VIEW CAPITAL
ADVISORS, LLC

Quarterly Review and Strategy Update

September 30, 2024

Source: Investing.com, Fortune

- **Federal Reserve cuts interest rates – are we about to stagger into a recession?**
- **The financial markets welcome lower interest rates with positive returns across the board**
- **Is China at an inflection point?**

www.view-cap.com

View Capital Advisors, LLC

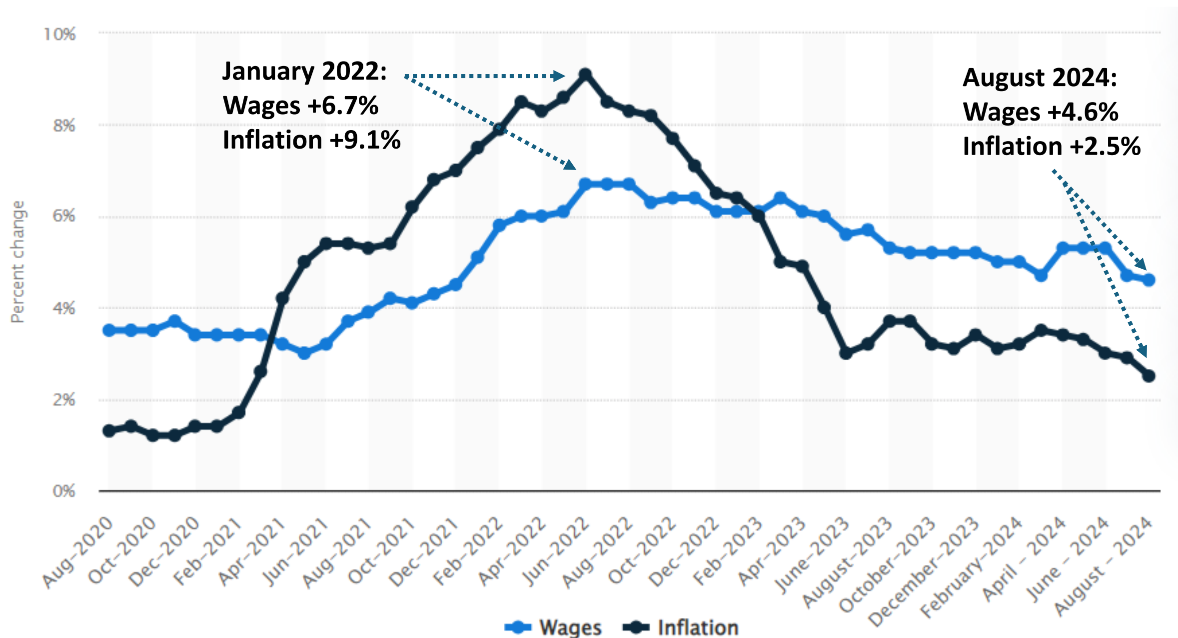
2727 N. Harwood, Suite 225
Dallas, TX 75201
Tel: 214.855.2550
www.view-cap.com

Ken Shoji, CFA
kshoji@view-cap.com

Matthew Anthony
manthony@view-cap.com

THE ECONOMIC ENVIRONMENT

U.S. Wage Growth and Inflation



Source: Statista

At its September meeting the Federal Reserve satisfied market expectations by delivering a half-point cut to its benchmark interest rate, lowering it to a target of 4.75% to 5%. Federal Reserve chair Jay Powell had recently stressed that he was shifting his focus from fighting inflation to supporting employment: “We will do everything we can to support a strong labor market as we make further progress towards price stability.” His colleagues on the board also indicated that priorities had now changed, with their forecasts of the path of interest rates, encapsulated in the so-called “dot plot,” showing that rates might fall by another half-percentage point this year followed by a series of cuts to take rates eventually to 3.25% by the end of 2025. Clues as to the pace and size of future rate cuts were offered by Powell in his press conference. While the 50-basis point cut showed that policymakers were not “behind the curve,” the Fed chair said no one should look at the September rate reduction and think “that this is the new pace,” signaling that a sustained run of similar-sized moves may not be in the works.

The Federal Reserve’s pivot from inflation to jobs seems consistent with the data over the past three months. The annual inflation rate in the U.S. slowed for a fifth consecutive month to 2.5% in August 2024 from 2.9% in July and 3.7% a year ago, due to lower energy, food and auto costs. “Core” inflation, which excludes food and energy, has also fallen to 3.2% from its peak of 6.6% two years ago, even as airline tickets, car insurance, rent, and other housing costs have become slightly more expensive. Services inflation, which remained unchanged at 4.9% in August, has declined at a slower pace than goods. Employment has softened, with an average of 116,000 jobs being added over the past three months

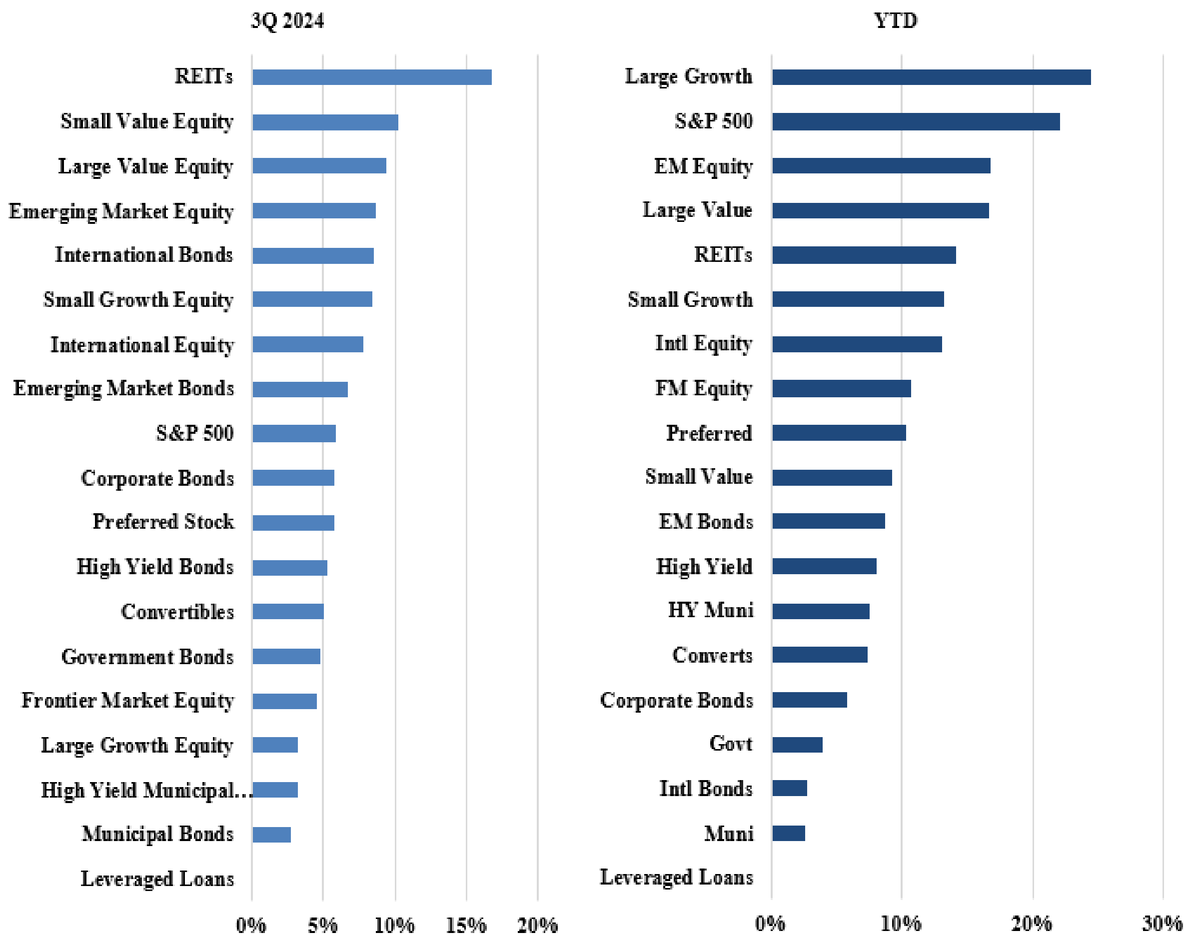
compared to the 12-month average of 197,000 jobs. The overall unemployment rate now stands at 4.2%, or 7.1 million workers out of work.

While the number of economists concerned about rising prices have become a minority, we still believe it may be premature to declare that the mission of conquering inflation has been accomplished. According to the Bureau of Labor Statistics, the Federal Reserve Bank of Atlanta and U.S. Census Bureau, wage growth rose by 4.6% on a year-on-year basis in August, and although the rate has come down since peaking in January 2022, it now stands well above the rate of inflation. Other sources such as the job website Indeed report that wages have been accelerating. Such wage growth suggests the labor market is not weakening, that job seekers still have options, and that competition for workers is still pushing employers to raise wages at a steady clip to attract workers.

Many workers feel they have negotiating leverage. U.S. ports from Maine to Texas were briefly shut down by a strike of the International Longshoremen's Association, the union representing about 45,000 dockworkers, a reminder that supply chain disruptions have not entirely been eliminated. The dockworkers' demand for a 77% wage hike over six years is a warning that inflationary pressures may reappear. Strikes at Boeing (where the unions are asking for a 40% pay raise), United Airlines and AT&T are among the 249 labor actions that have erupted this year, involving a 141% increase in striking workers compared to last year. Many of the policies proposed by the presidential candidates – tax cuts, tariffs, restrictions on immigration – are potentially inflationary.

Nevertheless, the financial markets focused on the short-term benefits of the interest rate cut, driving the S&P 500 index to all-time highs. Investors who believe that the Fed rate cut is only positive for the markets should pause before making outsized bullish bets. "Every rate hiking cycle of the last 70 years has ended in recession (80% of the time) and/or a financial crisis (in 1984 and 1994)," says Graham Secker, chief European equity strategist for Morgan Stanley. If we look back at the Global Financial Crisis, for example, the Fed embarked on a rate hike cycle in June 2004, eventually taking the Fed Funds rate from 1% to 5.25%. In September 2007, 17 years ago, the Fed also cut interest rates by 50 basis points. The S&P 500 index continued to climb until peaking that October, then fell by almost 50%. Many of these past recessions and market corrections, however, have been triggered by catalysts – the dot.com crash in the 2000 recession, the bursting of the housing bubble and the collapse of Bear Stearns and Lehman Brothers in 2008, and the Covid pandemic in 2020. We do not see such a trigger today. While we should not be complacent, we continue to recommend that investors remain fully invested until we see clear storm clouds on the horizon.

3rd QUARTER PERFORMANCE OF MAJOR ASSET CLASSES



Source: Morningstar

EQUITIES

The bull market showed no signs of abating despite increased volatility, with the S&P 500 up 5.9% in the third quarter and 22.1% for the year. The Nasdaq Index was up 2% for the quarter and up 21% for the year. The strong equity market returns in the third quarter were driven by the Fed rate cuts as well as by positive corporate earnings growth, estimated to be 9.4% year-on-year. The third quarter pointed to potential shifts in market dynamics. The Russell 1000 Value Index was up 9.4% compared to the 3.2% gain of the Russell 1000 Growth Index. Small capitalization stocks also outperformed large caps, with the Russell 2000 Index reaching 2,286, just 9 percentage points shy of its all-time high reached in November 2021. Small-caps, on average, outperform large-caps by about a percentage point for the six months after a 50-basis point Fed cut, according to Jill Carey Hall, Bank of America's head of U.S. small and mid-cap strategy. The majority of those periods see small-caps outperform large cap peers by an average of three percentage points over the 12 months following such a rate cut.

Historically, even though the initiation of a Federal Reserve rate cut cycle has often led to recessions, they have also resulted in strong returns for equity markets:

Equity Performance Following Rate Cuts

First Rate Cut	3 months	6 months	1-Year	3-Year	5-Year
12/9/1974	31.1%	42.2%	39.0%	17.3%	15.8%
5/30/1980	11.5%	29.5%	25.2%	19.9%	16.6%
11/2/1981	-39.0%	-3.2%	17.4%	16.1%	19.8%
11/21/1984	11.4%	17.2%	27.8%	17.9%	19.9%
6/6/1989	9.6%	9.6%	16.4%	12.1%	10.6%
7/6/1995	5.8%	12.8%	21.4%	29.9%	23.6%
9/29/1998	18.8%	24.8%	22.5%	1.0%	0.4%
1/3/2001	-17.9%	-7.8%	-12.4%	-4.8%	0.2%
9/18/2007	-3.7%	-11.4%	-22.2%	-7.4%	1.5%
7/31/2019	2.7%	10.9%	11.1%	13.3%	14.7%
Average	*4.0%*	*12.0%*	*15.0%*	*12.0%*	*12.0%*
Median	*6.0%*	*12.0%*	*19.0%*	*15.0%*	*15.0%*

Source: Morningstar, Ned Davis Research, Patient Capital, Bloomberg

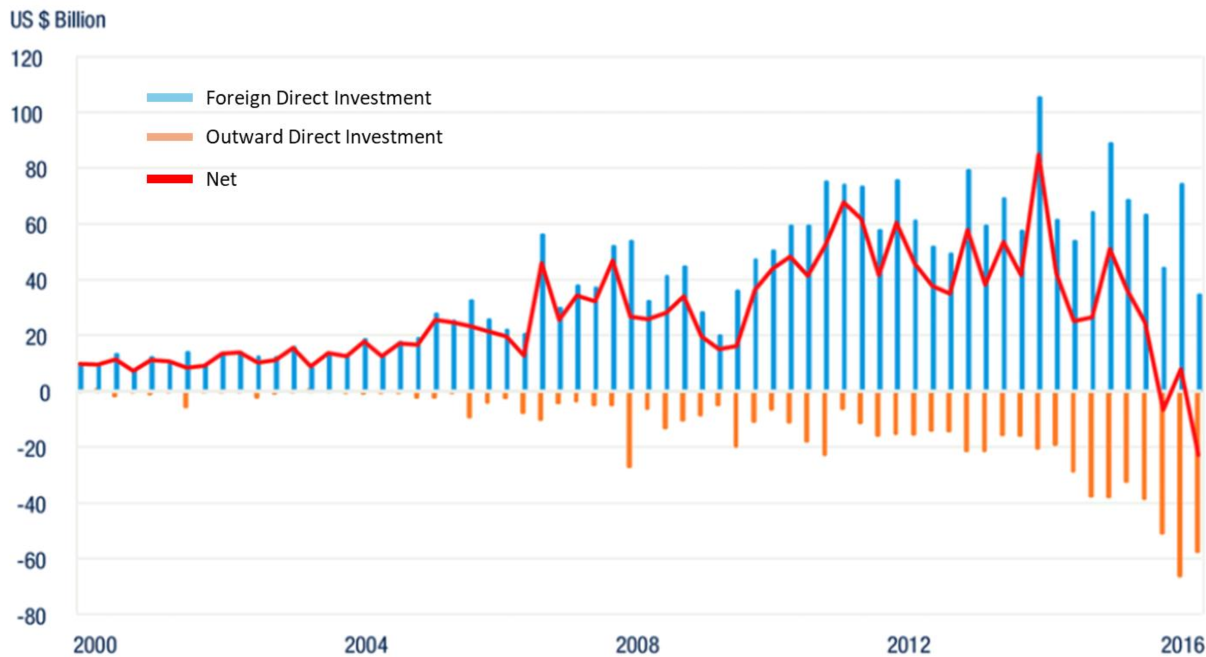
During the last quarter there were two significant market events. First, the "Yen carry trade" unwound in late July and early August, resulting in a 8% drawdown in the S&P 500 index and a jump in market volatility (the VIX index doubled from high-teen levels to 38 at its peak). The carry trade is an investment strategy that involves borrowing in a low-interest rate currency (such as the Yen, where short-term interest rates are at 0.1%) and investing in a higher yielding currency (such as the U.S. Dollar, where the Fed Funds rate was 5.5%) in order to capture the yield difference. The strategy works as long as the exchange rate between the funding and investing currencies is stable. In late July, however, the Bank of

Japan announced a surprise increase in interest rates, which led to a sharp increase in the value of the Yen. Investors worldwide rushed to unwind their positions, causing steep losses in many markets. The S&P dropped 3% on August 4th, its worst single-day performance in almost two years. While the markets recovered quickly and resumed their rally, the spike in volatility was a reminder of the risks involved in crowded trades implemented with high leverage.

Another event impacting international markets was the surge in Chinese equity markets in September. In stark contrast to the United States, China's economy has been struggling since Covid due to the collapse of its real estate market, high youth unemployment, enormous debt loads (particularly at the municipal level) and stagnant consumer demand. The reluctance of the government and central bank to stimulate the economy changed abruptly on September 24th, as the governor of the People's Bank of China and other top party officials announced a series of measures to kick-start growth. These steps included cutting interest rates, lowering the reserve requirements for banks, and offers to support the property market. Chinese stocks, which had been flat since the start of the Covid pandemic in the spring of 2020, shot up 30% over the next couple of weeks in one of the steepest rallies seen in any equity market.

The rally, however, has recently stalled as the market concluded that the announced measures were insufficient and lacked the fiscal stimulus to boost consumer confidence and spending. In early October, the National Development and Reform Commission announced a paltry $28 billion stimulus package, much lower than the estimated $200-300 billion that analysts think is required to set China back on a path to growth. To put these numbers in perspective, over $5 trillion of stimulus has been pumped into the U.S. economy since the Covid pandemic.

China Investment Inflows and Outflows



Source: "China's Global Integration and Capital Flows," Wilhelmus, Wong and Savard

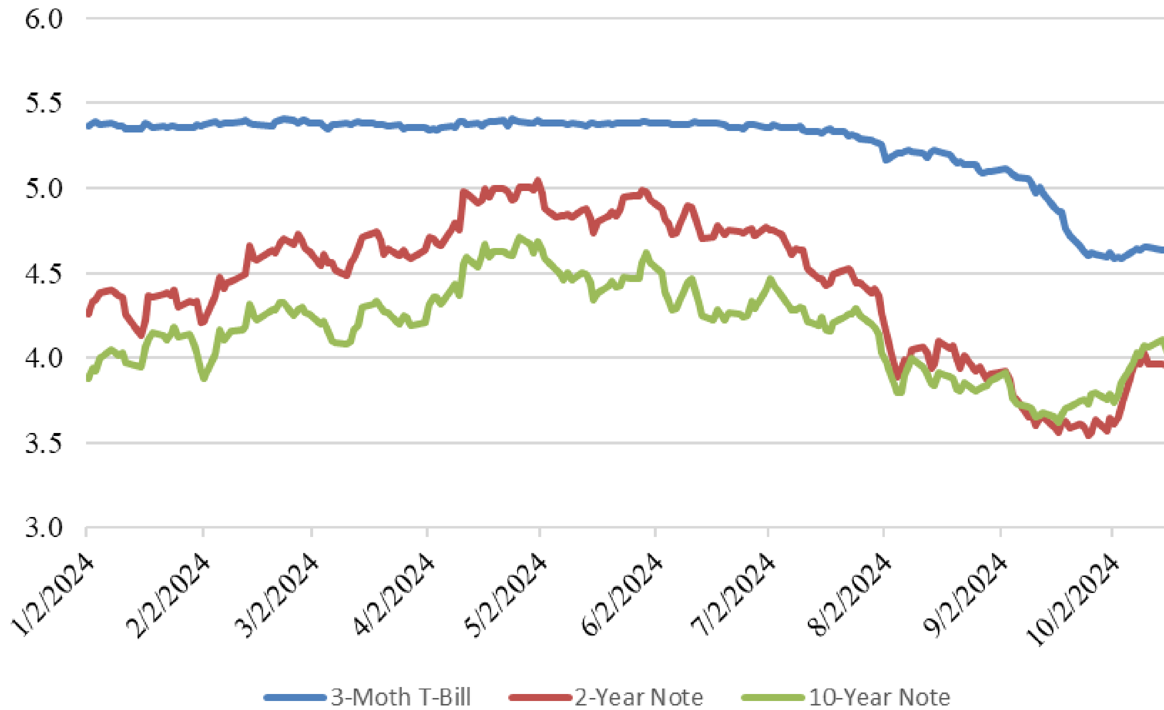
The overall sentiment toward China remains negative. Foreign direct investment as a percentage of GDP has steadily declined over the past 15 years, with outflows experienced in 2022 and 2023. Internally, frequent government interventions have spooked investors; externally, rising tensions with the United States have discouraged trade between the countries and forced many American companies to move operations to other nations in Southeast Asia. In addition, rapidly aging demographics and an unusually low retirement age risk dragging China's economy down further and for longer.

Is the current sentiment regarding China overblown, creating a contrarian investment opportunity? At a recent investor roundtable event, the only table with an open seat was the one with a China-dedicated fund. Does such universal lack of interest suggest positive returns going forward?

In this case, we believe it is still too early to invest in China. Its economic problems are substantial and unlikely to be resolved in the short term. Even a large stimulus package might not fix these structural issues. The government's interventions in the economic and financial markets are unpredictable. However, it would be foolish to ignore China completely. Even though we currently believe China is uninvestable on a standalone basis, its economy and financial markets have too broad of an impact on the world and still warrants close monitoring. Many of our equity investments have either direct or indirect ties to the country and will continue to for the foreseeable future.

BONDS

U.S. Treasury Rates 2024 YTD



Source: WSJ

Bond prices rose across the maturity spectrum in the third quarter as the market anticipated the start of the Federal Reserve's interest rate reduction cycle. 3-month T-bill yields fell from 5.4% to 4.6% during the period, the 2-year Treasury Note yield fell from 4.8% to 3.6%, and the 10-year Note followed suit falling from 4.4% to 3.8%. Virtually all fixed-income and credit markets generated positive performance, with the Barclays Global Aggregate Index returning 7% in the third quarter. Inflation has fallen around the globe, prompting other Western central banks to cut rates. The European Central Bank cut rates for the second time recently, taking Euro interest rates to 3.5%, while the Bank of England launched its own easing cycle with a 25-basis point cut in August. Even emerging market sovereign debt rallied by 6% over the quarter, making the sector one of the strongest sector performers for the year.

The U.S. yield curve, at least based on the relationship between the 2- and 10-year Notes, has reverted to its normal, upward slope after inverting in May 2022. Historically, a recession has begun within 18 months from the initial point of curve inversion on 70% of past occasions. Since a recession does not currently seem imminent, the recent curve inversion represents one of the 30% of occurrences where the indicator did not prove prescient.

The actions of central banks around the world (with the exception of the Bank of Japan, which raised rates) point to weaker economic growth going forward. It therefore appears counterintuitive that credit

assets also performed well, with both investment grade and high yield credit spreads tightening marginally during the quarter. There were also strong returns in structured credit, residential and commercial mortgages, asset-backed bonds, and bank loans. So, credit investors continue to believe that the impact of slower growth on the financial health of companies and consumers will be limited.

One sector of the bond market that merits attention is the commercial mortgage-backed securities ("CMBS") market. The Fed's tightening cycle raised cap rates and severely impacted property valuations, drying up the availability of financing options for owners. CMBS have nevertheless been appreciating steadily since peaking last November, and new issuance has been robust with year-to-date gross issuance up 60% versus the same period last year. Falling interest rates may provide a virtuous cycle of benefits for real estate. As debt servicing burdens fall, loss projections on existing loans could decrease, building operating incomes rise, and valuations could stabilize. A reduction in rates is likely to entice lenders back into the market, offering previously squeezed owners the opportunity to refinance at more favorable terms or sell properties to financeable buyers at values sufficient to pay off existing debt. Lower interest rates generally lead to increased transaction volume, facilitating more payoffs and loan resolutions.

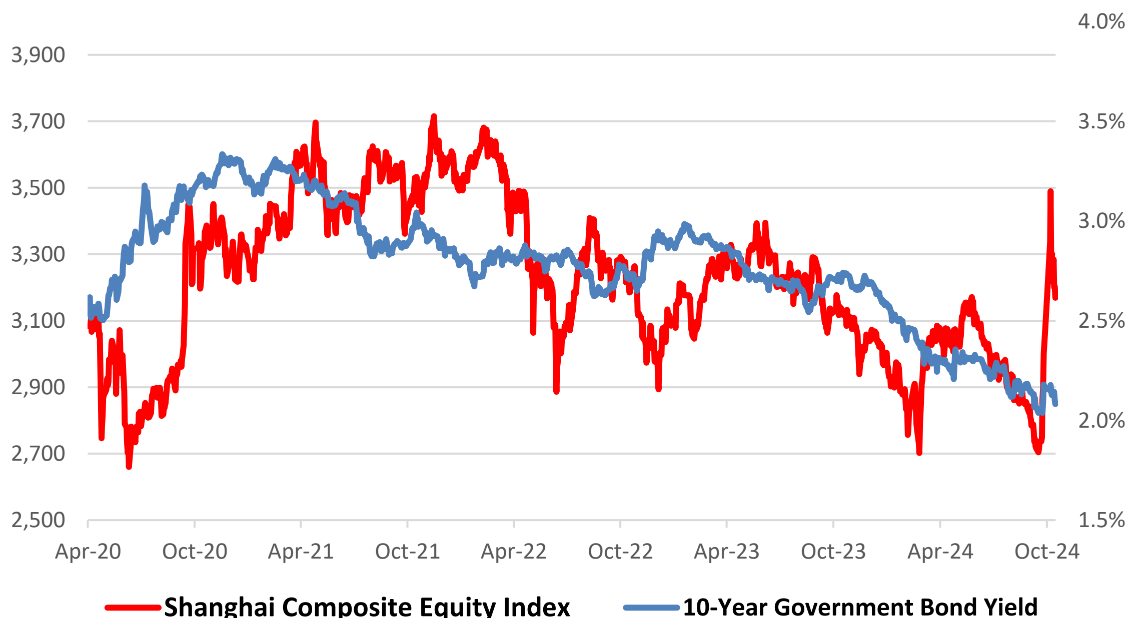
Commercial Mortgage-Backed Securities

Source: Goldman Sachs

Finally, in the equities section we touched on the challenges faced by the Chinese authorities as they tackle a stagnant economy. Yields on Chinese government ten-year bonds, which have been falling steadily since peaking at 3.3% in January, recently touched an all-time low of 2%. Chinese investors have been piling into bonds aggressively in the face of a weakening economy, and the collapsing equity and real estate markets made bonds the only alternative for savers desperate to protect capital. "This is the only asset in China that is safe," Alicia Garcia-Herrero, chief economist for Asia Pacific at Natixis, told CNBC. "The rest — credit, equity, are not safe. So, everybody's jumping on sovereign bonds." Investors with excess savings are piling into bonds because there's no access to foreign assets, she added. The

monetary authorities have been trying to tackle inflows into bonds by taking a combination of extraordinary measures to drive bond prices down. These actions have included warnings to the smaller banks, outright prohibitions and cancellations of bond purchases, bank investigations, regulatory fines, and even trades that would be familiar to hedge funds but would shock most central bankers – the People's Bank of China borrowing long-dated government bonds from banks and shorting them into the market to push down prices.

China Equity and Bond Market Performance



Source: Investing.com

Why are the Chinese monetary authorities so concerned with the rising bond markets, or a "bond bubble"? One reason is potential instability in the banking system if yields were to reverse unexpectedly, resulting in losses – the problem that resulted in Silicon Valley Bank's demise last year. Another is a fear that falling rates signal that China might be "turning Japanese" – repeating the experience of Japan following the collapse of its own real estate bubble in the 1980s, as a deflationary death spiral took hold and led to decades of economic malaise. Since significant changes in Chinese interest rates have implications for global markets, international trade, and capital flows, any chaos risks infecting even the U.S. markets. Events in China could therefore become yet another contributor to market volatility as we approach year end.

Our broad recommendation is for investors to be fully allocated to their bond allocation targets, take advantage of such potential volatility by adding to credit sectors such as high yield bonds and structured credit, and make sure they have sufficient duration by laddering into Treasuries and municipal bonds even as yields rise. Until the outcome of the elections provide more clarity about the direction of fiscal policies, investors need to be fully diversified.

VIEW CAPITAL RIA, LP
Past Performance is No Guarantee of Future Results.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. View Capital RIA, LP recommends that investors independently evaluate investments and strategies and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities ("related investments"). This publication was furnished on the condition that it will not form a primary basis for any investment decision. Each investor must make its own determination of the appropriateness of an investment in any securities referred to herein based on the legal, tax, and accounting considerations applicable to such investor and its own investment strategy

View Capital RIA, LP and its affiliate companies might do business that relates to companies covered in its market updates or reports, which may include but is not limited to specialized trading, risk arbitrage and other fund management, investment services and investment banking. View Capital RIA, LP makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in this report change. With the exception of information regarding View Capital RIA, LP, reports prepared by View Capital RIA, LP research personnel are based on public information.

Alternative investments (like the ones described within) may have greater risks than traditional investment. The above performance results have been provided by the investment manager and represent a composite of their actual investment performance for this style, actual individual account results may vary. Past performance is not indicative of future results. The above performance results have been provided by the investment manager and represent a composite of their actual investment performance for this style, actual individual account results may vary. We do not guarantee its accuracy or completeness, and such data may change without notice. Further information may be obtained directly from the investment manager. Other portfolio metrics are calculated by View Capital RIA, LP based on information we deem reliable and accurate. Results reflect realized and unrealized appreciation and the reinvestment of dividends and interest income. Taxes have not been deducted. Performance results represented are gross of fees. Fees, compounded over a period of years, will have an adverse effect on the value of the client's portfolio. The investment advisory fees are described in Part II of the Manager's effect on the value of the client's portfolio. Investment advisory solutions are provided by View Capital RIA, LP, and a registered investment advisor. View Capital Advisors, LLC provides asset allocation and investment advisory services through its affiliated registered investment advisor, View Capital RIA, LP.

Disclosures for Proposed Investment Manager.

The descriptions included in this report are not meant to be a complete description of the managers' style and methodology and performance. The included descriptions do include alternative investments that may or may not be suitable for the clients' investment profile. Please read the prospectus carefully before investing.

Glossary and Index Definition

•Alerian MLP Index (MLP) - The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology. The index is disseminated by the New York Stock Exchange real-time on a price return basis (NYSE: AMZ). The corresponding total return index is calculated and disseminated daily through ticker AMZX.

•Barclays Capital U.S. Municipal Index – The U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligations, revenue bonds, insured bonds, and prefunded bonds. Many of the sub-indices of the Municipal Index have historical data to January 1980. In addition, several subindices based on maturity and revenue source have been created, some with inception dates after January 1980 but no later than July 1, 1993. In January 1996, Barclays Capital also began publishing a non-investment grade municipal bond index and "enhanced" state specific indices for Arizona, Connecticut, Maryland, Massachusetts, Minnesota, and Ohio. These indices are published separately from the Barclays Capital Municipal Bond Index.

•BofA Merrill Lynch Convertible Bond Index (Convertibles) - The BofA Merrill Lynch Convertible Bond Index tracks the performance of US dollar denominated convertible bonds issued in the US domestic market. In addition, qualifying securities must have at least one-year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $100 million.

•BofA Merrill Lynch Perpetual Preferred Securities Index (Preferred) - The BofA Merrill Lynch Fixed Rate Preferred Securities Index tracks the performance of US dollar denominated preferred securities issued in the US domestic market. Qualifying securities must be rated investment grade (based on an average of Moody's, S&P and Fitch) and must have an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

•BofA Merrill Lynch US High Yield Master II Index – This index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

•BofA Merrill Lynch EM External Debt Sovereign Index – This index tracks the performance of US dollar-denominated debt issued by sovereign issuers in countries belonging to emerging markets.

•BofA Merrill Lynch Mortgage Master Index – This index tracks the performance of US dollar-denominated mortgage securities.

•BofA Merrill Lynch Municipal Bond Index – This index tracks the performance of US dollar-denominated investment grade tax-exempt bonds.

•Credit Suisse Leveraged Loan Index – This index tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated "5B" or lower, meaning that the highest rated issues included in this index are Moody's/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.

•JP Morgan Emerging Market Bond Index (EMBI+) - The Emerging Markets Bond Index Plus tracks total returns for traded external debt instruments in the emerging markets. The instruments include external-currency-denominated Brady bonds, loans and Eurobonds, as well as U.S. dollar local markets instruments. The EMBI+ is concentrated in instruments from the three major Latin American countries (Argentina, Brazil, and Mexico), reflecting the size and liquidity of these external debt markets. The non-Latin countries are represented in the index by Bulgaria, Morocco, Nigeria, the Philippines, Poland, Russia, and South Africa.

•MSCI Emerging Market Index (Emerging Market Equities) - The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of March 2015, the MSCI Emerging Markets Index consisted of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

•MSCI Frontier Market Index – The MSCI Frontier Market Index is a free float-adjusted market capitalization index designed to measure equity market performance of the frontier markets. As of March 2015, the MSCI Frontier Markets Index consists of the following 24 frontier market country indices: Argentina, Bahrain, Bangladesh, Bulgaria, Croatia, Estonia, Jordan, Kenya, Kuwait, Lebanon, Lithuania, Kazakhstan, Mauritius, Morocco, Nigeria, Oman, Pakistan, Romania, Serbia, Slovenia, Sri Lanka, Tunisia, Ukraine, and Vietnam.

•Russell 2000 Index (TR) - The best-known of a series of market-value weighted indices published by the Frank Russell Company. The index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization.

•Russell 1000 Index (TR) –A market-value weighted indices published by the Frank Russell Company. The index measures the performance of the largest 1,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization.

•S&P 500 Index (TR) -Widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes 500 leading companies in leading industries of the U.S. economy. S&P 500 is a core component of the U.S. indices that could be used as building blocks for portfolio construction. It is also the U.S. component of S&P Global 1200. Total return (TR) provides investors with a price-plus-gross cash dividend return. Gross cash dividends are applied on the ex-date of the dividend.

•FTSE NAREIT US Real Estate Index Series – The FTSE NAREIT US Real Estate Index Series is designed to present investors with a comprehensive family of REIT performance indexes that span the commercial real estate space across the US economy, offering exposure to all investment and property sectors. In addition, the more narrowly focused property sector and sub-sector indexes provide the facility to concentrate commercial real estate exposure in more selected markets.

Data Sources: Bloomberg, L.P., JPMorgan, BofA Merrill Lynch, Standard and Poors, Barclays Capital, Alerian, Morningstar Direct, MSCI, HFR, Goldman Sachs, Trading Economics, HIS Markit, Eurostat, Eaton Vance.