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US Markets Fall in Volatile Third Quarter

HIGHLIGHT

- *Rising interest rates and renewed inflation fears led to market jitters.*
- *First Fiduciary initiated positions in NextEra Energy (NEE), a high-quality regulated utility with a renewable energy focus.*

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US markets pulled back in a volatile third quarter, as investors grappled with multiple concerns including rising interest rates and a potential recession. The S&P 500 fell in the quarter, and the Nasdaq Composite, heavily weighted toward technology stocks, fell even further. First Fiduciary portfolios also experienced losses in the quarter as fears of a recession began to get priced in. Regardless of what the economy might do in the near-term, we are confident our collection of well-managed and financially-sound companies can outcompete weaker peers and emerge stronger on the other end.

Inflation reared its ugly head again in Q3. After falling for twelve consecutive months through June of 2023, the CPI picked up in both July and August. The spike was driven primarily by energy prices, with gasoline prices rising 7% to \$3.96 per gallon on average and WTI crude increasing nearly 30% to \$90 per barrel. The yield on 10-year US Treasuries climbed to 4.57%, up from 3.82% at the end of the second quarter. Mortgage rates climbed to 8.4% (30-year fixed-rate), further impacting the affordability of housing. Higher interest rates threaten to weigh on economic growth and corporate profits.

During the quarter, First Fiduciary initiated positions in NextEra Energy (NEE). NextEra Energy is the largest electric utility in the United States by number of customers and the world leader in electricity generated from clean energy sources (wind, water, or sun). Often considered bond proxies, the shares of regulated utilities, including NEE, have underperformed the overall market since the Fed rate hike cycle commenced in March 2022. This created an opportunity to own the highest quality utility, in our view. Florida's growing population and its constructive regulatory environment lead us to believe NEE can deliver above average revenue and earnings growth.

Despite the pullback in the third quarter, US markets have delivered gains this year, a welcome reprieve after a difficult 2022. We expect more volatility throughout the balance of the year as investors continue to struggle with the ramifications of higher interest rates. With investors now being tempted by low-risk 5+% returns from US Treasuries and FDIC-insured CDs, the opportunity cost for investment in the stock market has increased to its highest level in over a decade. At First Fiduciary, however, nothing has changed with respect to our investment process. As always, we look to invest in industry-leading companies with the ability and wherewithal to return capital to shareholders. The ownership of a diversified portfolio of high-quality companies with strong prospects provides a powerful margin of safety for our clients over the long-term. In our view, if we focus on limiting the downside, the upside will take care of itself.