

NEWSLETTER – OCTOBER 2023

MARKET TRENDS 9.30.23

Asset Class	3 Mo	YTD
Global Stocks		
MSCI World	-3.6%	11.1%
US Stocks		
S&P 500	-3.3%	13.1%
Large Cap Value	-3.8%	1.0%
Large Cap Growth	-3.4%	24.6%
Mid Cap	-4.2%	4.3%
Small Cap	-5.6%	2.0%
International Stocks		
Developed Markets	-4.9%	6.6%
Emerging Markets	-3.7%	1.3%
Fixed Income		
Taxable Bonds	-3.2%	-1.0%
Municipal Bonds	-3.4%	-1.0%
Alternatives		
EM Bonds	-2.7%	0.8%
Floating Rate	1.6%	5.0%
Preferred	-1.2%	3.6%
Gold	-2.3%	2.9%
Real Estate	-9.7%	-6.2%

Source: Factset

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**Shorepoint**
Capital Partners

Shorepoint Q3 Newsletter – “What, Me Worry?”

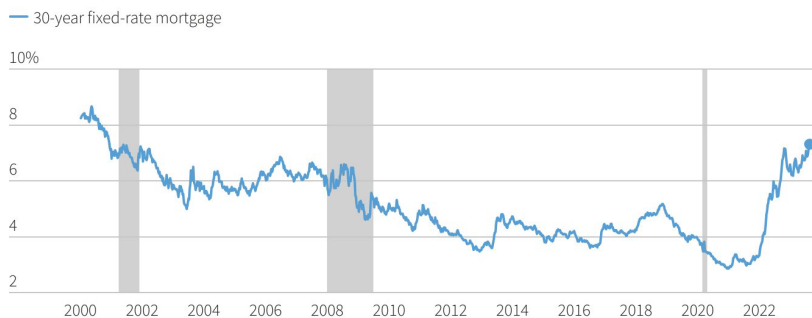
The strange thing about the financial markets is that the 'walls of worry' can quickly change from one quarter to the next, and the sheer number of concerns can be both unsettling and overwhelming. The worries have notably started to pile up of late, but it's almost as if the equity market is channeling its inner Alfred E. Neuman with a slight shrug. But unlike our freckled-faced icon, the unfolding act has the market players on the edge of their seats.

The one persistent worry has been the Federal Reserve (“Fed”), which has aggressively hiked rates to combat persistent inflation. At the July meeting, the Fed hiked rates again to the highest level in 22 years, raising the Prime Rate to 8.5%. The Prime Rate is used for consumer and commercial loans; thus, the high rate will likely reduce loan demand and increase borrowing costs for consumers and businesses.

And while the Fed had hoped to guide the U.S. economy to a 'soft landing,' the cracks in the fuselage have started seeping through. These impacts have been the most pronounced in the real estate sector, spanning the commercial (primarily office) and residential markets. The surge in mortgage rates has left consumers struggling to find affordable new homes, while on the commercial front, property owners grapple with securing funds for refinancing maturing loans or initiating new construction.

U.S. mortgage rates shoot to highest since 2000

The interest rate on the 30-year fixed rate mortgage - the most popular form of U.S. home loan - hit the highest since December 2000 in the latest week.



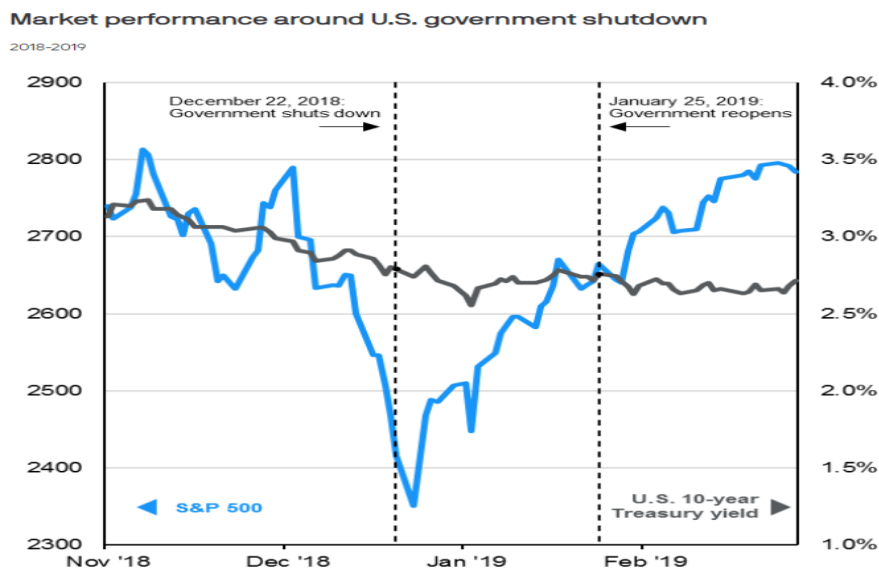
Note: Gray bands are recessions
Source: Mortgage Bankers Association

Further compounding these worries are rising fuel prices, threats of a government shutdown, ongoing worker strikes (UAW, Writers Guild), vulnerabilities in the bond market, and the recent Middle East conflict, all contributing to many sleepless nights for money managers.

Government Shutdown Averted ... For Now

Congress did pass a 45-day stopgap funding bill to avoid a government shutdown; however, budgetary concerns are far from over unless our band of merry political leaders can reach a budget agreement by November 17th. The odds of any budget compromise look far less likely now, following the messy ouster of Kevin McCarthy as speaker of the House.

Notably, the longest government shutdown in U.S. history spanned 35 days from December 2018 to January 2019. During this time, heightened worries about the financial impacts rippled through equity markets; however, in the end, the S&P 500 retraced all losses within two months. While the thoughts of a government shutdown seem scary, the financial implications are somewhat muted, assuming the shutdown doesn't drag on for a while.



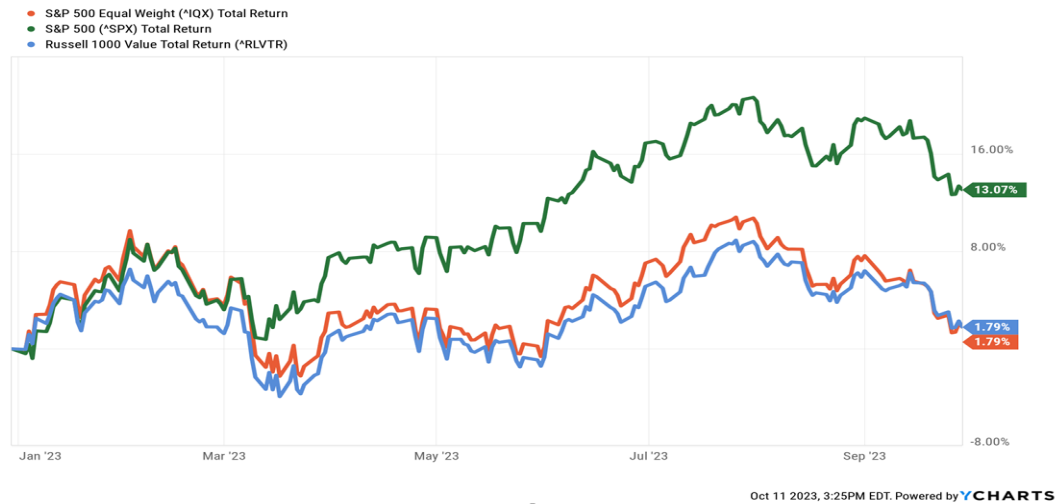
Economic and Equity Market Resilience

Despite recent economic warning signals, glimmers of hope persist. The economy's strength in the face of such significant monetary tightening has been astonishing. Our Gross Domestic Product grew at 2.4% even as 30-year mortgage rates have more than doubled in the last few years. The economy's continued expansion, an out-of-consensus occurrence, reminds us how humble we need to be in making predictions.

Equities have displayed resilience amidst a myriad of macro concerns, even with the late August swoon, which worsened in September. So far in 2023, the S&P 500 Index is up almost 13%, even with the recent 7% pullback from the July 2023 high.

The 2023 returns were driven by growth stocks, dominated by the over 50% return of the "magnificent seven" (Meta, Amazon, Apple, Microsoft, Google, Tesla and Nvidia). Meanwhile, the equal-weighted S&P 500 Index and value (dividend-paying stocks) stocks are only up 1.7%.

Large Cap Equity Performance Disparity



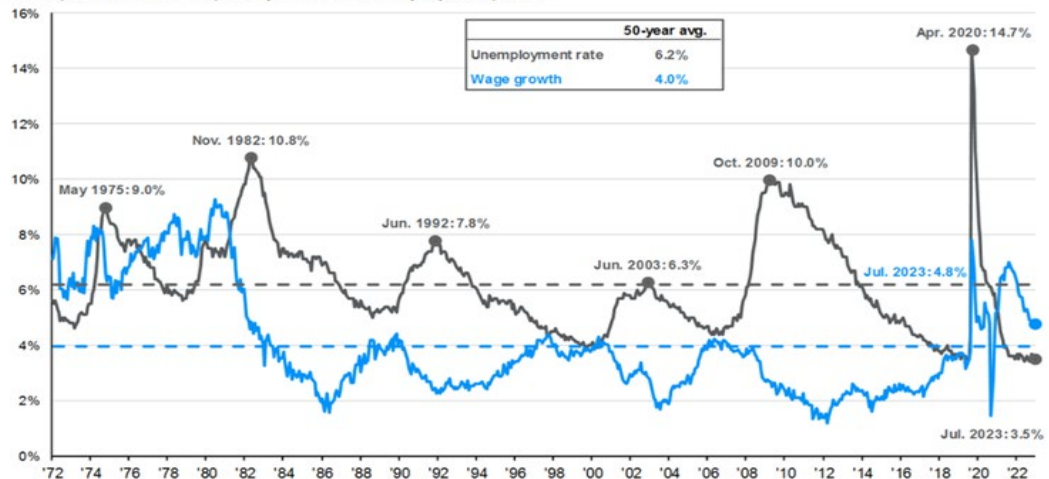
Bonds and money market funds now provide the best yields in over a decade, yet the demand for bonds has been weak. This can be attributed to volatility in bond prices, resulting in negative total returns this year. We expect this to normalize over time and prices to firm up when the Fed indicates that it will stop raising rates or even changes its bias toward easing.

In the meantime, Shorepoint portfolios continue to benefit from above 5% yields in money market funds. This won't last forever; someday, the Fed will realize, probably too late, that rates are too high and that they have gone too far and will start cutting rates. Unfortunately, this usually happens as the economy weakens. However, the low rate of unemployment continues to bolster the macroeconomy.

Unemployment Remains Historically Low

Civilian unemployment rate and year-over-year wage growth

Private production and non-supervisory workers, seasonally adjusted, percent

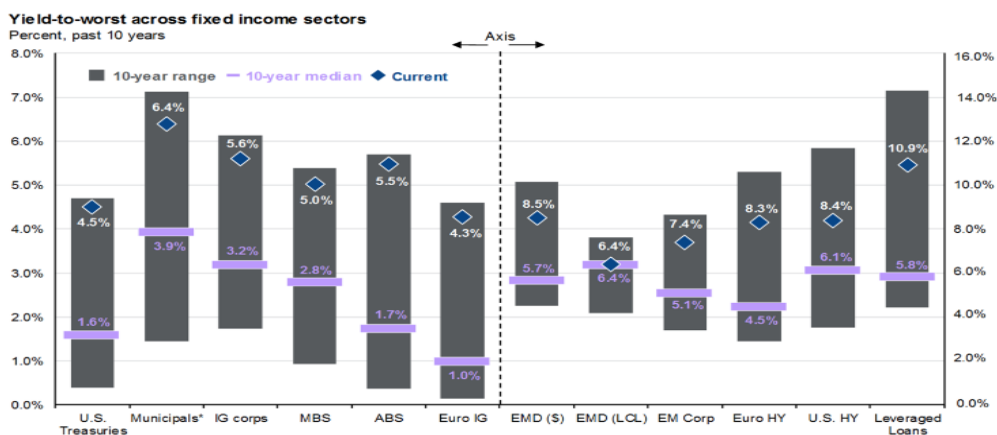


Looking Ahead

It's better to focus on what is likely to happen versus what has or is happening; applying common sense is always helpful. Shorepoint expects a slowing of growth, if not an outright contraction, at some point as the Fed continues to focus on controlling inflation.

Shorepoint has a more favorable view on bonds now than we've had in the past decade, although that's not saying much.

Fixed income valuations

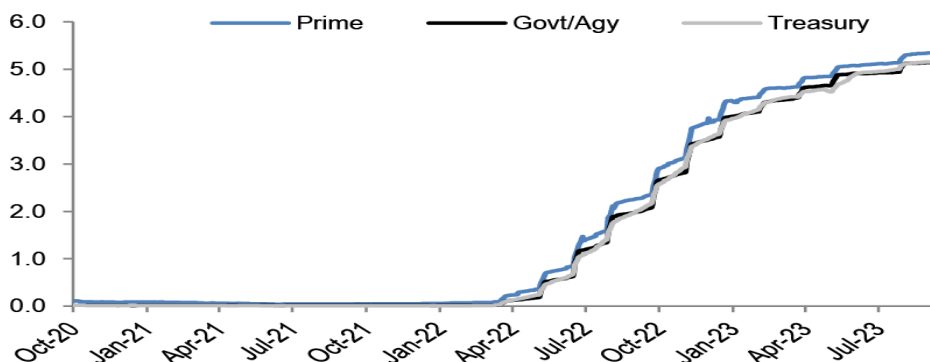


Yields across all bond asset classes are near 10-year highs (source JPMorgan)

It is a positive development in managing portfolios, as we've been able to reduce duration and improve quality while maintaining very attractive yields. The flip side is that bond volatility is still higher than historical norms.

However, we are more bullish on cash – specifically, money market funds paying over 5% risk-free. We use cash as a partial substitute for our bond allocation – comparable yields, principal protection, and dry powder to add to equities when the environment becomes more accommodating.

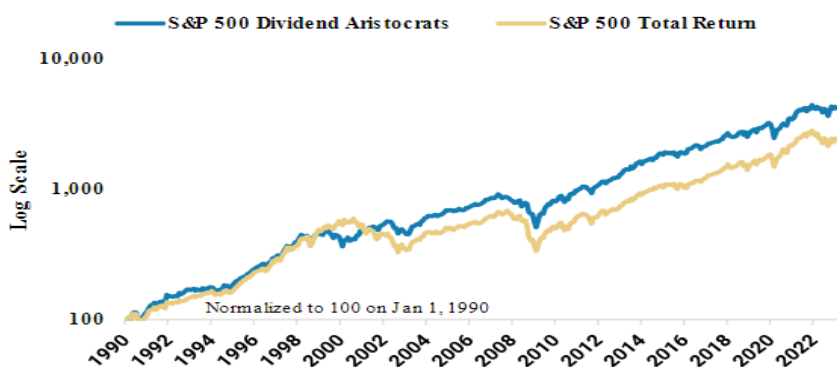
Net Money Market Yields (source JPMorgan)



IDENTIFYING OPPORTUNITY. NAVIGATING RISK.

Shorepoint remains constructive on the equity markets but stingy on what we want to pay for stocks, particularly with money market funds paying over 5% and stocks trading at a premium to historical averages. We have reduced our equity allocation in growth portfolios and added to cash. We continue to add to higher-quality dividend-paying stocks that have underperformed this year. Shorepoint's investment approach is contrarian, so we are gradually adding to attractively valued, underperforming stocks/sectors and taking profits/trimming some past winners. We also continue to perform tax loss harvesting in this volatile market which minimizing capital gains for clients in 2023 and potentially in future years.

Exhibit 1: Consistent Dividend Growers Have a Strong Performance Track Record



Source: Compustat, Morgan Stanley Research

Despite the prevailing economic concerns, political dysfunction, and global tensions, we remain true to our philosophy. Our unwavering focus remains on identifying high-quality companies that can benefit from economic malaise. We continue to opt for companies with durable cash flows, solid balance sheets, strong competitive positions, and consistent dividend growth, trading at attractive valuations. And it goes without saying this is done while maintain the proper asset allocation, reflective of each client's long-term goals and risk tolerance.

On another note, we plan on launch the Shorepoint Income Fund II, LP, in 2024. This will provide our clients with the opportunity to get exposure to private investments. We are available to discuss if this is appropriate for your situation.