KACHKOVSKY & FISHER
REGISTERED INVESTMENT ADVISOR

Fall 2023

On Saturday, September 22 fall arrived as the sun crossed Earth's celestial equator, heading southward. This time of year is seen as a period of transition in many cultures, as the northern hemisphere progresses toward the winter solstice and the southern hemisphere looks forward to the summer. Throughout history, the autumnal equinox has brought with it unique traditions and fascinating folklore. In China, the Moon Festival celebrates the harvest during the 15th full moon of the Chinese Year, which falls around the autumn equinox. In Japan, Buddhists observe *higan*, a memorial service when people visit family graves to comfort their ancestors' spirits. The arrival of the autumn equinox is also evidenced in the animal kingdom, especially in the migratory flight of many species of birds. It is during this time that the Bar-Headed Goose soars to heights above 28,000 feet (that's more than five miles up!) as they skim over the Himalayas on their way to warmer climes. As humans, we have our own seasonal rituals, including preparing our lawns and gardens for the change in seasons, pulling out our winter clothing from storage, and enjoying body-warming and soul-stirring soups and stews. The arrival of autumn is indeed a time of change. We hope the return of cooler weather, longer nights and the anticipation of the upcoming holiday season finds you happy and healthy.

Let's take a look at the numbers.

Major Stock Indexes	(As of 9/30/23)
Dow Jones Industrials	+ 1.09 %
S&P 500 Index	+ 11.68 %
NASDAQ Composite	+ 26.30 %
Russell 2000	+ 2.54 %
MSCI EAFE Index	+ 7.08 %
MSCI Emerging Markets	+ 1.82 %

Major Bond Indexes & Rates	(As of 9/30/23)
Barclays U.S. Aggregate Bond	- 0.40 %
Bloomberg 1-5 Yr Government Index	+ 1.16 %
Fed Funds Rate	5.25 – 5.50 %
30-year fixed mortgage	7.83 %

Source: The Wall Street Journal and Barron's

*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

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FINANCIAL AND INVESTMENT PLANNING

The equity markets had a good start to 2023, but they took a breather in the third quarter. Increasing rates on the 10-year treasury yield (marching towards 5%) and 30-year fixed mortgage (just hit 8%) gave investors pause. Many believe the current interest rate environment is restrictive enough and inflation will continue to fall. However, they worry that the Fed is driving the car by looking in the rear-view mirror. When looking at the recent Federal Open Market Committee's (FOMC) updated projections, the median projection for 2024 is for a total of a half-point reduction by year end. So, the Fed is expecting the economy to soften and will likely need to start cutting rates at some point next year. The consensus for 2023 is the Fed is either done raising rates or will only raise rates one more time, likely just 25 basis points (0.25%). Historically, the economy and equity markets like decreasing rates.

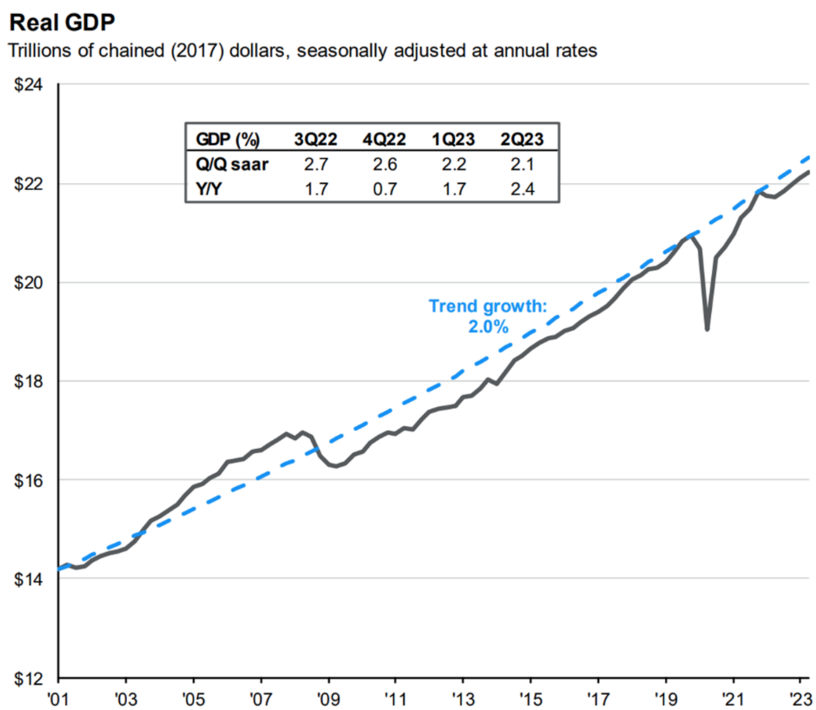
Inflation, measured by the Consumer Price Index (CPI) rose 0.4% in September, after rising 0.6% in August according to the U.S. Bureau of Labor Statistics. Measured over the last 12 months, inflation is now 3.7%. Average hourly earnings rose 0.2% from August to September. After taking into account the 0.4% increase in monthly inflation, real hourly earnings (after inflation) actually decreased by 0.2%. On the positive side, September saw a blowout jobs report of 336,000 new jobs. The unemployment rate still stands at a historically low level at 3.8%. There are currently 9.6 million job openings and roughly 6 million people looking for work. The U.S. economy is holding up better than expected, given the fact that 30-year fixed mortgage rate just crossed over 8%, the highest in 23 years, mortgage applications are at a 27 year low, and September home sales dropped to the lowest level since the foreclosure crisis.

Economic growth in America is primarily driven by the consumer, accounting for roughly two-thirds of our Gross Domestic Product (GDP). What allows for this spending is the consumers disposable income, which is directly tied to the labor market. While the excess savings from government stimulus is essentially depleted, we continue to spend. The lower income consumer has continued to spend at a similar pace by using credit cards. Unfortunately, credit card debt reached an all-time high surpassing $1 trillion. While some low-and medium-income Americans are starting to struggle, those workers saw some of the largest real wage gains among all workers over the previous few years. The Atlanta Fed's wage tracker shows wealth among the bottom half of US families increased by nearly 75% from the first quarter of 2020 to the first quarter of 2023. Although interest rates have gone up, more than 82% of US households have a mortgage rate less than 5%. While consumer debt matters, employment and income matter more. Eugenio J. Aleman, Ph.D., Chief Economist at Raymond James, recently said, "Despite the size of US consumer debt, total household debt as a percentage of GDP is lower today than it was during the Great Financial Crisis. Moreover, the cost of servicing household debt – made up largely of fixed low-interest-rate mortgages taken out before or during the pandemic – is at one of the lowest points in recorded history." Overall, the U.S. economy should continue to grow at a moderate, but slowing pace. The chart on the following page shows U.S. economic growth and its composition over the past two decades.

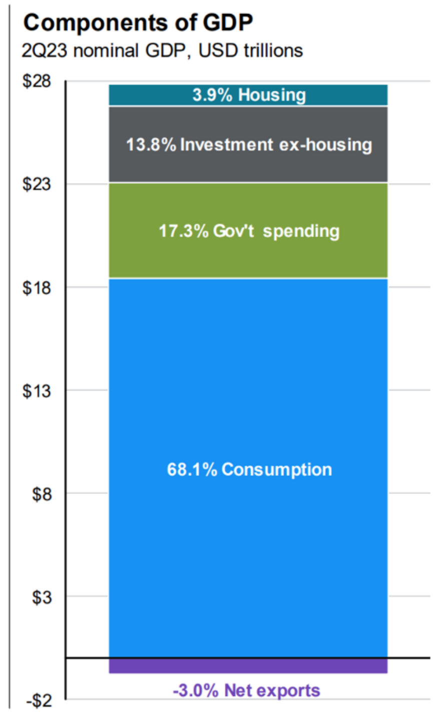
The small business sector has been a surprising strength this year. Small companies are responsible for nearly two-thirds of all new jobs. Many thought the higher interest rates and tighter credit conditions would result in a slowdown in business formation. But the slowdown didn't materialize. New business applications are up 55% from pre-covid levels (February 2020). The booming small business environment has helped keep demand for labor from collapsing, while the Fed works on slowing the economy (to cool inflation).

Turning to the equity markets, earnings growth was expected to be negative in 2023. However, earnings have grown at 2% so far. Many strategists think earnings growth will pick up next year and come in around 12%. To reach that number, companies will likely need to reduce expenses as strong top line revenue growth may be difficult to achieve if the economy slows. And, this is evident in the growing number of large cap companies in the tech and banking industries reducing headcount. Excluding JP Morgan Chase, the next five largest American banks have been quietly laying off workers all year (20,000 combined), with deeper cuts expected to follow. From a valuation standpoint, the forward P/E on the S&P 500 is 17.91. So, markets are not expensive. Within the US equity market sectors, technology, communication services and industrials have led the way.

Economic growth and the composition of GDP



GDP (%)	3Q22	4Q22	1Q23	2Q23
Q/Q saar	2.7	2.6	2.2	2.1
Y/Y	1.7	0.7	1.7	2.4



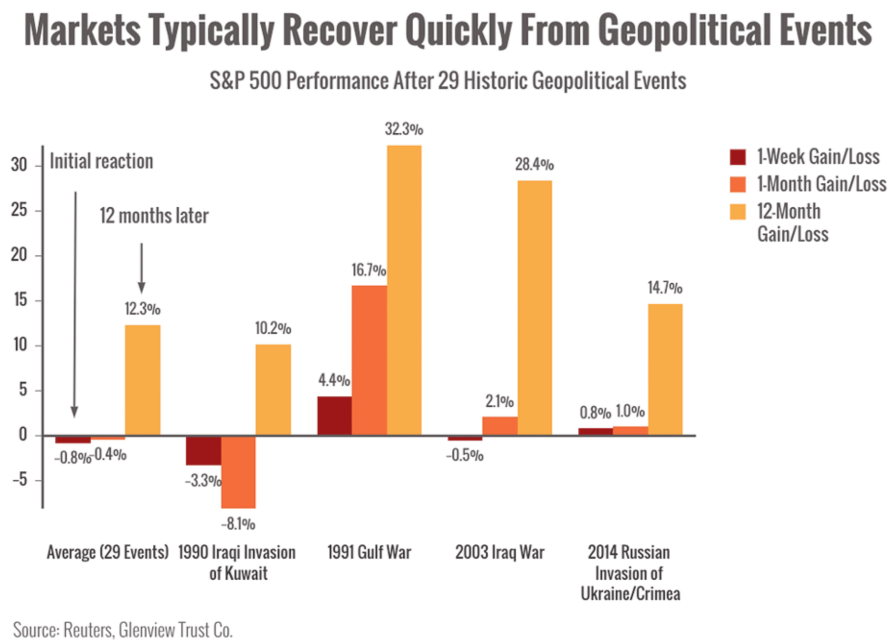
Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding.

Looking forward, the higher borrowing costs, tighter credit conditions and the recent surge in the price of oil are lowering consumer confidence. These factors may ultimately result in slowing economic activity and a mild contraction in the future. At this point, the economy is holding up better than many expected, unemployment is still very low, inflation is gradually falling, the Fed is nearing the end of its tightening cycle and valuations are reasonable.

We would like to offer some thoughts on the horrific situation unfolding in Israel. The devastating terrorist attacks have already cost thousands of lives and may profoundly affect the region. While the violence might seem far away, behind every headline are real people, families, and communities that will never be the same. Let's take a moment to grieve for the folks who are suffering and dying and hope for a solution that will save lives. How could an Israel-Hamas war affect the economy and markets? Given Israel's key position in the region, it's likely that we'll see energy prices impacted by the conflict, which could increase inflation.[1]

Another concern is that this new conflict highlights how the world is becoming more fragmented. If the war spreads to involve more major powers, it will inject more uncertainty and tension into a fragile world, and markets will likely react negatively. What does history teach us about market reactions to geopolitical shocks? History shows that markets typically view geopolitical crises as temporary setbacks.

I'll note that the past doesn't predict the future — but it often rhymes. Let's take a look at some examples from a 2022 study:[2]



We'd like to note that "geopolitical event" is a very antiseptic phrase for horrors like bombings, wars, invasions, and other terrible attacks, and really fails to encompass the full cost in human misery. While markets might recover quickly, too many lives will never be the same. We can hope, pray, donate, and speak out. And we can focus on what's in our control: Ourselves, our actions and reactions, and our strategies for uncertain times. Looking ahead, we can expect more volatility as the crisis unfolds and more data emerges. We are watching and will reach out with more information as needed.

Let's hug the people we love extra tightly today.

Sources
1. https://www.bbc.com/news/business-67050612
2. https://www.reuters.com/markets/asia/live-markets-what-history-says-about-geopolitics-market-2022-02-18/
Chart sources: https://www.reuters.com/markets/asia/live-markets-what-history-says-about-geopolitics-market-2022-02-18/ and http://glenview-insights.com/blog/geopolitical-events-and-stocks/

- Past performance is not a guarantee of future results. Individuals cannot invest in an index directly.
- The Dow Jones Industrial Average (DJIA), commonly known as "The Dow", is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.
- The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material accurate or complete.
- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market and includes over 3,000 companies.
- Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Bonds are subject to credit and interest rate risk. Timely payments of interest and principal payments are based on the financial condition of the issuer. Yield and market value will fluctuate with changes in market conditions. There is an inverse relationship between interest movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Diversification does not insure a profit or a guarantee against a loss. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Please note that international investing involves

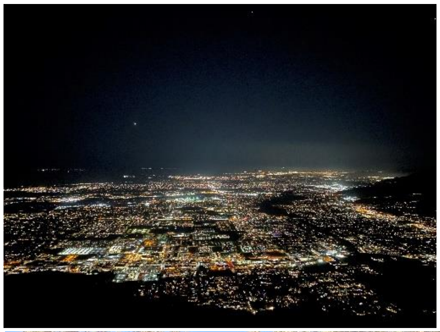
special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

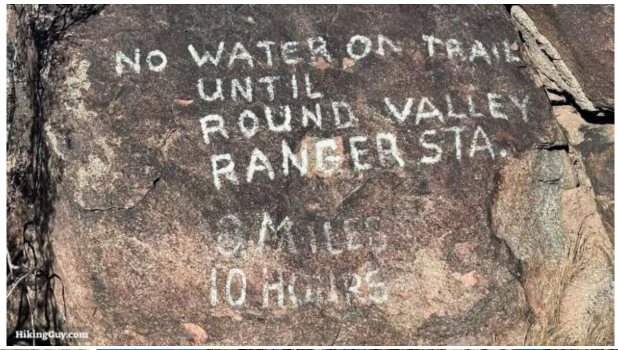
PERSONAL

With their backpacks packed, Kris, Macy (11) and Kora (12) began their drive down a not-so-friendly dirt road. After driving through a small river, the three arrived in the American Basin (located in southwestern Colorado) to hike Handies Peak. Standing at 14,058 feet, the peak overlooks an abundance of alpine wildflowers, a stream and Sloan Lake. The stunning basin is surrounded by steep cliffs. The sisters stopped a few times along the hike just to admire the spectacular display of wildflowers. It was an incredibly windy day, with gusts over 50 mph. Everyone was wearing their jackets, hats and gloves soon after the hike started. As the group continued to put one foot in front of the other, they eventually made it to the summit. Macy's summit reward was a peanut butter and jelly sandwich (also her dad's favorite summit food) and Kora had a turkey wrap. The girls have now hiked five 14ers!

Macy and Kora started school in August and are both attending middle school together. Volleyball season is officially under way. Frankly, volleyball season in the Fisher household feels like it's always under way. If they don't have practice or a game, they are often in the front yard serving, bumping, setting and spiking the ball. Mom and dad are having a harder time returning some of their hits (especially dad).

Backpacker Magazine rated the Cactus to Clouds hike as one of the hardest day hikes in the world. Up for that challenge and in dedication of a family member, in late September, to thread the weather needle just right, Kris, Garry and Liston (Evergreen, CO friend), set foot on the potentially deadly trail at 2:30am. The Skyline trail starts on the floor of the Sonoran Desert in Palm Springs and unnervingly climbs up the San Jacinto Mountain. In parts, the incline hovered around 50% grade. No wonder it is considered one of the steeper trails of its length in the world. Hurricane Hilary in late August washed away parts of the path. Progress was slow. After eight hours, over 10 miles of trail and 8,200 feet of elevation gain, with big grins on their faces, the party reached the Palm Springs Arieal Tramway.





It felt like summer 2023 quickly came and went. San Diego Unified School District is adjusting its academic school year, starting and ending earlier. Unfortunately, the change eliminated one week of summer. The Kachkovsky family kept busy with trips to the San Diego Zoo (summer nights' entertainment is fantastic), beach, bike riding around the bay and swimming in the backyard pool. Due to Hurricane Hilary, the annual YMCA Adventure Guides trip to Catalina Island was cut short by one day.

Ava is officially in middle school, starting sixth grade. Elle is in third grade now. Softball Fall ball is in full swing. With grandparents in the stands, Elle hit an in-park home run a few weeks back. Ava is proving to be a really reliable outfielder, chasing down hits with ease and precision.

Thank you for your trust, confidence and friendship.

"Life is a balance between holding on and letting go"

– Rumi

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