BIONDO
PERSPECTIVES

THIRD QUARTER REVIEW

Joseph P. Biondo

US Equity markets rose to their highest levels since March of 2022 early in the third quarter, but rising global bond yields, fears of a rebound in inflation, and concerns of a future global economic slowdown all weighed on the major market indexes in August and September. Markets finished lower for the full quarter after a strong first half of 2023.

For the full quarter, the S&P 500 fell -3.27%, the Dow Jones industrials fell -2.10% and the Nasdaq Composite was down -3.94%. International markets were also negative, as the MSCI/ACWI Index declined -3.69%, as well as the fixed income markets, with the Barclays Aggregate Bond Index down -3.23% for the full quarter.

Stalling disinflation, rising bond yields, and an uncertain global economic outlook set the stage for a choppy market backdrop during the third quarter, despite solid economic and corporate activity. While most stock and bond categories declined, rising oil prices pushed commodities and energy stocks higher. Bond yields rose above their long-term historical averages, causing interest-sensitive assets to decline the most. Increased uncertainty about inflation raised the odds of higher market volatility, amid global monetary tightening and dampened market liquidity. **At the end of the quarter, many investors expected that global policy rates had reached their peaks and could ease in the coming quarters.**

All this being said, the impact of the abrupt departure from the ultralow rates era could still weigh on financial conditions in the quarters to come. The resilient US late-cycle expansion coincided with a pause in disinflationary trends, another Fed rate hike, and rising long-term Treasury-bond yields. The late-cycle phase of the business cycle warrants increased caution, portfolio diversification, and a readiness for opportunities.

Markets begin the fourth quarter decidedly more anxious than they started the third quarter, but it’s important to realize that while the S&P 500 did hit multi-month lows in September, and there are legitimate risks to the outlook, underlying fundamentals remain generally strong.

First, while there are reasonable concerns about a future economic slowdown, the latest economic data remains solid. Employment, consumer spending and business investment were all resilient in the third quarter, and there simply is not much actual economic data that points to an imminent economic slowdown. So, while a future economic slowdown is certainly possible given higher interest rates, the resumption of student loan payments, and declining US savings, the data has yet to bear that out.

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Second, fears that inflation may bounce back are also legitimate, given the rally in oil prices in the third quarter. The Federal Reserve and other central banks typically look past commodity-driven inflation, however, and instead focus on core inflation; that metric has continued to decline throughout the third quarter. Additionally, declines in housing prices from the recent peak are only now beginning to work into the official inflation statistics, and that should see core inflation continue to move lower in the months and quarters ahead.

While the risk of higher rates causing an econmic slowdown is one that must be monitored closely, for now, higher rates are not causing a material loss of economic momentum.

Finally, regarding monetary policy, the Federal Reserve's historic rate hike campaign is nearing an end. While we should expect the Fed to keep rates higher for longer, high interest rates do not automatically result in an economic slowdown. Interest rates have merely returned to levels that were typical in the decades past, before the financial crisis, and the economy performed well during those periods. While the risk of higher rates causing an economic slowdown is one that must be monitored closely, for now, higher rates are not causing a material loss of economic momentum.

In sum, there are real risks to both the markets and the economy as we begin the final three months of the year, but these are largely the same risks that markets have faced throughout 2023, and over that period the economy and markets have remained impressively resilient. While these risks and others must be monitored closely, they don't present any new significant headwinds on stocks that haven't existed for much of the year.

As we begin the final quarter of 2023, we remain vigilant towards economic and market risks and are focused on managing both risk and return potential. We remain firm believers that a well-prepared, long-term focused and diversified financial plan can withstand virtually any market surprise and related bout of volatility, including higher-for-longer interest rates, stubbornly high inflation, geopolitical tensions, and recession risks.

We understand these risks, facing both the markets and the economy, and are committed to helping you effectively navigate this challenging investment environment. We continue to believe that the strategies we manage are comprised of companies that are well-positioned for long-term success, are well run by capable management teams, and that their ownership over time will lead to positive outcomes.

As always, we will remain patient and stick to the long-term plan, as we have worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline. We thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you accomplish your financial goals. Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio or financial plan review.

Joseph P. Biondo

CEO, CIO, Portfolio Manager

Sources: Index returns – Bloomberg; Market Commentary– Wall Street Journal, Barron's

Secure Our World

This October marks the 20th Cybersecurity Awareness Month, a collaboration between government and the security industry aimed at promoting awareness about the importance of cybersecurity. With a new theme titled “Secure Our World,” this global effort encourages everyone to stay safe and protected when using technology, whenever and however you connect.

As our reliance on technology grows, it’s more important than ever to strengthen our cyber habits. There are many ways to stay safe and secure online, but even just practicing these cybersecurity basics can make a huge difference:

1. Use Strong Passwords and consider using a Password Manager

2. Turn on Multifactor Authentication wherever available

3. Recognize Phishing attempts

4. Update your Software

Not just in October, but all year long, Biondo Investment Advisors promotes these key behaviors to encourage everyone to take control of their online lives. Visit the cybersecurity page of our website for more information on our cybersecurity program, as well as to access helpful resources, at www.thebiondogroup.com/cybersecurity.

Source: CISA.gov

The Truth About ROTH IRA's and Taxes

The Roth IRA is certainly not a new concept, but it has seen an increase in popularity over the years due to its promotion as “tax free” money in retirement.

Is this money really “tax free” though?

A more accurate depiction of the funds in a Roth account may be to say “taxed first” rather than “tax free.”

This seemingly small distinction can make a big difference over time, especially if any reasonable amount of compound interest is involved.

Here’s what that means:

When you contribute, defer, or transfer money to a Roth account, you’re not getting any tax savings today. When you contribute, defer, or transfer money to a pre-tax account, like a 401(k) or Traditional IRA, you may be able to exclude that amount from your income for federal income tax purposes until the funds are withdrawn. Just be sure to check your eligibility with your tax preparer, because there are some limitations.

For example, if you make $100,000 and defer $6,500 of that income into an eligible pre-tax retirement account, at the end of the year, you’re only paying federal income tax on $93,500. If you instead contribute that $6,500 to a Roth IRA, at the end of the year you’re going to be paying federal income tax on the whole $100,000 that you earned. More taxable income generally means more money to Uncle Sam and less in your pocket. (These examples are for illustration purposes only, and do not take into account any other deductions you may have against your taxable income.)

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Why is everyone enamored by the Roth IRA then?

When you have money in a Roth IRA, the account has been open for at least five years, and your age is 59.5 or older, distributions can be taken without having to pay any additional tax. Some people might say “tax free,” but the reality is, you already paid the tax on those funds when you initially contributed to the Roth IRA, as you can see in the simplified example above.

To figure out which is the better option for you, remember a basic tenet of tax planning: Pay the lowest possible (legal) amount of tax over the planning horizon.

I say planning horizon, instead of lifetime, because some people are planning for multiple generations. Think about your parents asking how they can transfer money to their grandchildren without paying too much in taxes.

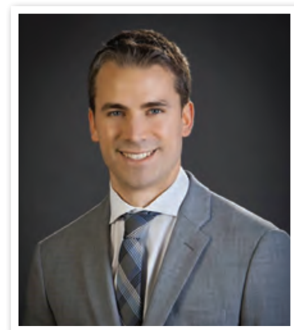
As a starting point, if you’re in a high tax bracket now, absent a very good special situation, it’s tough to make an argument for aggressively putting money into Roth accounts. This is because most people are going to have varying exposure to high tax rates during the course of their lives. It is better to wait until your income and corresponding federal income tax bracket are lower to consider Roth accounts.

That being said, Roth accounts can be an extremely valuable tool for the right person, in the right situation, at the right time. Particularly in light of recent changes to tax law in the SECURE Act and more recently in SECURE 2.0.

The more interesting opportunities arise when you are subject to an abnormally low tax rate due to a special and temporary situation. In these instances, Roth accounts should be explored prior to the potential opportunity being lost.

The big takeaway is simply to think about what type of accounts you're directing your savings into, and why. This thought process should be a continuous and dynamic process you and your advisors evaluate and adapt, at least annually.

The current tax brackets are scheduled to increase effective January 1, 2026. Plan on talking with your Wealth Advisor about any potential tax-savings opportunities well in advance of the change. Our financial planning software can model an endless number of scenarios, provide you with helpful insights to consider and aid in decision making processes. We are always available to assist in determining what may be the appropriate scenario for your personal financial situation.



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The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change; you should consult your tax professional before engaging in any transaction.

Is It Time for a Portfolio Review?

The variety of colors that autumn brings is a visible reminder of change. Perhaps now is an ideal time, ahead of the holiday rush, to catch up on the changes in your life. Are there new circumstances to discuss? Do you need to update your beneficiaries, reconsider your risk tolerance, or do you have new goals to plan for?

Your Wealth Advisor welcomes the opportunity to get together with you and review your overall financial portfolio.

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