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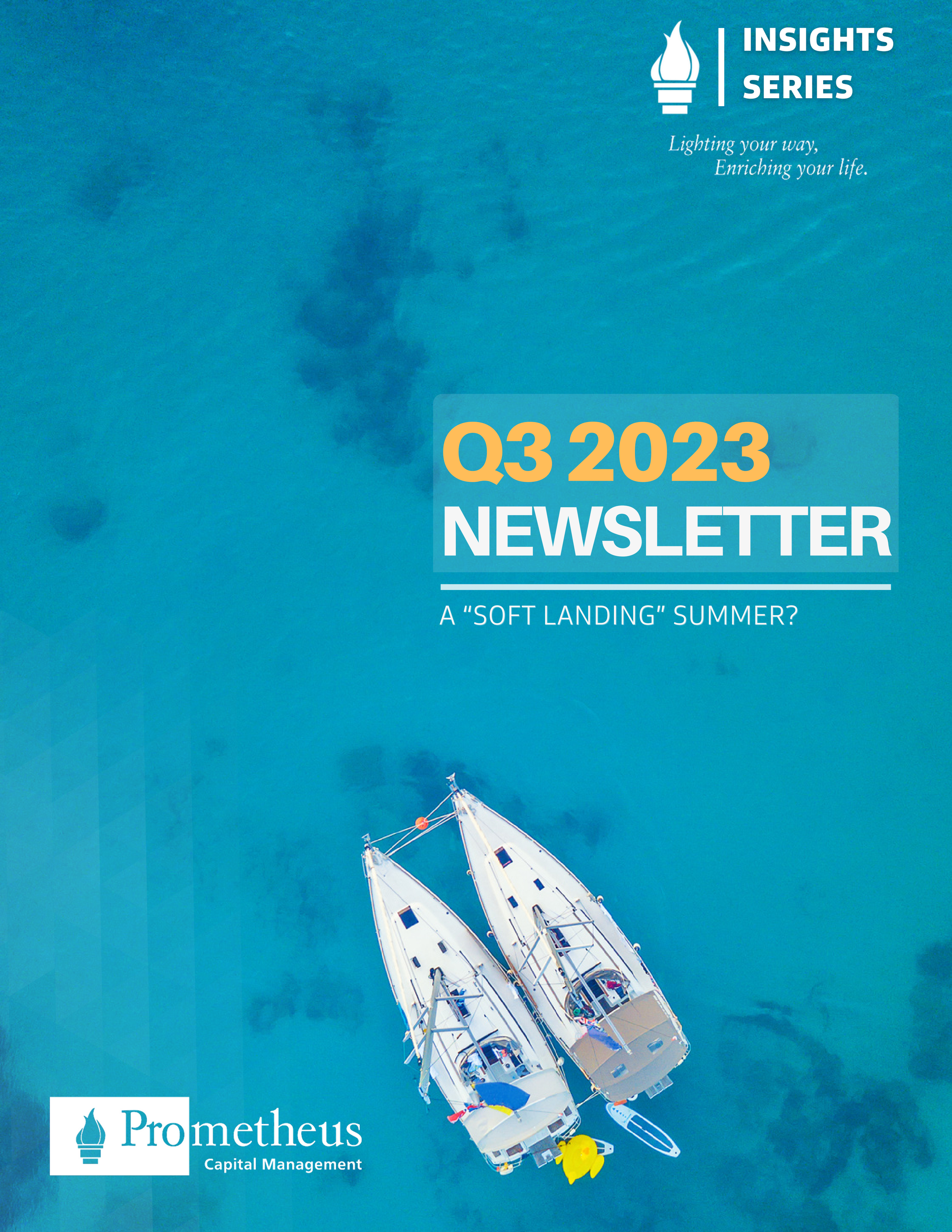
Q3 2023 NEWSLETTER

A "SOFT LANDING" SUMMER?



Prometheus Capital Management

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Q3 2023 Prometheus Capital Newsletter

September 30, 2023

"Thousands of experts' study overbought indicators, head-and-shoulder patterns, put-call ratios, the Fed's policy on money supply…and **they can't predict markets with any useful consistency, any more than the gizzard squeezers could tell the Roman emperors when the Huns would attack.**"
– Peter Lynch, Former Portfolio Manager, Magellan Fund

"If you aren't thinking about owning a stock for **10 years**, **don't** even **think about owning it for 10 minutes.**"
– Warren Buffett, Chairman & CEO, Berkshire Hathaway

"Successful investing is about **making the right decisions**, **not just making money**."
– Howard Marks, Co-Founder & Co-Chairman, Oaktree Capital Management

Perspectives on Recent Market Performance & Technology Stocks

The market trended down a bit in the third quarter of 2023 (vs. the first half of the year), but maintained its overall year-to-date rally in 2023.

While many factors have driven positive overall performance in 2023, a handful of technology firms continue to be responsible for much of the overall gains in the U.S. equities market, year-to-date. **Excluding technology stocks, the overall market is only up 3% year-to-date, and the median stock is up just 1%.**[1] We dedicated a considerable portion of the prior quarter's newsletter (Q2'23) to unpacking this trend, so we would encourage clients to refer to the prior newsletter for our perspectives on the rationale why technology firms have been driving overall market performance so far this year, as well as the main arguments many equity research analysts and portfolio strategists have made (both "bull" and "bear") on why some of these firms are trading at somewhat elevated valuation multiples relative to the overall market and their historical averages.[2]

When analyzing year-to-date market performance data by market capitalization of underlying U.S. companies, the largest 15 publicly-traded U.S. companies are up about a third in the first three quarters of 2023, with the largest 5 market-capitalization firms up 39%.[3] It is worth noting though that the concept of a few stocks' outperformance driving overall U.S. equities markets returns is *not* a particularly *unique* or *new* trend. In his latest memo to Oaktree clients this month, acclaimed value investor Howard Marks discussed the idea of "top-heaviness" (a few firms dominating overall market performance and index returns), highlighting selected Financial Times' pieces on the concept, which argue that it's been a fairly common trend in the U.S. stock market.[4] Examples include (I) 2017, when Facebook, Amazon, Apple, Netflix & Google/Alphabet ("collectively referred to as "FAANG" stocks) drove a significant portion of the S&P 500 index's overall performance[5] (II) the "Nifty 50 stocks" of the 1960s, and (III) oil & gas stocks during various points of time, to name a few. While this is not a new concept, it *is* one that our firm has and will continue to monitor. To help mitigate the risk associated with concentrated positions, many of our clients know we emphasize portfolio diversification (across industries, countries, investment vehicles, asset classes, market capitalizations, strategies, and portfolio managers).

Commentary on Current Macroeconomic Environment

From a macroeconomic perspective, the year-to-date performance of equities markets has been positive (despite a bit of a decline in the third quarter), which is notable – particularly considering the speed and frequency at which the Federal Reserve raised rates over the past year or so. In an attempt to fulfill its mandate of lowering inflationary pressures, the Federal Reserve typically raises interest rates, often (historically) having the unintended consequence of triggering a recession. Fed officials raised rates at 11 of the past 13 meetings, but opted to hold rates steady at the latest Fed meeting in September 2023, leaving the Federal Funds target at a range of 5.25% to 5.5% ***(a 22-year high).***[6]

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[1] *Goldman Sachs Global Investment Research; year-to-date "YTD" performance data as of 30-Sep-23 (Q3'23) market close.*
[2] *Past performance and historical valuation multiples do not guarantee future results nor potential future valuation multiples. Consensus Wall Street analyst forecasts do not necessarily represent the views of Prometheus Capital Management Corp. or its representatives, and also do not reflect an endorsement of the securities or sector discussed.*
[3] *Goldman Sachs Global Investment Research; year-to-date "YTD" performance data as of 30-Sep-23 (Q3'23) market close.*
[4] *Marks, H. (2023, September 12). Fewer Losers, or More Winners? Memos from Howard Marks.*
[5] *Associated Press. (2017, August 7). Tech Stocks Drive Indexes to New Highs. Los Angeles Times.*
[6] *Timiraos, Nick. "An Important Shift in Fed Officials' Rate Stance Is under Way." The Wall Street Journal, September 11, 2023.*

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The Fed's rate hikes have not (yet) triggered a recession, as the U.S. economy and consumer spending have proven more resilient than initially anticipated. Consumer spending drives greater than two thirds of all U.S. economic activity, so consumer spending data servers as an important barometer for measuring the health of the overall U.S. economy. The latest data from the U.S. Bureau of Economic Analysis demonstrates that American spending remains robust, with a 0.8% increase in consumer spending in August 2023.[7]

This has led the market consensus forecast to "price-in" a "soft landing", or scenario in which the Fed raises rates without triggering a recession. Since there has not been a recession (yet), U.S. corporate earnings have held up fairly well year-to-date, higher inflation has boosted *nominal* GDP and revenues, and U.S. consumers with increased savings rates (post-pandemic) have demonstrated a "willingness" to pay higher prices for goods and services. From personal experiences though, that "willingness" doesn't mean our team has been particularly *excited* to pay 70% more for eggs this year at the grocery store![8] All of these factors have helped equities markets post positive gains year-to-date, despite the rising rate environment.

Perspectives on CDs & Fixed Income Asset Classes

As many clients know from one-on-one discussions and from our prior newsletters over the past year and a half, we have dedicated a considerable amount of time discussing FDIC-insured, brokered CDs. As the Fed raised rates significantly over the past year or two, these brokered CDs' yields have become competitive in the absolute sense (vs. income-generating alternatives), but also on a risk-adjusted basis (given these are FDIC-insured assets, if held until maturity and under FDIC limits).

For some clients, these brokered, FDIC-insured CDs have helped lower volatility and potential risk of overall portfolio holdings, especially when compared to alternative income-producing investments, some of which have greater exposure to interest rate risk, as the Fed continues to raise rates. While CDs' yields have been competitive over the past year or two, that has not always been the case, *historically*. Long-term yields on brokered CDs have not been as meaningful over the past decade; based on data from the St. Louis Federal Reserve, the average national interest rate on 3-month CDs was only **0.74%** from the period beginning in 2010 and ending in 2020 – *hardly* able to keep up with inflation and protect real purchasing power over that period.[9]

Although it is very difficult to forecast when the Federal Reserve will stop raising rates and begin cutting rates, the Federal Reserve's Open Markets Committee ("FOMC") **interest rate projections showed a clear 12-7 majority favoring an additional rate hike in 2023, and a median forecast of a 50bps (0.50%) rate *cut* in 2024.**[10] Our team will be closely monitoring the U.S. labor market, corporate earnings, core inflation rate, and Wall Street forecasts closely going forward as the situation continues to evolve.

Our team has also been closely monitoring selected fixed income investments as consensus Wall Street forecasts project that we may be close to (but perhaps not yet *fully* at) the peak of the interest rate hike cycle. **U.S. Treasury yields kicked off the fourth quarter of this year by hitting 16-year highs, with the benchmark 10-year U.S. Treasury Yield rising 13bps to 4.70%, the highest level since 2007**.[11] If clients would like to discuss fixed income positioning within their portfolio, please reach out to a member of our team and we can setup a time to review investment recommendations specific to each clients' time horizon, investment preferences, risk tolerance, tax brackets, and unique personal & financial circumstances.

Firm Updates & Employee Spotlight

We wanted to dedicate a portion of this newsletter to recognize a long-time employee of our firm, Thomas Schneberger. Tom Schneberger holds CERTIFIED FINANCIAL PLANNER™, Certified Public Accountant ("CPA"), and Personal Financial Specialist

[7] *U.S. Bureau of Economic Analysis. "U.S. Personal Income and Outlays, August 2023." Personal Income and Outlays, August 2023 | U.S. Bureau of Economic Analysis (BEA), September 29, 2023.*
[8] *Wintrs, Mike, and Tasia Jensen. "Egg Prices Increased 70% Over the Last Year, Here's Why." CNBC, June 29, 2023.*
[9] *Organization for Economic Co-operation and Development, Interest Rates: 3-Month or 90-Day Rates and Yields: Certificates of Deposit (01-Jan-2010 to 12-Dec-2020): Total for United States [IR3TCD01USM156N], Retrieved from FRED, Federal Reserve Bank of St. Louis.*
[10] *Board of Governors of the Federal Reserve System. "Decisions Regarding Monetary Policy Implementation." Implementation Note Issued by the Federal Open Market Committee September 20, 2023". FOMC Meeting Minutes.*
[11] *McDougall, Mary, and Kate Duguid. "US Treasury Yields Hit 16-Year High as Bond Rout Resumes." Financial Times, October 2, 2023. Data as of 02-Oct-23 market close.*

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("PFS") designations. Tom earned a Master's Degree in Financial Services ("MSFS") from St. Joseph's University and currently splits time between Cape May, New Jersey and Bradenton, Florida.

Tom is a seasoned financial executive with a long track record of success in both personal and corporate finance. Tom's professional experience includes international stints as Chief Financial Officer in Mexico, chief finance positions for two pharmaceutical divisions of a major pharmaceutical company, and financial management of new product launches, corporate financial reporting and investment analysis, financial analysis for product and affiliate acquisitions and divestitures, financial analysis of licensing opportunities and personnel management.

Tom's transition to personal financial planning began in 2008, when he started working for a local public accounting firm in Sarasota, Florida, and then took a subsequent role in a wealth management firm in Seminole, Florida. Tom joined our firm in July 2011, and has been an extremely valuable asset to our firm and clients. The consistent feedback we hear from clients is that Tom's storied professional career as a corporate finance executive and deep tax knowledge as a CPA enables Tom to bring differentiated and valuable perspectives to the personal financial planning and investing process. **We'd like to recognize Tom's considerable contributions to the success of Prometheus Capital Management in the 12+ years he has been with the firm, and the positive impact he has made on the lives of our clients.**

Call-to-Action: Review Estate Planning Documents & Plan for Changes to Estate Tax Exemptions

We wanted to include a "call-to-action" in this quarter's newsletter for clients to review estate planning documents to ensure they remain current, and have been updated to reflect potential major life events that have estate planning implications (such as additional children, marriages, divorces, change in states of primary residences, changes of grantor(s)'s intentions, etc.). If clients have any questions regarding estate planning documents, we urge them to reach out to our team, as well as licensed estate planning attorneys (who can provide legal advice and draft legal documents, which we cannot do).

For clients who have not yet drafted estate planning documents, we urge you to connect with a licensed estate planning attorney and at a minimum, discuss drafting the "core" three important estate planning documents:

I. Durable Power of Attorney Document(s) for Healthcare Decision Making
II. Advanced Medical Directives(s) (i.e., "Living Wills")
III. Last Will & Testament(s)

Upcoming Changes to Estate Tax Exemption Limits: One of the many changes of the Tax Cut and Jobs Act ("TCJA") (which passed in 2017 and became effective 01-Jan-2018) was *temporarily* doubling the base amount individuals could give without paying *estate* taxes to $10 million in 2018 ($20 million for married-filing-jointly "MFJ"). That number has been indexed for inflation each year; **in 2023 the combined gift and estate tax exemption is $12.92 million for single-filers, or $25.84 million for couples who file taxes as married-filing-jointly ("MFJ").**[12] **That temporary increase** (which was created as part of the 2017 TJCA) **is set to expire after December 31, 2025.**

For clients whose net worth is close to the pre-TCJA or current estate tax exemption limits (or anticipate having substantial a net worth close to those limits) – **it is imperative to begin discussing estate transfer strategies and gifting techniques ahead of 2026.** Please reach out to our team and your estate planning attorneys to ensure you have a comprehensive financial plan in place ahead of the higher exemption amount sunsetting at the end of 2025.

[12] *Ebeling, Ashlea. "The Moves Wealthy Families Are Making to Skirt Estate Taxes." The Wall Street Journal, August 20, 2023.*

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We would like to conclude this newsletter by thanking our clients who have, for decades, put their trust in our firm and its representatives. Serving as your loyal financial planners and earning your trust and friendship over time is what motivates us and makes working with you so rewarding for our firm's staff. While past performance is no guarantee of future results, we appreciate your continued support and are proud to say that **most of our clients have benefited from "staying the course" in 1987, 1998, 2000-2002, 2008-2009, 2010, 2020 and 2022** and opportunistically taking advantage of buying opportunities, dollar-cost-averaging, and maintaining a long-term orientation.

Sincerely Yours,

Steve Wetzel, CFP®

Stephen P. Wetzel

Nick Wetzel, CFP®

Important Disclosures & Selected Additional Information

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Money Market Fund Disclosures: Investors should be aware of and understand this important information about the money market funds in which they are investing:

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- Although a money market fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in a money market fund.
- Yields on investments fluctuate over time and past performance and yields of any investment is no guarantee of future results, income, or yields.
- Investors should carefully consider the investment objectives, risks, charges and expenses of the proposed investments. This and other important information are contained in each fund's summary prospectus and prospectuses, which can be obtained from your financial professional.

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**These investments are backed by the full faith and credit of the U.S. government.*

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