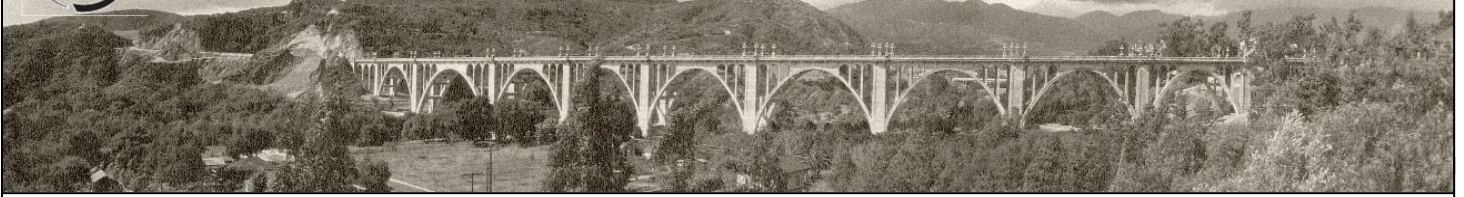




Osher Van de Voorde Quarterly Update



Passing the Baton

October 2023

Stock prices weakened throughout August and September, with the S&P 500, Dow Jones Industrial Average and NASDAQ Composite retreating -3.65%, -2.62% and -4.12% respectively during the latest quarter. While these important market barometers remain positive by 11.68%, 1.09% and 26.3% respectively YTD through September, the Fed's campaign to hold interest rates "higher for longer" is clearly weighing on markets. The NASDAQ's incredible performance relative to the rest of the market reveals a continued concentration of overall gains in mega-cap technology. The so-called "Magnificent Seven" (Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla and Meta) have accounted for over 80% of the gains in the S&P 500 and trade at 26x forward earnings compared to 16x for the rest of the S&P 500. These seven stocks are the largest companies in the S&P 500 and have an average gain of 95% YTD, while the average stock in the S&P 500 is negative YTD. This disparity is unsustainable.

Bond yields have recently reached levels not seen since 2007, with the 10-year Treasury having reached the 4.8% threshold in parabolic fashion. Despite having paused its relentless string of rate hikes at its recent September meeting, Chair Powell and the Federal Reserve now expect to cut rates by far less in 2024 than they had previously telegraphed. The Fed is forecasting the Federal Funds rate to be at 5.125% at the end of next year, just one-quarter point lower than the midpoint of the current targeted range between 5.25% to 5.5%. Furthermore, the Fed indicated that it still expects one more hike before the end of the year. In addition, the Fed pointed to a longer-term Fed Funds rate at 2.9% in 2026. This was the first time that prognostications were offered for 2026 and it is worth noting that 2.9%, while clearly much lower than today's rates, would still be higher than the 2.5% neutral rate that the Fed considers to be neither stimulative nor restrictive.

In his post-meeting testimony, Powell repeatedly advised that the Fed will "proceed carefully" in determining the extent of additional policy firming that may be necessary to bring inflation down to the Fed's 2% target. Further, Powell acknowledged a "long list" of uncertainties that may weigh on the economy going forward, including the auto worker strike, potential government shutdown, resumption of student loan payments and rising energy prices. While acknowledging these uncertainties, the Fed raised its projections for economic growth to 2.1% for 2023 and 1.5% for 2024. As the yield curve continues to dis-invert, fears of imminent recession have been allayed for now and a "softish" landing seems more likely. Overall, there has been a shift within the Federal Reserve from believing that it was better to err on the side of doing too much (more rate hikes to bring down inflation) to a new view that seems more balanced.

Meanwhile, the Fed's preferred measure for

inflation (core PCE) increased only 0.1% in August, lower than the 0.2% forecasted. On an annualized basis, core PCE is now at 3.9%, the first read below 4% in two years. The probability for a quarter-point rate hike in November is down to 15% from 28% and down to 31% from 42% for December.

With a more balanced tone from the Fed, the question might be begged as to why interest rates continue to hit new multi-year highs. For starters, despite higher rates and well-understood headwinds, the supertanker US economy continues to perform well. After rising by 2.1% in the second quarter, third quarter GDP seems to have picked up steam as evidenced by the Atlanta Fed's GDPNow estimate for 4.9% growth. Ongoing strength in the US economy is directly tied to the resilience of consumer spending which accounts for 70% of US GDP. According to Moody's Analytics, only 11% of outstanding household debt is tied to rate structures that fluctuate with benchmark rates. Since very little household debt is adjustable, the Fed's onslaught of rate hikes has had only minimal impact on consumer's ability to pay down their debt burden. Also important to the undeniable strength of the US consumer, household debt service payments continue to hover near 10% of disposable personal income, ranked among the lowest debt service ratios in history. Of the approximately \$17 trillion in US household debt, credit card debt is now over \$1 trillion for the first time and is the most troubling item on America's collective balance sheet.

The fact is that consumers were able to lock in low interest rate financing when interest rates were pegged close to zero between the 2008-2009 Great Recession and the beginning of the Fed's current rate hike campaign in 2022. Americans who purchased or refinanced real estate over the last decade were able to lock in inflation protection which is almost unthinkable today. Ironically, with most home loans held at rates well below today's 8% mortgage rate, homeowners are reluctant to sell, thereby reducing supply in the wake of persistent millennial demand. While the Fed would like to bring down the price of housing, its policies have done quite the opposite. It should be no surprise that mortgage applications are plummeting to levels not seen since the 1990s. Both supply and demand for housing have been disrupted by Fed policy and we may have reached a tipping point for housing affordability.

Finally, the US economy and US consumers are buoyed by a resilient labor market. The current US unemployment rate of 3.8% is only slightly higher than the 3.6% rate that prevailed when the Fed first began raising rates in March 2022. With headline inflation having fallen dramatically from last July's 9% annualized peak to 3.7%, after-tax *real* wages have increased every month this year. Especially boosted by generous fiscal stimulus (COVID relief, the Infrastructure Investment and Jobs Act, the CHIPS Act, and the Inflation Reduc-

tion Act), the labor market seems to have benefitted from several other factors, including a rebound in immigration, unexpectedly strong labor participation, productivity stemming from AI, cloud and other technology, and a boom in small-business creation. If the combination of these factors persists, the Fed may be able to maintain its restrictive policy to further quell inflation without having to force a painful economic transition. While employment growth has slowed to a three-month average pace of 150,000 jobs created from 240,000 over the previous three-month period, job openings are still 26% higher than pre-pandemic levels with approximately 1.5 jobs available for every unemployed worker.

At least so far, the Fed is successfully bringing down inflation without any material degradation to consumer spending or the labor market. With the Fed tightening phase at or near the end of this cycle, interest rates should be reaching an imminent peak. While competition for stocks is undeniable with the yield on 10-year Treasuries approaching 5%, appreciation potential for the vast majority of companies left behind in this year's mega-cap stock market advance is compelling. For this year's advance to truly earn its status as a new bull market rather than a highly concentrated bear market rally, the baton needs to be passed from the mega-cap "generals" to the countless "soldiers" that remain obscured. Should the S&P 500 not be able to hold the technically significant 4,200 level, a re-test of the October 2022 lows may come into play. The coming earnings season may be an important catalyst for the stock market rally to finally broaden out, especially with an abundance of attractive valuations for high quality companies and a stronger than expected economy likely to fuel upside earnings surprises.

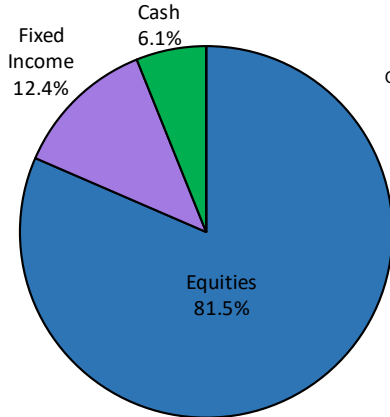
It is important to keep the recent rise in bond yields in perspective and understand that this is consistent with normalization from the anomaly of decade-plus ultra-low rates. Since 1962, the average yield on ten-year Treasuries was 5.9%, more than 1% higher than today's rates. Cash is no longer trash and investors can now earn a very respectable return on their savings. In addition, higher real yields are doing much heavy lifting for the Fed and may help keep further Fed rate hikes at bay.

An increasing risk to our base case expectation for a broadening of the market advance is a sharper than expected spike in interest rates. For rates to move much higher, we would have to see inflation or oil prices surprise to the upside, or bond investors demanding higher yield to compensate for the oversupply of Treasury debt needed to fund the government. While reigning in profligate government spending is long overdue and welcome over the long term, the return of bond vigilantism may prove painful in the short term.

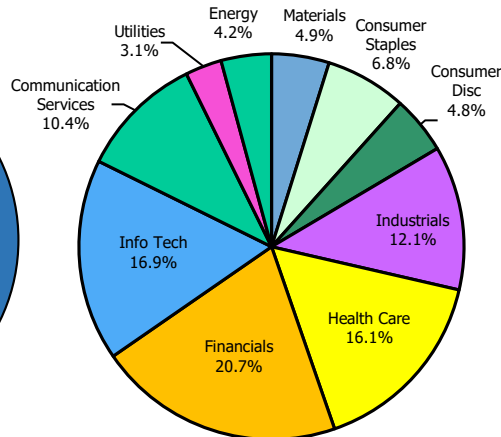
Investment Strategy Summary

As of September 30, 2023

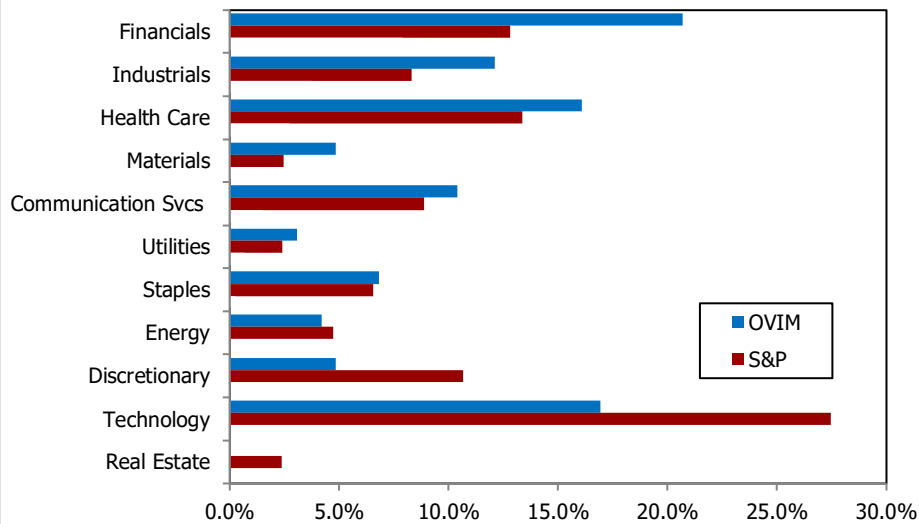
Firmwide Asset Allocation



Equity Sector Allocation



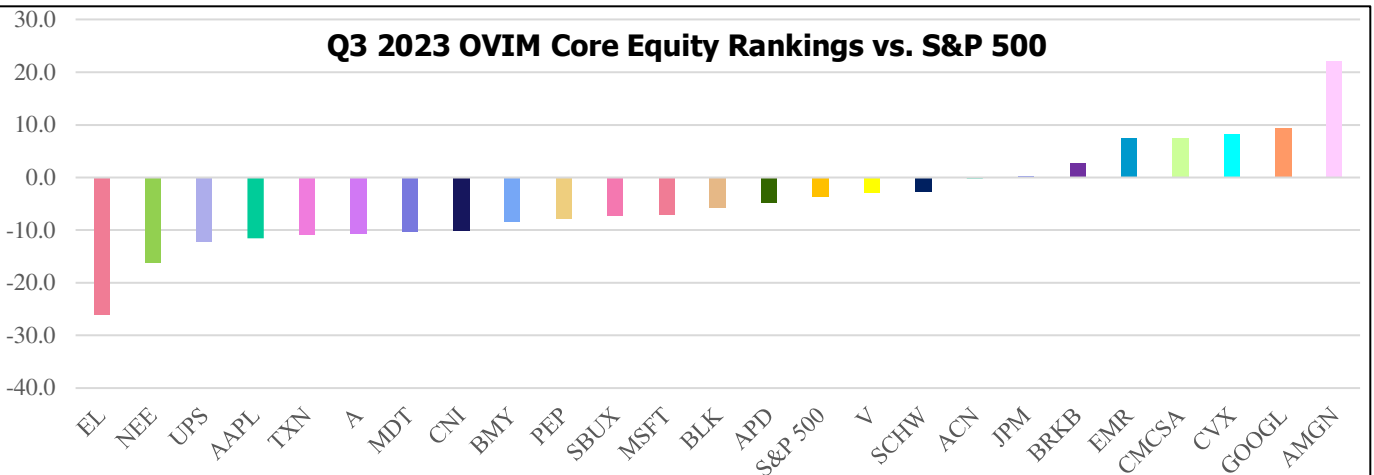
Sector Weightings Relative to S&P 500 Ranked by Largest Overweight



Top Core Global Equity Holdings

Alphabet Inc. Class A	GOOGL
Comcast Corp.	CMCSA
Air Products & Chemicals Inc.	APD
Amgen Inc.	AMGN
JP Morgan Chase & Co.	JPM
Berkshire Hathaway Inc. Cl. B	BRKB
Visa Inc.	V
Emerson Electric Co.	EMR
Microsoft Corp.	MSFT
Chevron Corp.	CVX
Accenture PLC Class A	ACN
BlackRock Inc.	BLK
Starbucks Corp.	SBUX
PepsiCo Inc.	PEP
Apple Inc.	AAPL
United Parcel Service Inc.	UPS
Texas Instruments Inc.	TXN
Canadian National Railway Co.	CNI
Medtronic PLC	MDT
Bristol-Myers Squibb Co.	BMJ
Agilent Technologies	A
Nextera Energy Inc.	NEE
Estee Lauder Companies Inc.	EL
Charles Schwab Corp.	SCHW

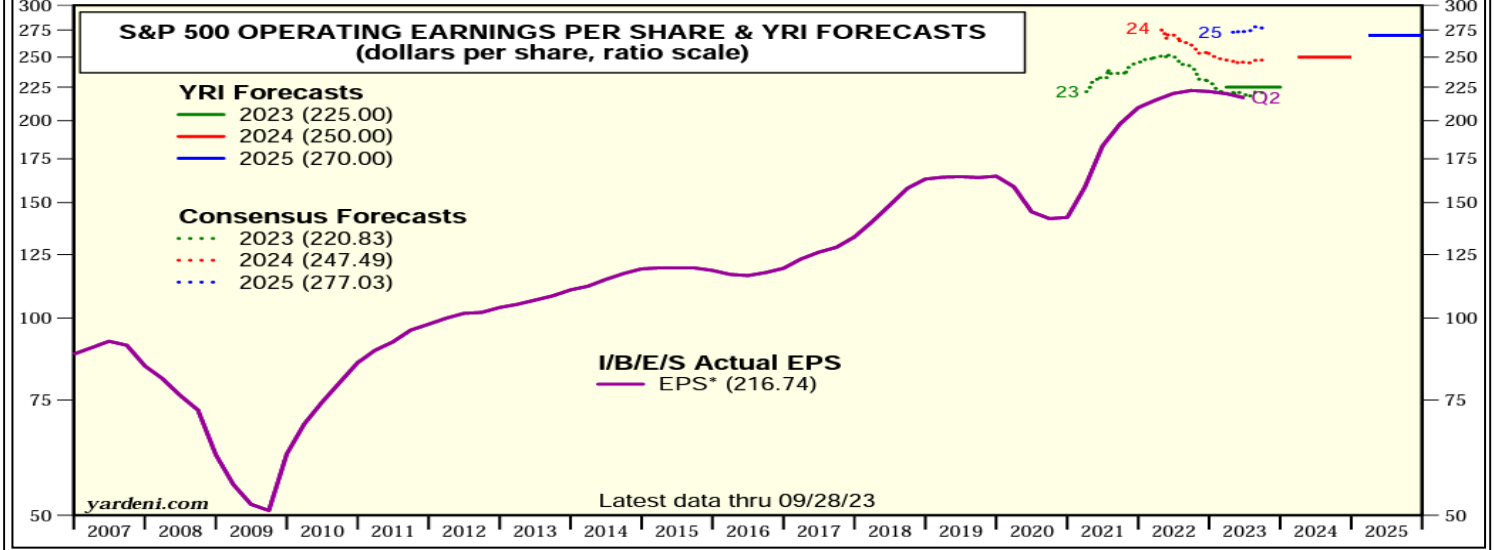
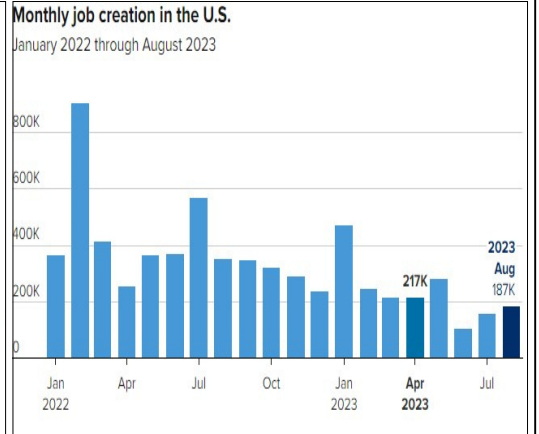
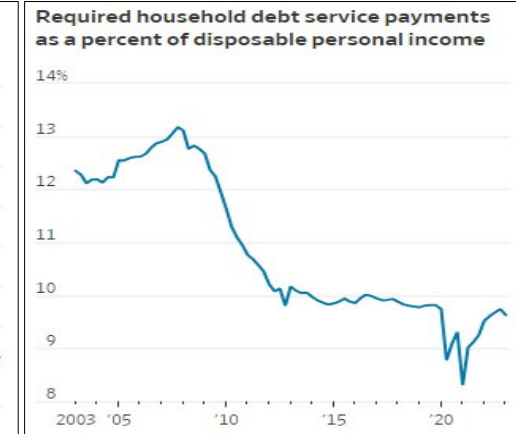
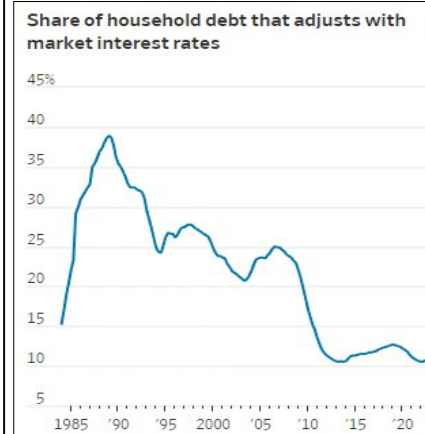
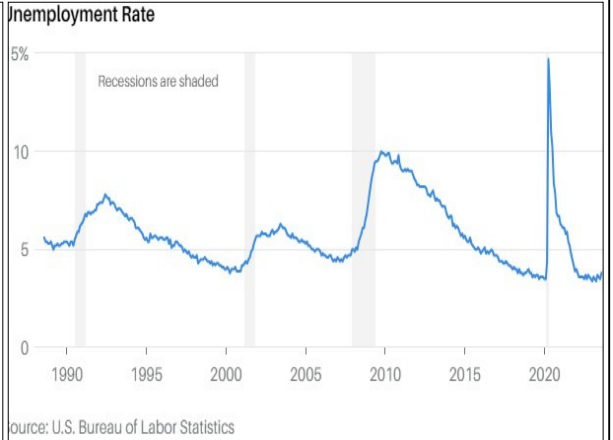
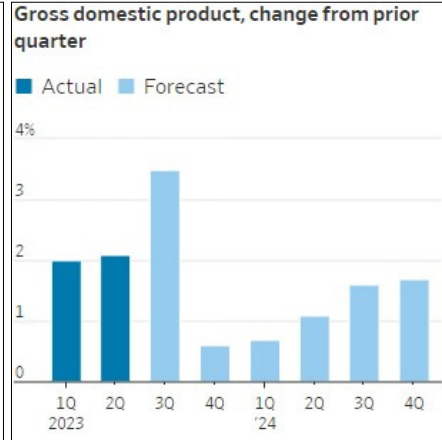
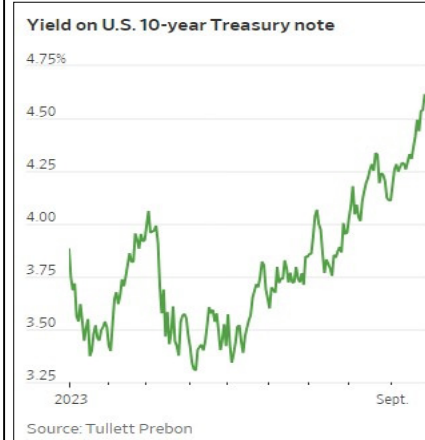
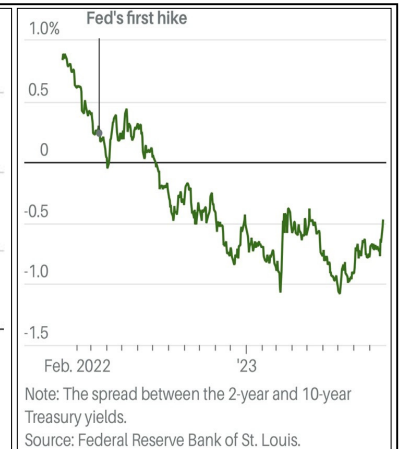
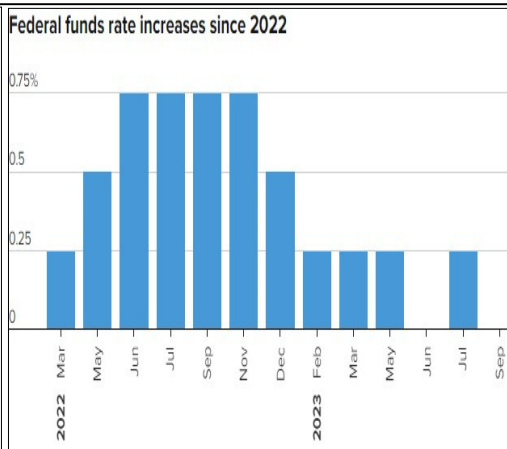
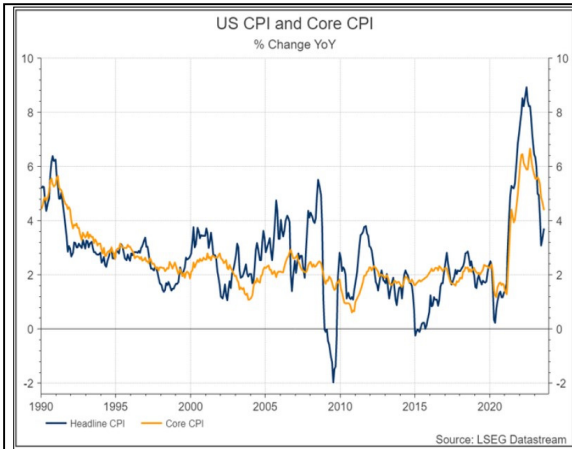
Q3 2023 OVIM Core Equity Rankings vs. S&P 500



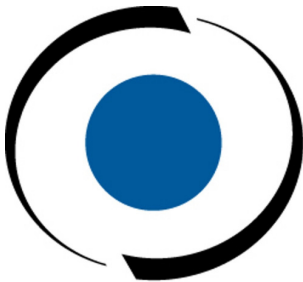
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The S&P 500 Index or the Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The S&P 500 is a float-weighted index, meaning company market capitalizations are adjusted by the number of shares available for public trading. Note: Investors cannot invest directly in an index. These unmanaged indices do not reflect management fees and transaction costs that are associated with most investments.

Charting the Markets



*Empowering clients to realize
lifelong goals with confidence
and peace of mind.*



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Qualified Longevity Annuity Contract (QLAC)

Passed in December 2022, the SECURE Act 2.0 includes an enhanced form of longevity insurance designed to help prevent you from outliving retirement savings. The new legislation increases the amount one can use from eligible qualified retirement plans such as IRAs and 401(k)s to purchase a Qualified Longevity Annuity Contract (QLAC). The QLAC provides guaranteed lifetime income in retirement and defers taxes on the sum transferred from your IRA to the QLAC as that sum is no longer included in the calculation of your taxable Required Minimum Distribution (RMD). The QLAC may be a good choice for investors who may not need their RMD to cover current expenses and wish to defer income past RMD age and receive guaranteed income later in life.

Starting in 2023, up to \$200,000 per individual with no percentage of savings limit (up from the lesser of \$145,000 or 25% of retirement assets) can be used to purchase a QLAC through a tax-free transfer of assets from an eligible retirement plan. A QLAC can be purchased with funds held in an IRA or an eligible 401(k) but cannot be purchased with funds held in an Inherited IRA or Roth IRA. A QLAC is a deferred income annuity, an insurance contract that will pay recurring lifetime income starting at a future date. Future annuity payments will be based on the amount used to purchase the QLAC, the growth rate guaranteed by the QLAC provider, and the future contract date when you start receiving annuity payments. In general, the longer the annuity payments are deferred, the larger the future recurring payments will be.

The transfer of assets from your eligible retirement plan to purchase the QLAC is tax-free, and taxes are not due until annuity payments begin which can be as late as age 85. Taxes are deferred since the amount used to purchase the QLAC from your IRA or other eligible qualified retirement plan is excluded for the purposes of calculating your RMD. For example, if you have an IRA valued at \$1,500,000 and you use \$200,000 to purchase a QLAC, your RMD will be based on the remaining IRA balance of \$1,300,000 resulting in a smaller RMD and possibly lower taxable income.

QLAC payouts can be structured according to a variety of annuity options including single-life, joint-life, and period-certain. A lower recurring payout may be selected to provide a death benefit for beneficiaries and a return of premium feature may be included which ensures that the original purchase amount less any distributions will be left for your beneficiaries upon your passing. Specific payment options will vary based on the annuity contract and the issuer.

According to recent quotes which are subject to change, a 72-year-old male may purchase a \$200,000 single life-only QLAC and receive \$4,849 in monthly income at the age of 85 for life, or \$4,652 monthly income if he selects the cash refund option where his beneficiaries receive a lump sum payment of the original QLAC investment less any income payments made before death. According to recent quotes which are subject to change, a 55-year-old male who purchased a \$200,000 single life-only QLAC with no death benefit for beneficiaries can expect to receive \$11,541 in monthly lifetime income beginning at age 85, or \$6,174 monthly lifetime income beginning at age 85 for a joint life QLAC for himself and a 48-year-old joint annuitant.

The QLAC may be especially beneficial for those who have long life expectancy, providing a steady stream of guaranteed income and helping insure against the possibility of outliving one's retirement savings. With centenarians among the fastest-growing segments of our population, the QLAC may serve as a meaningful augment to Social Security and as a means to mitigate potential volatility in stocks and bonds.

While the QLAC may protect against the downside risk of investing and provide guaranteed lifetime income, the amount removed from retirement savings to purchase the QLAC may not achieve the same level of attractive tax-deferred growth that markets have historically enjoyed. In addition, the purchase of a QLAC will result in the inability to access these funds prior to annuitization. Features such as income start date, payout options, death benefit, and inflation protection should be analyzed to determine if the QLAC is suitable for you.

As lifetime annuity guarantees are only as good as the insurance company's claims-paying ability, it is important that only highly rated QLAC providers be considered. In addition, it is important to know that annuities are not FDIC-insured. The decision to purchase a QLAC will depend on each investor's individual circumstances and financial goals. Please contact us if you would like to further discuss whether a QLAC is right for you.

DeLynn Russell and James Van de Voorde

Source: WSJ, Schwab, Forbes, MetLife, New York Life, Insurance Information Institute, The Annuity Expert