SARATOGA CAPITAL MANAGEMENT, LLC

THE ASSET ALLOCATION SPECIALISTS© 9/30/23

MIVI | ABOUT THE ANALYTICAL TOOL

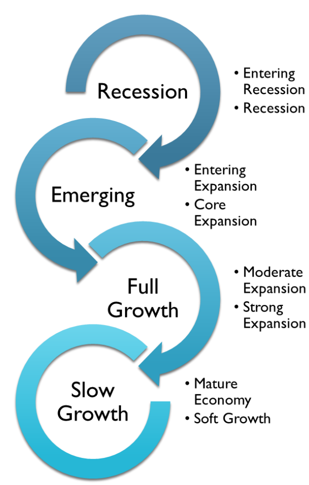
The statistics that comprise MIVI are the foundation of Saratoga Capital Management, LLC's asset allocation research. MIVI is an analytical tool comprised of over 50 macro-economic statistics, and is an acronym for the four main categories these underlying statistics fall into: monetary policy, interest rates, valuations and inflation statistics.

To analyze the capital markets, Saratoga primarily studies the historical and current relationships between economic developments and capital market trends. Our goal is to understand how various asset classes that make up the capital markets (e.g., large capitalization growth, financial services, international equity, etc.) might react in the current economic environment. MIVI helps paint a data-driven picture of current and past economic environments which we can use to shed light on the dynamic between various asset classes. This guides us in our determination for when it is appropriate to adjust our asset allocation strategies. Should the large capitalization growth sector be overweighted versus large capitalization value? Should equity sectors be underweighted versus fixed income sectors, in general? MIVI helps us answer these questions, and more.

GENERAL ECONOMIC OVERVIEW FOR 3Q23

As measured by Real Gross Domestic Product (GDP), the value of the production of goods and services in the United States grew by 2.1% during the second quarter of 2023, down from 2.2% during the previous quarter (all GDP growth rates discussed are seasonally adjusted annualized rates unless otherwise noted). Within the main components of GDP, consumer spending as measured by Personal Consumption Expenditures (PCE) advanced by 0.8%, while private sector investment as measured by Gross Private Domestic Investment (GPDI) grew 5.2%, though both one- and two-year trends remain negative. Government spending, which accounts for both consumption and gross investment, rose 3.3%. Both State & Local and Federal Government spending increased for the fourth consecutive quarter. While imports fell -7.6% for the quarter, exports fell even further to -9.3%. Net exports, however, retained a slightly positive impact on GDP, keeping a streak alive that began in the first quarter of 2022.

SARATOGA ECONOMIC STAGES



Americans buying services from one another has been the largest component of US GDP since the first quarter of 1970, when services spending passed goods spending for the first time. Services spending growth has been positive for twelve straight quarters, though it came in at just 1.0% for the quarter, below 12- and 24-month trends. While the consumer environment remained adequate to keep GDP in positive growth mode we are now well removed from the heady consumer spending environment that drove 5+% GDP growth in 2021.

After a brutal stretch from 2Q22 through 2Q23, private sector investment grew 5.2% during the quarter. Within GPDI, corporate spending on structures and equipment was up 7.4%, led by a massive boom in spending on Manufacturing facilities. We generally view corporate spending on equipment as a positive leading indicator, though much of this quarter's growth occurred in the notoriously volatile transportation sector. Once again, private investment in the residential sector was negative, falling -2.2%, unable to reverse trend even off of a drastically low floor; investment in the country's housing stock has now fallen for two straight years as the Fed continues to pressure the market.

Government spending and investment has settled back towards a 17% share of the economy, right around its 10-year average, after hitting a cycle-high over 20% during the pandemic. Over the past 70 years, it has been relatively normal for government spending to make up over 20% of the economy during times of war or recession, however there is always concern as spending normalizes and for much of 2021 and 2022 reduced relative government spending was a drag on GDP. 2023 has presented somewhat of a leveling-off, as public spending is now trending ahead of GDP for the past year.

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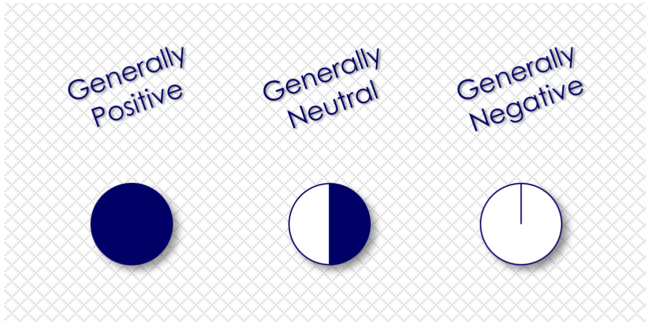
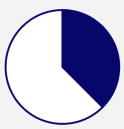


ASSET CLASS IMPACT	MONETARY POLICY COMMENTARY & IMPACT

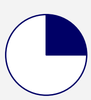
STOCKS



BONDS

SHORTER TERM

LONGER TERM



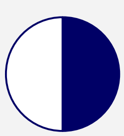
The Federal Reserve continues its tapering program into year two. The Fed balance sheet peaked at roughly $8.96 trillion in April 2022, and has dropped to $8.00t at the end of September 2023. Notwithstanding a $400 billion uptick in March, as the collapse of SVB drove banks to take advantage of Fed liquidity programs, the balance sheet has marched steadily downwards for the past 17 months.

The Fed remains persistent in squeezing the country's money supply, though certain elements of this policy have hit a lower gear. As of August, the monetary base fell -0.4% y-o-y, down from a cycle high of 57.7%. Within the monetary base, we see the Fed is still manipulating policy considerably via currency in circulation (CiC). CiC hit a pandemic-high growth rate of 17% y-o-y in 2020; that figure has now dropped to 2.0% y-o-y, far below its modern historical y-o-y growth rate of roughly 7.0%.

M2, one of the most widely used monetary figures for measuring liquidity in the economy, is also down massively from its cycle-high 22% y-o-y growth in February 2021 to -3.67% y-o-y currently; like CiC, M2 is also well below its modern historical growth rate of 7.1% y-o-y. We do note, however, that though M2 dropped again from July to August, it has finally flashed a positive three-month trend, which we view as the Fed potentially starting to neutralize its money policy.

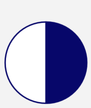
ASSET CLASS IMPACT	INTEREST RATES COMMENTARY & IMPACT

STOCKS



BONDS

SHORTER TERM



LONGER TERM

After extremely volatile trading in February and March, the one-year treasury rate grew towards 5.5% during the summer and has since settled into a range between 5.3 - 5.5%. We generally see this treasury issue move up when inflation is high and the market is anticipating the Fed will move their target rates higher to fight said inflation. In late 2022, it seemed the market was convinced the Fed would stop pushing rates before they hit 5%; with that target well surpassed, and the effective federal funds rate over 5.3%, it seems the market is convinced we may have one more rate increase to go. After posting strong gains in 2022, three-, five-, and ten-year treasury rates spent the first two quarters of the year relatively range-bound a bit below their cycle-highs. That dynamic changed during 3Q23, as longer-term treasuries moved up mostly in tandem. In good news for the yield curve, the longer the treasury, the higher it moved during the quarter, though the yield curve remains nearly entirely inverted.

Regarding long-term corporate bonds, the quality spread as measured by Moody's-rated Baa bonds minus Aaa bonds is reflecting a similar sentiment as yield spreads. The quality spread has historically been a good predictor of confidence in the corporate bond market and helps us establish a baseline expectation for corporate earnings. The quality spread approached a long-term low of 0.65 during June 2021 and steadily moved up for the next year and a half, reaching 1.16 in December 2022. A move back to 1.03 this quarter is an improvement, and we view this level as neutral with regard to future corporate earnings.

ASSET CLASS IMPACT

EQUITY VALUATIONS COMMENTARY & IMPACT

STOCKS

BONDS

N/A

As of September 30, 2023, the S&P 500 index was at 4,288. Our proprietary valuation work suggests a fair value for the S&P 500 around 4,214. Earnings growth has stabilized for now, and projections are on their way back up with March 2023 representing the first quarter of positive earnings growth since March 2022. We believe PE levels are likely to stay slightly below their modern historical mean of roughly 25, though only slightly so; improving inflation data has pushed our P/E estimates upward, while intermediate-to-long-term interest rates are still presenting a headwind to valuations. Earnings are generally a leading indicator, peaking slightly before recessions. We wrote previously that earnings had potentially put in cycle-high last spring, and now, after three consecutive negative quarters, it's possible December 31, 2022 will be the ensuing cycle-low. This potentially supports the notion that the economy entered and exited a recession in early 2022, a topic that seems destined for years of debate.

To create a range of equity market outcomes, we use a valuation tool which we refer to as our Proper PE Valuation™ tool. Among other things, this analysis provides us with a set of ranges above and below which we consider the S&P 500 overvalued or undervalued, respectively. Our proprietary valuation work currently sets an appropriate S&P 500 PE from 22 to 24.5. This produces a fair value range of 4,501 to 5,012 over the next six months. Earnings growth remains soft, and the recent rapid rise in the 10-year treasury knocked down our PE range a bit from last quarter's report.

ASSET CLASS IMPACT

INFLATION COMMENTARY & IMPACT

STOCKS

BONDS

SHORTER TERM

LONGER TERM

Our past few inflation reports have focused on the clarity wage data brought to our analysis of inflation, however wage data has become more complicated over the past quarter. Where it was clear for much of 2022 and early 2023 that wages were likely "pulling down" inflation, summer 2023 has been a mixed-bag. A number of our favored wage datapoints are now near or solidly above headline inflation rates, meaning that they could potentially begin pushing inflation back up, as opposed to pulling it down. Production-line workers producing goods, whom we have referenced in a number of our recent reports as Goods Workers, have seen wage gains remain steady around 5%, with a y-o-y figure of 5.69% in August, well above 3% inflation. On the other side of the leading wage argument, another important wage datapoint, Private Service Providing Hourly Wages, is a significant outlier to the downside.

Looking beyond wages, we're interested in certain Producer Price Index (PPI) inputs to give us some guidance on where inflation may be headed. Processed Goods for Intermediate Demand and Unprocessed Goods for Intermediate Demand, though both slightly ticking up last month are in deep downtrends. Services for Intermediate Demand are also falling.

After months of data confirming inflation's downtrend, the picture has become a bit more cloudy. That being said, we believe the current inflation environment remains muted enough that the Fed should be comfortable with a neutral policy stance.

[1]The S&P 500 is an unmanaged, capitalization-weighted index. It is not possible to invest directly in the S&P 500.

SARATOGA

CAPITAL MANAGEMENT

The Asset Allocation Specialists©

Founded 1994

American Revolutionary War - The Battles of Saratoga, 1777 | *Surrender of General Burgoyne by John Trumbull*

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