Q3

Quarterly Market Review

Third Quarter 2023

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135186

Quarterly Market Summary

THE COMEBACK OF VALUE STOCKS DESPITE GLOBAL EQUITIES' DRAWDOWN IN Q3

Global stocks dropped after last quarter's positive performance, with the MSCI All Country World IMI Index returning -3.4% over the quarter. The 5-year forward inflation expectations in the United States remained below 3% for the quarter, as the yield curve has remained inverted for more than a year. In particular, the 10-year Treasury yield rose by nearly 80 basis points to 4.6% this quarter, marking its highest level in approximately 16 years.

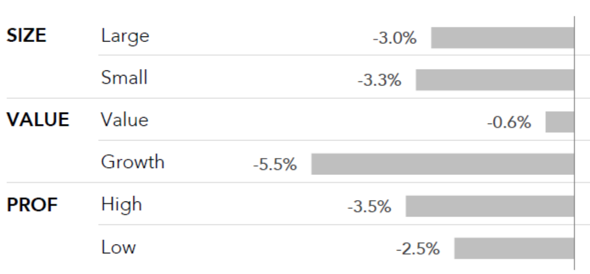
Globally, energy rebounded from its weaker performance in the first half of 2023 and was the best performing sector, returning 11.5% for the quarter. Comparatively, information technology, REITs, and utilities lagged the overall market. Large growth stocks were the biggest detractors, as Apple declined -11.6% while Microsoft also dropped, down -7.1%. Value stocks generally outperformed growth stocks across U.S., non-U.S. developed, and emerging markets, with the MSCI All Country World Value IMI Index outperforming its growth counterpart by 3.1%. In the U.S., the value premium was positive despite generally negative size and profitability premiums.

The value premium in the United States and globally was strong for the quarter, as value stocks outperformed growth stocks in every region and generally across small and large caps. The value premium was especially strong within developed markets outside of the U.S., with the MSCI World ex USA Value index outperforming the MSCI World ex USA Growth index by 8.4% for the quarter.

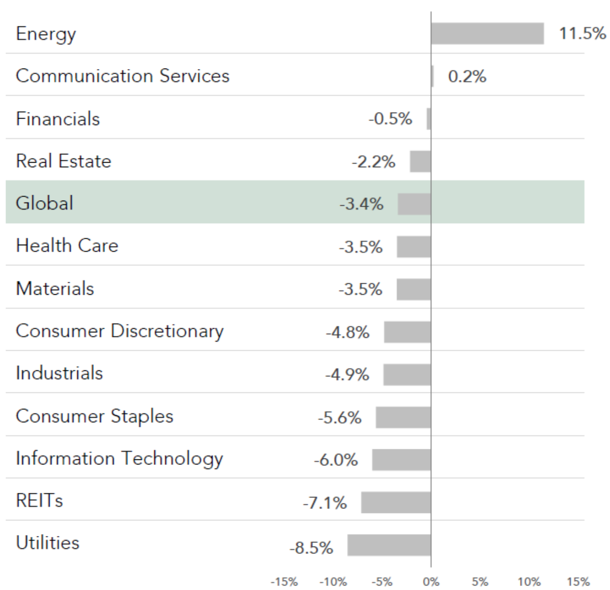
GLOBAL ASSET CLASS RETURNS *Q3 2023*

STOCKS	US	**-3.25%**
	Developed ex US	**-4.02%**
	Emerging Markets	**-2.12%**
BONDS	US	**-3.23%**
	Global ex US	**-0.78%**

GLOBAL PREMIUM RETURNS *Q3 2023*



GLOBAL SECTOR RETURNS *Q3 2023*



FIXED INCOME

U.S. Treasury yields climbed higher in the third quarter as the Federal Reserve continued to raise its benchmark interest rate. After a rate increase in July, the Fed held rates steady in September and October but left the door open for further rate increases in the future. With yields at the highest they've been in 15 years, it appears "higher rates for longer" will continue to be the expectation. However, this is highly dependent on ongoing inflation. If inflation continues to flatten out, interest rates should stabilize and possibly move down over time.

Quarterly Market Summary

In terms of total returns, the U.S. Aggregate Bond index declined -3.23% for the quarter and is now down -1.21% year to date. It appears the Bond Index could be in line for an unprecedented third straight year of negative returns.

ALTERNATIVES

Demand worries in the U.S. and China weighed broadly on commodities, notably metals and energy. The markets grappled with whether the Federal Reserve's aggressive monetary policy tightening will put the U.S. into a recession. Led by a 30% return in Crude Oil, commodities bounced back in the third quarter with the Bloomberg Commodity Total Return Index gaining 4.71%. Natural Gas and Wheat were the worst performers for the period, declining -10.4% and -20.02% respectively.

After a respite in the second quarter, as interest rates resumed their march upwards, U.S. Real Estate Investment Trusts (REITs) sold off -7.40% for the quarter and are now down -2.05% year to date. Global REITs continued to decline weighted heavily by China's struggling property sector and bankruptcy filings of Evergrande and Sunac, two of the country's largest property developers.

ECONOMY

The "economy" is often discussed in rather simplistic terms driven by a few key parts (inflation, unemployment, interest rates and GDP). The reality is the economy is much more complex, some parts independent and others interrelated. Some astute economists have pointed out that we have "two different economies" at play. The services sector continues to show growth while the manufacturing sector is indicating a recession. Thankfully, manufacturing's share of employment is only about 8%, while the services sector accounts for approximately 78%.

The Fed's hike in interest rates and its quantitative tightening (reducing its balance sheet) continue to result in a hiring slowdown for both small firms and the broader economy. The labor market appears to be softening, with hours worked, overtime hours and temporary staffing levels all declining. The number of people voluntarily leaving their jobs for another position has dropped to the lowest level since the beginning of 2021. Unemployment continues to stay low with October's unemployment rate coming in at 3.9%. For perspective, during the Great Financial Recession in 2007-09 unemployment reached 10%.

That being said, the economy was much stronger in the third quarter than anticipated. Real GDP (meaning adjusted for inflation) grew at a 4.9% annualized rate. Details always matter, and in this case a large component of the growth was bolstered by a 7% annualized increase in government spending. This combined with an $80 billion increase in inventories (goods produced but not actually sold) helped push growth above expectations.

Another area contributing to stronger than expected economic growth is the resilience of, or addiction to, consumer spending. Despite a low savings rate, slowing demographics, depressed confidence, a crippled housing market, rising interest costs and growing credit problems, it is estimated that American consumers increased their inflation-adjusted spending by more than 4% annualized in just the third quarter. This is somewhat baffling when you look at the index of consumer sentiment which fell to 63 in October, a rating in the lowest 10% (bad) of all time since tracking began in 1978.

Quarterly Market Summary

GROWING GOVERNMENT DEBT

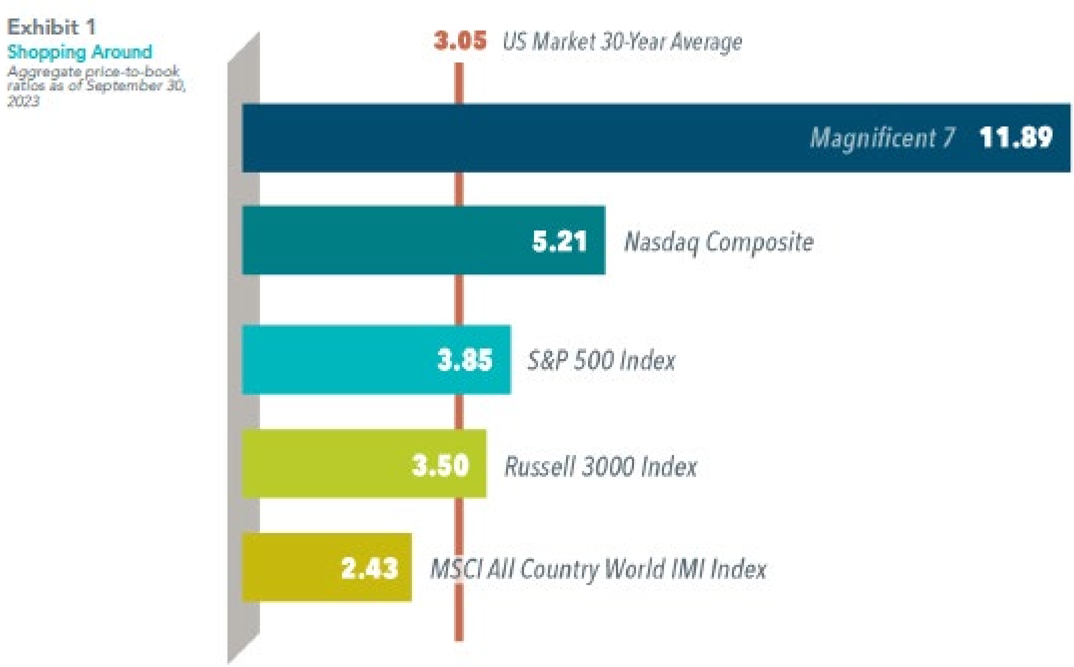
The federal budget ***deficit*** is estimated to be about $1.7 trillion for fiscal year 2023, this compares to $946 billion for fiscal year 2022, so almost doubling in one year. One quarter (25%) of all U.S. government debt outstanding has been added since the beginning of 2020 with the total now approaching $35 trillion. Higher debt levels and higher interest rates have increased debt servicing costs from $1 billion per day in 2020 to almost $2 billion a day in 2023. Given the current trend line, annual net interest payments may soon overtake what the government spends on defense.

LOOKING FORWARD

Historically, aggregate stock market valuation ratios have *not* been strong predictors of broad market returns. And yet, high stock valuations sit near the top of concerns cited by investors about the state of equity markets. However, this perception stems from a subset of stocks. Investors should be careful not to throw the baby out with the bathwater by ascribing this characteristic to the broader global stock market.

The poster child for high valuations – the so-called Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Telsa) had an aggregate price-to-book (P/B) ration of 11.89 as of September 30 (despite six of the seven having lower profitability than the S&P500 Index). To put that in perspective, the average for the U.S. market over the past 30 years is 3.05.

These stocks have helped push up the P/B ratio of the tech-heavy Nasdaq composite to 5.21. Other broader indices such as the Russell 3000 approximates the total U.S. market trade at a more reasonable P/B ratio of 3.50, and the MSCI All Country World Index is well below the 30-year market averages with a P/B ratio of 2.43.



Quarterly Market Summary

An additional consideration in evaluating where and how to invest, one has to ask the question – how long can the Magnificent Seven stay magnificent?

As companies grow to become some of the largest on the U.S. Stock market, their returns can be impressive. As shown on the graph below, not long after joining the Top 10 largest by market cap, these stocks, on average, lagged behind the market.

From 1927 to 2022, the average annualized return for these stocks over the three years *prior* to joining the Top 10 was more than 25 % higher than the market. However, three years after joining the Top 10, these stocks were, on average, underperforming the market – a stark turnaround from before. The gap is even wider five years out.

AVERAGE ANNUALIZED OUTPERFORMANCE OF COMPANIES BEFORE AND AFTER THE FIRST YEAR THEY BECAME ONE OF THE 10 LARGEST IN THE US
Compared to Fama/French Total US Market Research Index, 1927–2022

SUMMARY

No matter how familiar we are with investing or how long we have been at it, we've all navigated uncertain times. These are the challenges and realities of investing. Which is why we all need reminded, regularly, of a few key principles as we navigate uncertain times.

Quarterly Market Summary

Uncertainty Creates Opportunity. Uncertainty can be uncomfortable. But we often forget that without it there would be no opportunity. When you invest, returns are compensation for taking on uncertainty. Without risk there would be no reward. But there's also risk in choosing not to invest, because if your money doesn't grow over time, it won't go as far in the future. Cash hidden under a mattress can't keep up with inflation.

Plan, Don't Predict. We've all tried to predict what will happen in life, only to be disappointed when it didn't turn out the way we anticipated. Investing is similar. For maximum peace of mind, we make plans that account for a broad range of possible outcomes. Plan for what's possible and can happen, rather than trying to predict what will happen.

Harness the Power of Compounding. Even the small, seemingly inconsequential decisions we make every day can have a big impact over time. The best way to stay motivated and focused is to remind ourselves of the rewards that come from patience and commitment. Incremental gains every day can add up to a lot of progress over time. The same is true of investing. Your financial plan and investing results are the result of the cumulative effects of the decisions you make every day.

Control What You Can Control. In investing, you can control how much you save, the risk you take on, and the guidance you seek in putting together an investment plan that's right for you, but you cannot control the ups and downs. Focus on what's in your control.

Tune Out the Noise. We all know that markets rise and fall. We can be disappointed by downturns, but we shouldn't be surprised by them. Reacting emotionally to recent market volatility may be more detrimental to your portfolio performance than the drawdown itself. Cultivating a disciplined and well-thought-out plan can help you tune out the noise. When it comes to investing, a lot of things are interesting without actually being meaningful or helpful.

Remember, we're here to help. This also is where the time invested upfront with each of you shows its value. Formulating a solid and adaptable financial plan together and discussing liquidity, cash flows, and reserves provides the solid footing needed for times like these with many changing facets.

We appreciate the opportunity to work with each of you. We recognize that each client's situation is unique and incorporates different factors into their investment and financial plan.

As always, if you have any questions or concerns about current market trends and the impact on your personal situation and plan, please contact us and we would be happy to discuss.

All the best,

Geoff

Quarterly Market Summary

Index returns

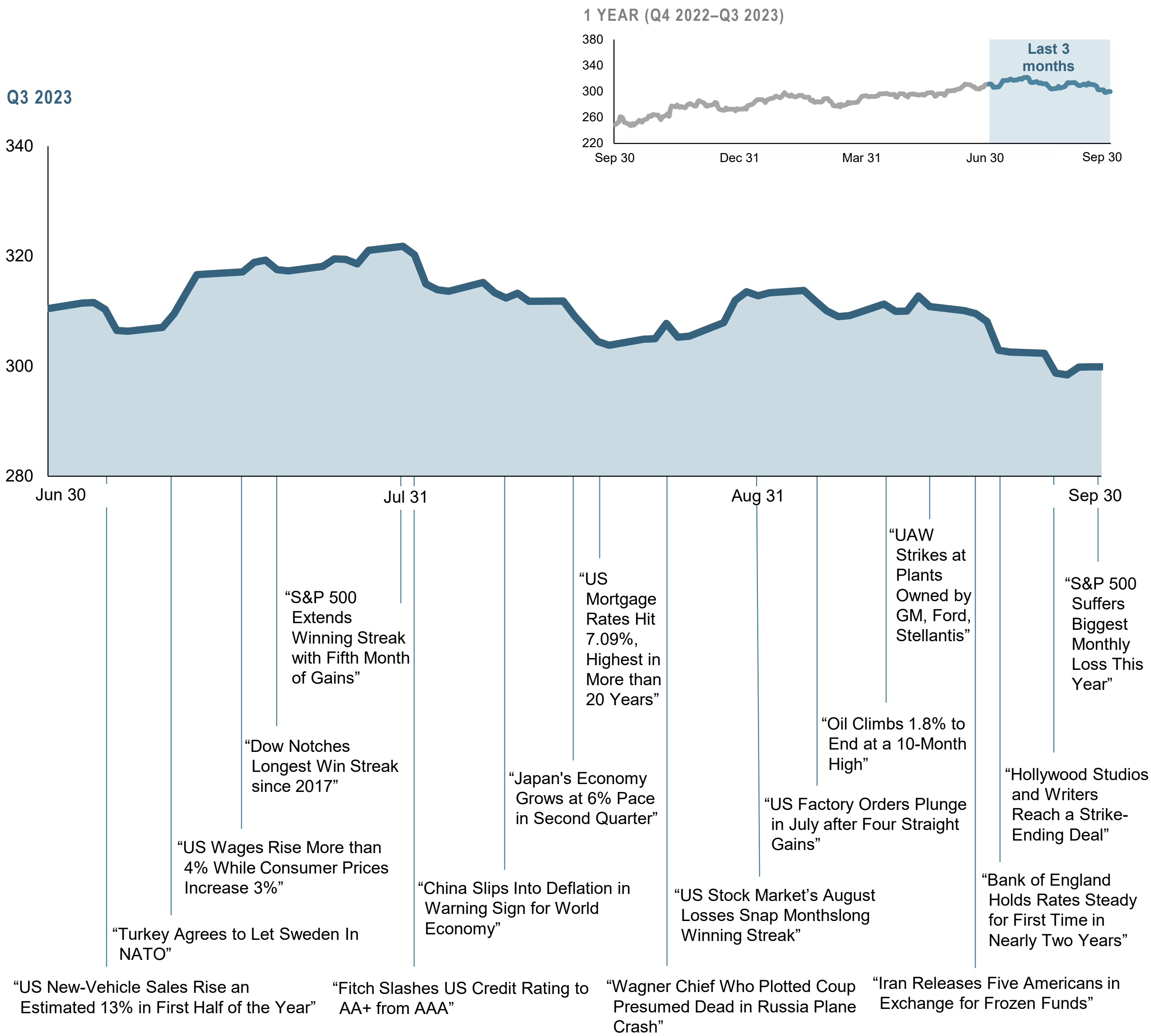
Q3 2023	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	-3.25%	-4.10%	-2.93%	-6.49%	-3.23%	-0.78%

Since Jan. 2001	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Average Quarterly Return	2.2%	1.5%	2.4%	2.1%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2001 Q3**	**2008 Q4**
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2022 Q1**	**2022 Q1**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2023



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio.
Past performance is not a guarantee of future results.

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US Stocks

Third quarter 2023 index returns

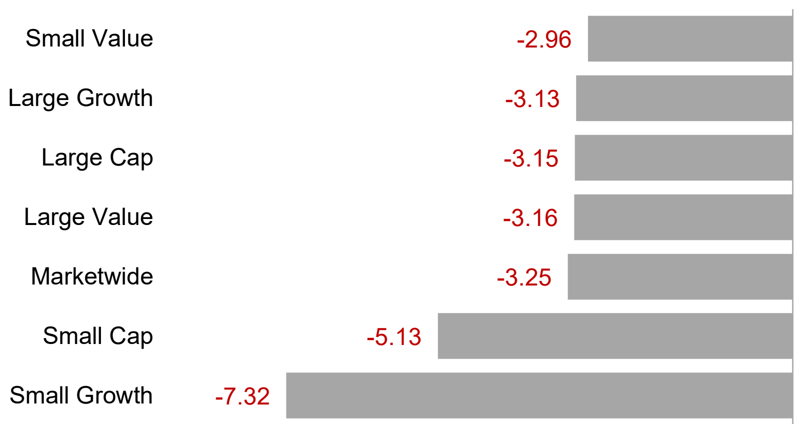
The US equity market posted negative returns for the quarter and outperformed non-US developed markets, but underperformed emerging markets.

Value underperformed growth within large caps and outperformed within small caps.

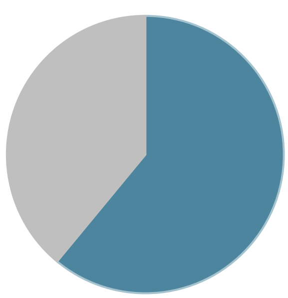
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Small Value	-2.96	-0.53	7.84	13.32	2.59	6.19
Large Growth	-3.13	24.98	27.72	7.97	12.42	14.48
Large Cap	-3.15	13.01	21.19	9.53	9.63	11.63
Large Value	-3.16	1.79	14.44	11.05	6.23	8.45
Marketwide	-3.25	12.39	20.46	9.38	9.14	11.28
Small Cap	-5.13	2.54	8.93	7.16	2.40	6.65
Small Growth	-7.32	5.24	9.59	1.09	1.55	6.72

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International Developed Stocks

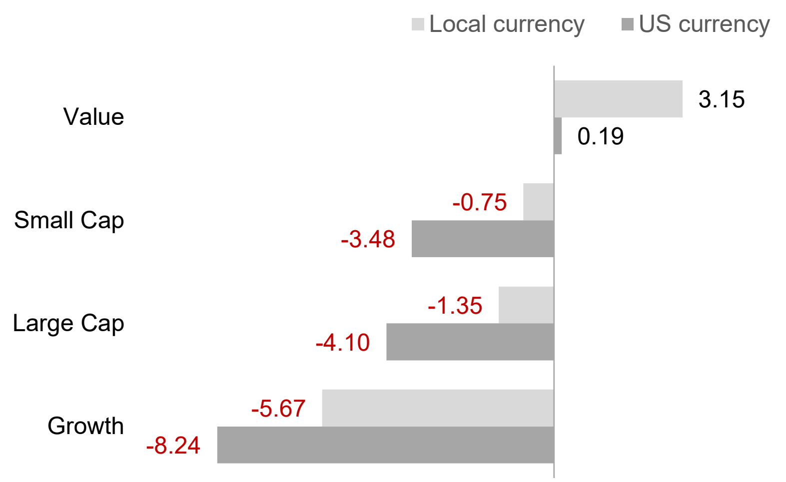
Third quarter 2023 index returns

Developed markets outside of the US posted negative returns for the quarter and underperformed both US and emerging markets.

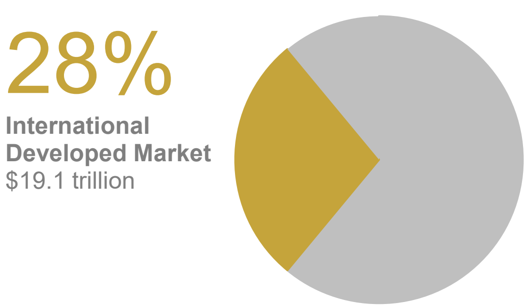
Value outperformed growth.

Small caps outperformed large caps.

Ranked Returns (%)



World Market Capitalization—International Developed



Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Value	0.19	9.13	28.89	11.64	3.05	3.05
Small Cap	-3.48	1.83	17.32	1.85	1.28	4.13
Large Cap	-4.10	6.73	24.00	6.07	3.44	3.84
Growth	-8.24	4.38	19.27	0.47	3.37	4.36

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Emerging Markets Stocks

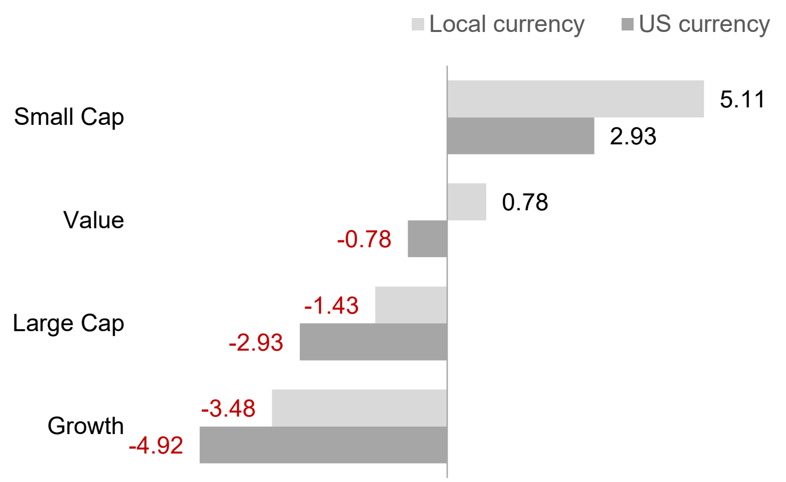
Third quarter 2023 index returns

Emerging markets posted negative returns for the quarter and outperformed both US and non-US developed markets.

Value outperformed growth.

Small caps outperformed large caps.

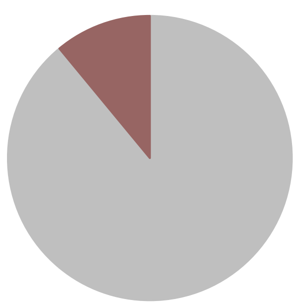
Ranked Returns (%)



World Market Capitalization—Emerging Markets

11%

Emerging Markets
$7.6 trillion



Period Returns (%)

Asset Class	QTR	YTD	1 Year	3 Years (Annualized)	5 Years (Annualized)	10 Years (Annualized)
Small Cap	2.93	13.74	23.06	10.61	6.45	4.57
Value	-0.78	5.70	16.03	4.40	0.38	1.21
Large Cap	-2.93	1.82	11.70	-1.73	0.55	2.07
Growth	-4.92	-1.76	7.71	-7.19	0.63	2.83

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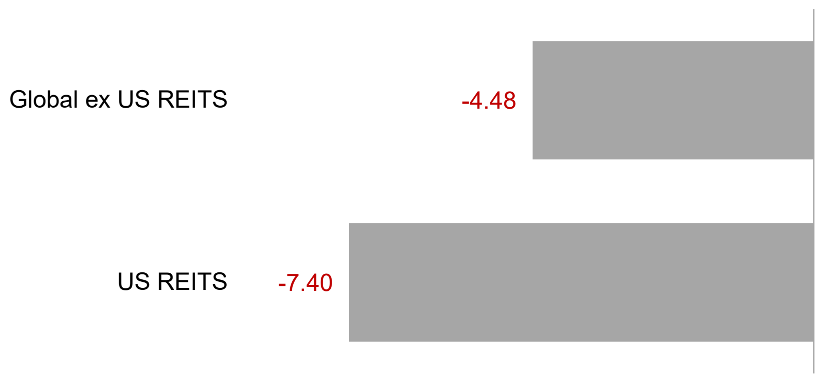
Real Estate Investment Trusts (REITs)

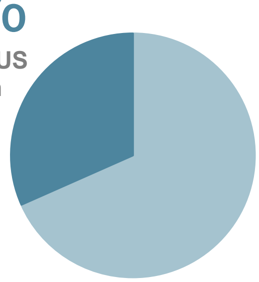
Third quarter 2023 index returns

US real estate investment trusts underperformed non-US REITs during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized 3 Years	Annualized 5 Years	Annualized 10 Years
Global ex US REITS	-4.48	-8.16	2.30	-2.67	-3.22	0.41
US REITS	-7.40	-2.05	2.61	6.12	1.56	5.28

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market.

135188

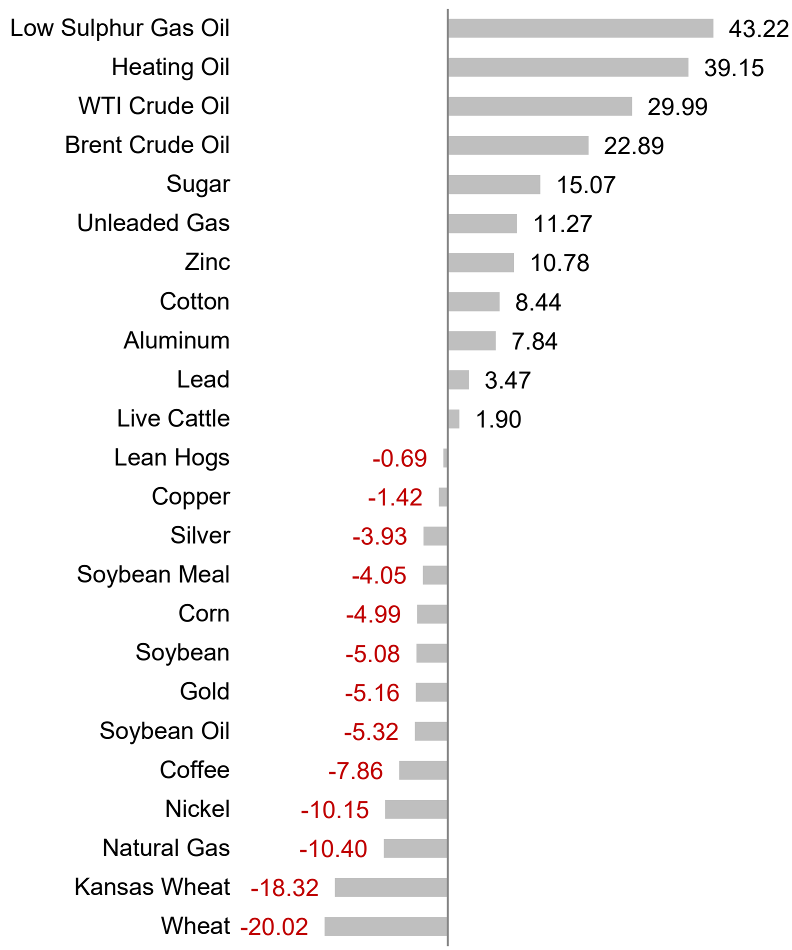
Commodities

Third quarter 2023 index returns

The Bloomberg Commodity Total Return Index returned +4.71% for the third quarter of 2023.

Low Sulphur Gas Oil and Heating Oil were the best performers, returning +43.22% and +39.15% during the quarter, respectively. Wheat and Kansas Wheat were the worst performers, returning -20.02% and -18.32% during the quarter, respectively.

Ranked Returns (%)



Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Commodities	4.71	-3.44	-1.30	16.23	6.13	-0.75

Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

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Fixed Income

Third quarter 2023 index returns

Interest rates increased across all bond maturities in the US Treasury market for the quarter.

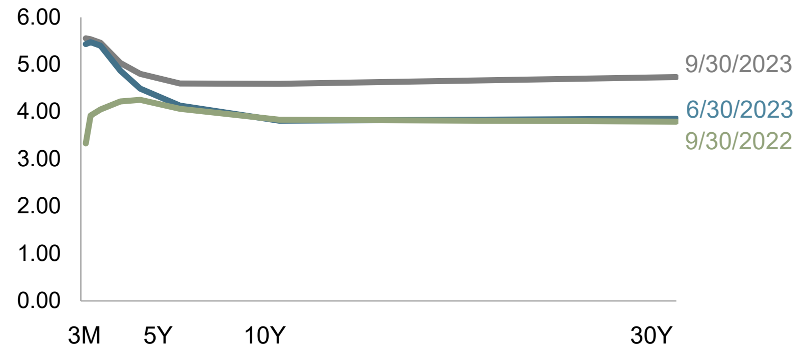
On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 31 basis points (bps) to 5.55%, while the 1-Year US Treasury Bill yield increased 6 bps to 5.46%. The yield on the 2-Year US Treasury Note increased 16 bps to 5.03%.

The yield on the 5-Year US Treasury Note increased 47 bps to 4.60%. The yield on the 10-Year US Treasury Note increased 78 bps to 4.59%. The yield on the 30-Year US Treasury Bond increased 88 bps to 4.73%.

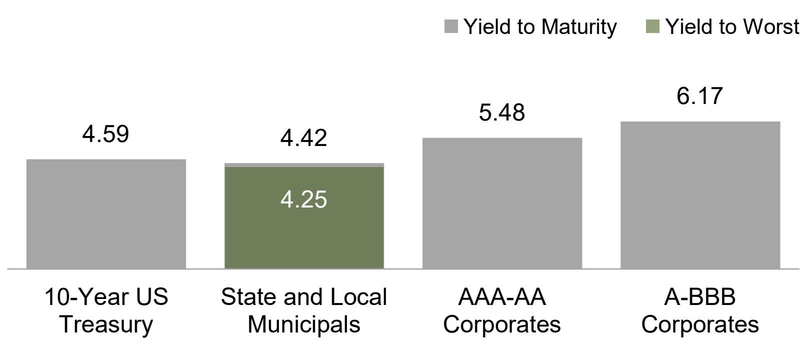
In terms of total returns, short-term US treasury bonds returned +0.17% while intermediate-term US treasury bonds returned -0.81%. Short-term corporate bonds returned +0.25% and intermediate-term corporate bonds returned -0.96%.[1]

The total returns for short- and intermediate-term municipal bonds were -0.94% and -2.96%, respectively. Within the municipal fixed income market, general obligation bonds returned -4.10% while revenue bonds returned -4.04%.[2]

US Treasury Yield Curve (%)



Bond Yields Across Issuers (%)



Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
ICE BofA US 3-Month Treasury Bill Index	1.31	3.60	4.47	1.70	1.72	1.11
ICE BofA 1-Year US Treasury Note Index	1.21	2.90	3.68	0.60	1.46	1.00
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.56	2.10	2.68	-1.05	1.03	1.15
Bloomberg U.S. High Yield Corporate Bond Index	0.46	5.86	10.28	1.76	2.96	4.24
FTSE World Government Bond Index 1-5 Years	-1.01	-0.15	3.68	-3.80	-0.84	-1.00
Bloomberg U.S. TIPS Index	-2.60	-0.78	1.25	-1.98	2.12	1.74
Bloomberg U.S. Aggregate Bond Index	-3.23	-1.21	0.64	-5.21	0.10	1.13
Bloomberg Municipal Bond Index	-3.95	-1.38	2.66	-2.30	1.05	2.29
Bloomberg U.S. Government Bond Index Long	-11.79	-8.50	-9.04	-15.66	-2.78	0.75

1. Bloomberg US Treasury and US Corporate Bond Indices.
2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. Bloomberg data provided by Bloomberg.

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