Genter Capital Management
Finding Certainty in Uncertain Markets

Seizing Opportunity & Preserving Wealth For Over Half a Century

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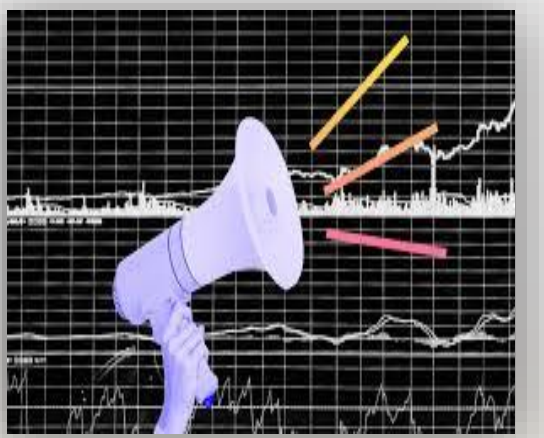
GENTER
CAPITAL MANAGEMENT

Macro Environment 2023 – The Noise

- **Continued Global slowing**; US Still elevated risk because of persistently higher capital costs. Higher risk of US/European Recession
- **U.S. Business fundamentals solid underpinnings** despite US Economic growth on a glide path to below trend growth
- **Central Bank firmly on course** to bring Inflation under-control
- **Expect interest rates to stay higher for longer** as monetary policy returns to the "old normal"
- **Structural Labor market issues are the wild card** for economic growth and market returns



Macro Environment 2023 – The Noise

- **Consumer spending continue to reset lower** as savings for the average household are near cycle lows
- **Supply Chains have improved but** even China's move away from zero-tolerance COVID policies can't guarantee smooth sailing yet.
- **Expect the next Business cycle to be Industrial-led** as businesses retool & harden supply chains as well as address potential persistent Labor shortages.

Yield Curve

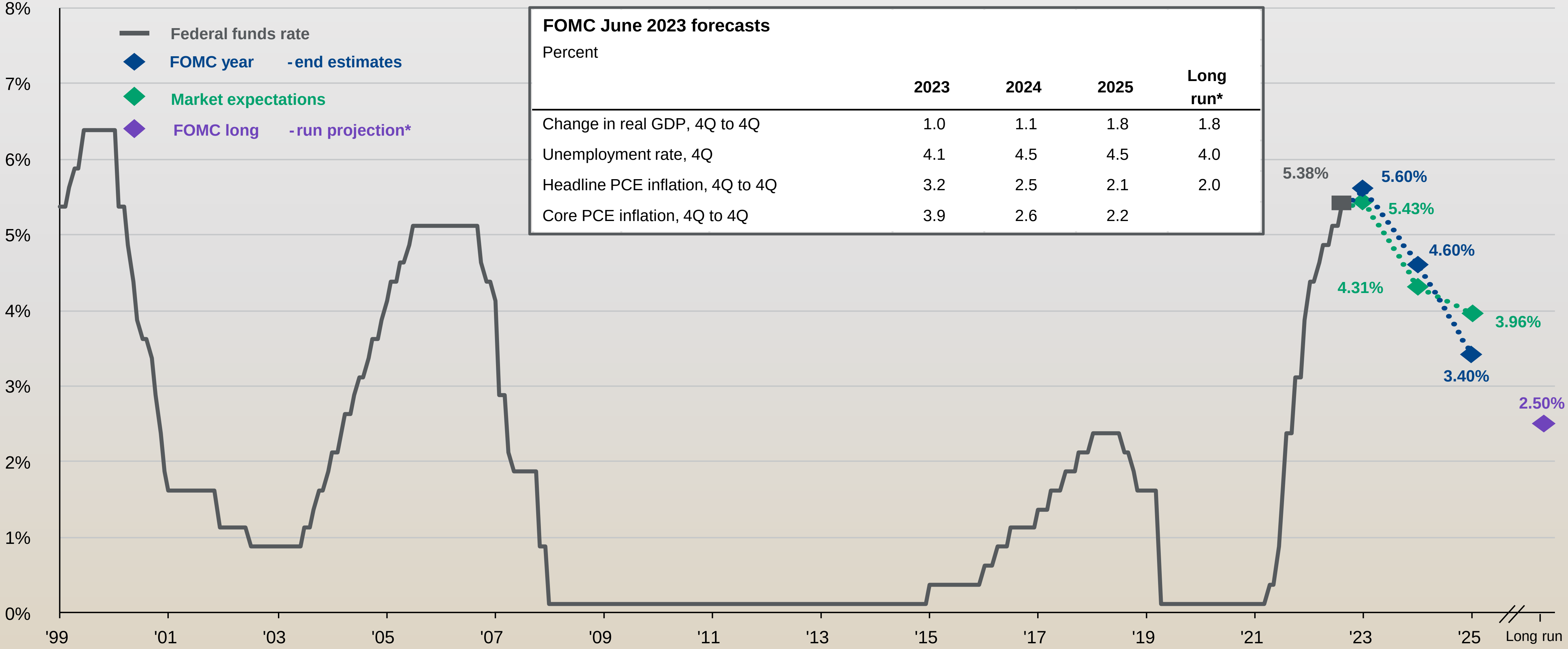
U.S. Treasury yield curve

Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of August 31, 2023.

Fed Funds

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC June 2023 forecasts

Percent

	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	1.0	1.1	1.8	1.8
Unemployment rate, 4Q	4.1	4.5	4.5	4.0
Headline PCE inflation, 4Q to 4Q	3.2	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	3.9	2.6	2.2	

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

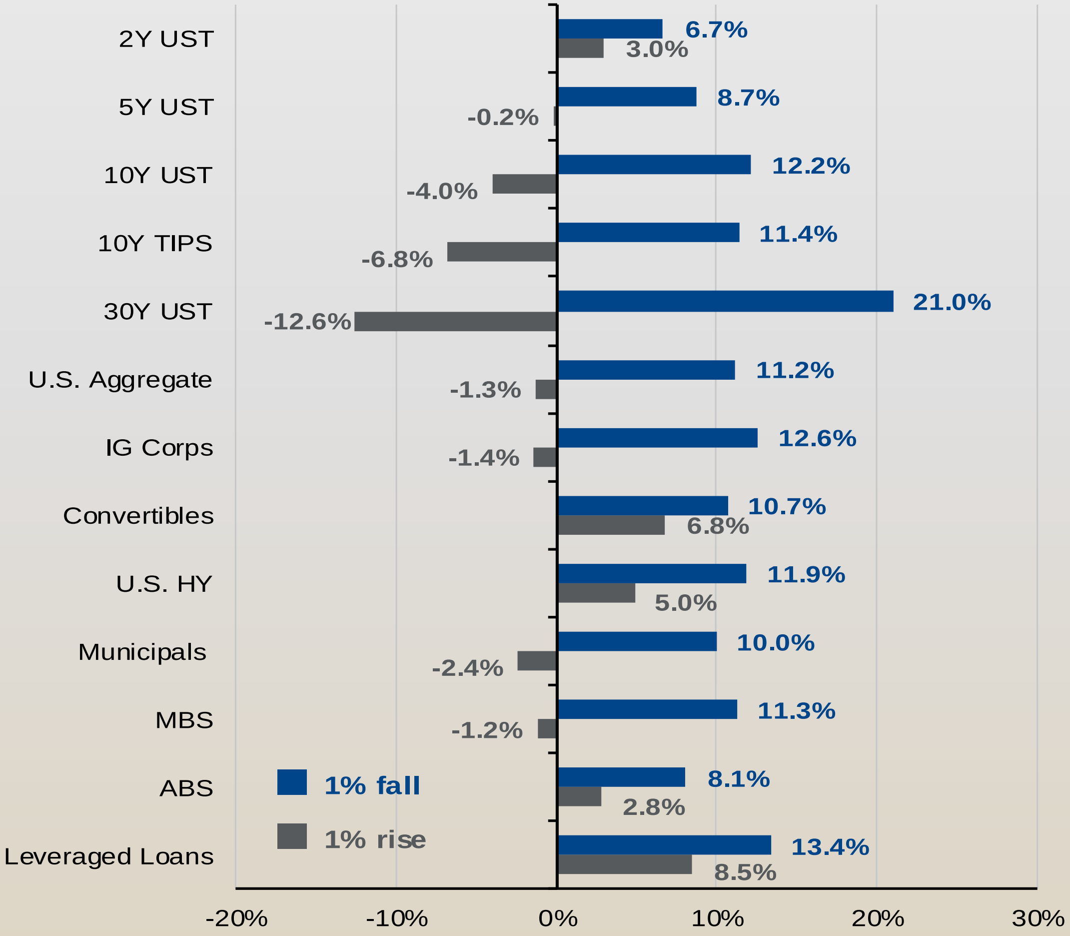
Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

Fixed Income Markets

U.S. Treasuries	Yield 8/31/2023	Yield 12/31/2022	Return 2023 YTD	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
2-Year	4.85%	4.41%	1.21%	2 years	0.73	-0.15
5-Year	4.23%	3.99%	0.69%	5	0.93	-0.13
10-Year	4.09%	3.88%	0.03%	10	1.00	-0.13
10-Year TIPS*	1.84%	1.53%	0.08%	10	0.78	0.31
30-Year	4.20%	3.97%	-2.25%	30	0.93	-0.17
Sector						
U.S. Aggregate	4.97%	4.68%	1.37%	8.5	0.86	0.22
IG Corps	5.61%	5.42%	2.76%	10.8	0.54	0.47
Convertibles	8.37%	7.58%	9.04%	-	-0.13	0.87
U.S. HY	8.41%	8.96%	7.13%	5.0	-0.09	0.74
Municipals	3.79%	3.55%	1.59%	13.1	0.54	0.22
MBS	5.02%	4.71%	0.95%	8.0	0.78	0.15
ABS	6.10%	5.89%	3.67%	3.3	0.20	0.02
Leveraged Loans	10.94%	11.41%	9.16%	2.4	-0.34	0.60

Impact of a 1% rise or fall in interest rates

Total return, assumes a parallel shift in the yield curve



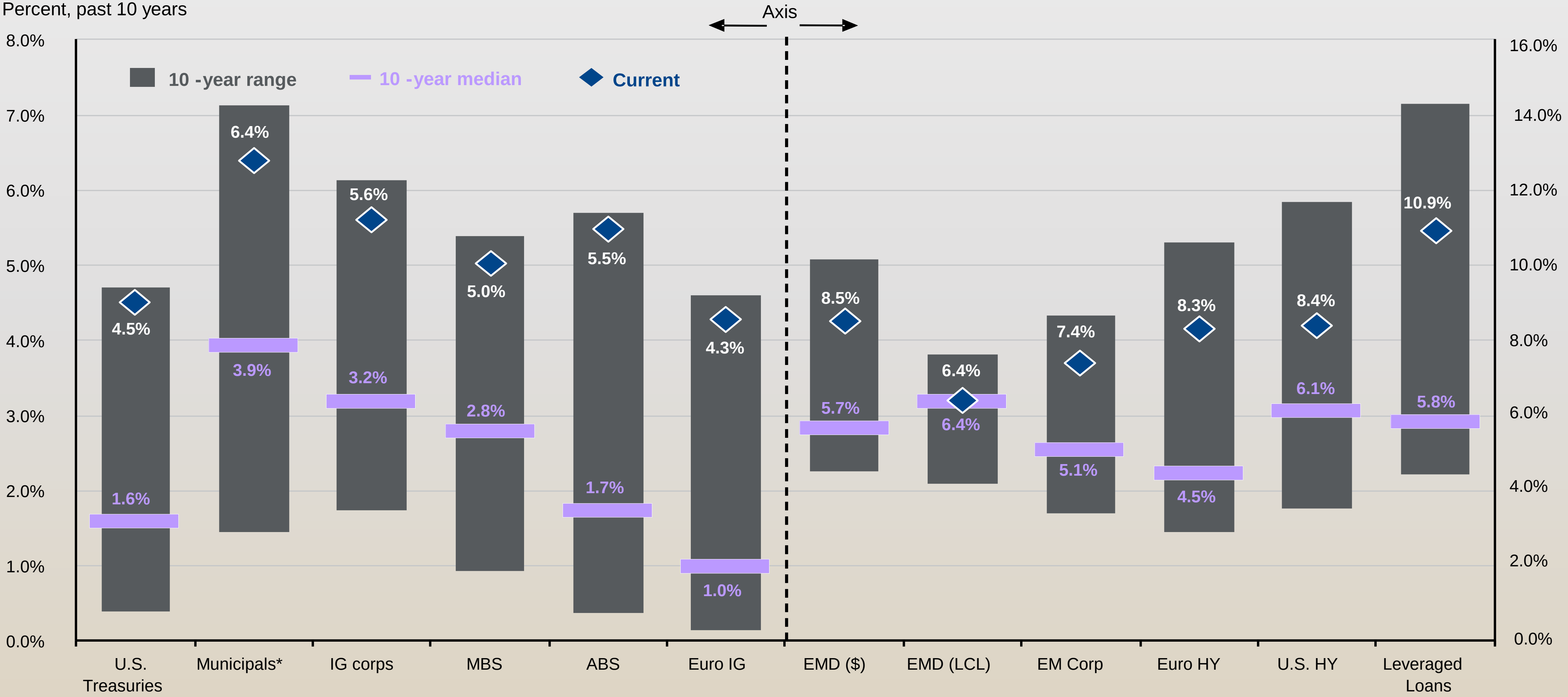
Source: Bloomberg, FactSet, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management. Sectors shown above are provided by Bloomberg unless otherwise noted and are represented by – U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS; ABS: J.P. Morgan ABS Index; Corporates: U.S. Corporates; Municipals: Muni Bond; High Yield: Corporate High Yield; Leveraged Loans: J.P. Morgan Leveraged Loan Index; TIPS: Treasury Inflation-Protected Securities; Convertibles: U.S. Convertibles Composite. Convertibles yield is as of most recent month end and is based on U.S. portion of Bloomberg Global Convertibles Index. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield-to-worst. Convertibles yield is based on U.S. portion of Bloomberg Global Convertibles. Correlations are based on 15-years of monthly returns for all sectors. Past performance is not indicative of future results.

Guide to the Markets – U.S. Data are as of August 31, 2023.

Fixed Income Markets

Yield-to-worst across fixed income sectors

Percent, past 10 years



Source: Bloomberg, FactSet, J.P. Morgan Credit Research, J.P. Morgan Asset Management. Indices used are Bloomberg except for emerging market debt and leveraged loans: EMD ($): J.P. Morgan EMIGLOBAL Diversified Index; EMD (LCL): J.P. Morgan GBI-EM Global Diversified Index; EM Corp.: J.P. Morgan CEMBI Broad Diversified; Leveraged loans: JPM Leveraged Loan Index; Euro IG: Bloomberg Euro Aggregate Corporate Index; Euro HY: Bloomberg Pan-European High Yield Index. Yield-to-worst is the lowest possible yield that can be received on a bond apart from the company defaulting. All sectors shown are yield-to-worst except for Municipals, which is based on the tax-equivalent yield-to-worst assuming a top-income tax bracket rate of 37% plus a Medicare tax rate of 3.8%. *Guide to the Markets – U.S.* Data are as of August 31, 2023.

U.S. Treasury Yields

		10-year Average*		
	08/31/2023	2010-2019	2000-2009	1990-1999
1 Yr	5.37%	0.73%	3.13%	5.34%
2 Yr	4.85%	0.95%	3.26%	5.77%
5 Yr	4.23%	1.64%	3.89%	6.31%
10 Yr	4.09%	2.39%	4.45%	6.66%
30 Yr	4.20%	3.19%	4.93%	6.99%

Genter Taxable Quality Intermediate

Data as of 08/31/23	Duration	Yield-to-Workout	Average Credit Quality
Genter Taxable Quality Intermediate	**3.56**	**5.29%**	**AA-/A+**
Bloomberg US Agg Bond	6.17	4.95%	AA/AA-
Bloomberg US Agg Bond Intermediate	4.53	4.93%	AA/AA-
Bloomberg US Agg Bond 1-5 Year	2.59	5.01%	AA/AA-

U.S. Treasury Yields

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5 Yr	4.23%	1.64%	3.89%	6.31%
10 Yr	4.09%	2.39%	4.45%	6.66%
30 Yr	4.20%	3.19%	4.93%	6.99%

Genter Taxable Quality Short

Data as of 08/31/23	Duration	Yield-to-Workout	Average Credit Quality
Taxable Quality Short-Term	**2.52**	**5.21%**	**AA-/A+**
Bloomberg US Agg Bond	6.17	4.95%	AA/AA-
Bloomberg US Agg Bond Intermediate	4.53	4.93%	AA/AA-
Bloomberg US Agg Bond 1-5 Year	2.59	5.01%	AA/AA-

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10 Yr	4.09%	2.39%	4.45%	6.66%
30 Yr	4.20%	3.19%	4.93%	6.99%

Genter Short Term Government

Data as of 08/31/23	Duration	Yield-to-Workout	Average Credit Quality
Genter Short Term Government	**1.43**	**5.17%**	**AA+**
Bloomberg US Agg Bond	6.33	4.33%	AA
Bloomberg US Agg Bond Intermediate	4.59	4.22%	AA
Bloomberg US Agg Bond 1-5 Year	2.65	4.27%	AA+
Bloomberg 1-3Yr Gov Index	1.77	4.97%	AA+

Genter Portfolio Characteristics

	Taxable Quality Intermediate	BBG Gov/Cred Interm	Taxable Quality Short	BBG Gov/Cred 1-5Yr	Short-Term U.S. Government	BBG 1-3Yr U.S. Gov
Average Coupon	3.06%	2.65%	3.19%	2.50%	2.27%	2.18%
Yield to Workout	5.29%	4.89%	5.21%	4.98%	5.17%	4.97%
Yield to Maturity	5.31%	4.90%	5.23%	4.99%	5.17%	4.97%
Effective Maturity Years	4.15	4.17	2.89	2.73	1.59	1.86
Duration	3.56	3.71	2.52	2.53	1.43	1.77
Convexity	0.23	0.21	0.11	0.09	0.05	0.04
Average Quality	AA-/A+	AA/AA-	AA-/A+	AA/AA-	AA+	AA+

*Data as of 8/31/2023

Market Commentary

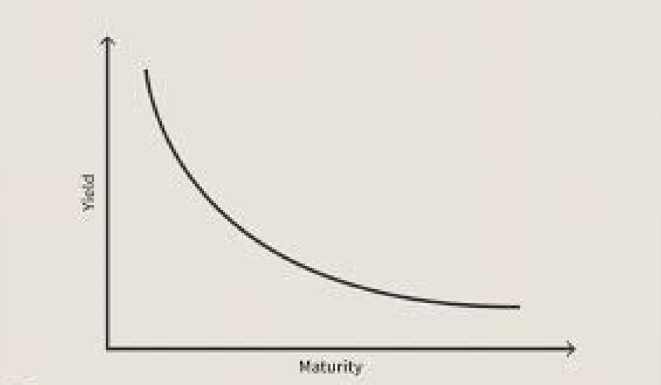
- **<u>Too Easy for Too Long</u>**: Contagion from an idiosyncratic bank run was not top of mind for many investors. But such is the fallout from employing a monetary policy that was too easy for too long and which incentivized – really, practically forced – investors to reach for more risk. From the 20,000-foot perspective, this tightening cycle has introduced quite a bit more uncertainty to any forecasts we might make.

- **<u>PCE Still Elevated</u>:** The Fed's preferred measure, PCE Core, likewise has retreated from its Feb 2022 peak (+5.4%), but at +4.2% remains high. Core CPI tells a similar story at +4.7%. However, Shelter costs were responsible for more than 90% of this increase. Core CPI less shelter has declined to +1.0%.

- **<u>Unemployment Could Remain Low</u>**: Forecast models suggest that more than 2 million job losses will likely be incurred in the Fed's fight to rein in inflation. In other words, unemployment should hit 5%. But given the recent difficulty of finding and training qualified employees, we think many employers may choose to minimize layoffs as much as possible, leaving the U/E rate peaking at an abnormally low level by historical standards.

Market Commentary

• **QT Slows:** Quantitative tightening was slowed by the bank scare, but the Fed balance sheet continues to decline. It peaked at just under $9.0 trillion in May of 2022 and is now $8.1 trillion.



• **Curve Remains Inverted**: We expect the yield curve to remain inverted as the Fed continues to fight inflation with high short-rates while the market weighs slow (or negative) economic growth by keeping the long-end well bid.

• **Remain Cautious on Credit and Duration** The expectation is for unemployment to rise and inflation to moderate, but the path to that outcome might be more volatile than the market currently expects. We are maintaining our cautious outlook on credit spreads and prefer to add incremental risk with shorter maturity corporate bonds. Our longer Treasury holdings insulate the portfolio to negative growth outcomes, while our shorter holdings provide attractive yields with the Treasury curve still massively inverted (2/10yr inverted -75bp).