October 2023

> **"There are decades where nothing happens; and there are weeks where decades happen."**
>
> **-Vladimir Ilych Lenin**

This quarter was one filled with dramatic and unprecedented historic events, a most unusual economic and geopolitical time in history, packed into a period of 90 days.

- ✓ The 10-year Treasury Note increased from in yield from 0.56% in August 2020 to its recent high of 4.77%, with a full percentage point coming in the just the last 6 months. As a result, ultra-safe U.S. debt obligation is in a bear market.

- ✓ A surprise attack on Israel by Hamas terrorists began a war between Israel and Hamas with longer term repercussions of further tension in the region.

- ✓ Fitch downgraded the United States credit rating from AAA to AA+, only the second downgrade in history, following S&P's in 2011.

- ✓ The price of oil in July rose from $70 to its recent high of $93, a 32% increase in a two-month period.

- ✓ For the first time in our country's history: , a House Speaker was removed from office, a former US president was indicted and criminal charges, and (most surprisingly!), a House subcommittee held hearings on UFOs.

- ✓ The number of migrants that have crossed the US border year to date reached an historic high of 2.8 million, up from 1.7 million in 2021.

- ✓ For the first time in 50 years that the US will have no Giant Pandas in its zoos, as China's last agreement will expire at the end of next year, with no planned renewal of the agreement.

Together, these events underscore the dramatic changes occurring in the United States. From among the list above, the most impactful for the US economy and the capital markets was the rapid increase in the 10-year Treasury note to its recent high of just under 4.8% from its close at the end of last quarter at 3.8%. As inflation had continued to moderate during the quarter, the increase in rate may be a result of an increasing conviction among investors that rates (especially on the longer end of the curve) will have to remain higher for longer and a significant recession will be avoided and the continued uncertainty surrounding the decrease in the credit rating of the US debt.

Recent employment data and consumer spending remain strong, and as of this note, the Fed may in fact be contemplating additional fed funds increases. The inverted yield curve has begun to unwind with longer rates rising relative to the short rates. At the same time, interest rates have increased across all maturities. This transition to a normal yield curve provides appropriate excess return to a bond investor in a longer dated maturity vs. an investor in a shorter dated maturity. And AHB has prepared for this adjustment in our bond portfolios.

Fixed Income portfolios have been positioned with shorter durations and the maturity schedules bode well for the portfolios to be reinvested at the higher rates that are now available. "A" rated Municipal Bond Portfolios are providing above 6.25% yields on a taxable equivalent basis for investors in higher income brackets while Corporate Bonds are yielding above 5.75% on average.

As compared to equity returns, investment grade bond returns are now compelling from a risk/reward profile.

Equity portfolios remain structured to benefit from future growth areas such as information technology as well as recession-resistant consumer staples and health care. The economic data continues to provide hopeful news that this ideal environment, modest inflation with moderate economic growth, may come to fruition. Equities will return to a focus on superior management, competitive advantages in the marketplace and potential for higher future earnings growth.

As the yield curve and monetary policy start to normalize, we are cautiously optimistic that the US government will find compromises to provide more certainty for fiscal stability that the capital markets crave. At AHB, investment decision-making begins by building a comprehensive top-down macroeconomic outlook for evaluating the three primary areas of the economy: consumer, business, and government. We will continue to anticipate change and strive to assess not only the impact on the current portfolio but also to identify areas of future investment opportunity.

We appreciate the confidence that you have placed in our firm, most especially during these trying times.

AHB Investment Team