The Carl / Timpone Group
at
Morgan Stanley

September 2023

The Serious Investor's Guide

Market Trends and Interest Rates

It's hard to believe it's been three years since the start of the global pandemic, and a year and a half from the start of the unjustified Russian invasion of Ukraine. Since March of 2022, the Federal Reserve Board has raised short term interest rates 525 basis points due to much higher inflation.* This resurgence of inflation came mostly from the massive printing of money during the global pandemic, and then the shortage of goods due to the quick economic recovery and years of supply chain issues. Since the Global Financial Crisis of 2007 to 2008, we have lived with a 15-year period of near zero percent interest rates, which, in turn led to a roaring stock market and real estate market. Investors were desperately seeking alternative places to invest since the interest rates were so low for so long.

The good news is that short term U.S. Treasury Bills and money market funds are now paying over 5.2%.* Oddly enough, however, the speculative fervor is back. Recently, anything having to do with artificial intelligence or technology has been leading the stock market upwards. There is hardly any attention being paid to the price or valuation of these enterprises. P/E multiples are very high for many of these stocks, and interest rates are continuing to rise, as the world economy is slowing. At the same time, there has been significant value created in many of the other companies that have been avoided or sold because of a lack of excitement and the fear of recession.

* Bloomberg

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That said, most other stocks have been stagnating over the last year or so. The truth is with money market fund rates at over five percent, there is hardly a rush to put money to work in over-priced stocks at this point in time. However, because of the neglect in the stock market over the past year or so, there are still very good bargains to be had and lots of money to be made over the long term. You just cannot buy the stocks that everybody else already owns and that are trading at lofty levels. We need to continue to dig beneath the surface and find the bargains that can reward investors over the long term. This is exactly what we do at the Carl/Timpone group at Morgan Stanley. Our objective is to generate decent long-term returns without taking on too much risk. With these higher, short-term interest rates, we can afford to be patient while waiting for opportunities to come to us.

Ironically, while short term interest rates have risen so sharply, the ten-year U.S. Treasury Note yields have risen very little from 3.69% a year ago to only 4.28% as of this writing.* If the inflation rate continues to stay subdued as the economy softens and the unemployment rate rises from 3.8%, then the interest rates may actually come down somewhat in the next year or so. This may eventually spur some degree of optimism as it relates to stocks. However, there may be some short-term pain coming prior to that due to some potential earnings disappointments coming at year end or early next year.

Another important point is that riding the market cap weighted S&P 500 index, with the top seven stocks accounting for 27% of the entire index*, is likely to lead to below average returns over the long run. The chart on the next page shows how growth investing has compared to value investing over the years. It appears quite likely that value investing may outperform growth investing over the next five years or so in our opinion. Hence, our reasoning as to why we are so focused on finding value and being patient. We feel we will be substantially rewarded over the years to come.

*Bloomberg

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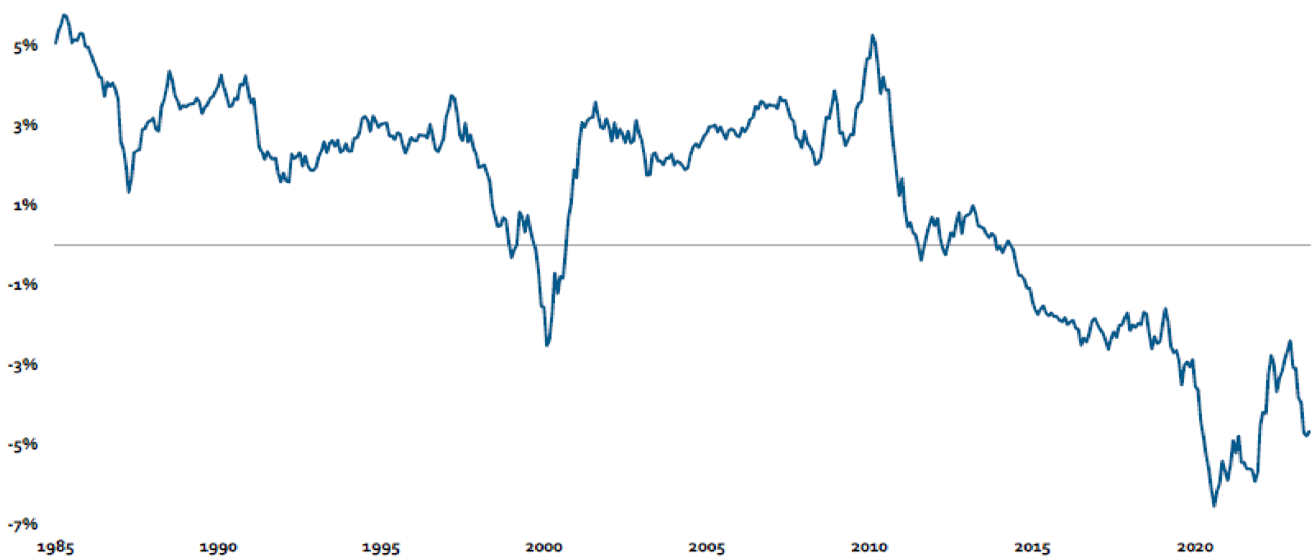
WEALTH MANAGEMENT

Morgan Stanley

Relative Performance of Value vs. Growth

Trailing 10-Year Annualized Total Returns: MSCI World Value Index less MSCI World Growth Index*

Monthly data as of July 31, 2023



Source: FactSet, Morgan Stanley Wealth Management GIO. *Calculated as difference in total return, annualized over trailing 10-years

Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.

EDWARD C. TIMPONE - FAMILY WEALTH DIRECTOR

We are extremely proud to announce that Edward Timpone has recently attained the designation of Family Wealth Director by Morgan Stanley. Designated Family Wealth Directors must demonstrate professional knowledge and experience in a range of wealth management solutions including estate planning strategies & trust services, tax mitigation, alternative investments, philanthropy, control and restricted securities, lending, hedging and monetization, and business succession planning. This is an exceptional achievement for Edward and an attestation of his commitment to today's ultra-high-net-worth & high-net-worth families. In addition to this title, Edward constantly goes above and beyond to help our clients in any way they need, and he is one of the most talented, dedicated, and truly caring people that any of us have come to know. Congratulations Edward!

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