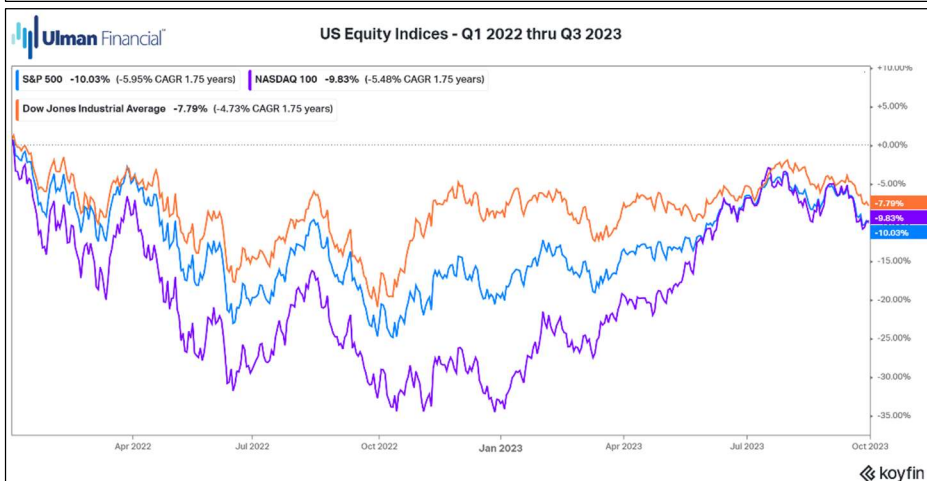
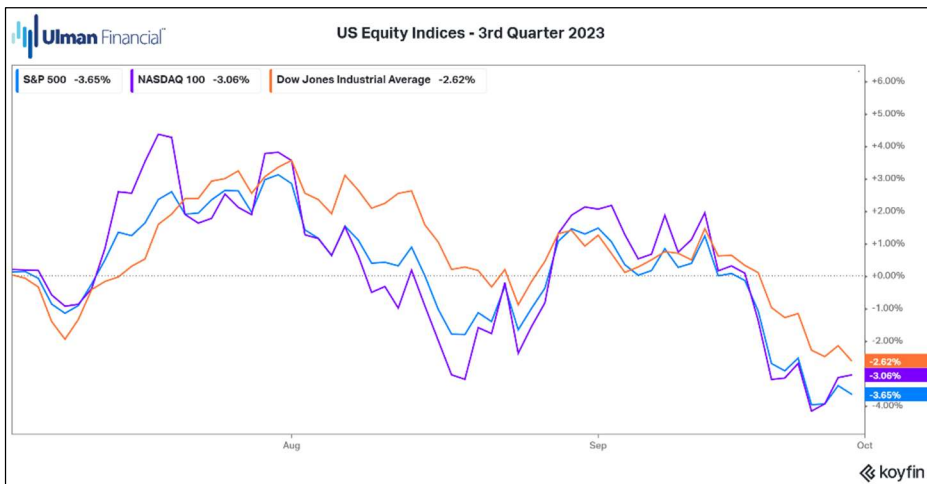


October 2, 2023 – 'Tis the Season

The third quarter of this year started off strong for US equities, extending into early August the impressive year-to-date rally that had been driven primarily by a handful of the largest technology companies. In the two months since, the Federal Reserve has splashed cold water on markets by reiterating their intention to keep short-term interest rates elevated until inflation further retreats to the Fed's 2% target. As a result, bonds took another hit and the three major US equity indices have retraced a bit of their 2023 rally. From Morningstar:

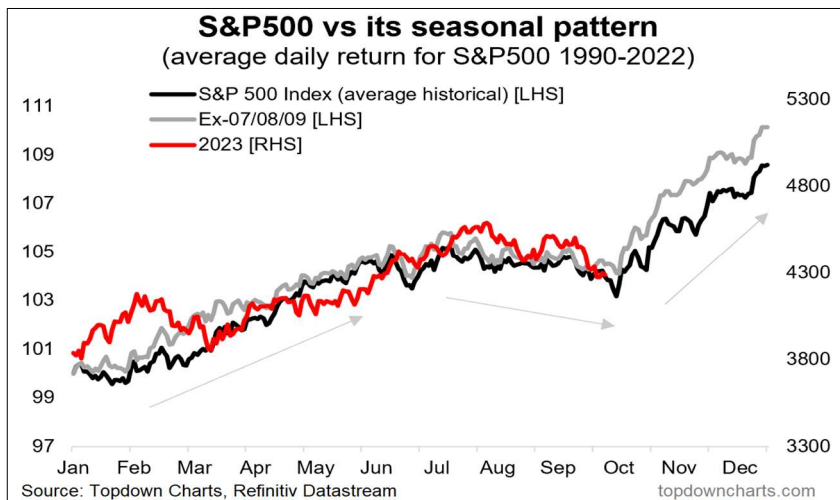
High-yield, short-term bonds kept afloat during the third quarter, while the rest of the fixed-income market (especially long-term bonds) took a hit from the Fed's higher-for-longer stance on interest rates. The broad-based Morningstar US Core Bond Index lost just over 3% - its biggest quarterly loss since the third quarter of 2022, when many bond funds posted their worst losses ever... Long-term bonds – those due in 10 years or more, whose longer duration makes them the most sensitive to interest rates – were hit hardest. The Morningstar Long-Term Treasury Bond Index fell -11.9% and the Morningstar Long-Term Core Bond Index lost -9.5% during the third quarter.

-Morningstar, October 2, 2023

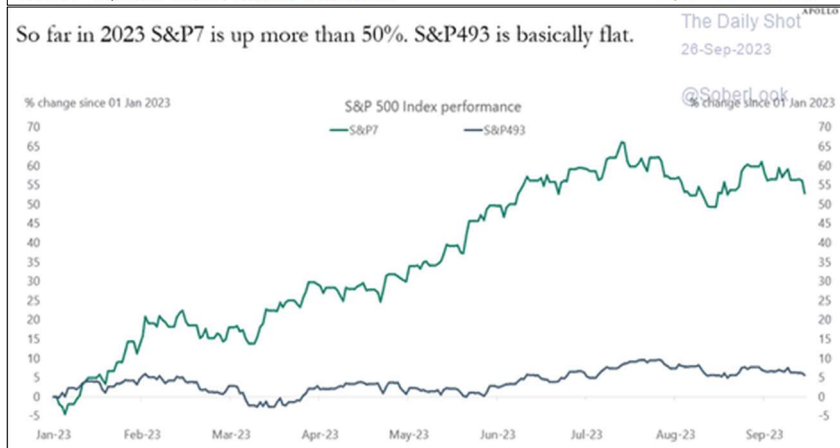


The S&P 500* and Nasdaq* both had their worst monthly declines of the year in September, falling by -4.9% and -5.8%, respectively. Despite these indices' impressive first half of the year performance, both remain approximately 10% below their year-end 2021 peaks. (chart bottom left) The Dow Jones Industrial Average* has much less technology exposure than the S&P 500 and Nasdaq, and as such has not participated in the AI exuberance this year. The Dow is barely positive year-to-date but has still managed to outperform the S&P 500 and Nasdaq over the past two calendar years.

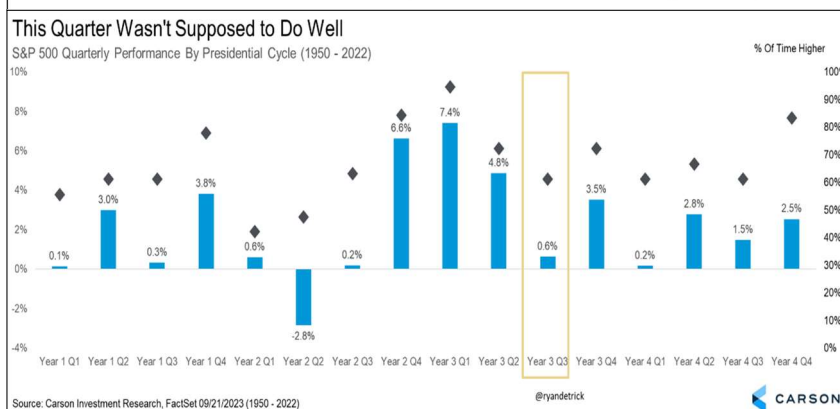
We view the greater-than-5% yields currently available on relatively low-risk short-term Treasuries to be very attractive. We maintain our recommendation to overweight



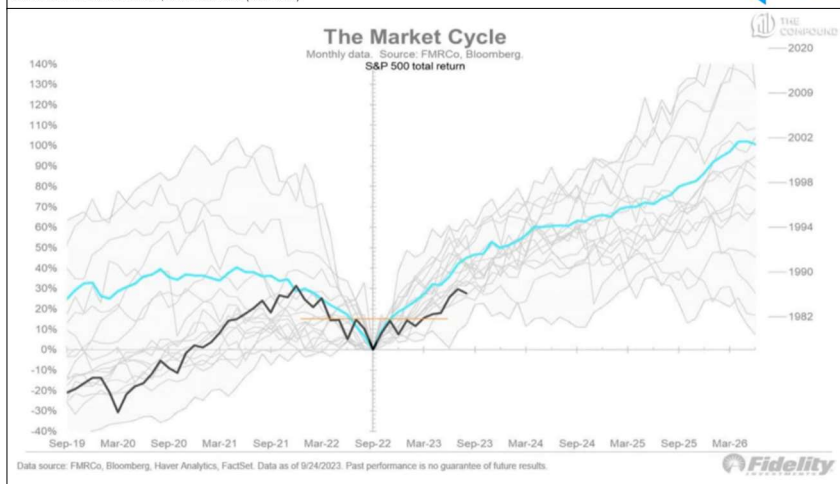
short-term bonds and to underweight equities for most investors, but we expect that the next three months could be more favorable than the last three for stocks. We wrote in July that we intended to use any near-term pullbacks as an opportunity, and we have been slowly adding exposure to the areas of the market that we have highlighted in past letters, namely ETFs focusing on the equal-weighted S&P 500 Index, energy producers, infrastructure and materials.



As can be seen in the chart on the top left, we are just about through the market's weakest historical time of year and are entering the most favorable months for the S&P 500. The fourth quarter is seen by many hedge funds and short-term traders as a time to make up for any year-to-date underperformance, and because this year's gains have been so concentrated in the largest seven companies (chart second left) virtually all diversified investors are underperforming the S&P 500 and Nasdaq in 2023. This chase for performance could provide a boost to the market into year-end.

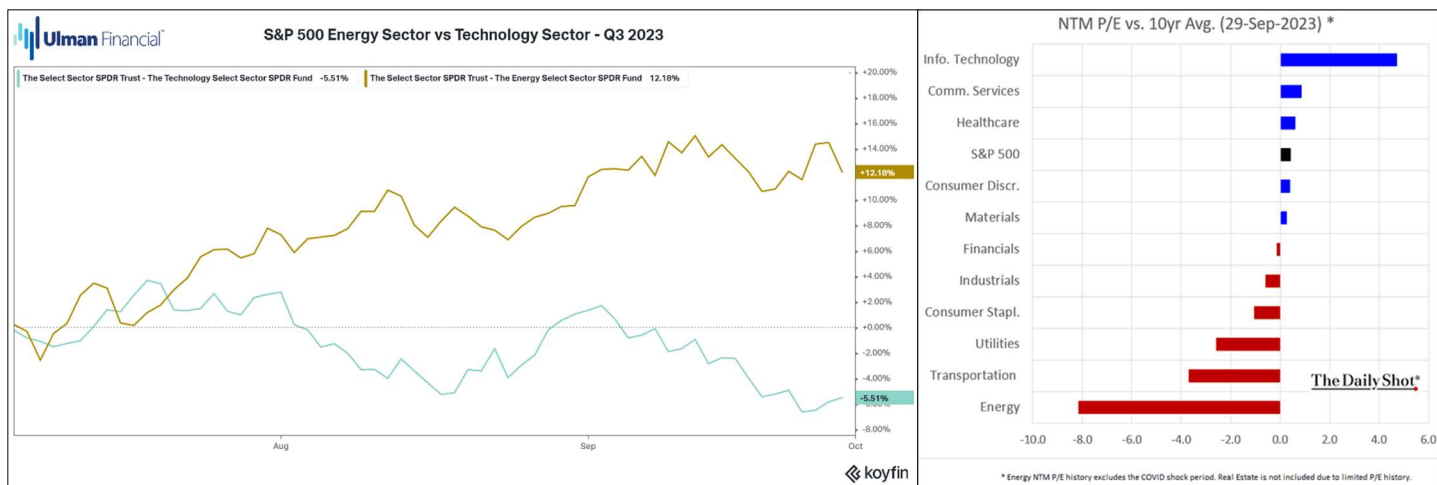


Interestingly, a look at the four-year presidential cycle over the past seventy years indicates that the third quarter of pre-election years tends to be weak, as we just experienced, but that the average fourth quarter typically sees a rebound. (chart third left)



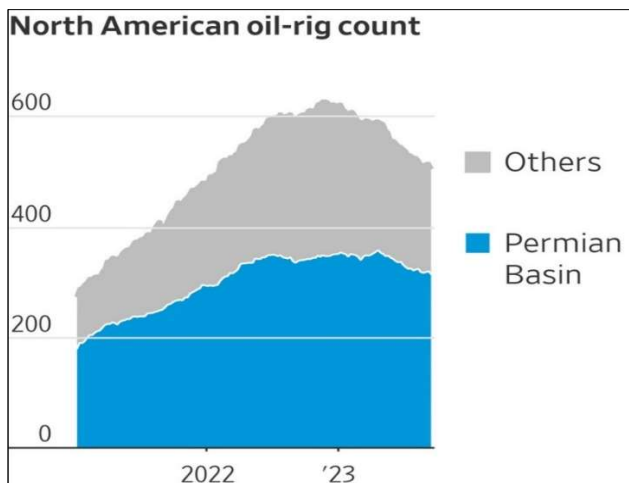
Assuming the bear market bottom we saw in October 2022 proves to be a durable bottom and we are now in the early stages of the next bull market; the S&P 500 is actually underperforming the historical average (chart bottom left) and could have room to run, absent a recession.

While average historical charts of seasonality and bull market advances are in

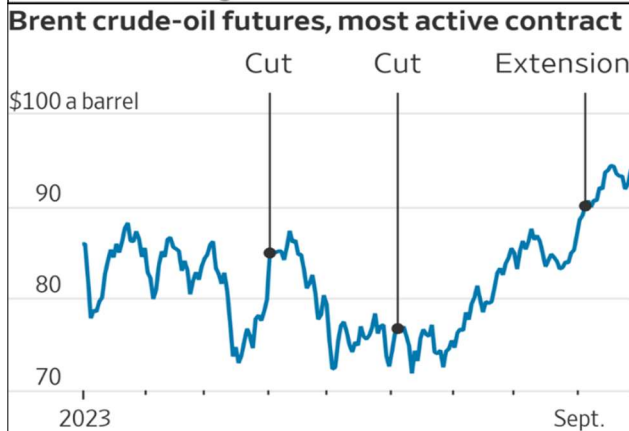


no way guarantees of future stock performance, we highlight these averages only to demonstrate that it would be well within historical norms to see a strong recovery in the final months of the year.

The S&P 500 energy sector, one of our recommended equity focuses, vastly outperformed the technology sector in the third quarter (chart top left) after having underperformed in the first half of the year. We anticipate that this recent outperformance could continue in the fourth quarter and beyond as oil prices are expected to remain elevated and the energy sector boasts much more attractive valuations. (chart top right; NTM = Next 12 Months)



Source: Baker Hughes



Note: Annotations correspond to dates when cutbacks were announced, not first implemented.

Source: FactSet

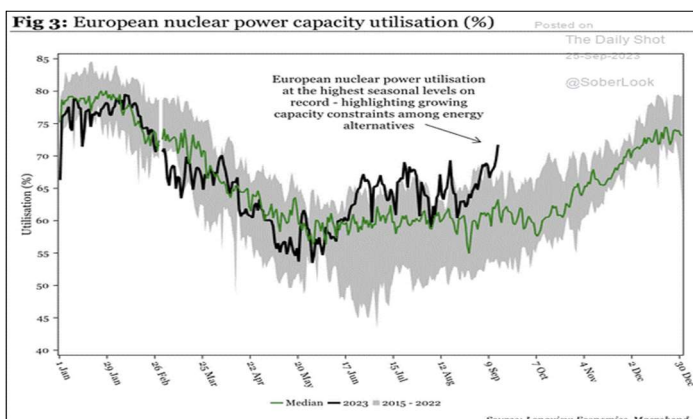
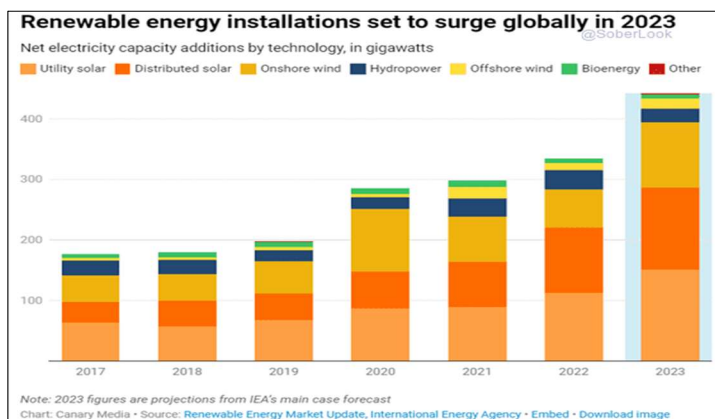
From the Wall Street Journal:

In the Permian Basin, America's most active oil field, the number of rigs drilling for crude has fallen, (chart middle left) and US shale companies aren't rushing to drill more. Most companies have vowed to hand over their winnings to investors, while also facing inflationary pressures, keeping spending in check...

Some analysts say oil prices could soon hit \$100 a barrel... Unlike past years when frackers flooded the market with crude and alleviated pressure, oil prices might remain elevated until someone else adds production or demand ebbs. Constrained by investor payouts, inflation and interest rates, frackers want to keep spending down.

Meanwhile, Saudi Arabia and Russia have raked in billions of dollars in extra oil revenue in recent months, after their production cuts sent crude prices soaring. (chart bottom left) The cutbacks were a risky strategy, both financially and politically, but they appear to be paying off for the two OPEC+ members.

- Wall Street Journal, September 29, 2023



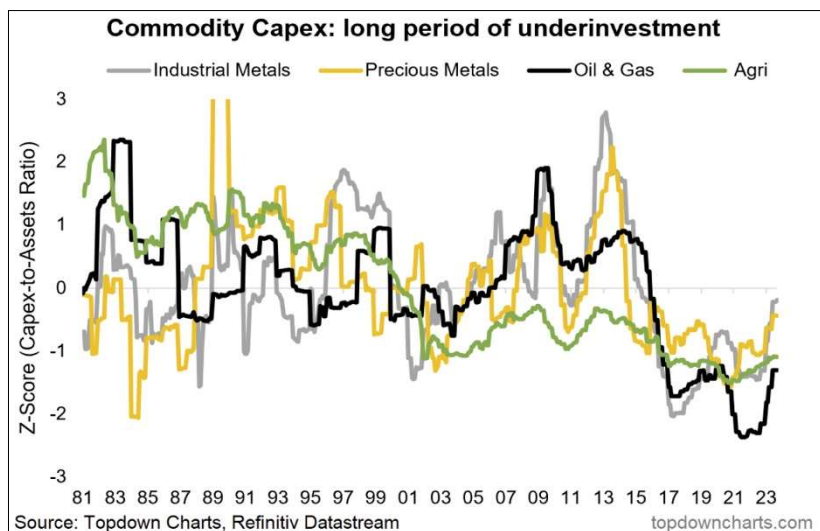
Many investors have shied away from the traditional energy sector because of the perceived risk from the green energy transition. While it is certainly true that renewable energy capacity has increased dramatically this year (chart top left) and is expected to continue to increase as more solar and wind facilities come online in coming years, the expected growth in demand for electricity is likely to far outpace that increase in alternative supply (chart top right). As the use of AI spreads to more and more industries and applications, requiring more and more electricity, the demand for, and therefore value of, energy from any source will likely increase. From Yahoo! Finance:

Artificial intelligence is expected to have the most impact on practically everything since the advent of the internet. Wall Street sure thinks so. The tech-heavy Nasdaq is up 26% year-to-date thanks to the frenzy over AI-related stocks. But AI's big breakout comes at a cost: much more energy...

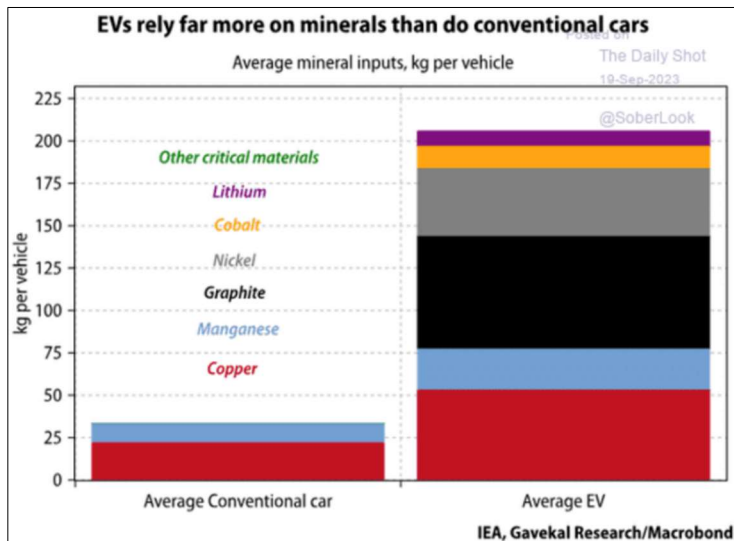
Data centers have increasingly shifted from using simpler processors, called CPUs, to more advanced graphics processing units, or GPUs... "For the next decade, GPUs are going to be the core of AI infrastructure. And GPUs consume 10 to 15 times the amount of power per processing cycle than CPUs do. They're very energy intensive..."

Data center energy usage grew 25% a year on average between 2015 and 2021. This was before generative AI grabbed national headlines... Meanwhile, US Energy Information Administration data revealed an annual growth rate in renewable deployment of 7% during the same period, though that number is expected to increase with initiatives like the Inflation Reduction Act.

- Yahoo! Finance, September 30, 2023



As governments and utility companies race to keep pace with the ever-increasing demand for electricity, the need for new and modernized energy infrastructure will increase, and it doesn't appear that commodity producers are ready to answer the call. Capital expenditure (Capex) in all commodities sectors has seen almost a decade of underinvestment relative to the historic norm. This pending lack of productive capacity should result in tight supply for those

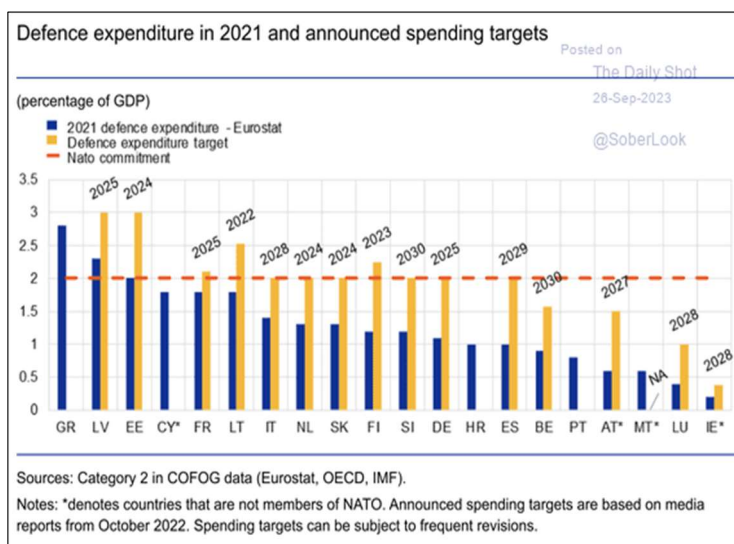


commodities, meaning higher prices, but also in an increased demand for the industrial metals and energy (fossil fuels) needed to correct the underlying shortfall of that productive capacity.

In order to adequately supply the base inputs critical to our rapidly changing economy – that is to say in order to extract, process and transport sufficient physical natural resources – we will need to build more plants, more factories, more roads and bridges, more heavy equipment – all of which requires more of the very same base inputs that will be in such high demand. Adding to the increased electricity demanded by AI, the global shift to electric vehicles (EVs) will also create additional demand for these crucial resources. (chart top left) This dynamic underlies our focus on the companies that will provide the much-needed energy, infrastructure and materials. From the Wall Street Journal:

Inflationary bubbles haven't popped as readily in mining as in some industries. Analysts warn these forces could push commodity prices – including for metals essential to the energy transition – higher for longer, and complicate central banks' efforts to contain inflation in the years to come.

- Wall Street Journal, September 29, 2023



Another competing source of demand for the above-mentioned inputs – preparing for, engaging in, and rebuilding after military conflict. Defense spending in the coming years is likely to increase dramatically (chart bottom left) as the great power competition between the US/Europe and China/Russia intensifies. The increased demand for finite resources resulting from the global green energy and EV transition will likely mean increased defense spending on all sides for years to come.

Thank you for taking the time to read our comments. We welcome you to share this letter with family and friends, and we invite you to contact us via phone or email with any questions or concerns.

Sincerely,

Clay Ulman, CFP®
CBU@UlmanFinancial.com
443-233-1131

Jim Ulman, ChFC, CLU, MBA
JWU@UlmanFinancial.com
443-866-6387

**The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of the 500 stocks representing all major industries.*

The Dow Jones Industrial Average (Dow) is a price-weighted index of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

The Nasdaq 100 Index is a basket of the 100 largest, most actively traded US companies listed on the Nasdaq stock exchange.

Morningstar US Core Bond: The index measures the performance of fixed-rate, investment-grade USD-denominated securities with maturities greater than one year. It is market-capitalization weighted. This Index does not incorporate Environmental, Social, or Governance (ESG) criteria.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

Investing involves risk including loss of principal. No strategy assures success or protects against loss.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

The fast price swings in commodities will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.