AUGUST 2023 MARKET RECAP

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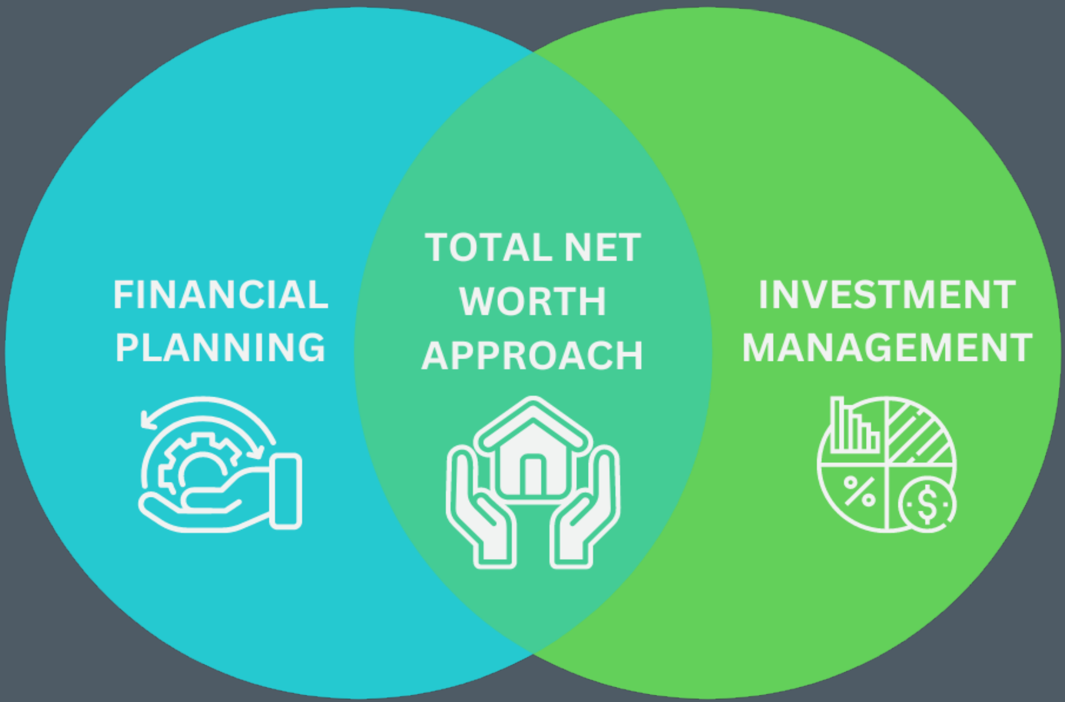

At Winthrop Wealth, we follow a **Total Net Worth Approach** to wealth management that combines both comprehensive financial planning and investment management. The financial plan helps define cash flow needs, seeks to optimize account structures, considers tax mitigation strategies, and determines the appropriate asset allocation based on the client's willingness and ability to take risk. Based on the output of the financial plan, our investment management process designs a well-diversified portfolio constructed with a long-term methodology based on prudent risk management, asset allocation, and security selection. *No strategy assures success or protects against loss. Investing involves risk, including loss of principle.*

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The equity market rally took a brief pause in August as the S&P 500 decreased by -1.6%, bringing the year-to-date return to +18.7%. In the first few weeks of the month, the S&P saw a near -5% decline, but the market finished with a rally in the last six trading days. On a total return basis, the S&P 500 is now only about -3.4% below its all-time high reached on January 3rd, 2022. Since the 2022 closing low on October 12, 2022, the S&P 500 has increased by +27.9%. The market rally since October was driven by evidence of disinflation, the economy, labor market, and corporate earnings holding up better than expected, and the perceived benefit that artificial intelligence (AI) will have on profits and productivity.

- **Market Cap**: Large (S&P 500: -1.6%) outperformed Mid (S&P 400: -2.9%) and Small Caps (Russell 2000: -5.0%).
- **Style**: Growth (Russell 1000 Growth: -0.9%) exceeded Value (Russell 1000 Value: -2.7%).
- **Sector**: Only one out of eleven sectors was positive in the month with Energy (+1.8%) as the top performer and Consumer Stapes (-3.6%) and Utilities (-6.2%) as the laggards.

The most notable event during the month was Fitch downgrading the United States' long-term credit rating from AAA to AA+. This was the first US debt downgrade from a major rating agency since August 2011. According to Fitch, the downgrade "reflects the expected fiscal deterioration over the next three years, a high and growing general government debt burden, and the erosion of governance over the last two decades that has manifested in repeated debt limit standoffs and last-minute resolutions." While the market reaction was not significant, we hope that repeated downgrades serve as a wakeup call to Congress to start addressing the United States' debt and deficit problem. Please see our **Federal Debt Client Question** where we outline the countries' current debt and deficit problems and the associated risks.

Outlook and Portfolio Positioning

Short-Term Outlook: We are still cautious in the near term as the S&P 500, currently at 4,508, recently broke out of its 14-month trading range of 3,600 to 4,300. In our opinion, the fundamentals of the stock market do not warrant a recovery back to all-time highs yet (the all-time closing high for the S&P 500 is 4,798). Valuations are stretched, **especially given current interest rate levels**. While earnings have come in better than expected, they would face downside risk if the economy began to stumble. Furthermore, although the Fed is likely close to ending their tightening cycle, services inflation remains sticky, which may cause the FOMC to continue raising rates. Adding it all up, we anticipate some consolidation after the strong year-to-date performance with a move back down into the upper end of the recent trading range as a probable outcome. The S&P 500 is still on pace to increase by nearly +30% in 2023, which seems unlikely in our view. A digestion period is healthy for the market's long-term potential as market booms are typically followed by busts (the S&P 500 performance from 2021 through 2022 is the latest example). *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.*

Long-Term Outlook: A key tenant to our investment philosophy is to maintain a long-term viewpoint as markets can be incredibly volatile over short-time periods. As the market sold off last year, we reminded clients that difficult periods create opportunities for long-term investors. While market weakness may return, staying invested or adding to existing holdings throughout 2022 looks like a great decision right now. Markets have historically increased over time as successful corporations have been able to figure out ways to generate profits through advances in innovation and productivity. In our view, investors with a globally diversified portfolio and a long-term horizon should remain optimistic. We continue to believe in the value of **time**, **diversification**, and **the power of compounding**; *there is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Historically, equity markets have recovered from recessions and downturns; however, past performance is no guarantee of future returns.*

Portfolio Positioning: Many of our actively managed portfolios shifted defensively over the last several weeks through a decrease in overall equity and less exposure to certain mega cap stocks that have had massive gains this year. Given our cautious short-term outlook, we believe it is prudent to rebalance and trim equities after a significant rise in the overall market and especially a handful of individual stocks. On the equity side, we remain tilted toward high quality US stocks. On the fixed income side, we are taking advantage of the highest yields in over a decade while continuing to focus on pursuing ballast, stability, and income as well as accounting for short-term cash needs. *Rebalancing a portfolio may cause you to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss. Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.*

Fixed Income Market

The Bloomberg US Aggregate Bond index ("Agg"), which acts as a proxy for the intermediate investment-grade bond market, decreased by -0.6% in August as the 10-Year Treasury yield increased from 3.96% to 4.11% (bond prices move inversely to interest rates and credit spreads). The bond market is now higher by +1.4% in 2023 and it is still trying to find its footing after coming off the worst calendar year (2022: -13%) since inception of the index in 1976. Please see our **Client Question: Bond Primer** where we detail bond mechanics, characteristics, types, risks, and historical returns.

The last twenty-four months have been frustrating for fixed income investors. Over that period, the Agg bond index has decreased by -12.6% as the 10-Year Treasury yield has increased by nearly 280 basis points (2.8%). Does this mean that it's time to throw in the towel and abandon intermediate-term bonds as part of a diversified investment portfolio? No, not in our view. The silver lining to weak recent returns from the Agg index is that potential future returns get stronger, assuming there are no defaults. For both new investors and those that have ridden out the last two years, the good news is that the yield to maturity on the US Aggregate Bond index is now 5.0%, the highest level since 2008. Yield to maturity is defined as the estimated annualized rate of return an investor can expect on a bond if purchased today and held to maturity, assuming the issuer makes all their interest and principal payments (i.e., no defaults). In other words, expected future returns from the Agg bond index have not been this attractive in 15 years. Bonds are subject to market and interest rate risk if sold prior to maturity. *Bond values will decline as interest rates rise and bonds are subject to availability and change in price.*

Our objective with fixed income is to pursue ballast, stability, and income to portfolios. Ballast means that, ideally, the fixed income holdings are increasing when equity markets are declining. Intermediate-term bonds did not provide ballast in 2022 as interest rates rapidly increased during the first half of the year. We continue to believe that the negative correlation between stocks and bonds will return in the future once yields level out, and that all else equal, the fixed income market needs yields to stabilize rather than decrease to achieve positive returns. While ballast from the intermediate-term bonds has been a recent struggle, pursuing stability and income from shorter maturity fixed income, including Treasury Bills, has proven to be more successful. As interest rates have increased and with the **Treasury curve still inverted**, Bills are offering attractive yields, including the 3-Month (5.4%), 6-Month (5.5%), and 12-Month (5.4%). As part of diversified portfolios, we will purchase bonds with various types, issuers, maturities, and credit ratings. Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. *There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.*

Monetary Policy

"We will proceed carefully as we decide whether to tighten further or, instead, to hold the policy rate constant and await further data." - Fed Chair Jerome Powell

With no Federal Open Market Committee (FOMC) meeting this month, all eyes turned to Chair Powell's speech at the annual Jackson Hole Economic Symposium in Wyoming. Last year, Powell used his speech as an opportunity to warn that tighter monetary policy will likely "bring some pain to households and businesses." This year, Powell took a more balanced approach as it relates to further interest rate increases.

While the Fed still believes that inflation is too high, they feel they are making progress in the fight to bring it down. The Fed estimates that real interest rates are now in restrictive territory and are putting downward pressure on economic growth, hiring, and inflation. Powell reiterated that the FOMC will be data dependent about any future rate increases.

Current market pricing is about evenly split on whether the FOMC keep the federal funds rate at its current range of 5.25% to 5.25%, or if they will raise by another 25 basis points (0.25%) before year end. The market is also pricing in about 100 basis points (1.00%) of rate cuts in 2024.

We're close to the end of the Fed's nearly eighteen-month battle against inflation. However, the Fed won't be ready to declare victory until Core PCE Inflation, currently at 4.2%, decelerates further. The reading likely needs to approach 3% to give the Fed enough confidence that inflation is on a sustained downward trajectory to the 2.0% target. Please see our **Client Question on The Fed**, which details the key entities and the impact monetary policy has on the economy, interest rates, and stock prices.

Inflation

"Although inflation has moved down from its peak—a welcome development—it remains too high." - Fed Chair Jerome Powell

The increase in inflation since early-2021 was driven by supply chain bottlenecks, surging energy prices, strong consumer demand caused by a solid labor market, and massive amounts of stimulus. Most inflation readings have decelerated from peak levels with several indicators returning to normalized ranges. Meaningful evidence of disinflation exists in Producer Price Inflation, breakeven rates, ISM Prices Paid data, supply chain indicators, and various commodity prices. Meanwhile, the Fed remains unhappy with the pace of disinflation in the services sector as measured by the Core Personal Consumption Expenditure (PCE) Index.

- **Consumer Price Index (CPI)**: tracks the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The index does include food and energy prices.
  - Latest Reading (July): 3.2%.
  - Peak (June 2022): 9.1%.

  Prior Reading (June): 3.2%.
  Source: Bureau of Labor Statistics.

- **Core Personal Consumption Expenditure (PCE) Index**: measures the prices paid by consumers for goods and services based on surveys of what businesses are selling. Core means that the index excludes food and energy prices. This is the Fed's preferred inflation measure, which they target at an average of 2%.
  - Latest Reading (July): 4.2%.
  - Peak(February2022):5.4%.

  Prior Reading (June): 4.1%. Source:
  Bureau of Economic Analysis.

- **Average Hourly Earnings**: tracks total hourly renumeration (in cash or in kind) paid to employees in return for work done (or paid leave). Data is from the Current Employment Statistics (CES) survey.
  - Latest Reading (August): 4.3%.
  - Peak (April 2020): 8.0%.

  Prior Reading (July): 4.4%. Source:
  Bureau of Labor Statistics.

US Economy

"One day, it seems like the world economy's falling apart, and the next day, everything's fine. I don't know what is going on, to be totally frank. I wish I did." - Elon Musk

The resiliency of the economy this year has surprised many observers, including us. Even the Fed is taking a more optimistic view and is no longer forecasting a recession in 2023. The perceived odds of a soft-landing, where the economy avoids a recession while inflation decelerates toward the Fed's 2% target, have increased. Real GDP growth for 2023 is now estimated at +2.0%, compared with a forecast of +0.3% at the start of the year.

While we have been pleased with how the economy has performed, there are still reasons for caution. Several recessionary indicators are still flashing yellow or red, including the **yield curve**, leading economic indicators, and the ISM Manufacturing survey. The economy has been supported by a strong labor market and robust spending, although now there is evidence that the consumer may be running low on purchasing power. According to the San Francisco Fed, excess savings, defined as the difference between actual savings and the pre-pandemic trend, has dwindled to less than $190 billion after reaching $2.1 trillion in 2020. The study further estimates that excess savings will likely be depleted during the third quarter this year. Given these risks, many economists who have been forecasting a recession have simply delayed their projected start date by a few months.

In our view, a recession can potentially be avoided if inflation continues to decelerate, which would allow the Fed to stop their tightening cycle before higher interest rates eventually lead to cracks in the labor market and/or the broader economy.

Furthermore, we continue to believe that a potential recession would be far less severe than previous significant economic declines like the Global Financial Crisis of 2007 – 2009 as consumer leverage and balance sheets are in far better condition.

A key tenant to our investment philosophy is to maintain a long-term viewpoint. A lot of short-term predictions about the market or the economy are just noise. As such, we focus on the fact that recessions can create buying opportunities for long-term investors. During the last 15 recessions, the S&P 500 declined by an average of -30.0%. However, once the market bottomed, performance was very strong over subsequent 1-YR (+50.1%), 3-YR (+79.0%), and 5-YR (+142.1%) periods. *Historically, equity markets have recovered from recessions and downturns; past performance is no guarantee of future returns. It is important to consider your own risk tolerance, financial circumstances, and time horizon when investing.*

AUGUST 2023 MARKET RETURNS

US Equity											
Index	**August**	**2023**	**2022**	**2021**	**2020**	**2019**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
S&P 500	-1.59%	18.72%	-18.13%	28.68%	18.39%	31.47%	15.92%	10.42%	11.10%	12.78%	9.91%
Russell 3000	-1.93%	18.00%	-19.22%	25.64%	20.88%	31.01%	14.73%	9.73%	10.23%	12.21%	9.87%
Dow Jones Industrial Average	-2.01%	6.37%	-6.86%	20.95%	9.72%	25.34%	12.58%	8.81%	8.30%	11.41%	9.36%
Nasdaq	-2.05%	34.89%	-32.51%	22.21%	45.05%	36.73%	19.87%	7.12%	12.62%	15.84%	11.99%
S&P 400	-2.89%	10.02%	-13.10%	24.73%	13.65%	26.17%	10.66%	12.40%	6.94%	10.06%	10.07%
Russell 2000	-5.01%	8.93%	-20.46%	14.78%	19.93%	25.49%	4.61%	7.71%	3.11%	7.93%	8.33%
Russell 1000 Growth	-0.90%	32.16%	-29.14%	27.59%	38.49%	36.39%	21.92%	8.46%	13.80%	15.61%	11.34%
Russell 1000 Value	-2.70%	5.86%	-7.56%	25.12%	2.78%	26.52%	8.55%	11.23%	7.08%	9.12%	8.35%
International Equity											
MSCI Index	**August**	**2023**	**2022**	**2021**	**2020**	**2019**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
EAFE	-3.83%	10.87%	-14.45%	11.26%	7.82%	22.01%	17.92%	6.04%	4.13%	4.93%	6.24%
Europe	-4.59%	15.82%	-17.86%	13.54%	7.89%	23.20%	29.81%	6.74%	4.19%	5.24%	5.90%
Japan	-2.42%	13.59%	-16.65%	1.71%	14.48%	19.61%	15.30%	3.91%	3.11%	5.44%	5.02%
China	-8.96%	-4.66%	-21.93%	-21.72%	29.49%	23.46%	-7.53%	-14.65%	-3.89%	2.48%	8.48%
Emerging Markets	-6.16%	4.55%	-20.09%	-2.54%	18.31%	18.42%	1.25%	-1.98%	0.98%	2.99%	7.48%
ACWI ex US	-4.52%	8.78%	-16.00%	7.82%	10.65%	21.51%	11.89%	3.78%	3.33%	4.37%	6.33%
US Fixed Income											
Bloomberg Barclays Index	**August**	**2023**	**2022**	**2021**	**2020**	**2019**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Aggregate	-0.64%	1.37%	-13.01%	-1.54%	7.51%	8.72%	-1.19%	-4.33%	0.49%	1.48%	3.11%
Treasury Bills	0.45%	3.24%	1.52%	0.04%	0.54%	2.21%	4.37%	1.60%	1.65%	1.05%	1.33%
Corporates	-0.78%	2.76%	-15.76%	-1.04%	9.89%	14.54%	0.90%	-4.03%	1.41%	2.58%	4.06%
Securitized MBS/ABS/CMBS	-0.76%	1.00%	-11.67%	-1.04%	4.18%	6.44%	-1.96%	-3.99%	-0.14%	1.13%	
High Yield	0.28%	7.13%	-11.19%	5.28%	7.11%	14.32%	7.16%	1.83%	3.32%	4.47%	6.73%
Munis	-1.44%	1.59%	-8.53%	1.52%	5.21%	7.54%	1.70%	-1.32%	1.52%	2.81%	3.64%
US Equity Sectors											
Index	**August**	**2023**	**2022**	**2021**	**2020**	**2019**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Technology	-1.32%	44.66%	-28.19%	34.52%	43.88%	50.27%	33.33%	14.04%	19.99%	21.56%	13.92%
Real Estate	-3.00%	1.87%	-26.21%	46.14%	-2.17%	29.00%	-8.15%	3.84%	5.35%	7.10%	
Industrials	-1.99%	11.13%	-5.51%	21.10%	11.05%	29.32%	18.57%	12.98%	9.05%	11.31%	9.54%
Energy	1.81%	3.27%	65.43%	54.39%	-33.68%	11.81%	14.93%	41.20%	8.86%	4.94%	9.24%
Consumer Discretionary	-1.17%	34.63%	-37.03%	24.43%	33.30%	27.94%	11.18%	3.25%	8.72%	12.80%	10.72%
Communication Services	-0.37%	45.16%	-39.89%	21.57%	23.61%	32.69%	25.76%	3.99%	9.50%	7.56%	8.03%
Consumer Staples	-3.57%	-0.25%	-0.62%	18.63%	10.75%	27.61%	3.46%	7.10%	9.74%	9.49%	9.60%
Utilities	-6.16%	-9.31%	1.56%	17.67%	0.52%	26.35%	-12.65%	5.43%	6.76%	9.07%	9.59%
Materials	-3.28%	7.76%	-12.28%	27.28%	20.73%	24.58%	12.39%	11.20%	9.21%	9.70%	9.03%
Financials	-2.65%	1.53%	-10.57%	34.87%	-1.76%	32.09%	6.35%	12.87%	6.18%	10.28%	4.84%
Health Care	-0.69%	-1.17%	-1.95%	26.13%	13.45%	20.82%	8.59%	9.02%	9.49%	12.41%	10.12%
	Calendar Year Returns						**Annualized Returns**				

Source: Bloomberg as of 8/31/23.

DISCLOSURES

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

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.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index 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 500 stocks representing all major industries.
The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks. The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The MSCI US Broad Market Index captures broad US equity coverage. The index includes 3,204 constituents across large, mid, small and micro capitalizations, representing about 99% of the US equity universe.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

DISCLOSURES

The Bloomberg Barclays US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated investment grade, and have $300 million or more of outstanding face value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.
The market value of corporate bonds will fluctuate, and if the bond is sold prior to maturity, the investor's yield may differ from the advertised yield.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.
Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

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