BLUE GRANITE CAPITAL, LLC

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The bond market's impact on stock valuations was perhaps the key takeaway from the third quarter. As the quarter ended, equity markets finally began to price in the effects of higher rates, coupled with an accelerating bond market sell-off over the past 6 weeks. It appears investors are beginning to take the Fed's 'higher for longer' mantra at face value —no rate cuts this year and higher interest rates well into next year. Inflation is still too high combined with persistently stronger than expected employment and consumer spending which makes the Fed's objective more challenging.

The stock market as measured by the S&P 500 Index had a tough September, falling 4.77% and closing 11% below its all-time high set January 2, 2022. However, the index has still gained 13% year-to-date and 21.6% over the past year. The sell-off can be attributed to many things including inflation, concern over the direction of the economy and the big surge in interest rates. To put bond rates in perspective, the 2-year Treasury Bond yield is currently 5.10%, up from just 0.31% only 2 years ago. Equally remarkable is the rise in the 30-year yield from 4% to 5% in just 3 months. For investors, the Fed's aggressive monetary tightening to fight inflation has implications across all asset classes.

After 15 years of basically 'free' money, where interest rates were held near zero, the current interest rate regime is beginning to cause cumulative effects pressuring businesses, consumer lifestyles and eventually government spending. Higher rates may ultimately slow economic growth and limit stock market gains. Conversely, your bond market investments are benefiting from the highest yields in more than 15 years and the increased income they generate. Even money market funds have captured investor attention with yields close to 5%.

The mega cap tech rally in the 'Magnificent 7' stocks that we addressed in our last commentary has proven vulnerable in the current high interest rate climate. This is perhaps a positive sign, possibly leading to healthier stock market conditions. Simply put, a concentrated market rally driven by only 7 stocks led to questionable and, over time, unsustainable market valuations. The Magnificent 7 were responsible for 75% of the market's appreciation and notably remain too expensive. Challenging economic conditions and market uncertainty eventually lead investors to high quality, defensive stocks that pay steady dividends, like those in your portfolios. This is what we like to see when considering your investment strategy with a long-term outlook in mind.

To this point, the current economic and political backdrop underscores the challenges to the market. The recent Speaker of the House turmoil in Congress reminds us that the lack of constructive governance in Washington can only add to concerns about inflation, the numbing enormity of government spending and the real possibility of a recession.

Consumers are feeling the pressure with current mortgages rates at their highest level since 2000. Credit card, auto and personal loan rates are also significantly higher. As rates have increased, banks have tightened their lending standards which inevitably lowers total loans completed which in turn constrains growth. The hesitancy for banks to lend and individuals to borrow at current interest rates will have a trickle-down impact. Though inflation has fallen dramatically over the past year, reaching the Fed's target

rate of 2% inflation will be challenging with ongoing spikes in energy prices, which further impact businesses, consumers and economic growth.

Whether the Fed can engineer the soft landing that they hope for will be difficult given their aggressive interest rate policy over the past eighteen months. The Fed is walking a fine line between pushing rates disruptively too high or reaching a rate level that cuts inflation just enough. While the economy could retract further, with employment and consumer spending both robust, we believe there is a degree of expectation already baked into the markets and that inflation will likely fall to a more reasonable level.

We are mindful too that the market 'climbs a wall of worry,' and we are comfortable with your portfolio strategy of holding high quality, fundamentally sound stocks that pay dividends—complemented with bonds that are paying very compelling yields.

Thank you for your support and trust; we hope you had a great summer.

Warmest Regards,

Scott, John & Dave