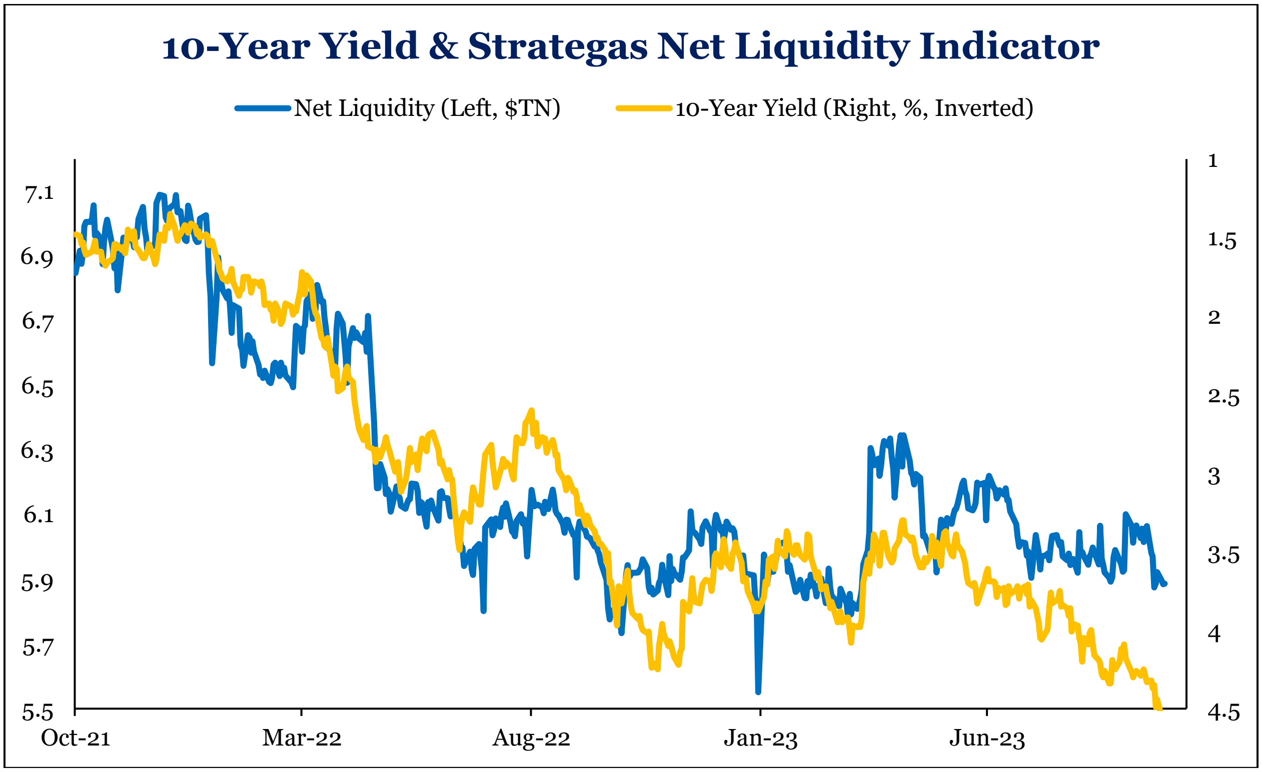
MORE THAN $300BN OF LIQUIDITY HAS BEEN DRAINED SINCE THE DEBT CEILING WAS RAISED



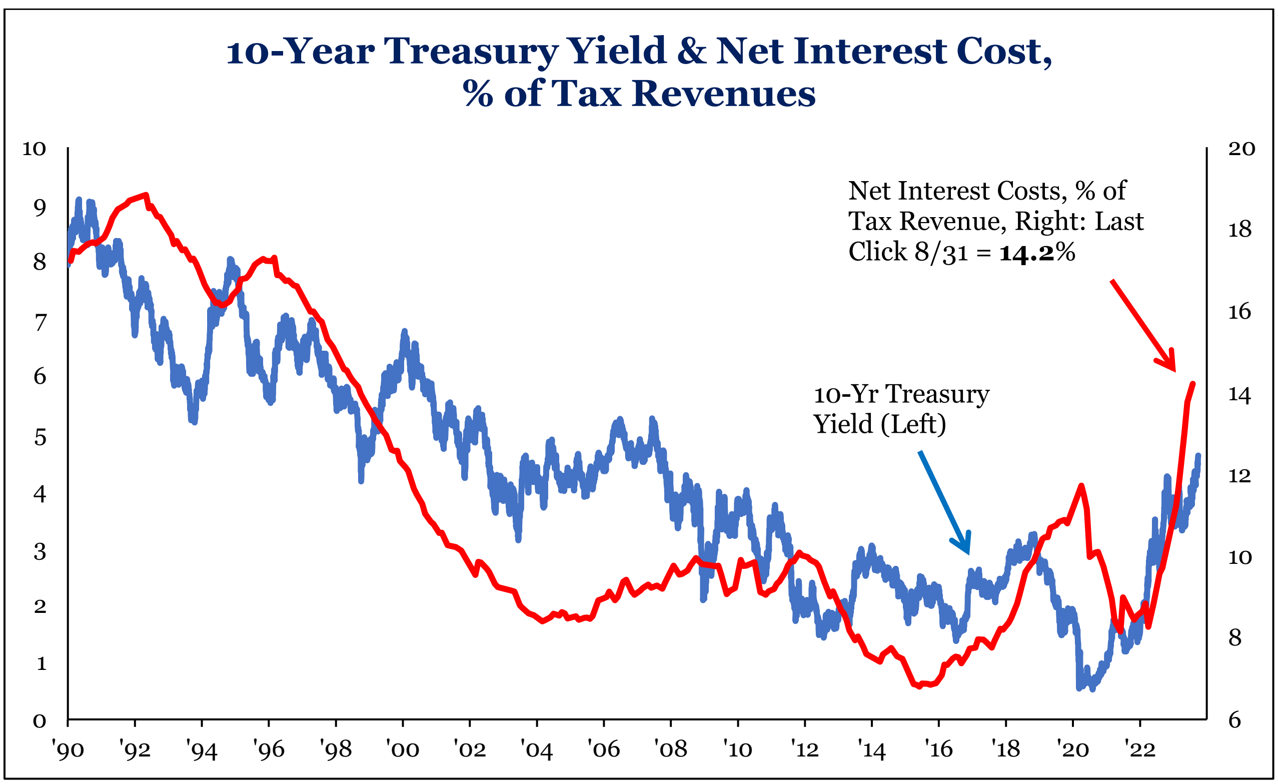
LIQUIDITY DRAIN IS BOLSTERING THE US DOLLAR



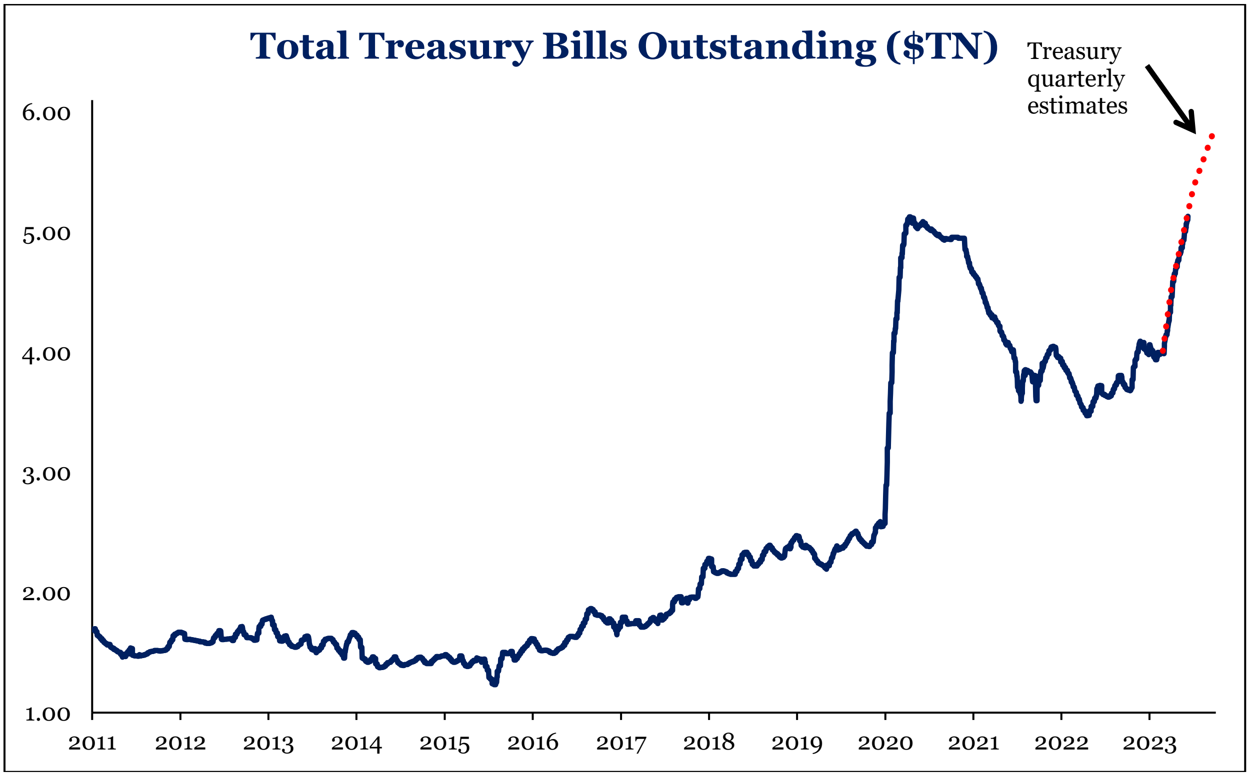
LIQUIDITY DRAIN IS ONE OF SEVERAL FACTORS PUSHING YIELDS HIGHER IN 3Q



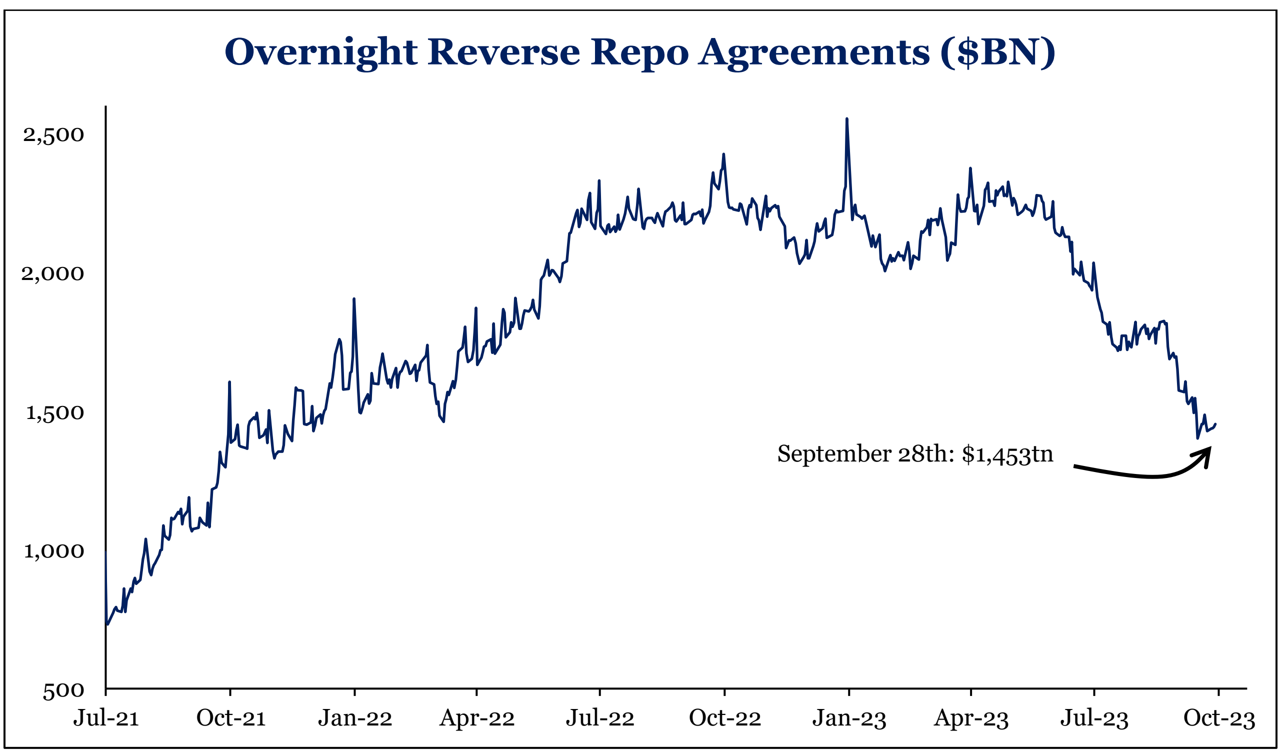
REGIME CHANGE TAKING PLACE IN YIELDS & THE US DEBT SERVICING COST



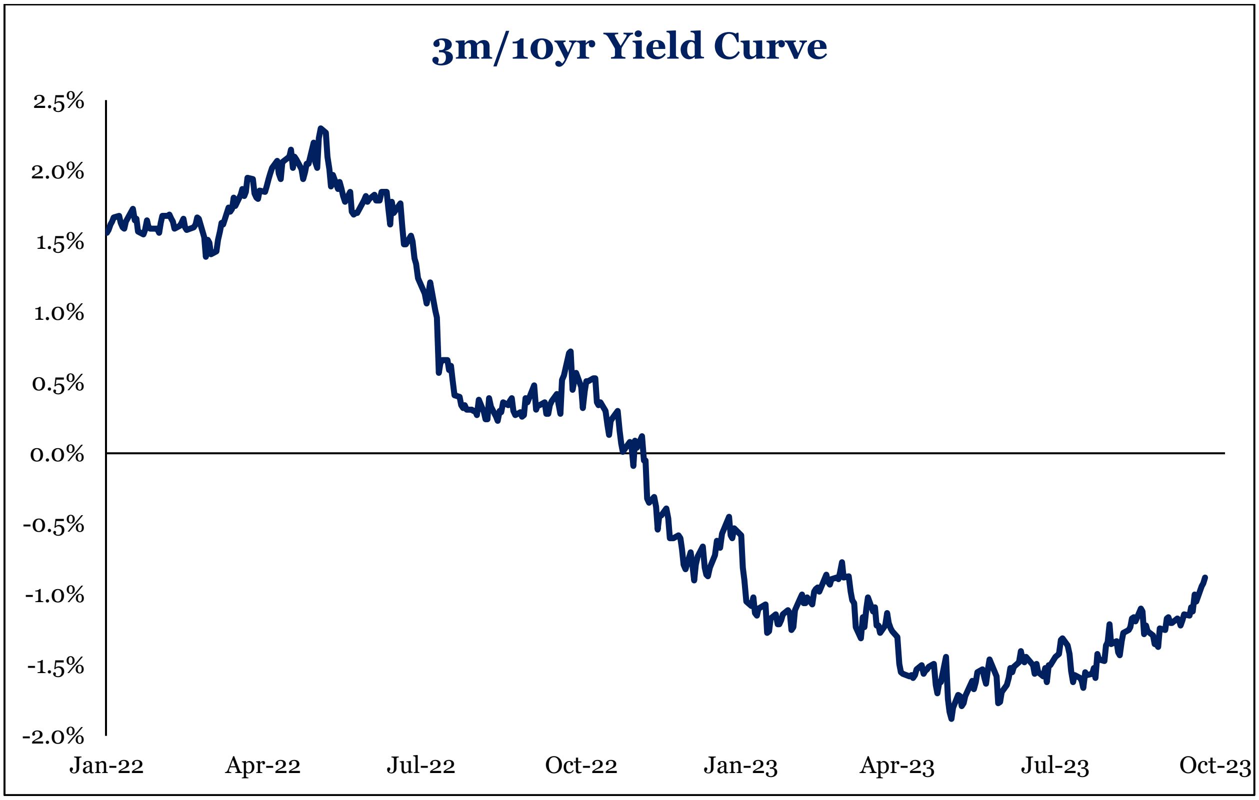
TREASURY IS FUNDING THE US GOVERNMENT AT THE SHORT END OF THE CURVE WITH A 5%+ RATE…



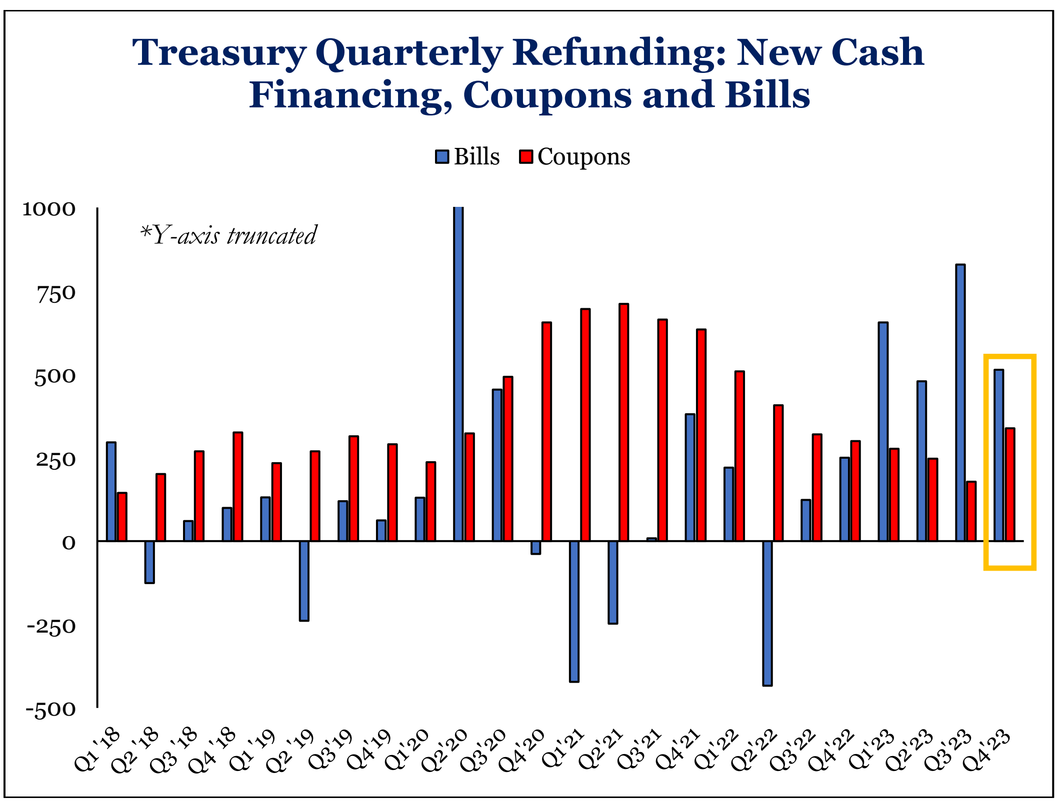
…TO MIGRATE FUNDS FROM REVERSE REPOS INTO T-BILLS TO MINIMIZE THE LIQUIDITY RISK



THE NET RESULT OF RRP FUNDS GOBBLING UP T-BILLS IS THAT THE YIELD CURVE IS (BEAR) STEEPENING

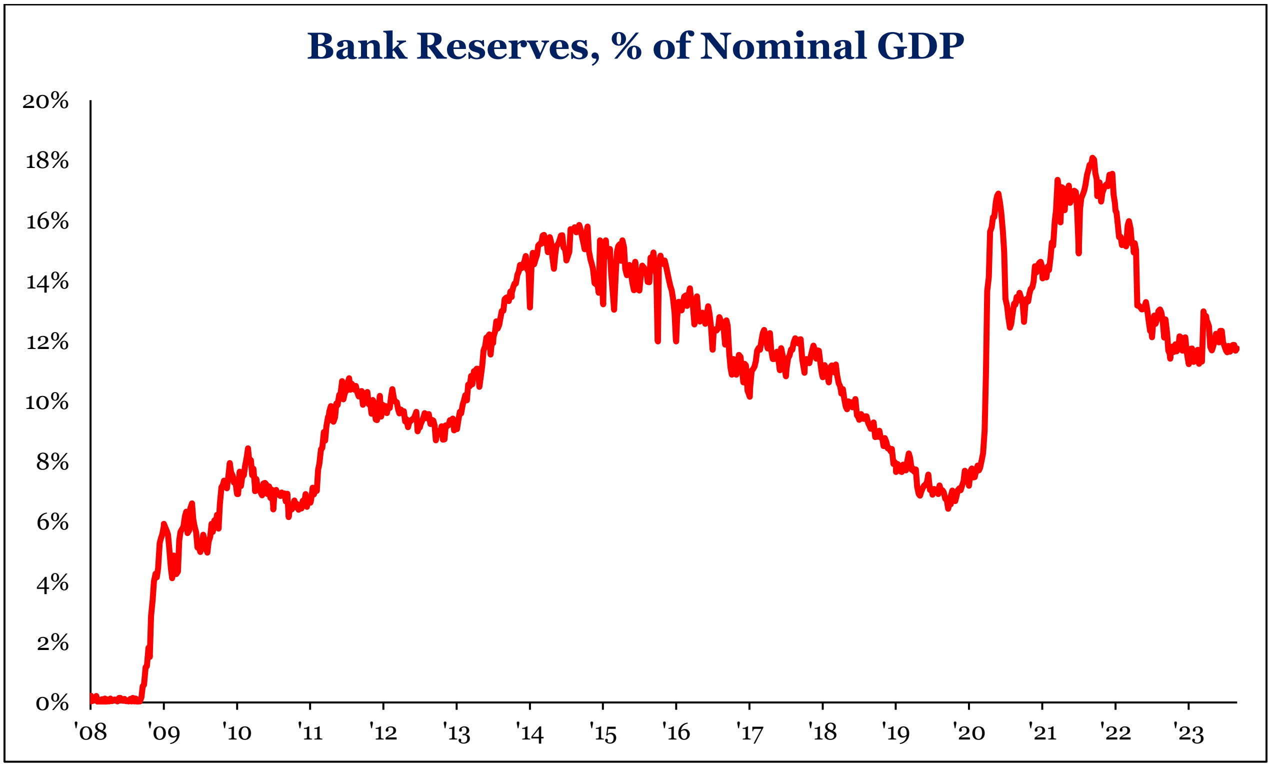


LONGER DATED BOND ISSUANCE IS INCREASING TO FINANCE THE GROWING DEFICIT

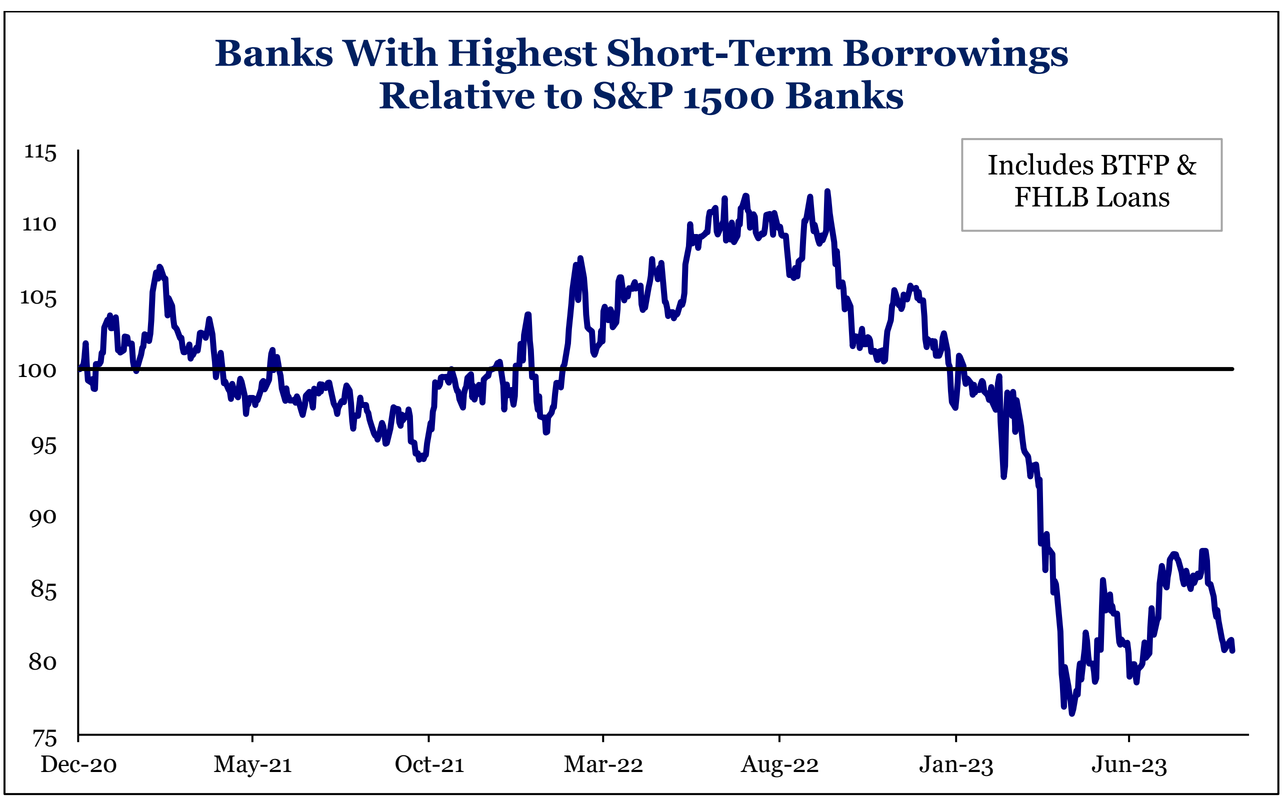


The supply of coupons will increase in 4Q for the first time in more than three years. Unlike T-bills, coupons cannot be funded out of the RRP and will likely come from bank reserves, making liquidity tighter, all else being equal.

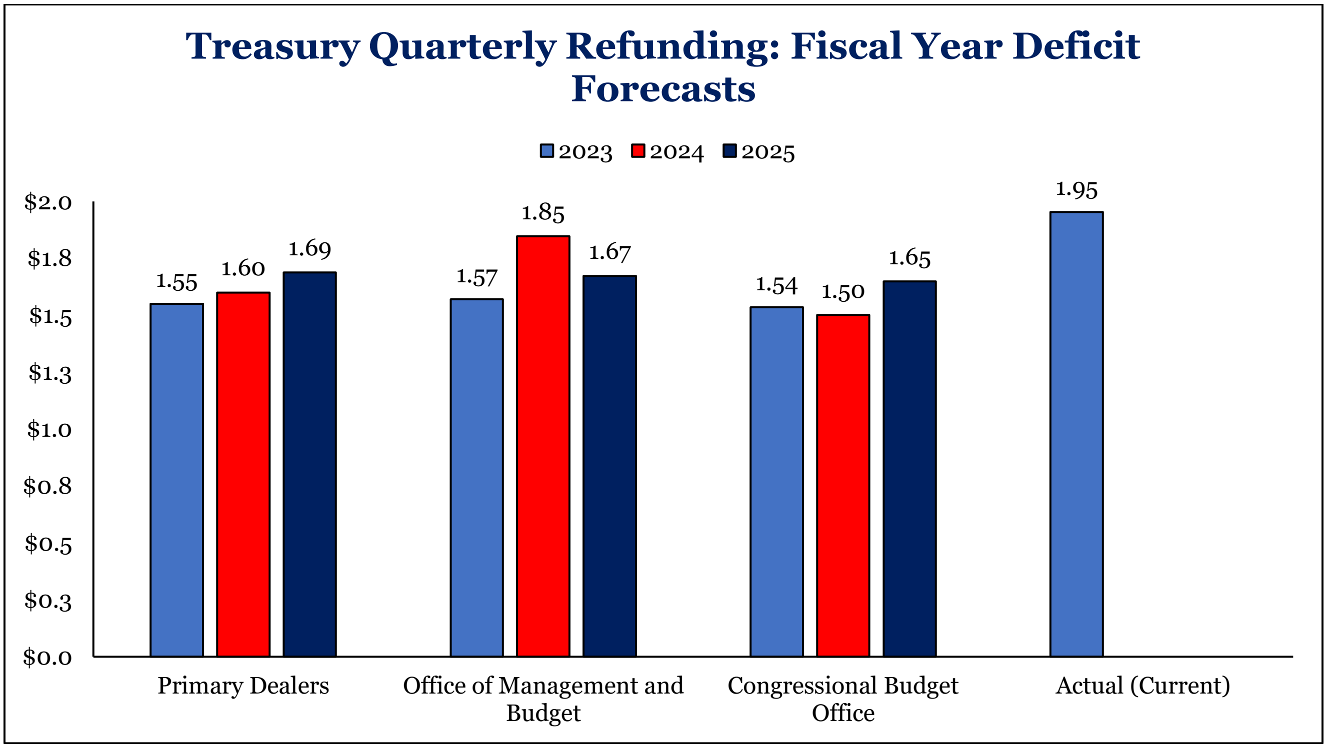
TREASURY & THE FED DO NOT WANT BANK RESERVES TO FALL BELOW 10% OF GDP TO AVOID REPO MARKET ISSUES



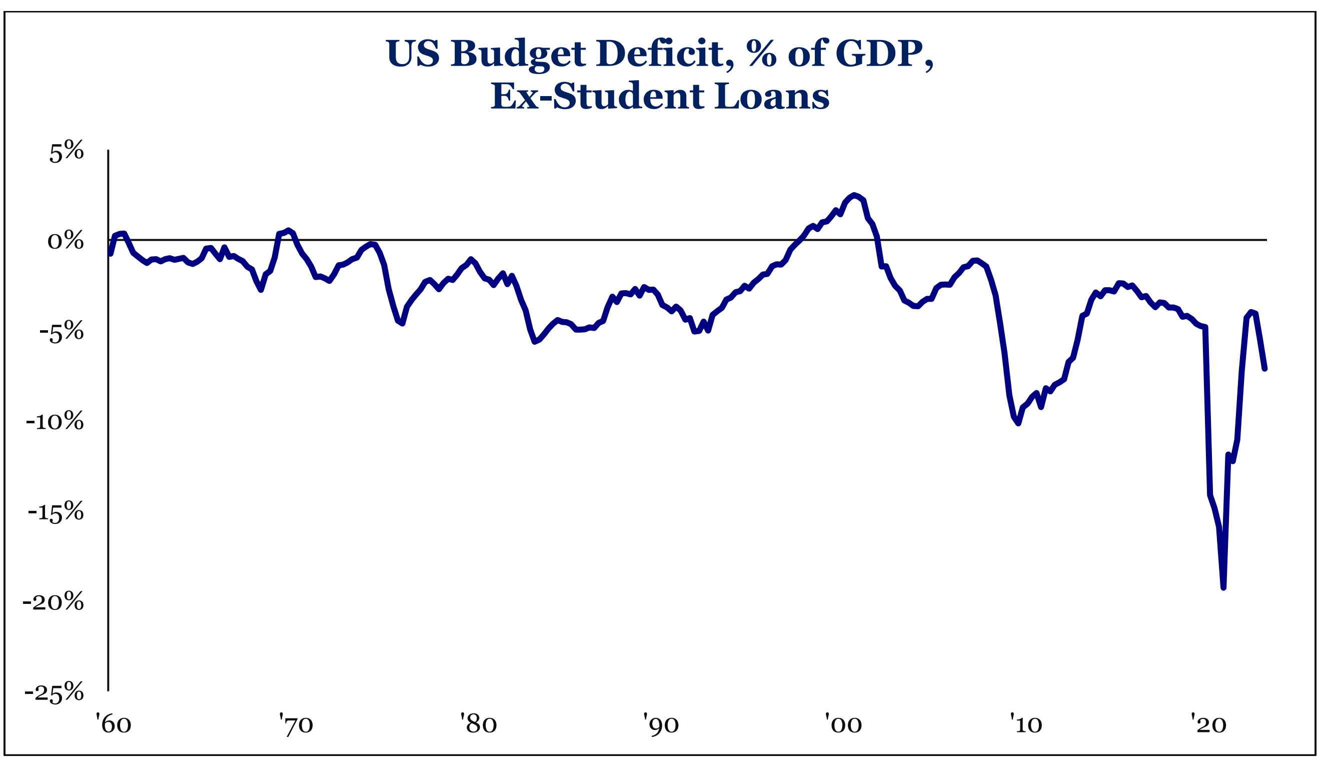
FEELS LIKE THE FED'S POST-SVB BACKSTOP FOR BANKS IS STARTING TO WEAR OFF



DEBT ISSUANCE COMING IN LARGER THAN EXPECTED BECAUSE DEFICIT IS BEING UNDERESTIMATED

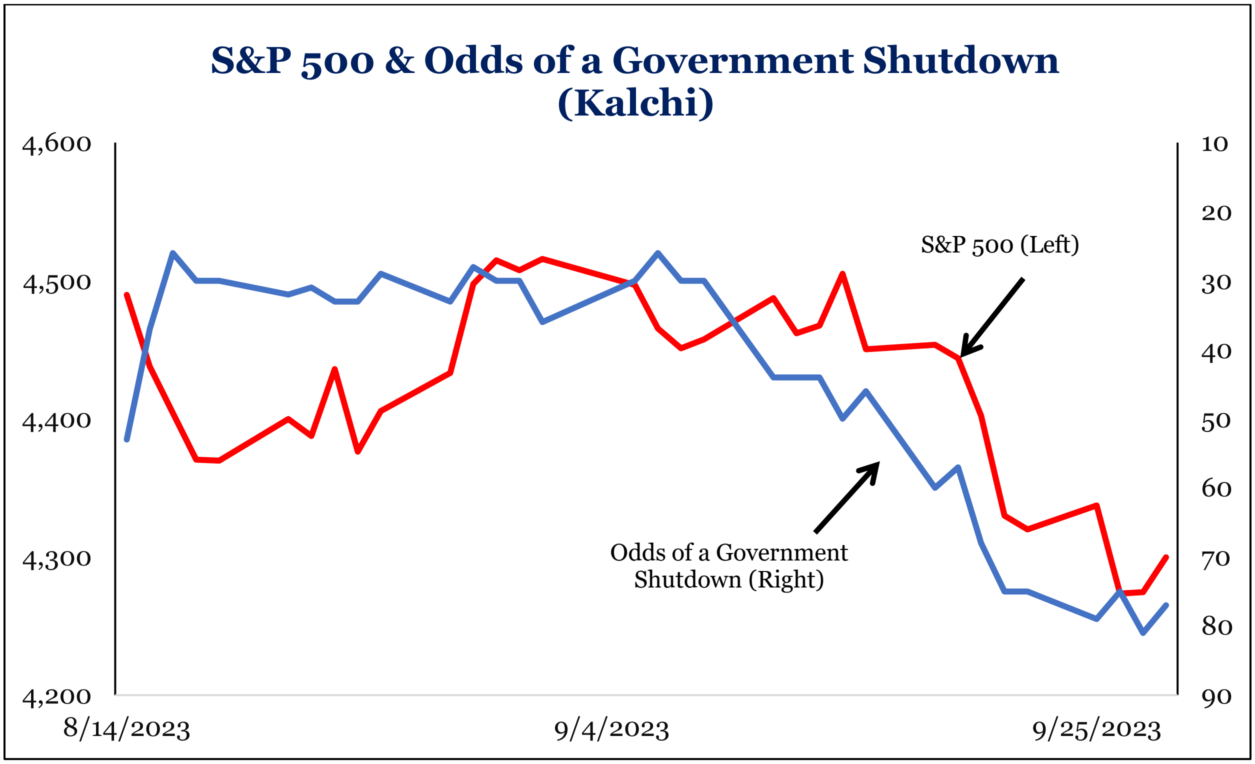


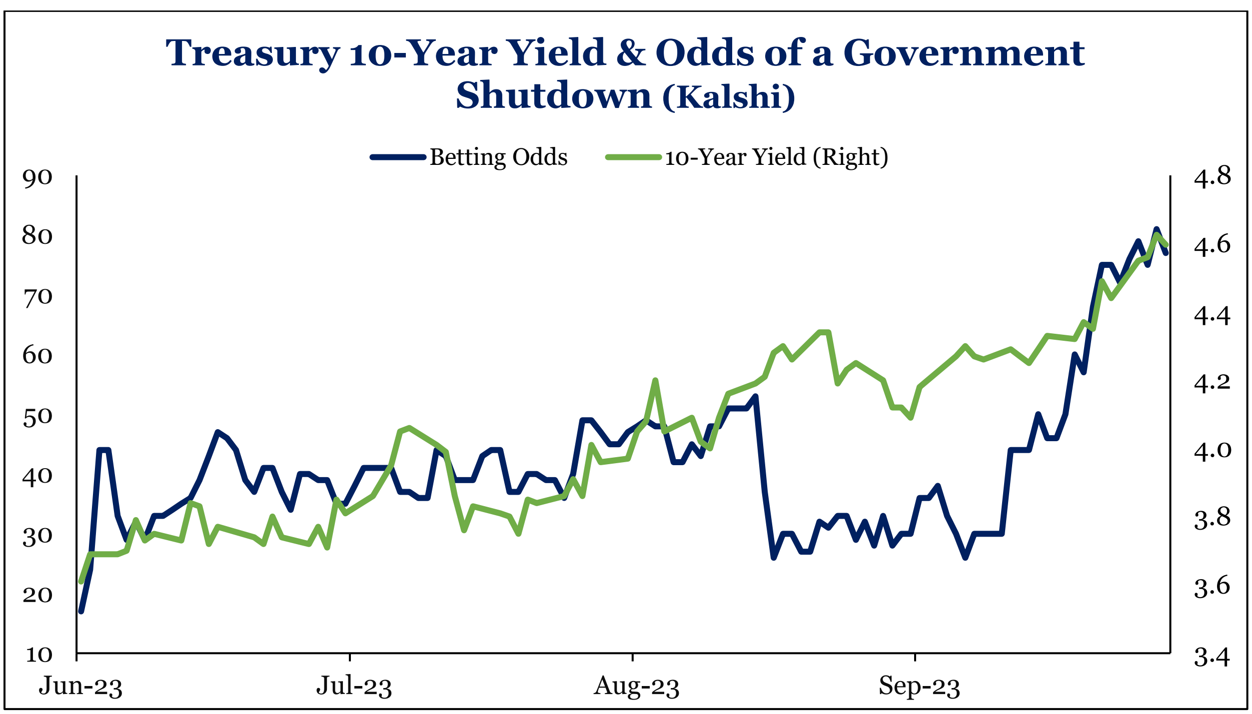
BUDGET DEFICIT IS RUNNING AT 7% OF GDP DESPITE NEAR FULL EMPLOYMENT



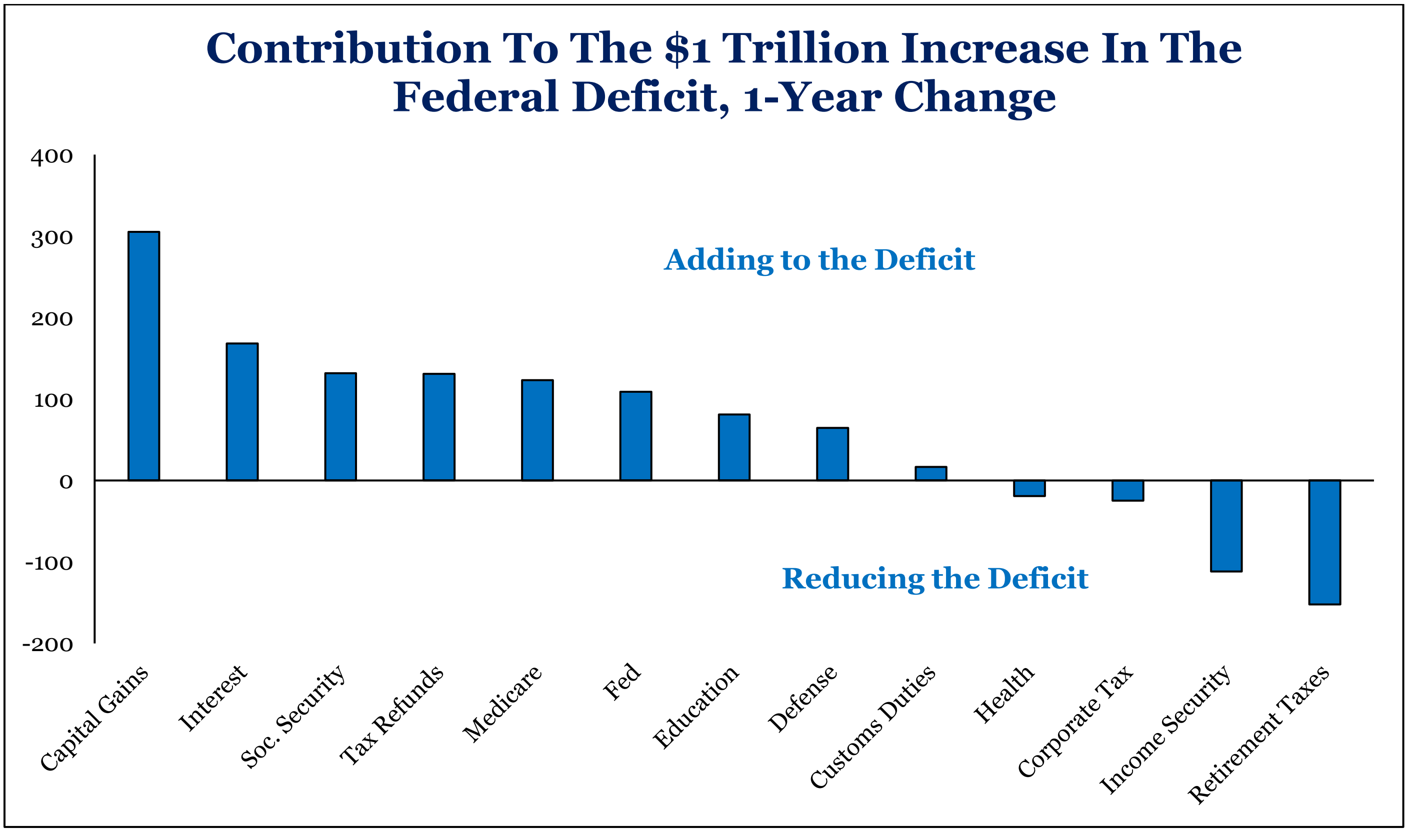
GROWING DEFICIT & DEBT IS LEADING TO BUDGET TRENCH WARFARE IN CONGRESS FOR 4Q

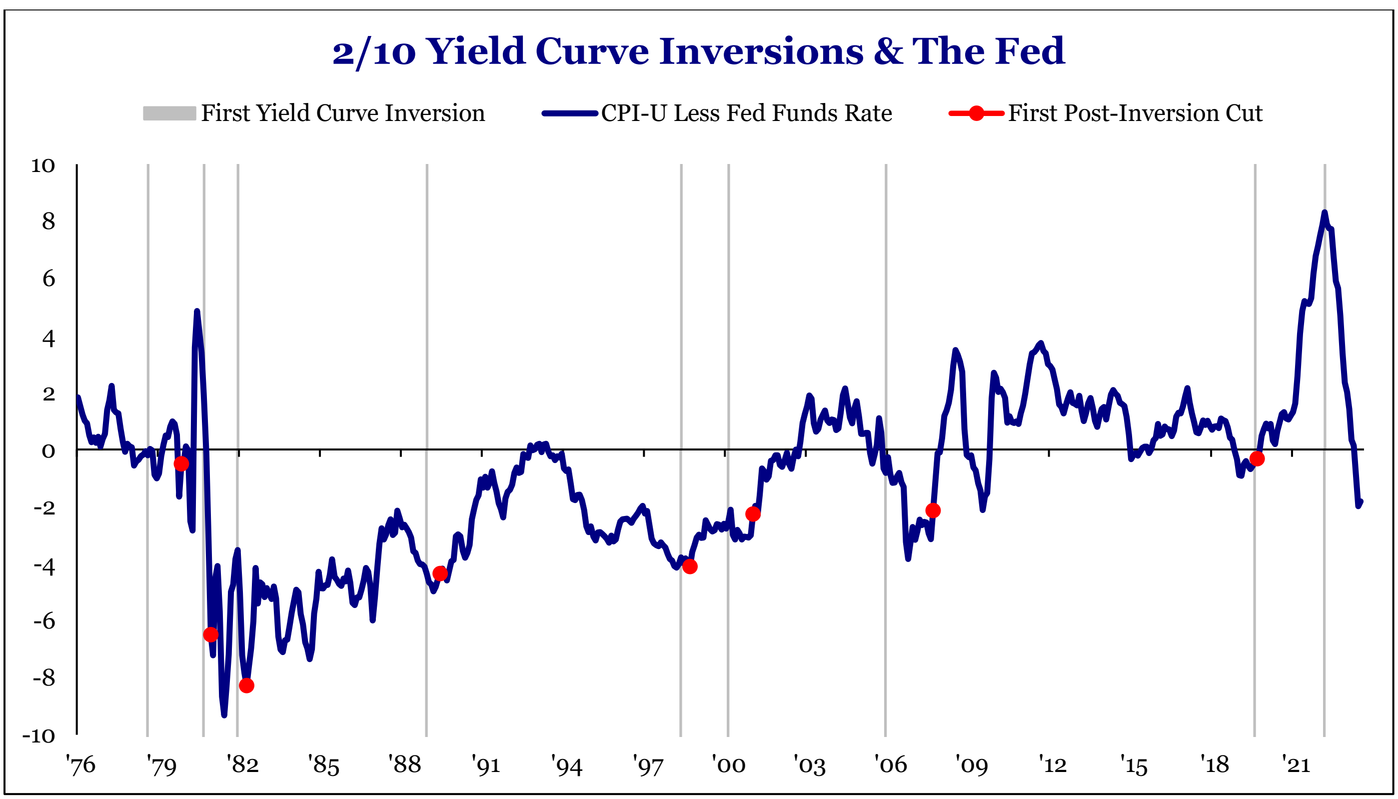
Historically government shutdowns have not impacted GDP or the S&P 500 that much. But the recent increase in the probability of a shutdown correlated with a declining stock market and rising bond yields. With the US fiscal condition deteriorating the budget trench warfare in Washington is becoming more important to bond investors, rating agencies, and voters.



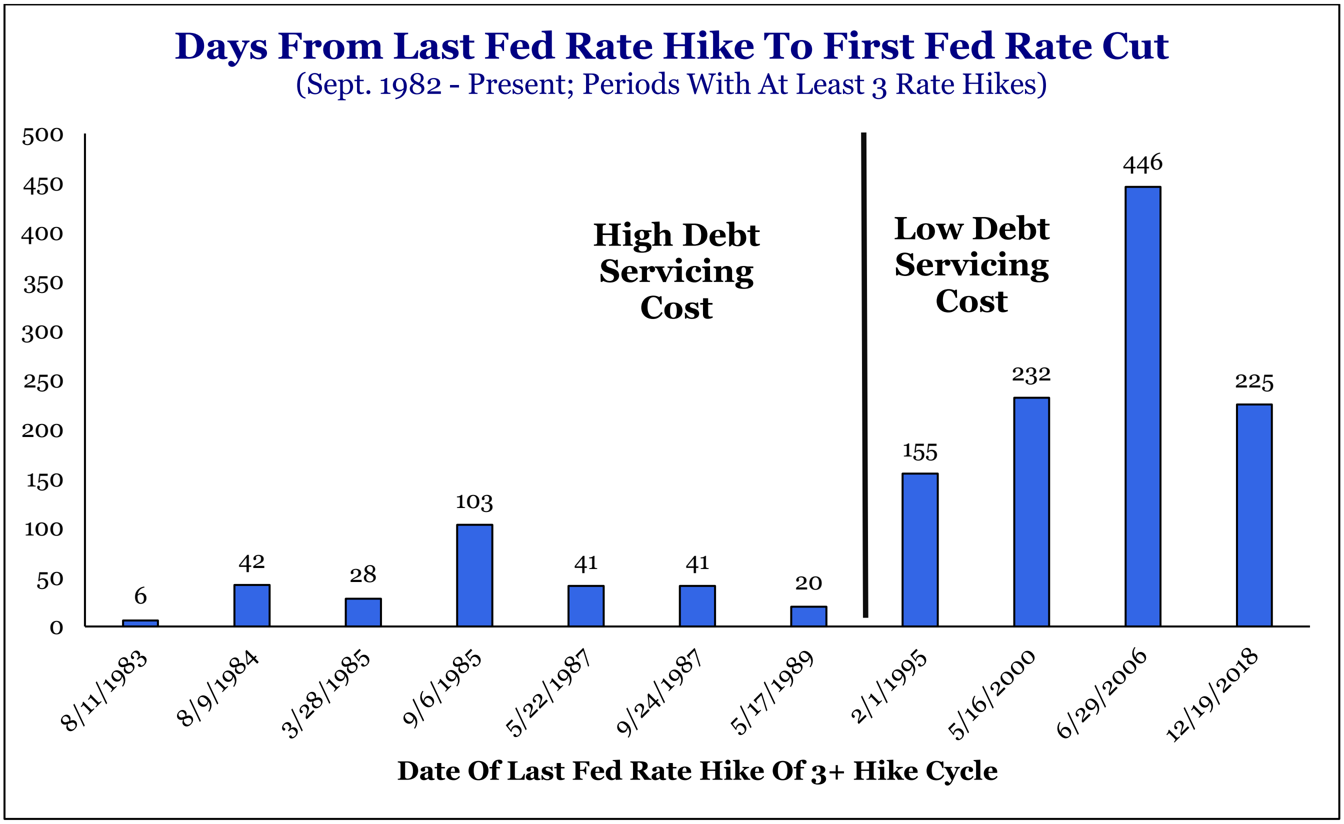


BIDEN ADMINISTRATION SEEMS TO BE PURSUING AN AGGRESSIVE FISCAL POLICY W/ TIGHT MONETARY POLICY

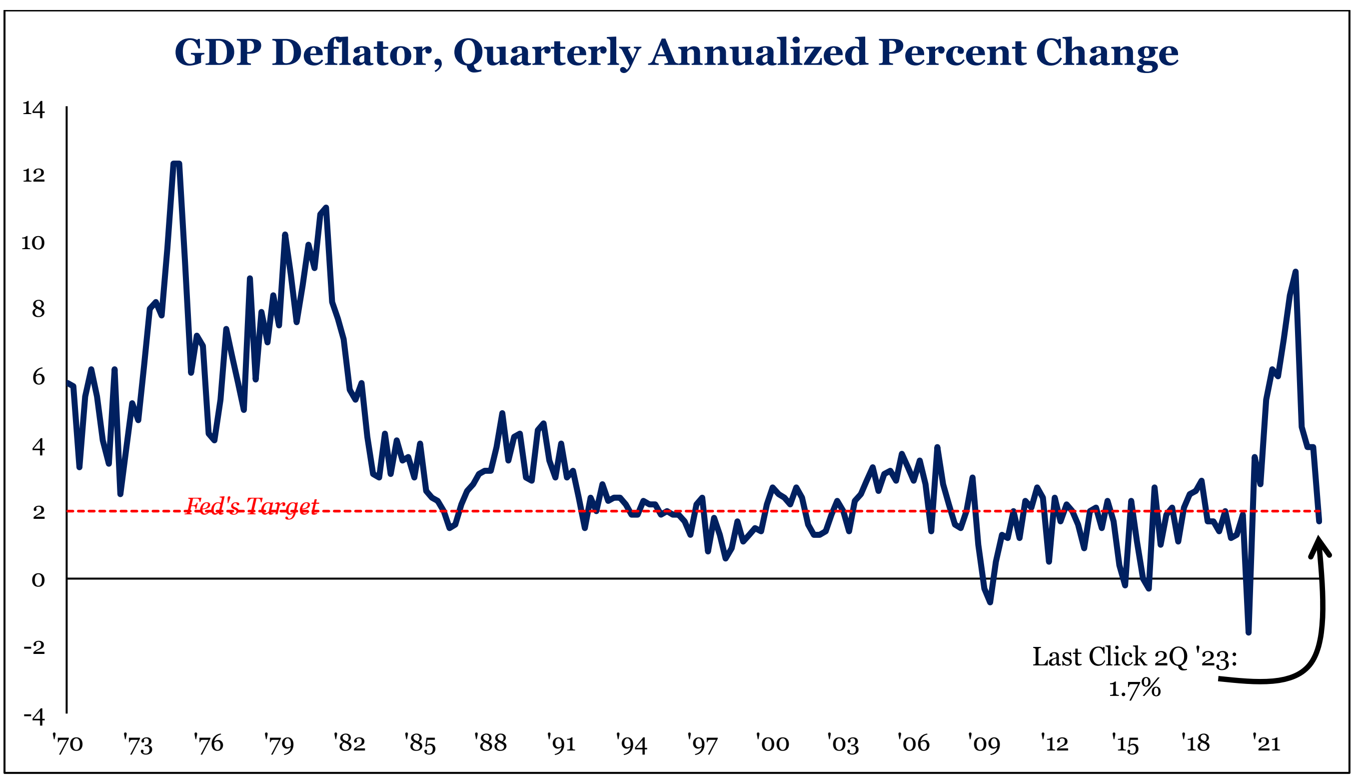




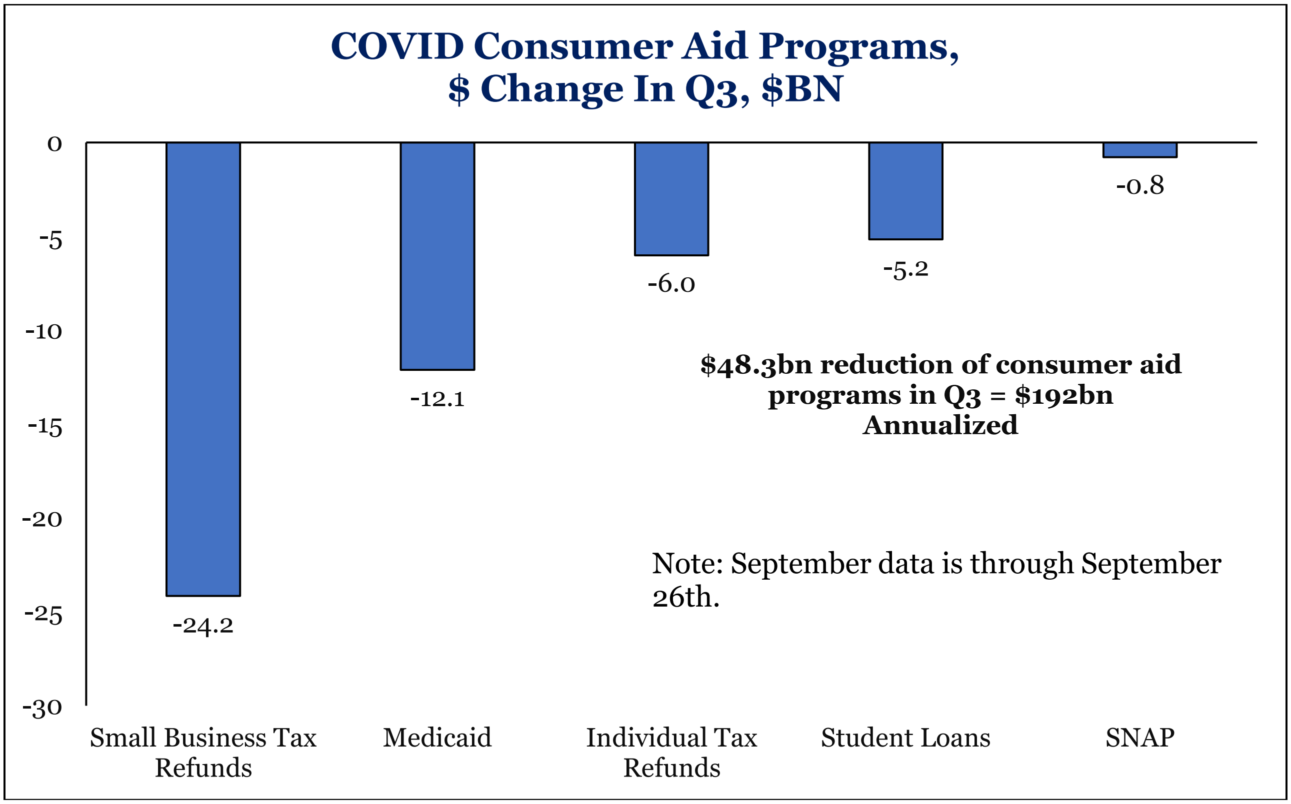
BUT HARDER FOR THE FED TO STAY "HIGHER FOR LONGER" WHEN DEBT SERVICING COSTS ARE ELEVATED

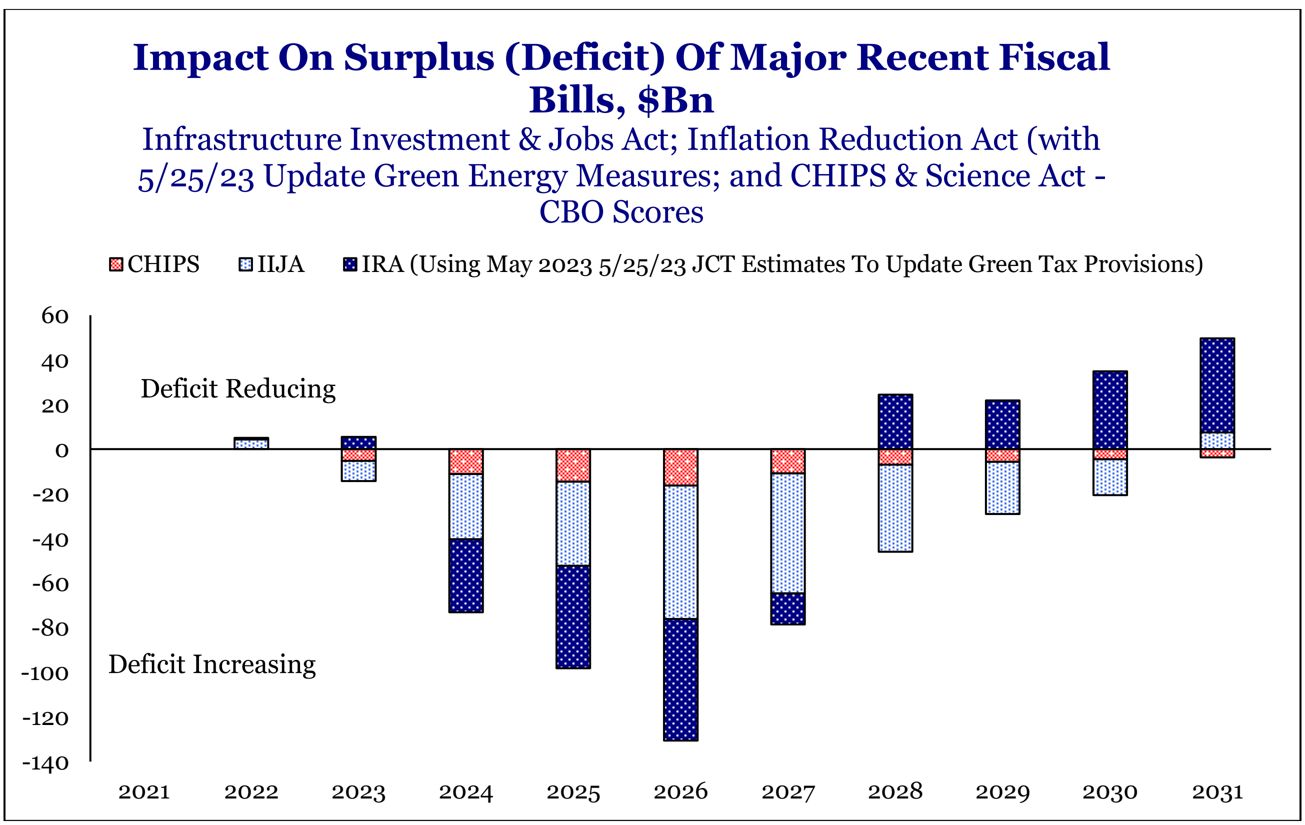


THE FED SEEMS PLEASED WITH THE DISINFLATION HAPPENING IN THE PCE NUMBERS

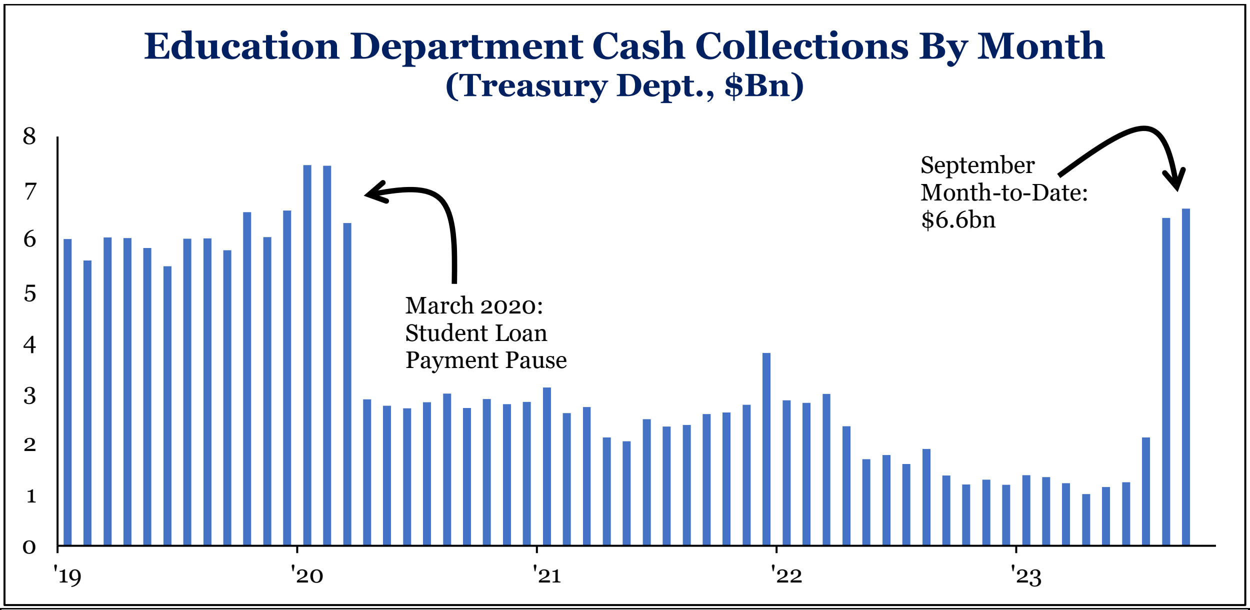


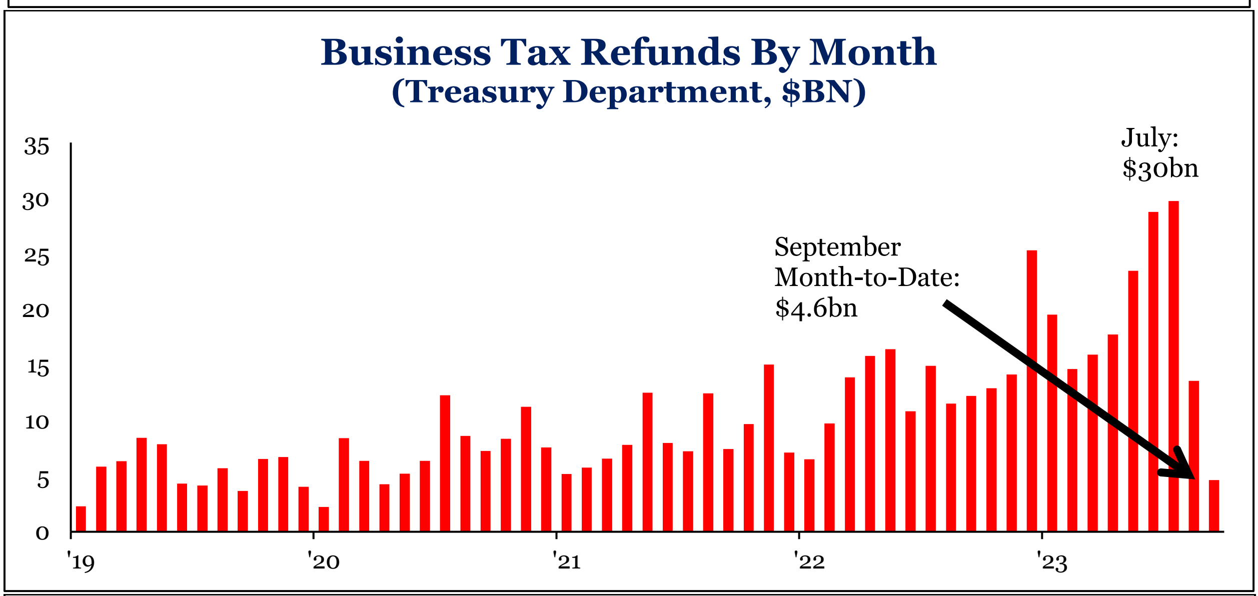
NATURE OF FISCAL STIMULUS IS SHIFTING FROM CONSUMER TO INVESTMENT

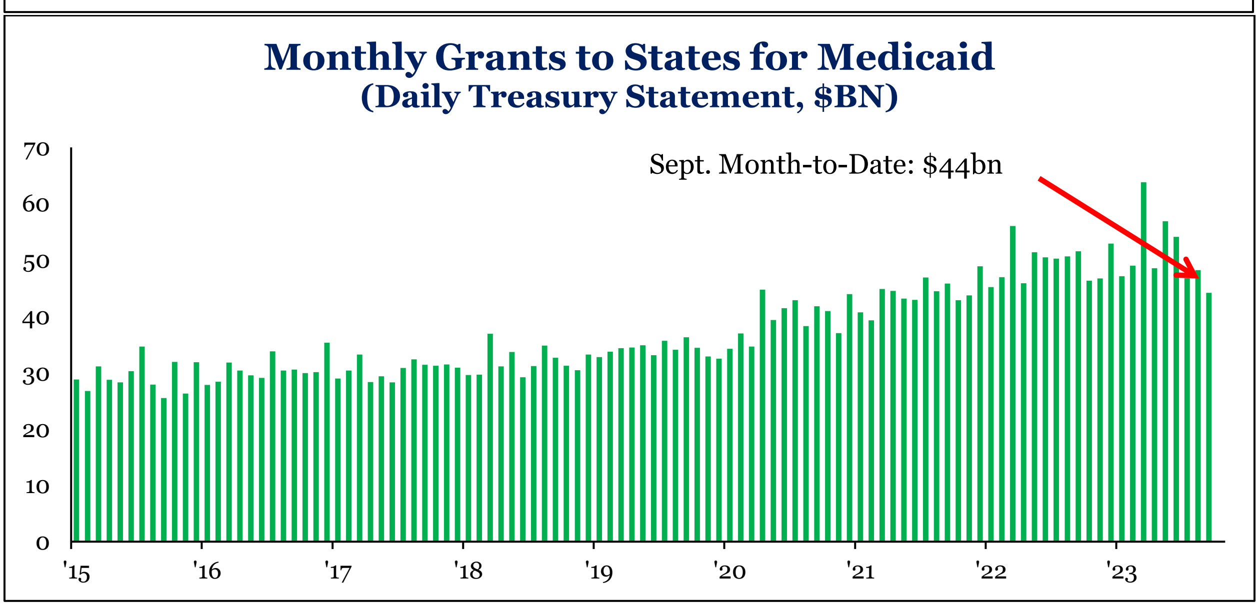




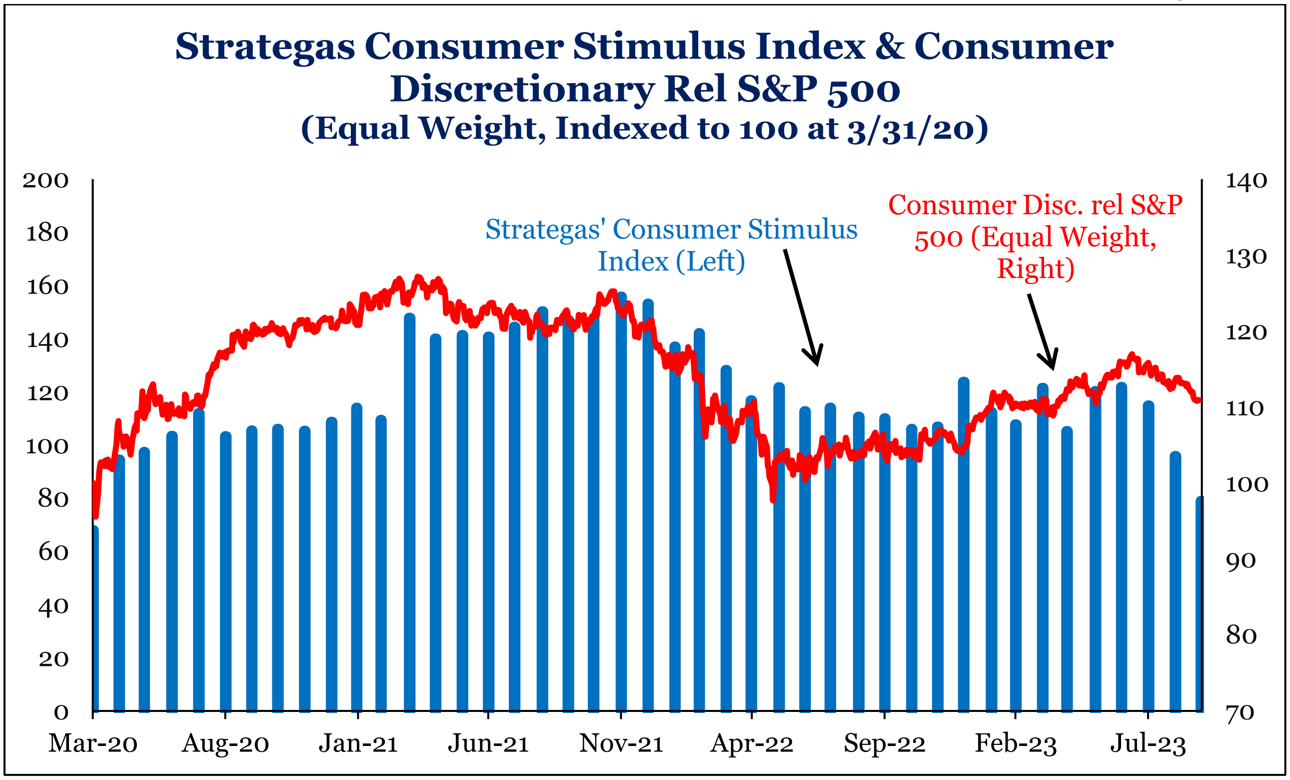
STUDENT LOANS, BUSINESS TAX REFUNDS, & MEDICAID ARE THREE BIG DRIVERS OF THE CONSUMER AUSTERITY



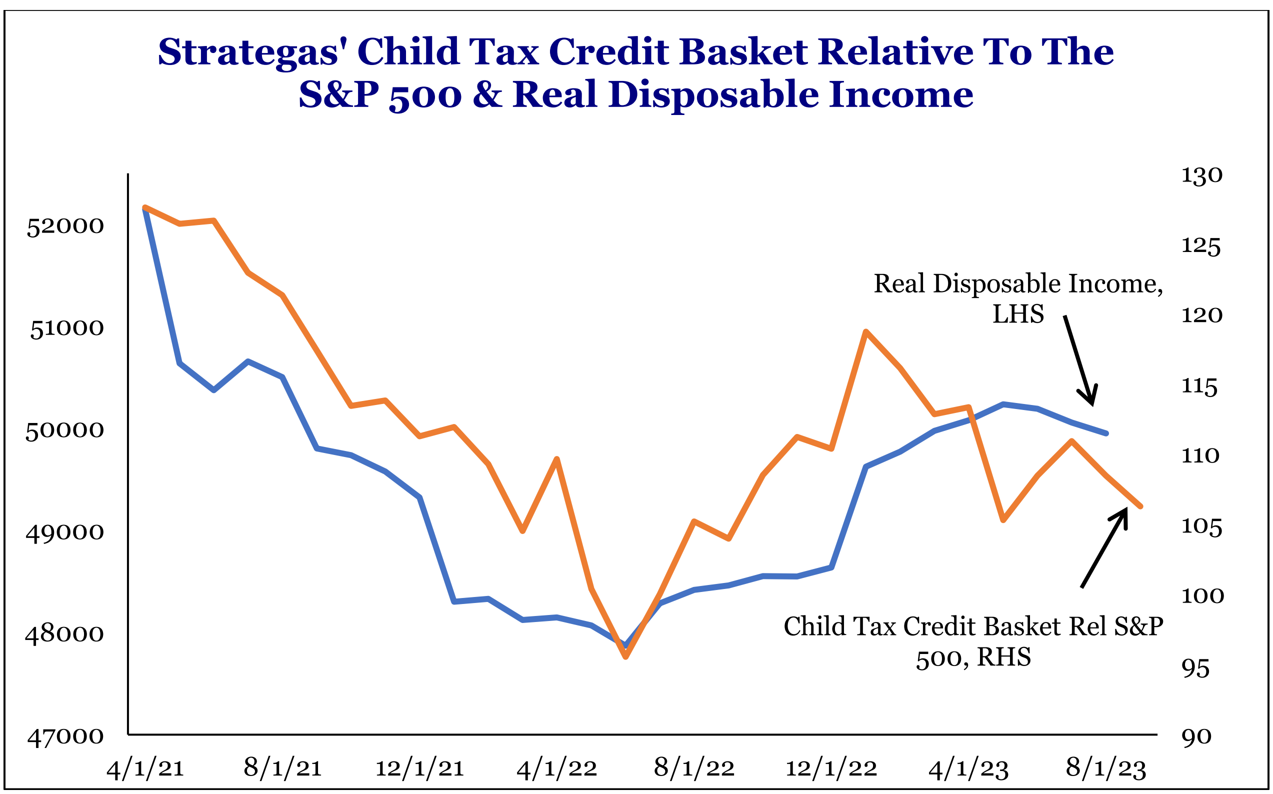




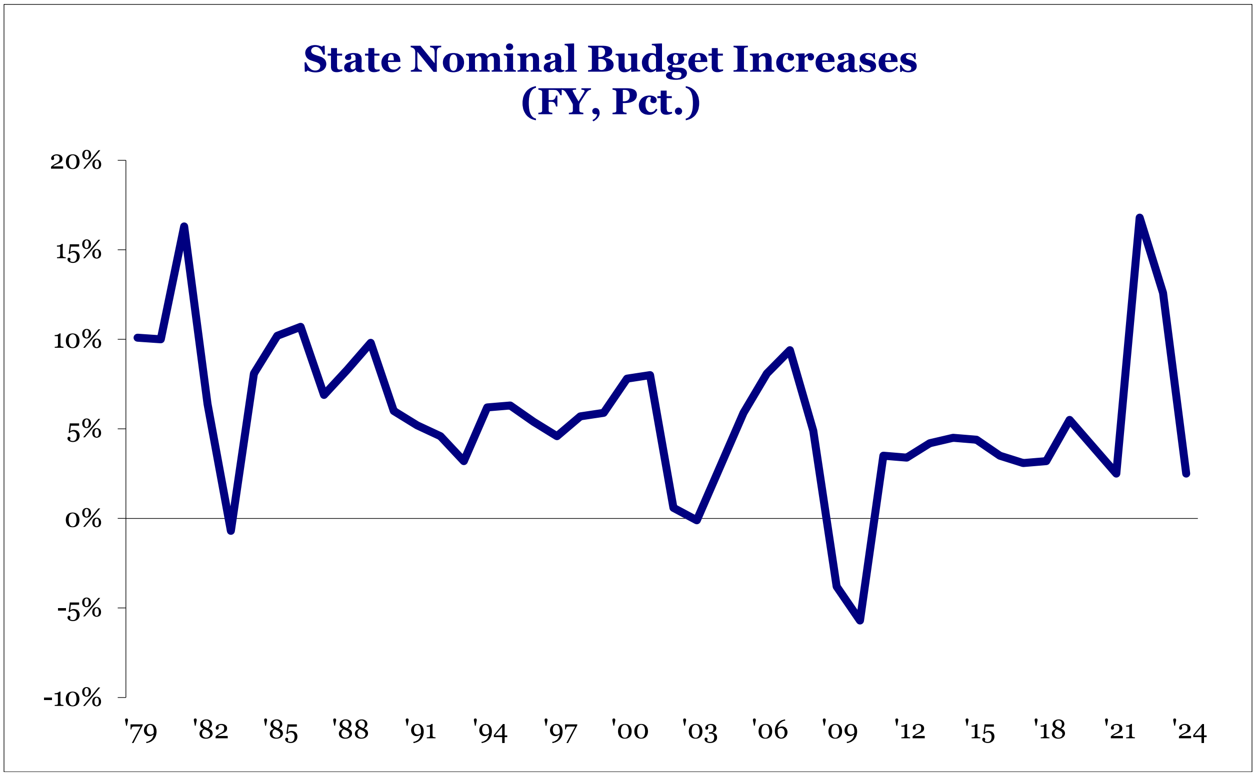
CONSUMER DISCRETIONARY UNDERPERFORMING WITH $50BN OF CONSUMER AID ROLLING OF IN 3Q



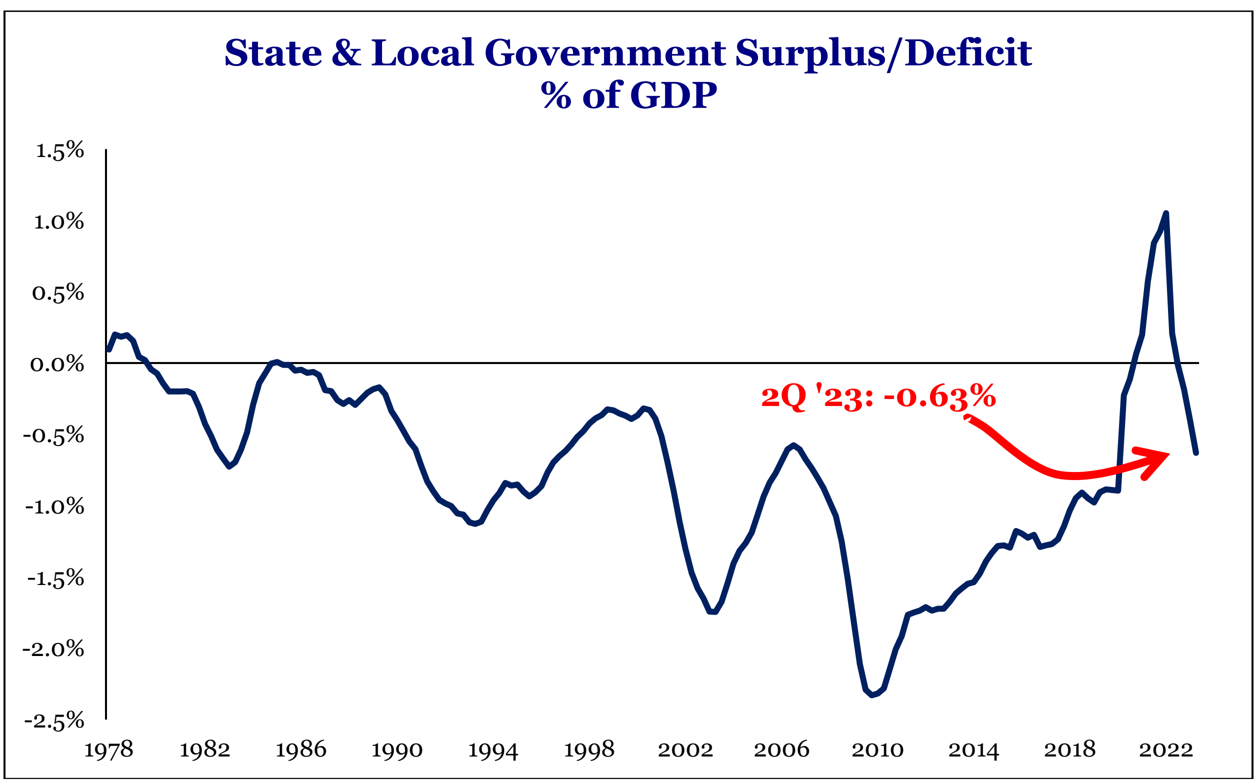
STRATEGAS' CHILD TAX CREDIT BASKET IS PRICING IN DECLINING REAL INCOMES



SLOWDOWN IN STATE TAX REVENUES WILL ALSO FORCE A RETRENCHMENT OF STATE GOVERNMENT SPENDING

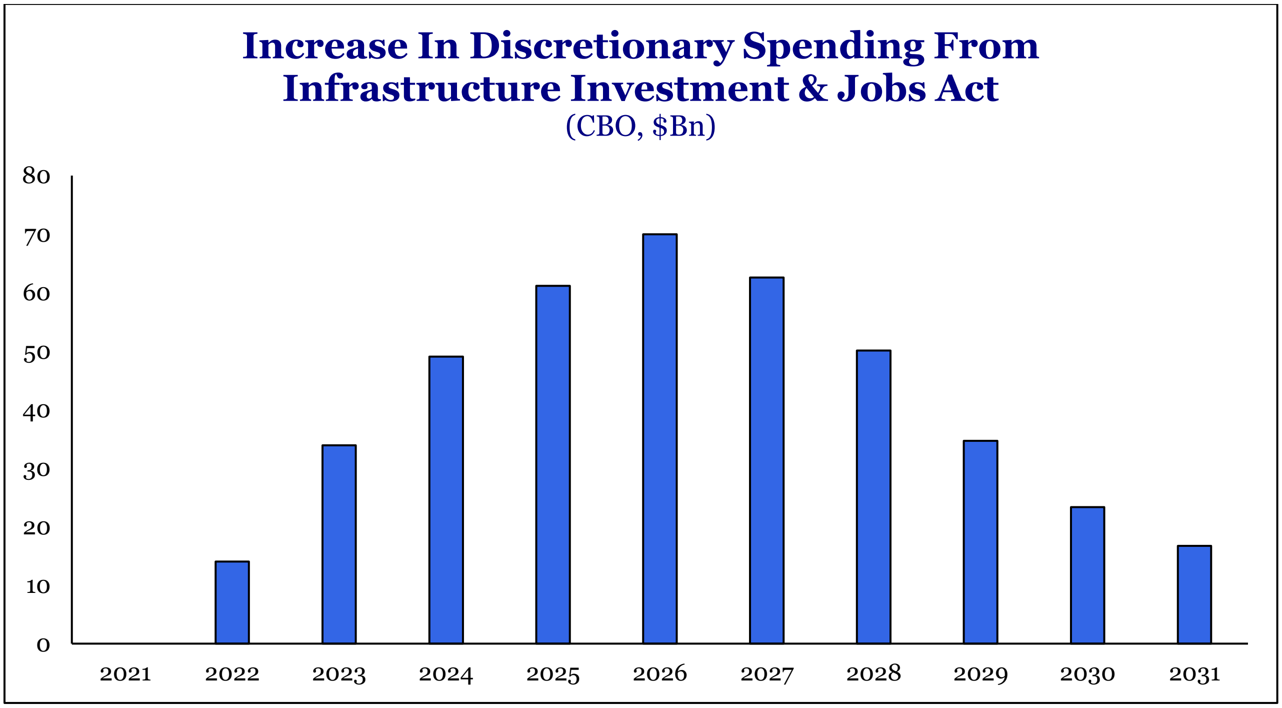


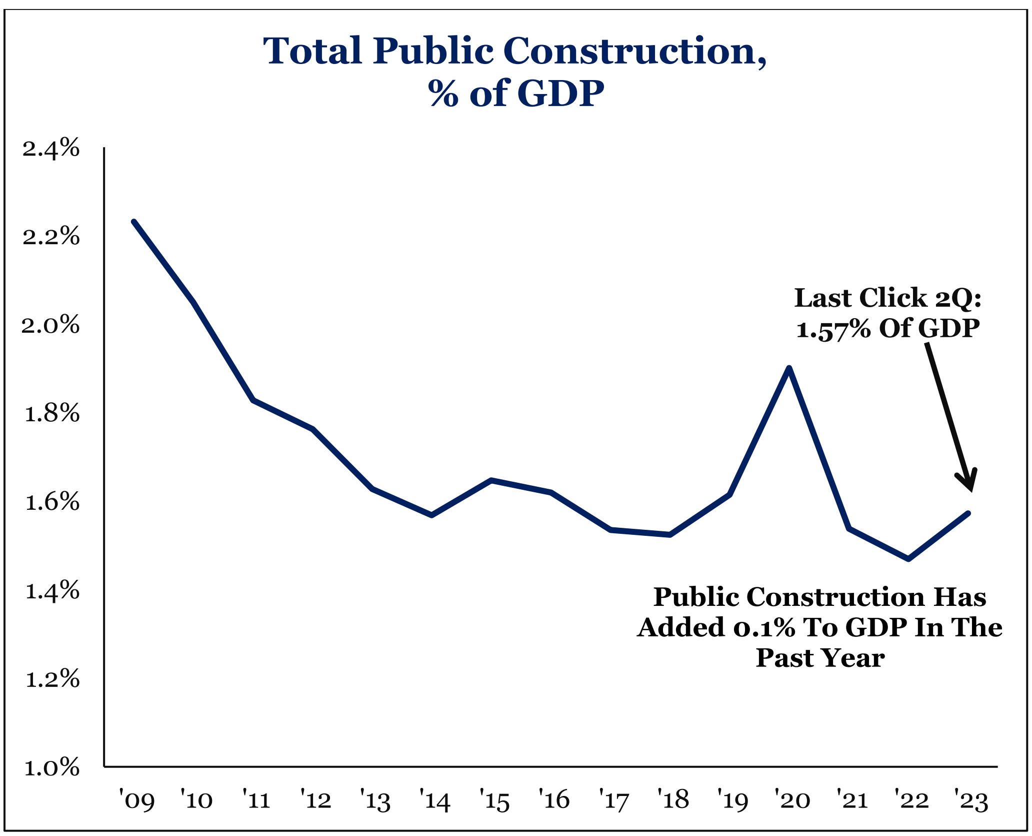
STATE BUDGETS ARE BACK IN DEFICIT DESPITE UNEMPLOYMENT BELOW 4%



INFRASTRUCTURE SPEND JUST STARTING

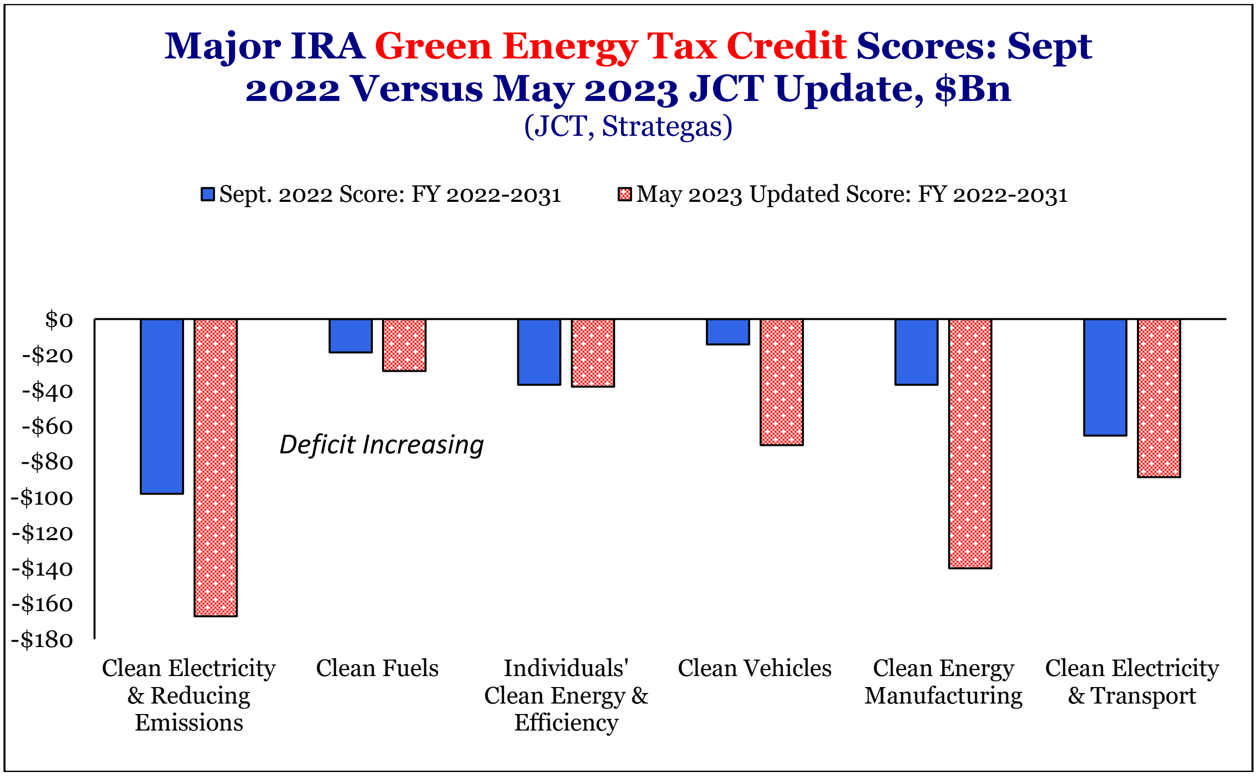
The 2021 bipartisan infrastructure law included $415 billion in gross new discretionary funding over prior highway bills. That spending is still ramping up and is not expected to peak until FY 2026. Note, infrastructure stocks usually price in the benefit ahead of the spending and, once the spending starts, the outperformance narrows.



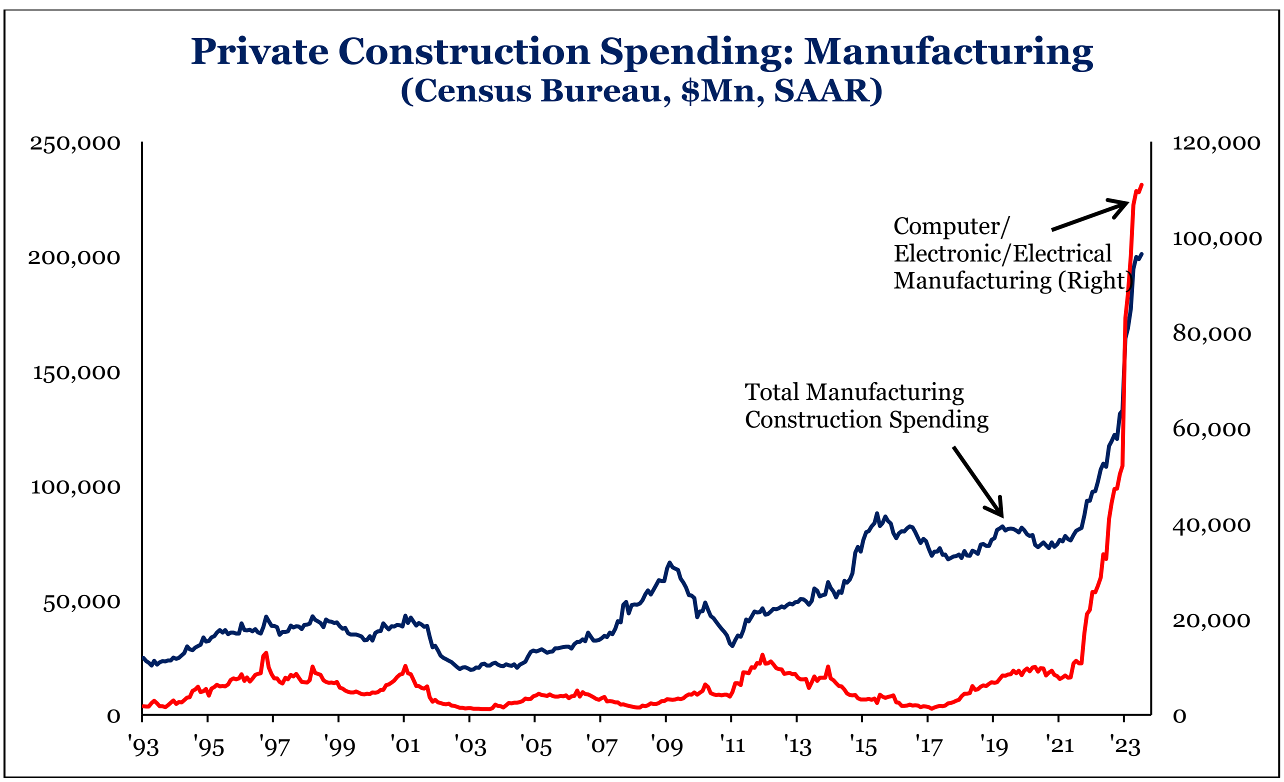


Getting the infrastructure funds out the door has been a slow process, but is now starting to pick up. This will be a big theme for 2024, particularly as other parts of federal spending slow.

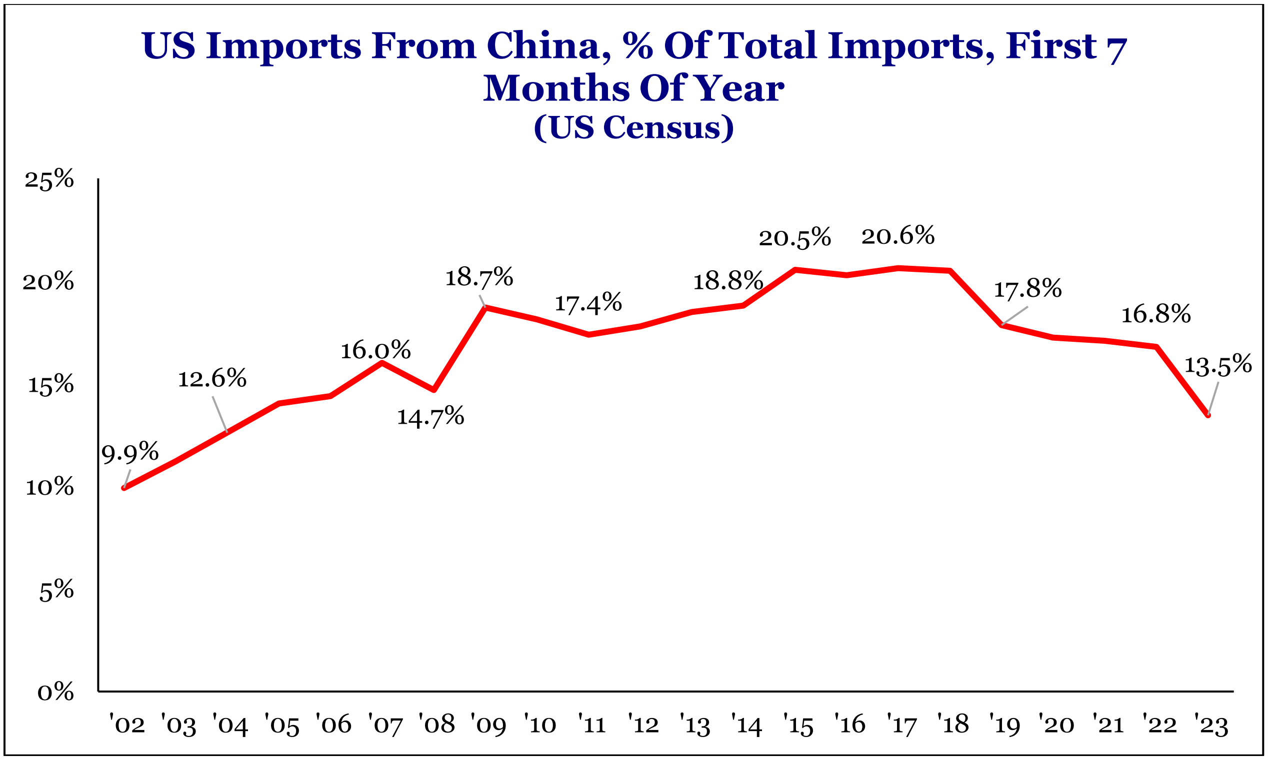
IRA CLEAN ENERGY SPENDING IS COMING IN 2024

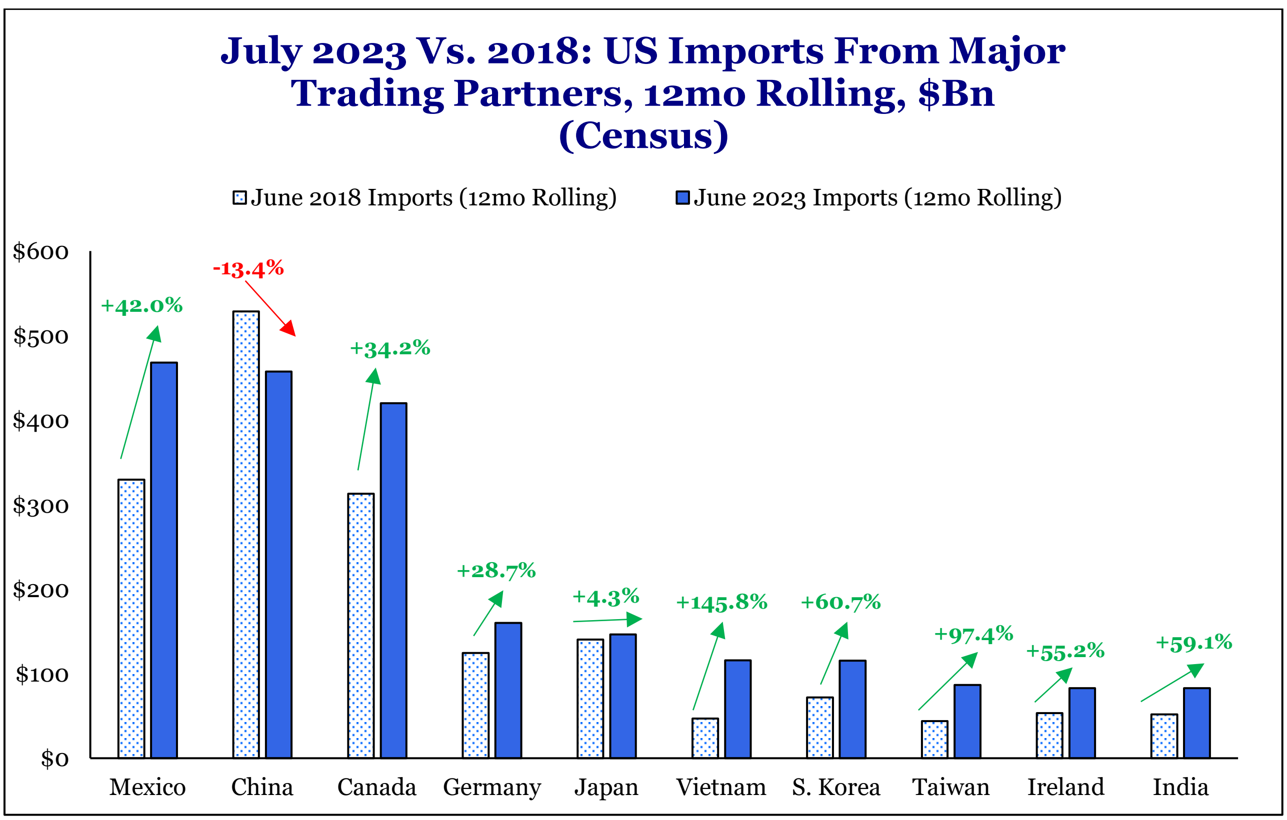


AS DOES CHIPS SPENDING

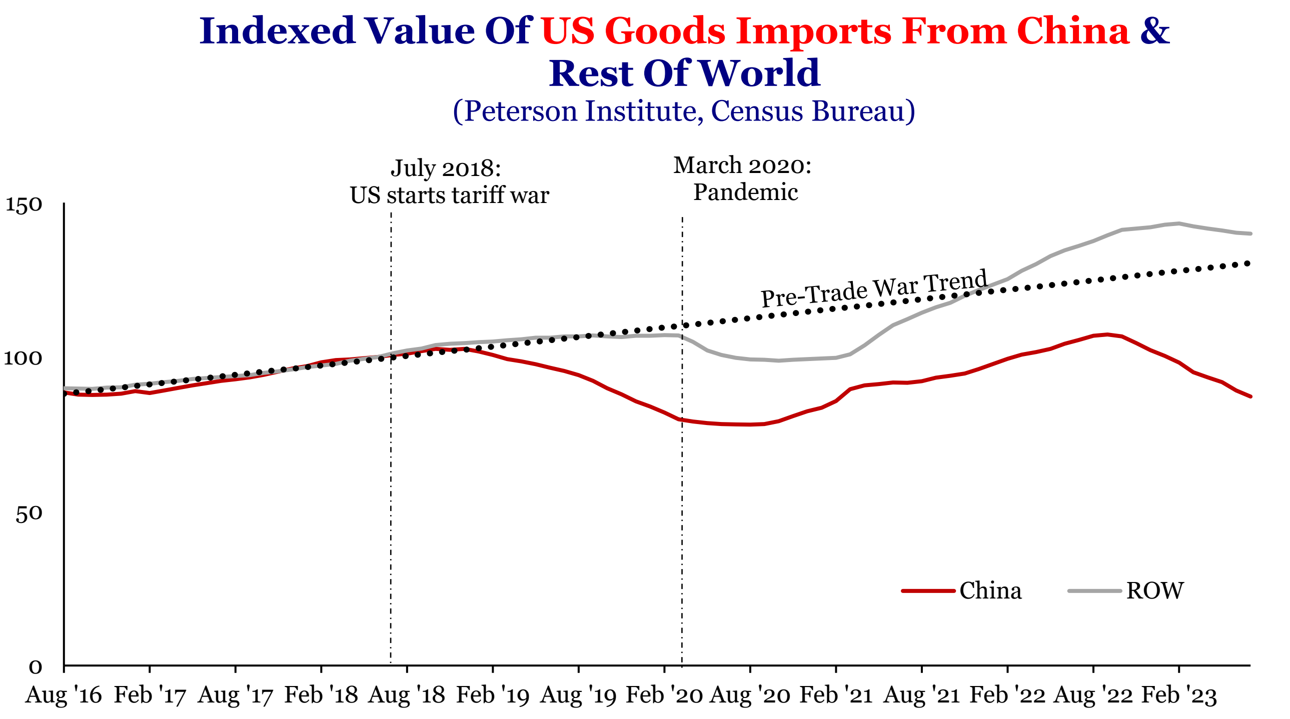


US IMPORTS FROM CHINA ARE AT THEIR LOWEST LEVEL SINCE 2005

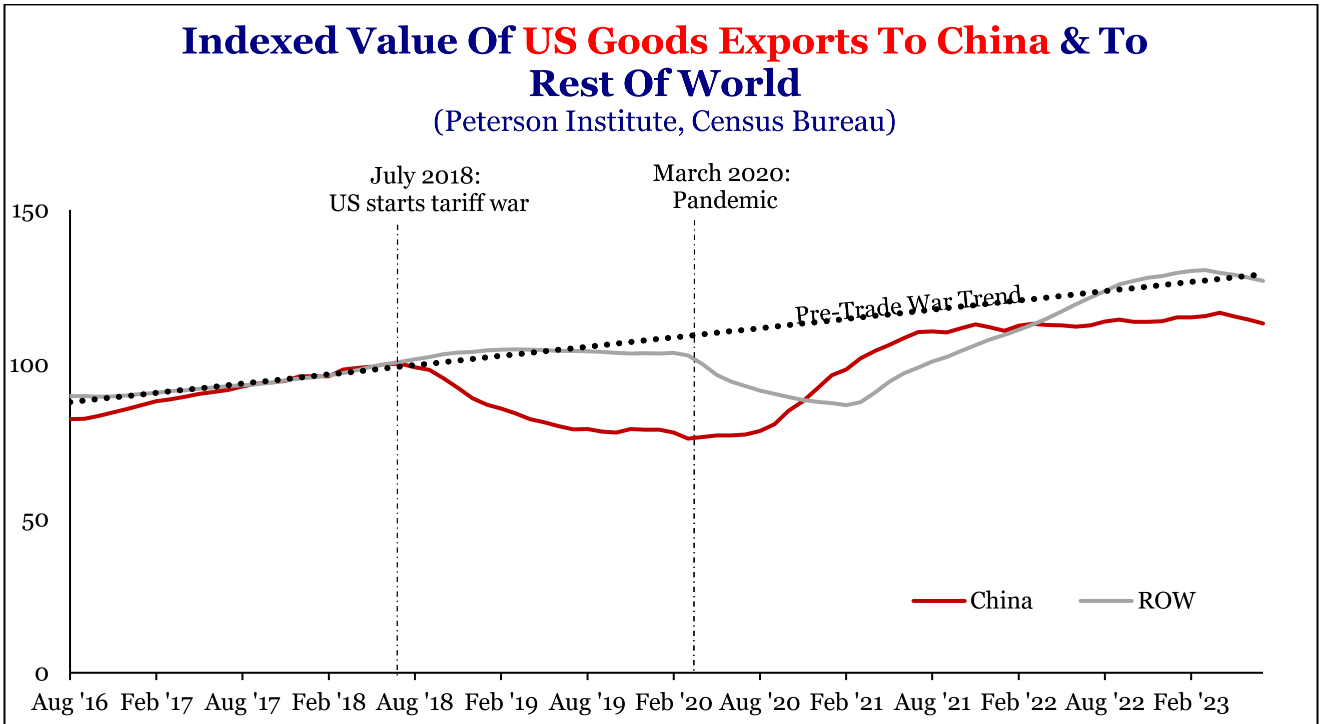




US EXPORTS & IMPORTS WITH CHINA BELOW PRE-TRADE WAR, ROW TREND

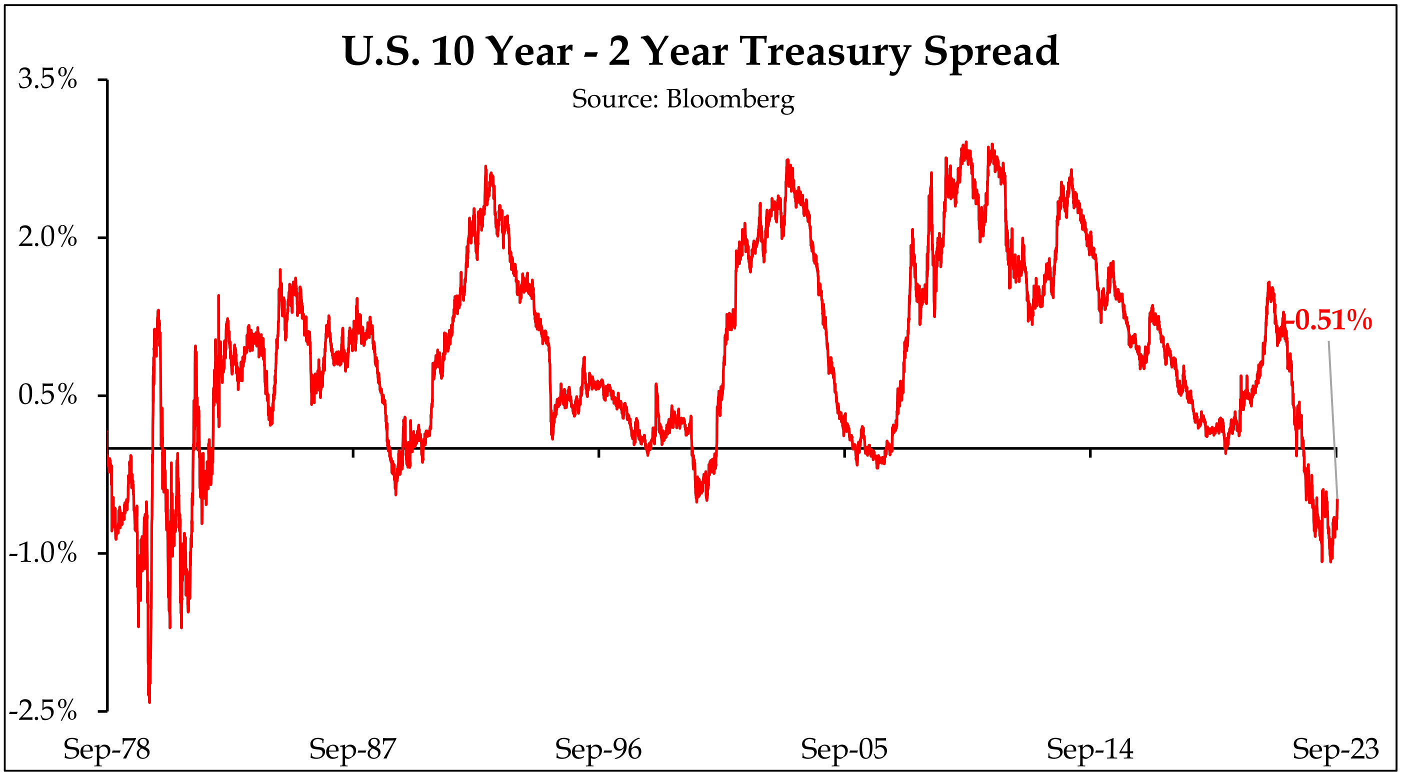


Note: The dotted trendline is the line of best fit based on US imports from the world from August 2016 to June 2018.

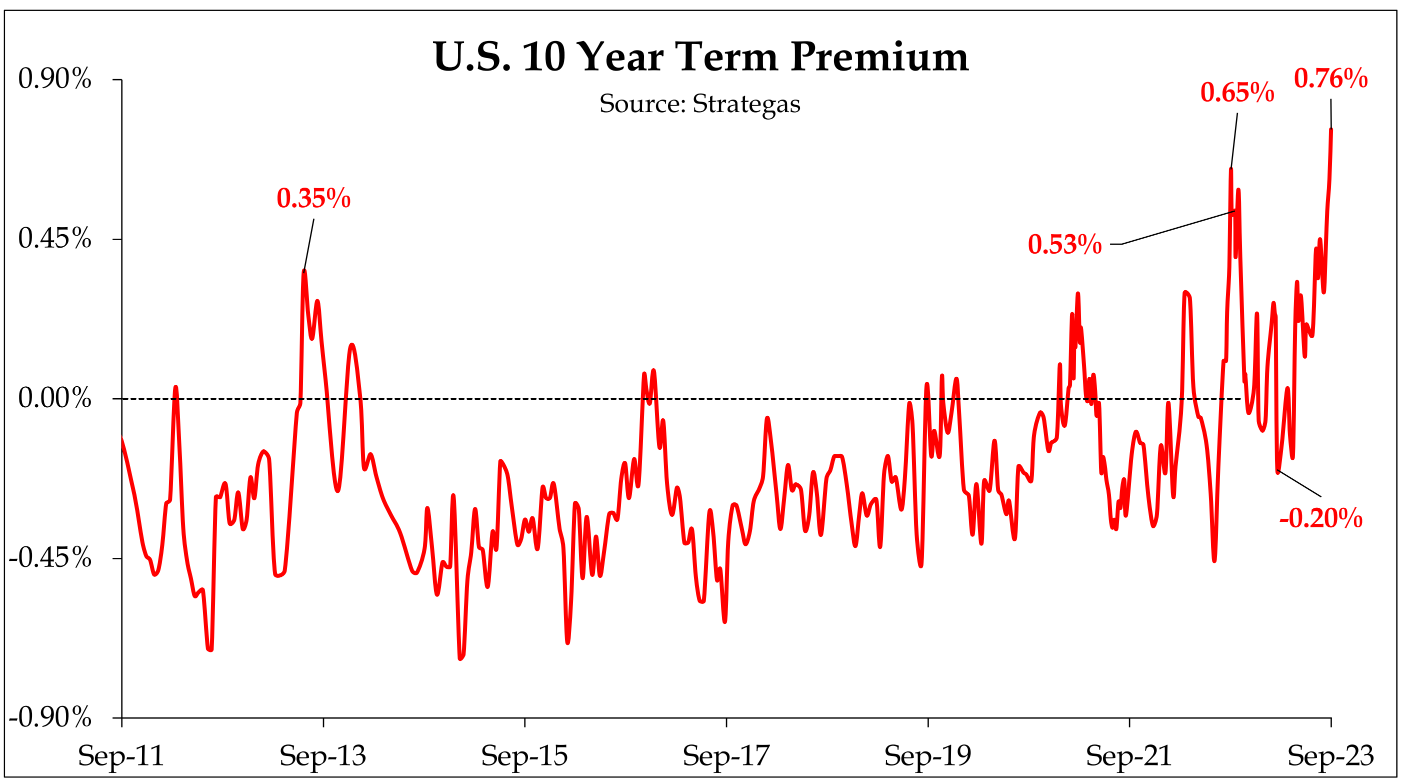


Note: The dotted trendline is the line of best fit based on US exports from the world from August 2016 to June 2018.

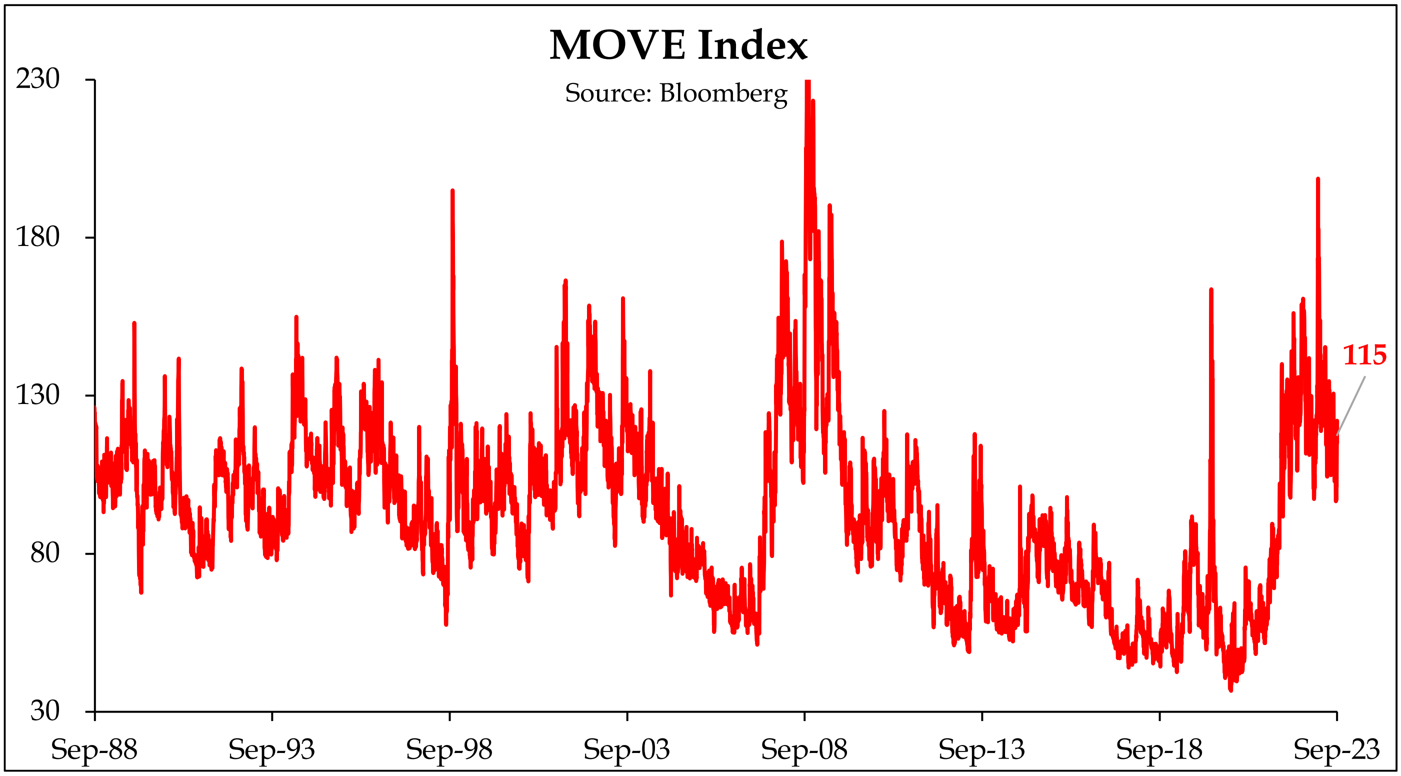
WATCHING U.S. TREASURY CURVE AS 10Y YIELD CLIMBS



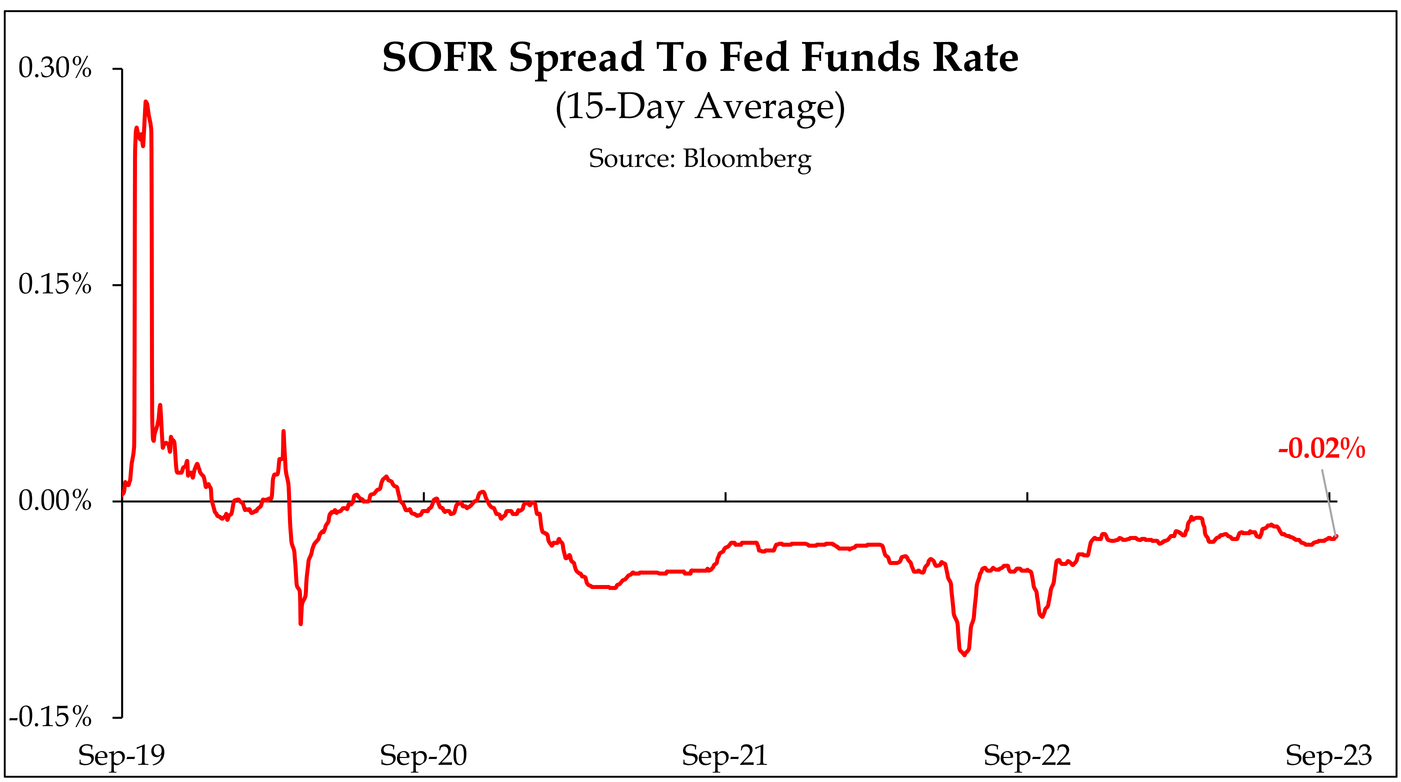
U.S. TREASURY TERM PREMIUM AT CYCLE HIGH



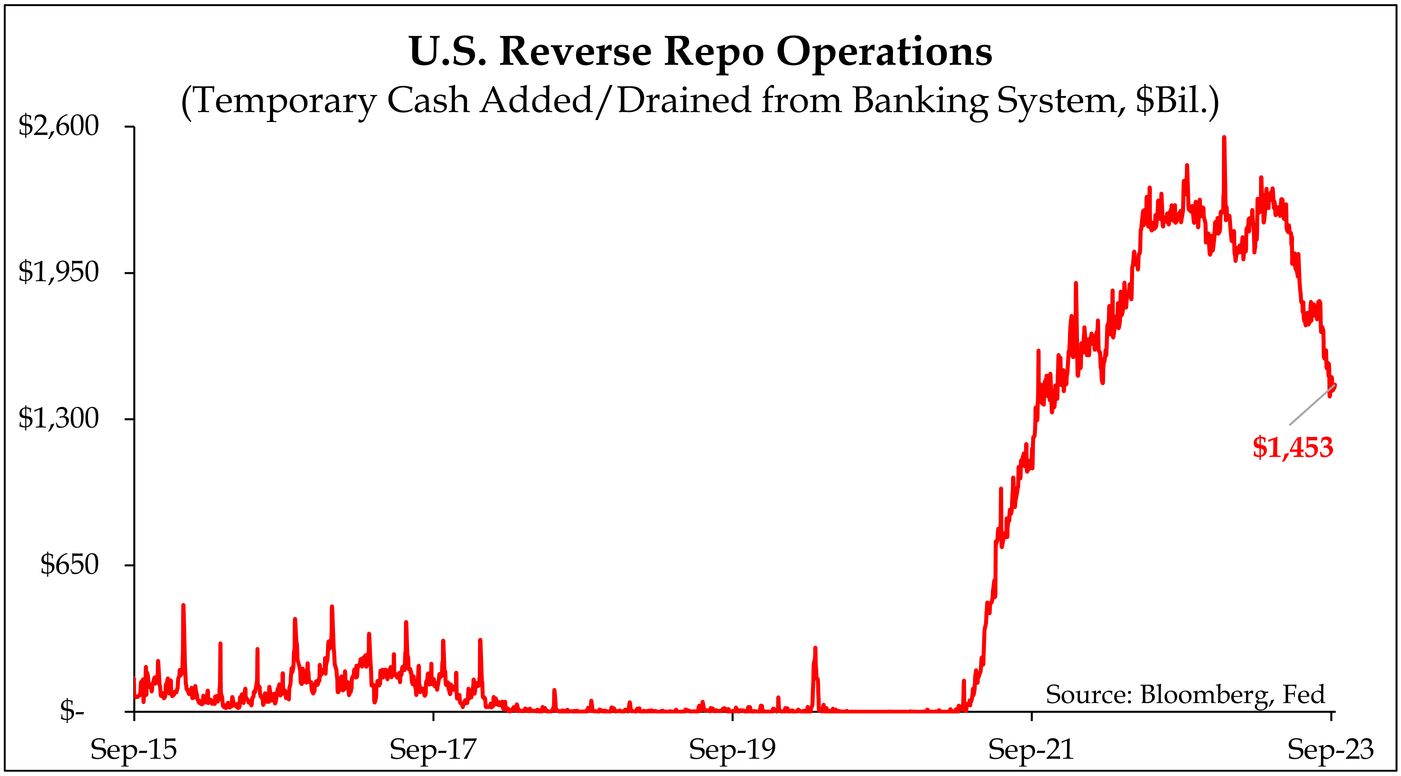
THE MOVE INDEX REACHED ITS HIGHEST LEVEL SINCE '08 IN MARCH, BUT VOLATILITY HAS FALLEN SINCE THEN



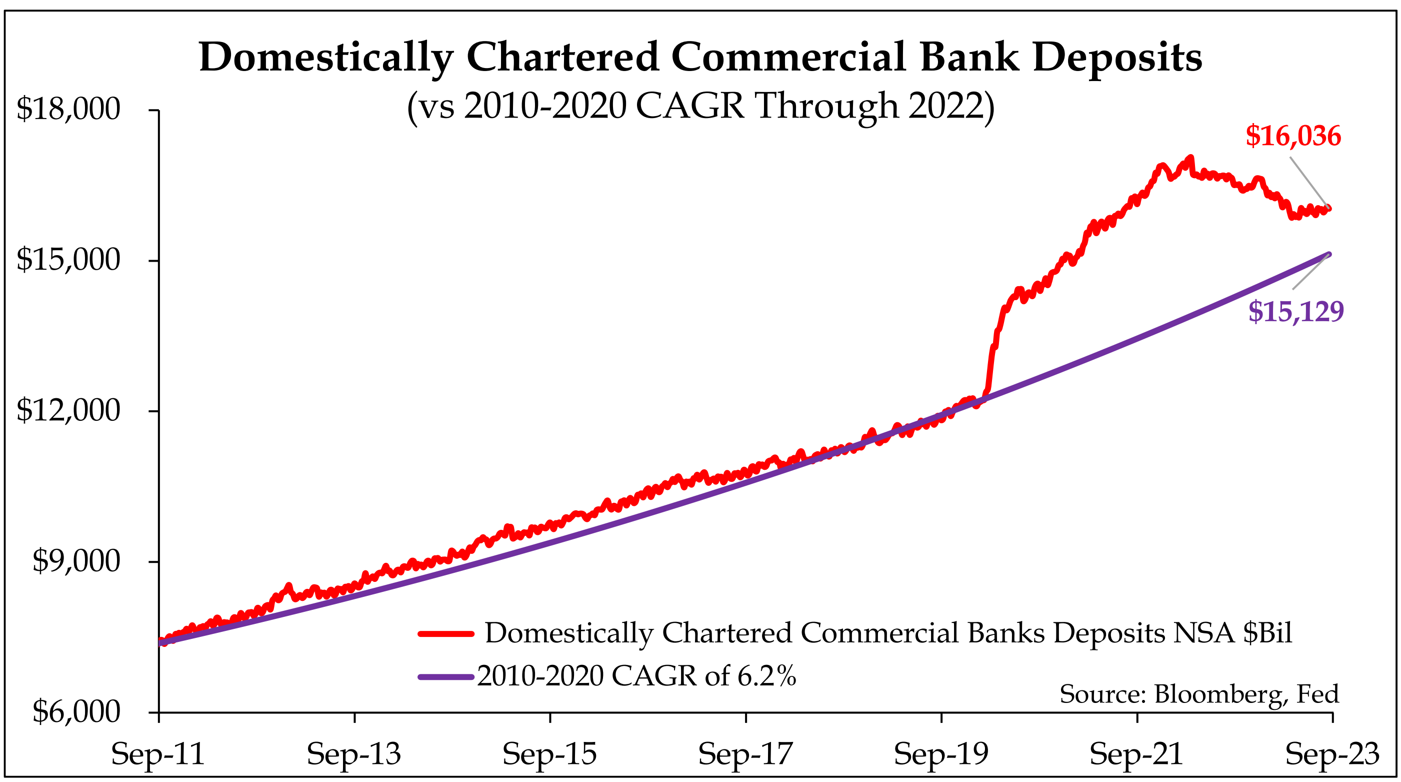
SOFR/FFR SPREAD SHOWS SHORTS NOT YET OFFSIDES



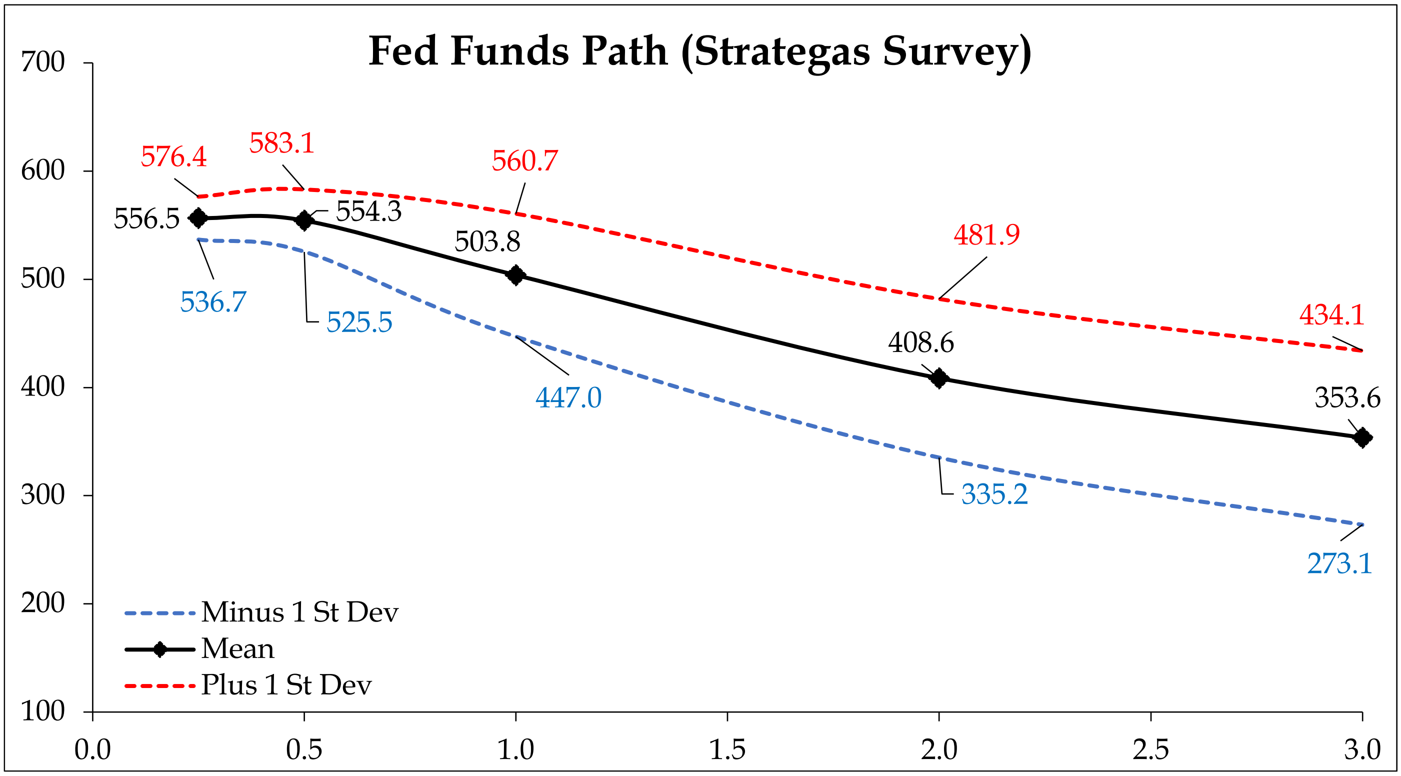
LIQUIDITY CONTINUING TO DRAIN FROM RRP FACILITY



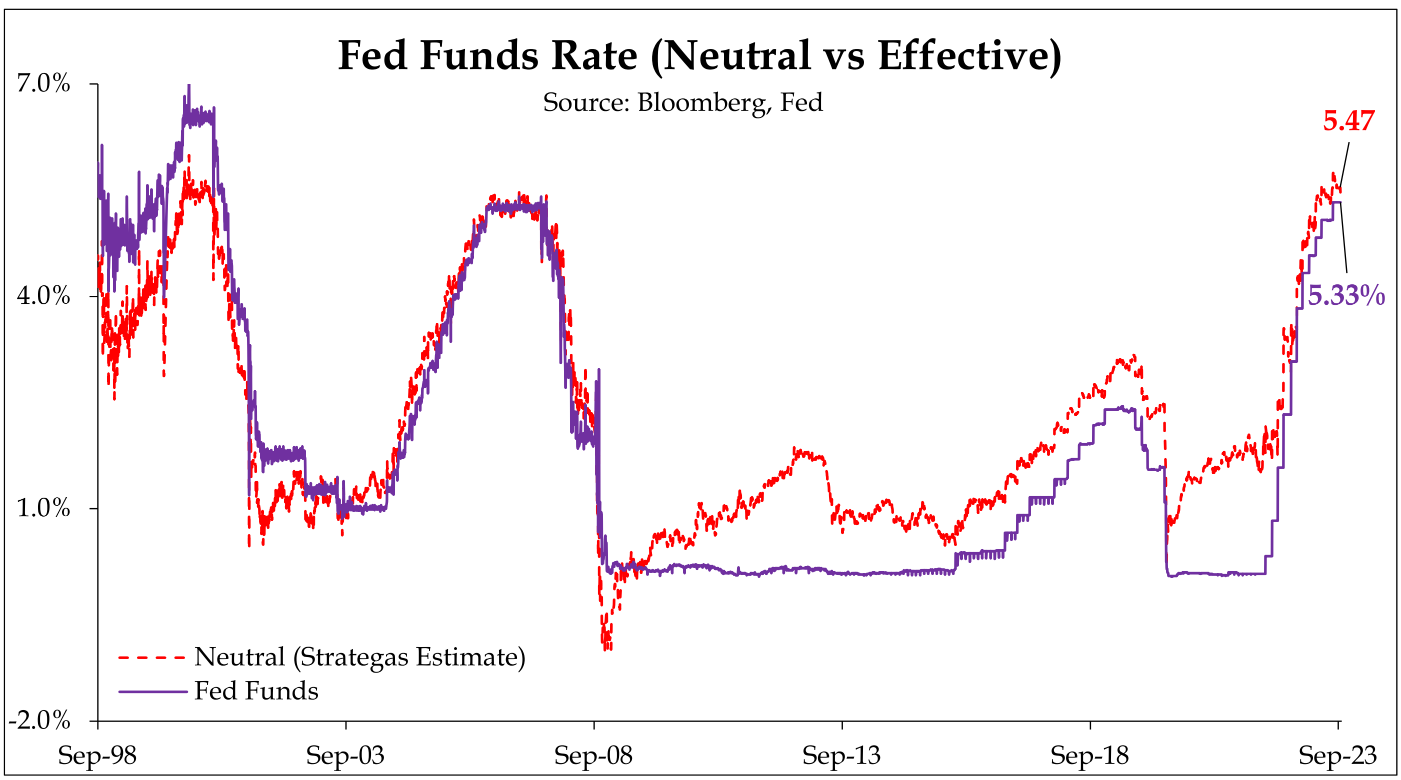
COMM, BANK DEPOSITS STILL ABOVE HISTORIC TREND



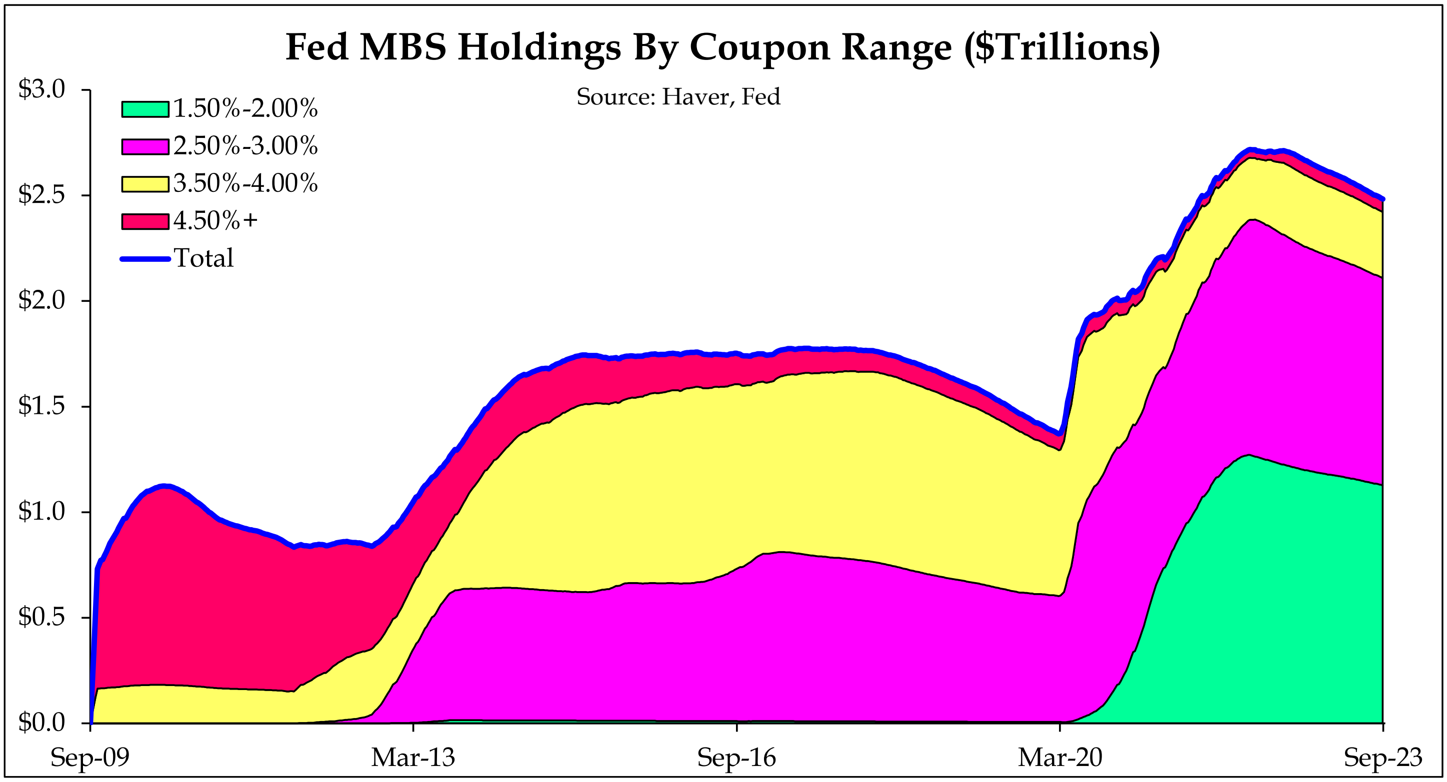
CLIENT FFR SURVEY SUGGESTS FED IS DONE HIKING



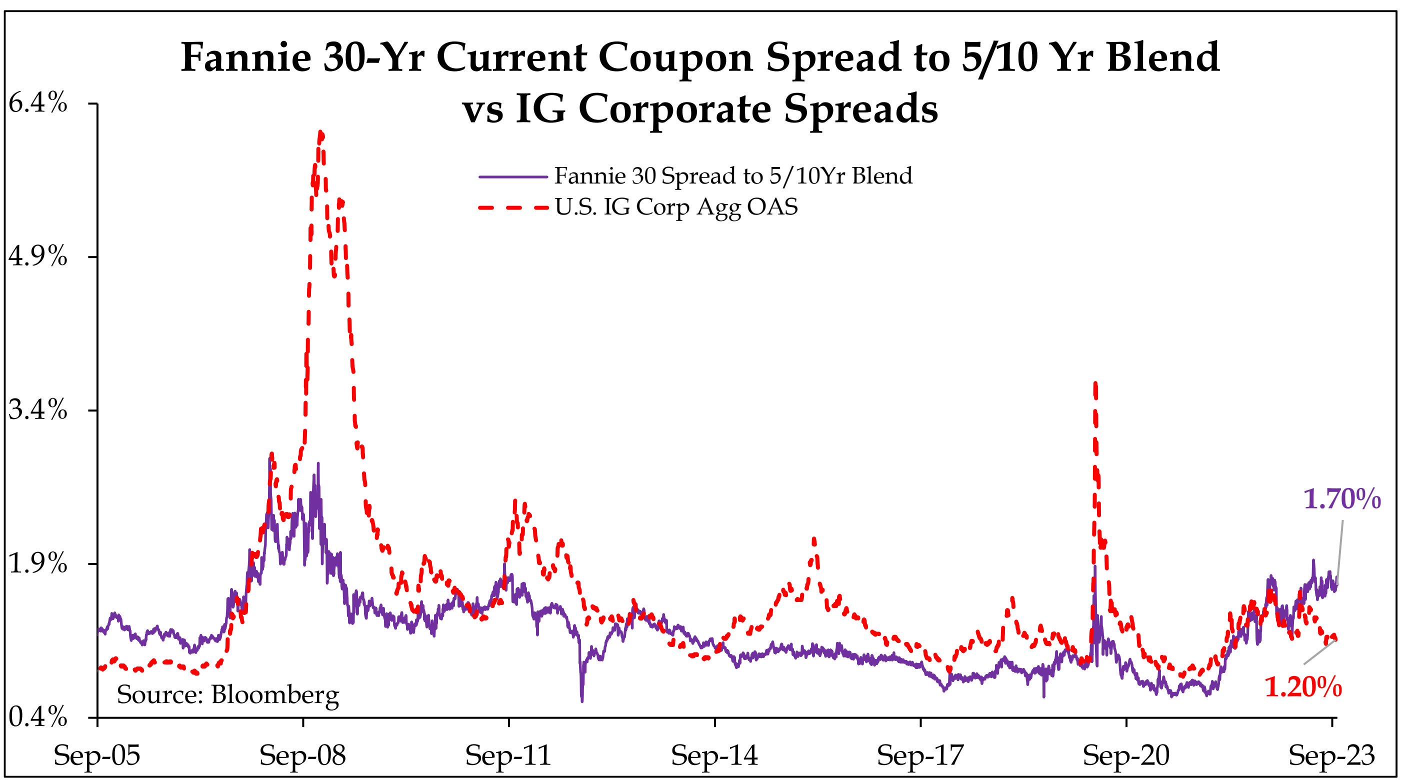
STRATEGAS MODEL SUGGESTS FFR CLOSE TO NEUTRAL



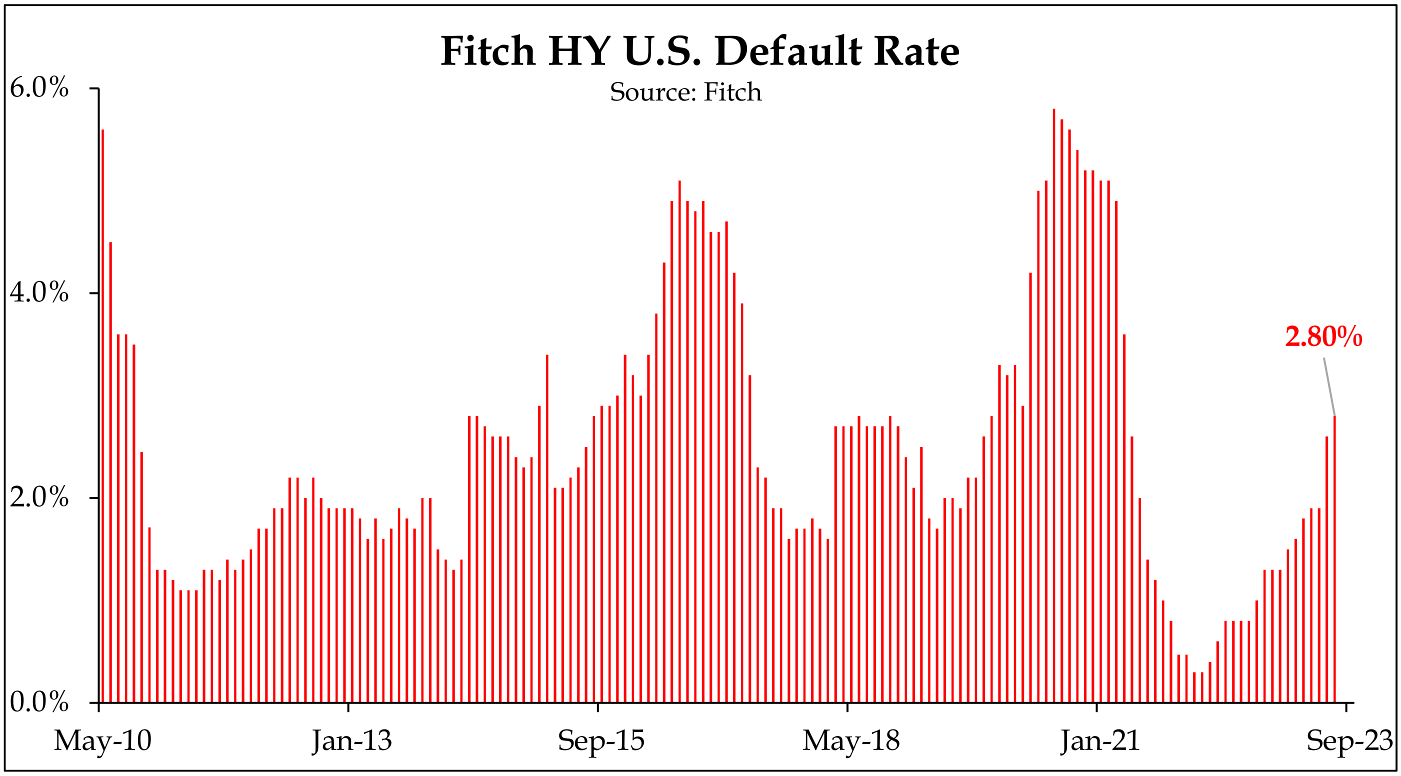
FED MBS RUNOFF CONTINUED (AT A SNAIL'S PACE) IN 3Q



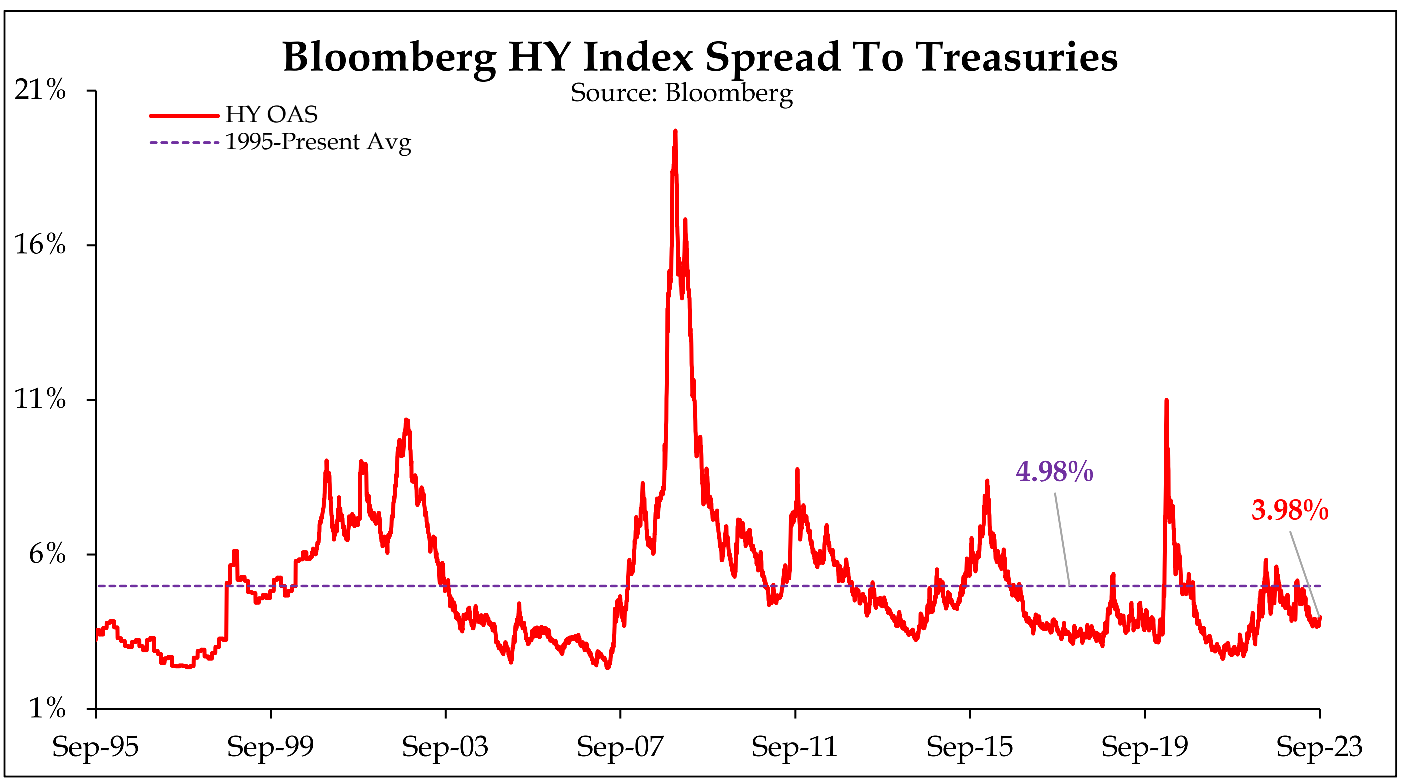
MBS STILL ATTRACTIVE VS IG CORPORATES



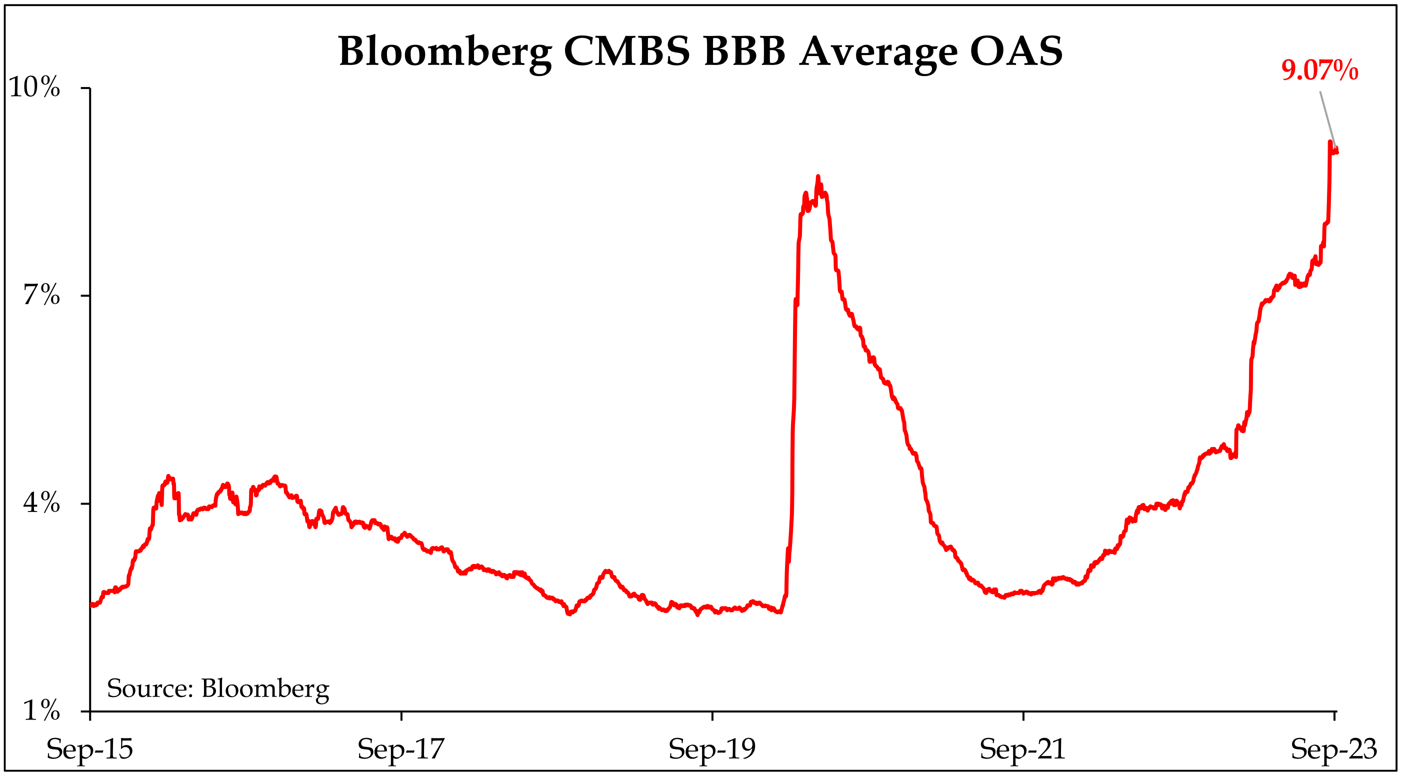
FITCH HY DEFAULT RATES CLIMBING OFF HISTORIC LOWS



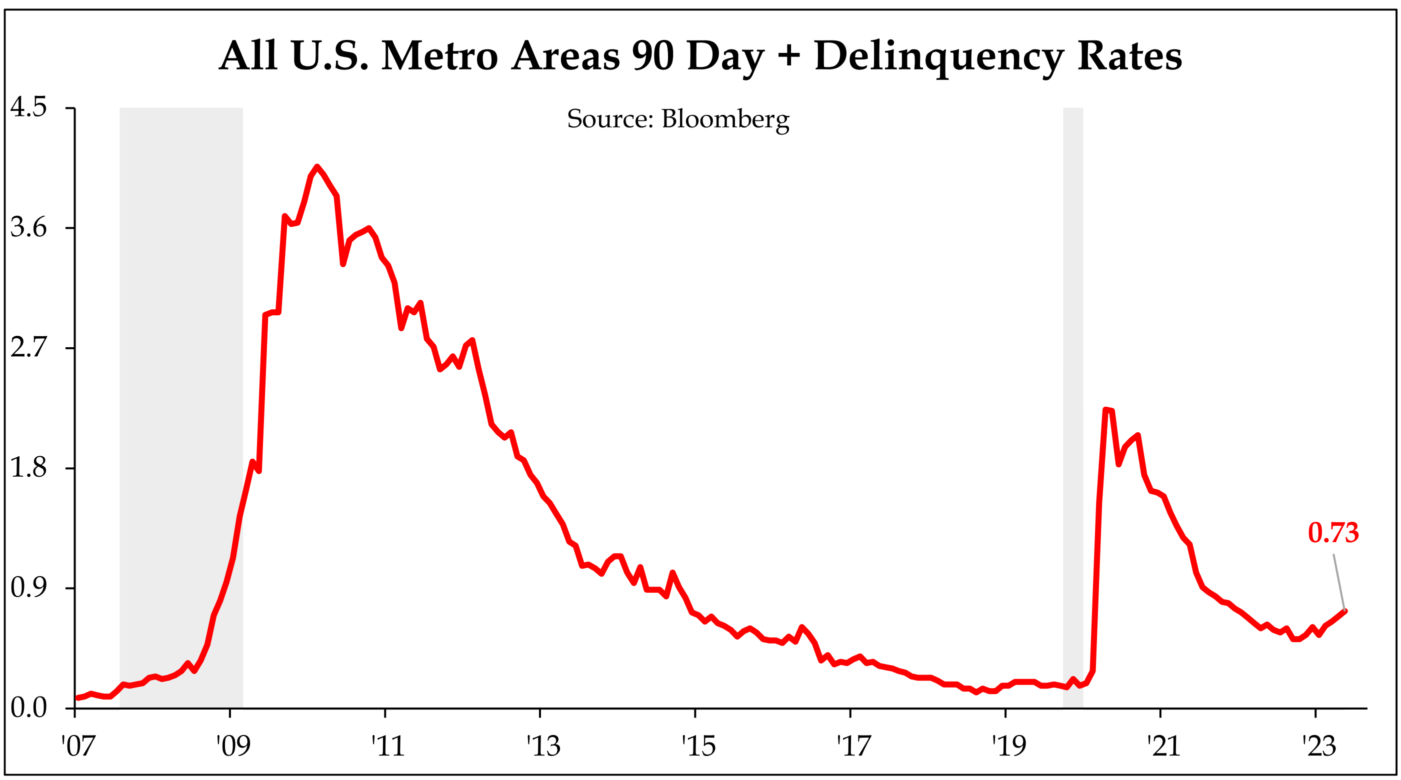
U.S. HY SPREADS STILL BELOW HISTORICAL AVG.



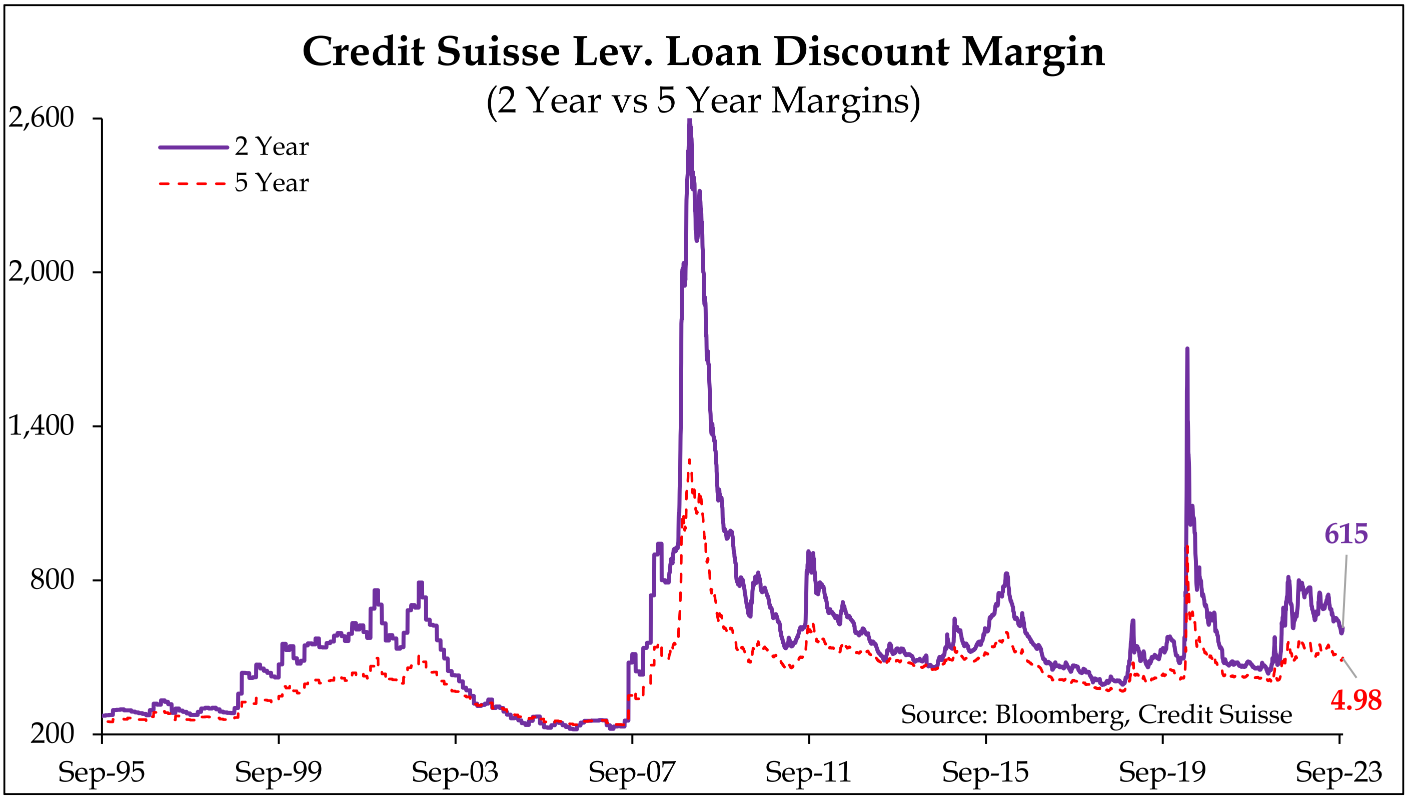
BBB CMBS SPREADS HAVE GAPPED HIGHER TO END 3Q



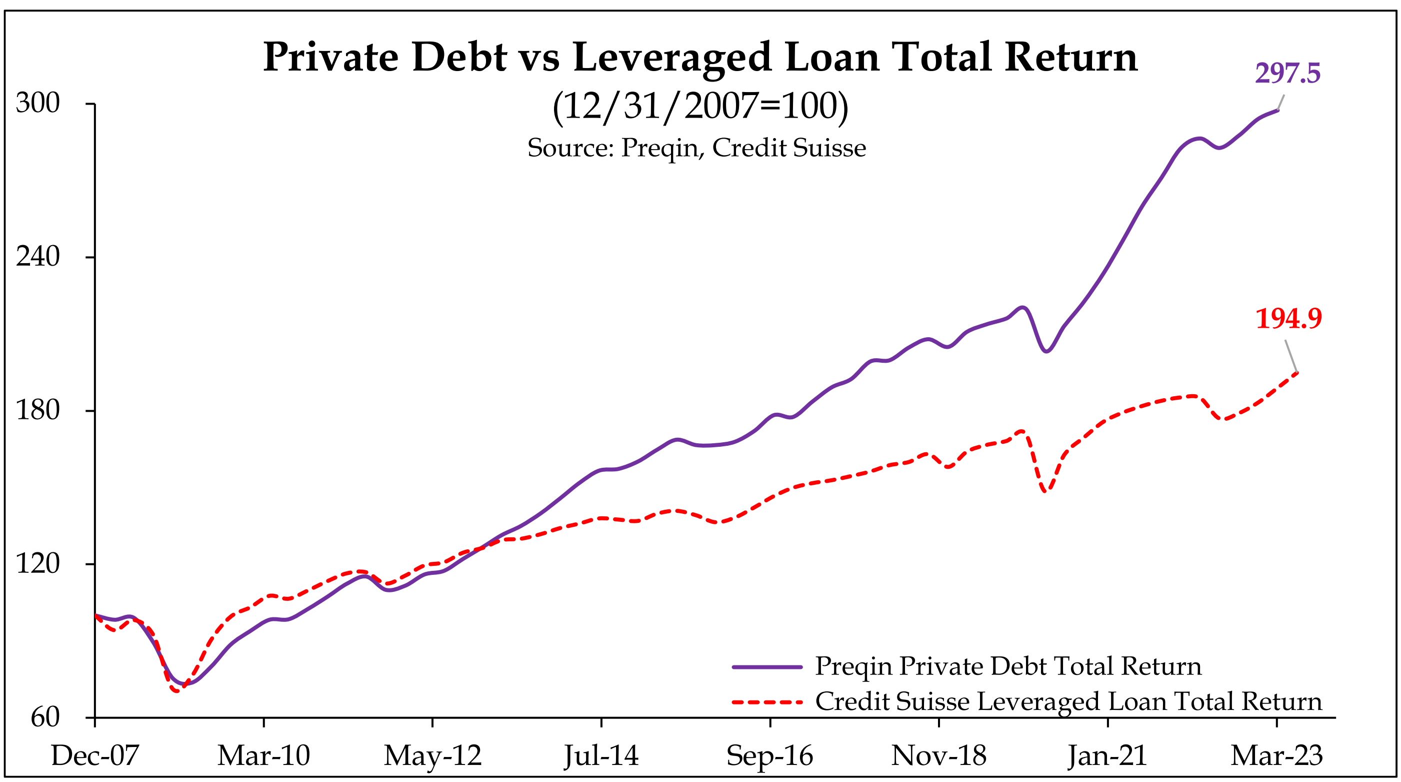
U.S. DELINQUENCY RATES STILL BELOW PREVIOUS PEAKS



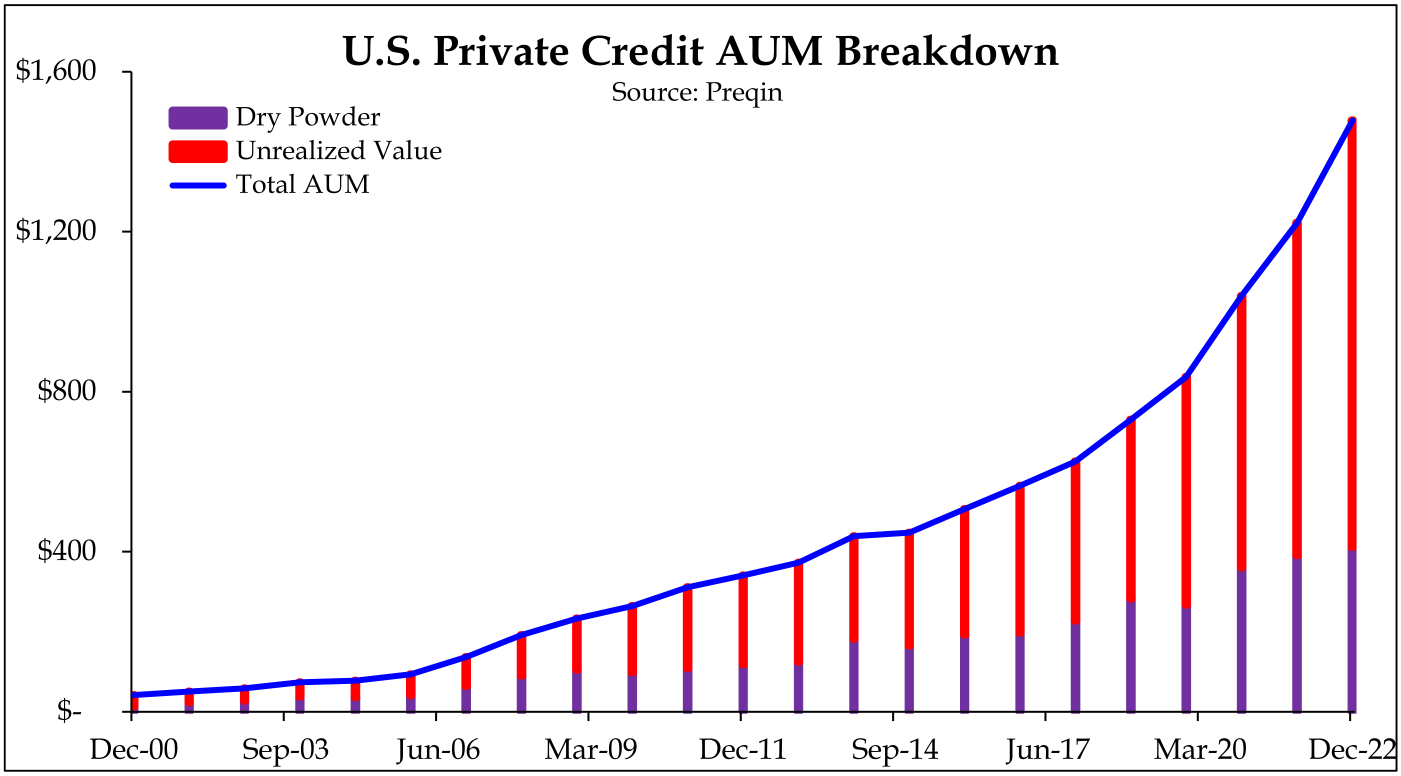
LEV LOAN DISCOUNT MARGINS EASING OFF OF 2023 PEAKS

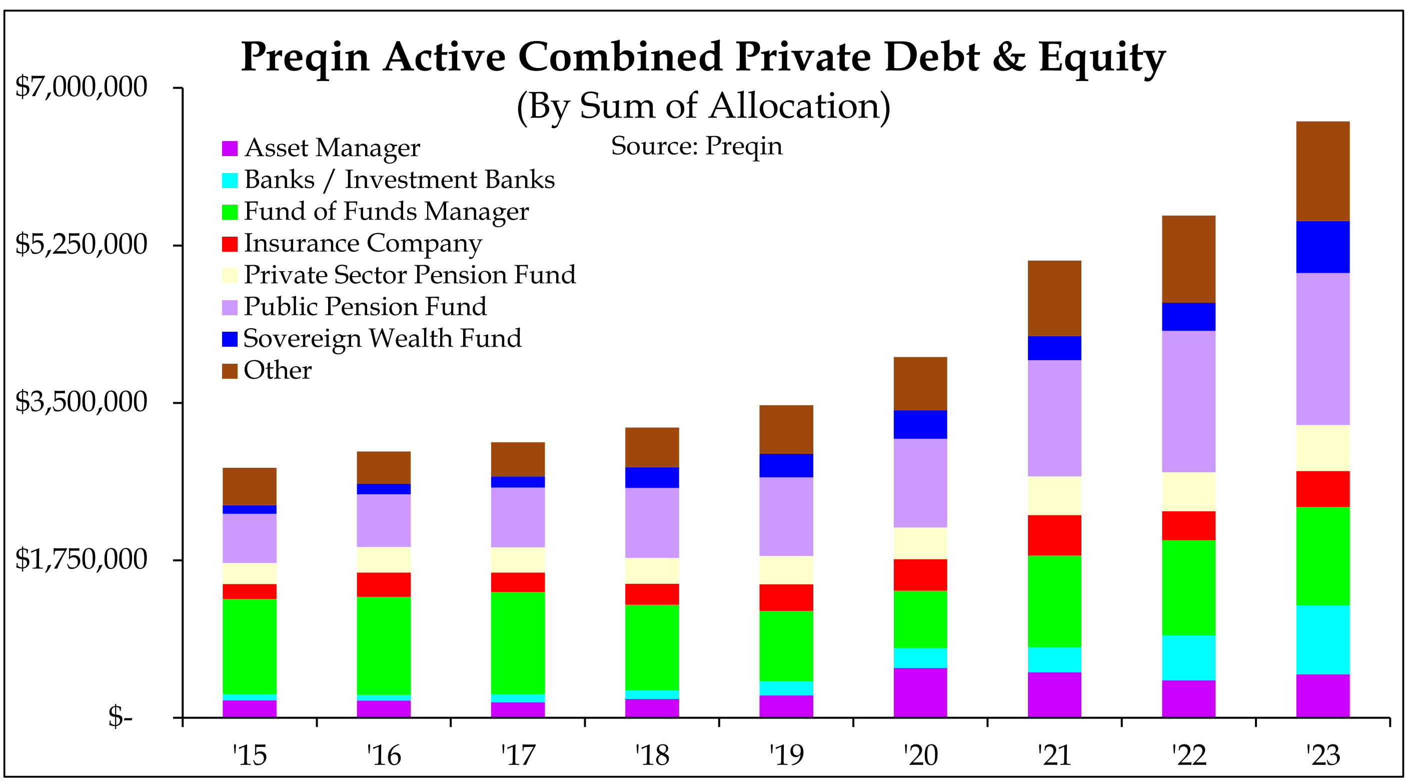


SINCE 2007, PRIV. CREDIT HAS OUTPERFORMED LEV LOANS



U.S. PRIVATE CREDIT MARKET CONTINUES TO GROW AS BANK LENDING SHRINKS





APPENDIX – IMPORTANT DISCLOSURES

This communication was prepared by Strategas Securities, LLC ("we" or "us") and is intended for institutional investors only. Recipients of this communication may not distribute it to others without our express prior consent. This communication is provided for informational purposes only and is not an offer, recommendation or solicitation to buy or sell any security. This communication does not constitute, nor should it be regarded as, investment research or a research report or securities recommendation and it does not provide information reasonably sufficient upon which to base an investment decision. This is not a complete analysis of every material fact regarding any company, industry or security. Additional analysis would be required to make an investment decision. This communication is not based on the investment objectives, strategies, goals, financial circumstances, needs or risk tolerance of any particular client and is not presented as suitable to any other particular client. The intended recipients of this communication are presumed to be capable of conducting their own analysis, risk evaluation, and decision-making regarding their investments.

For investors subject to MiFID II (European Directive 2014/65/EU and related Delegated Directives) or the UK laws, regulations and measures implementing MiFID II and the Delegated Directives as they form part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended, and regulations made under that Act: We classify the intended recipients of this communication as "professional clients" or "eligible counterparties" with the meaning of MiFID II and the rules of the UK Financial Conduct Authority. The contents of this report are not provided on an independent basis and are not "investment advice" or "personal recommendations" within the meaning of MiFID II and the rules of the UK Financial Conduct Authority.

The performance and other information presented in this communication is not indicative of future results. The information in this communication has been obtained from sources we consider to be reliable, but we cannot guarantee its accuracy. The information is current only as of the date of this communication and we do not undertake to update or revise such information following such date. To the extent that any securities or their issuers are included in this communication, we do not undertake to provide any information about such securities or their issuers in the future. We do not follow, cover or provide any fundamental or technical analyses, investment ratings, price targets, financial models or other guidance on any particular securities or companies. Further, to the extent that any securities or their issuers are included in this communication, each person responsible for the content included in this communication certifies that any views expressed with respect to such securities or their issuers accurately reflect his or her personal views about the same and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this communication. This communication is provided on a "where is, as is" basis, and we expressly disclaim any liability for any losses or other consequences of any person's use of or reliance on the information contained in this communication.

Strategas Securities, LLC is affiliated with Robert W. Baird & Co. Incorporated ("Baird"), a broker-dealer and FINRA member firm, although the two firms conduct separate and distinct businesses. A complete listing of all applicable disclosures pertaining to Baird with respect to any individual companies mentioned in this communication can be accessed at http://www.rwbaird.com/research-insights/research/coverage/third-party-research-disclosures.aspx. You can also call 1-800-792-2473 or write: Baird PWM Research & Analytics, 777 East Wisconsin Avenue, Milwaukee, WI 53202.