LAFFER | TENGLER
INVESTMENTS

Fixed Income | Fourth Quarter 2023

Our current outlook for the economy:

1. We see continued mild economic growth for the US economy through mid-year and no recession on the horizon. The rate hiking cycle is definitely over per recent FOMC comments and updated meeting minutes.
2. The November/December sharp decline in rates was unexpected and in our estimation was overdone based upon our expectations of Fed rate cuts for the first half of 2024. We do not expect the Fed to start cutting the Fed Funds rate until April or even May. We also do not expect more than 25 basis points cuts per FOMC meeting without any clear indications that the economy is in a materially weakened state and larger rate cuts are needed to stimulate output.
3. With 4th quarter GDP surprising to the upside and labor remaining tight, we do not expect the Fed to begin lowering the Fed Funds rate until the April FOMC meeting at the earliest. In our opinion, this makes the very short end of the yield curve more attractive on a risk return basis. We are tentatively waiting to add long duration exposure to the strategy.

The US economy continues to beat expectations and is a standout on the world stage. Fourth quarter real GDP estimate came in at 3.3% and 3rd quarter was revised up to 4.9% beating most street estimates and delaying hopes of Fed rate cuts by the bond market. The talk of a "Fed pivot" and short-term rates falling early in 2024 drove bond yields down by over 100 basis points in the 4th quarter. Since then, rates have moved back up a bit but are still significantly off their highs. There is one force pulling and pushing rates right now: the timing of the Fed rate move. The market keeps guessing wrong and rates are back up in anticipation of the next Fed meeting. Bonds are now generating the potential for attractive yields across the whole term structure.

We currently expect that the FOMC will cut the Fed Funds rate in May barring any significant slack in labor or continued significant decline in trailing 12-month inflation prints. Expect a 0.25% cut to start. Without the prospect of a looming recession, it is less and less likely that the Fed will be aggressive in cutting rates. We are looking at adding duration exposure versus adding additional lower credit exposure to the strategy. With the current state of US employment (3.7% unemployment) and job openings continuing to be as strong as they are (JOLTs), it leaves the Fed in a defensible position to keep rates high through at least the end of 2nd quarter.

The Federal Reserve has a dual mandate that was shaped in the 1970s. The first is to maintain maximum employment and the second is to keep prices stable and long-term interest rates at moderate levels. Rather than trying to reach 100% employment, maximum employment means keeping it at levels that are seen in normal economic conditions when there is neither a boom nor a recession. Stable prices and moderate long-term interest rates are deemed one mandate. Long-term interest rates are set with an eye to managing pricing pressure and inflation.

Strategy Positioning & Model Changes

We made the following changes to the Laffer Tengler Fixed Income ETF Model in September 2023. The changes reflect our overall positioning as follows: keeping overall duration exposure short; average credit quality investment grade; and increasing overall current income primarily through overweighting corporate bond exposure. With the changes below we reduced overall strategy duration exposure, improved average credit quality and moderately increased current yield vs the prior strategy positioning. We have kept some high yield bond exposure but kept it focused on shorter maturities. With rates higher on the short end of the curve, we added more floating rate securities. We removed some duration exposure of the strategy in the form of agencies and longer dated investment grade corporates. Once the credit tightening cycle is finished by the Fed and the economy shows signs of slowing, we would expect to increase duration and keep quality exposure high until the economy starts to expand again. Time will tell.

LAFFER TENGLER INVESTMENTS FIXED INCOME MODEL AS OF 09/29/2023		
TICKER	DESCRIPTION	MODEL WEIGHT %
SLQD	iShares 0-5 Yr Inv Grd Corp Bond ETF	20.0%
IGSB	iShares 1-5 Yr Inv Grd Corp Bond ETF	20.0%
VRIG	Invesco Variable Rate Inv Grade Bond ETF	14.0%
FLTR	VanEck Inv Grade Floating Rate Bond ETF	14.0%
NEAR	Blackrock Short Maturity Bond ETF	10.5%
TFLO	iShares Treasury Floating Rate Bond ETF	10.0%
SHYG	iShares 0-5 Yr HY Corp Bond ETF	10.0%
CASH	Cash	1.5%
		100.0%

Positions Added to Model Strategy

N/A

Positions Removed from Model Strategy

N/A

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This document may contain forward-looking statements relating to the objectives, opportunities, and the future performance of the U.S. market generally. Forward-looking statements may be identified by the use of such words as; "believe," "expect," "anticipate," "should," "planned," "estimated," "potential" and other similar terms. Examples of forward-looking statements include, but are not limited to, estimates with respect to financial condition, results of operations, and success or lack of success of any particular investment strategy. All are subject to various factors, including, but not limited to general and local economic conditions, changing levels of competition within certain industries and markets, changes in interest rates, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting a portfolio's operations that could cause actual results to differ materially from projected results.