INVESTMENT COMMENTARY

The positive market momentum from the prior two quarters reversed during the third quarter of 2023. Market expectations for the long-anticipated recession and subsequent rate cuts gave way to the improbable "soft landing" and concerns of "higher for longer" interest rates. The FOMC met twice during the third quarter and raised the Fed Funds rate by 25 basis points at the July meeting, increasing the target funds rate to 5.25 to 5.50% before pausing at the September meeting. The September FOMC statement highlighted; "Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have slowed in recent months but remain strong, and the unemployment rate has remained low. Inflation remains elevated. The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks." U.S. Real Gross Domestic Product (GDP) increased at an annual rate of +2.1% during the second quarter of 2023, while inflation, as measured by the U.S. Consumer Price Index (CPI), rose by 3.7% for the twelve-month period ending August 2023. This was down sharply from 8.3% for the twelve-month period ending August 2022 but still well above the Fed's 2% long run inflation target. The Bureau of Labor Statistics (BLS) reported the unemployment rate continued to increase slightly in September to 3.8%, while the U6 measure of total unemployed was at 6.7%, well below its historical average. Wage growth reported slightly lower at 4.2%, while the U.S Quits rate reported at 2.3%, down from 2.8% this time last year, yet still above the long-term national average of 2%. The Conference Board Consumer Confidence Index ended September at 103, well below the June 109.7 reading.

The S&P 500 trended downward in the third quarter returning -3.27%, while the tech-heavy NASDAQ 100 was down -2.86%. The Bloomberg U.S. Aggregate Index delivered a negative return for the quarter of -3.23%, driven lower by rising interest rates across the curve. The yield curve inversion was reduced by more than half and ended the quarter at 47 bps. The 2-year Treasury yield increased 14 bps to 5.04%, while the 10-year Treasury yield climbed 73 bps to finish the quarter at 4.57%. For the quarter, Treasuries returned -3.06%. Investment grade (IG) corporate bonds had a similar return of -3.09% but did provide excess returns vs. Treasuries. All other major investment grade bond sectors had mixed quarterly returns, including U.S. Agency Securities (-0.38%), Government-Related Credit (-2.48%), Mortgage-backed Securities (-4.05%), Commercial MBS (-1.02%) and Asset-backed Securities (+0.25%). U.S. High Yield Corporate Bonds once more outperformed all Investment Grade bond sectors and returned +0.46% for the quarter.

PIA remains confident the U.S. is heading toward an economic contraction…eventually. The Conference Board Index of Leading Economic Indicators has declined seventeen consecutive months since April 2022 and more than 7% year over year. Additionally, the 3-month to 10-year Treasury yield curve has remained inverted since 2022, and this curve inversion has flawlessly preceded future recessions with 100% historical accuracy. The PIA Investment Strategy Group (ISG) continues to believe persistent inflationary pressures could result in a slowdown in growth and/or constriction in credit, which could lead to our next economic downturn. The ISG outlook is currently split between a "growth recession" and a shallow recession. As we've alluded to in our quarterly market commentaries dating back to 4Q22, we believe a Fed Funds terminal rate at/above 5.25% is both economically sustainable and necessary to bring inflation down to the Fed's 2% target rate. We believe maintaining the Fed's current Quantitative Tightening (QT) policy and a funds terminal rate at/above 5% into 2025 or until the NBER declares a recession should return socio-economic balance to the U.S., while also wringing out some of the excesses in asset prices, housing, and cryptocurrencies caused by over a dozen years of excessive monetary and fiscal stimulus. Post-GFC loose lending standards and near-zero interest rates led to excessive speculation, due in part to the absence of a true risk-free rate as a natural basis for asset valuations. While there is currently much debate regarding the correct level of an equilibrium rate, we believe sustaining a 5% funds terminal rate will help the Fed avoid the market returning to a risk-on environment over the next 12 months, while also continuing to support attractive real yields in the bond market. On balance, despite eleven Fed rate hikes (5.25% higher rates), roughly $90 billion in monthly

quantitative tightening (QT) resulting in the greatest contraction in money supply in several decades, political chaos in Washington, a recent banking scare that the Fed helped stabilize with their Bank Term Funding Program (BTFP), and seemingly imminent additional bank capital requirements, the economy continues to perform above expectations.

PIA continues to believe despite all the Fed's good work, the 2% inflation target will be extraordinarily difficult to achieve without a recession. We believe a 2.5–3% long-term inflation target is attainable, but somewhat optimistic, given the global wave of secular inflation created by wage growth, alternative energy and environmental spending, anti-Covid spending, anti-globalization efforts like re-shoring, increasing global debt levels in the current interest rate environment, and immeasurable geopolitical spending on security, food, and military. For these reasons we anticipate bond investors will demand at least 2–3% real rate of return on their long-term bond investments going forward. Based on our long-term inflation expectations and estimate for a forward range for real returns, we believe current fair value for the 10-year Treasury is approximately 5%+/-. A recession in 2024 could take 10-year yields down to 4%, while an acceleration in inflation could push 10-year yields up to 6%. PIA's investment discipline is a value-driven, fundamental approach, but bond market technicals also give cause for concern. The U.S. Treasury is increasing long-term debt issuance by roughly 30%, while demand for U.S. debt is contracting. The Federal Reserve is no longer a buyer, Japan's demand is shrinking commensurate with the increase in their yields, and major Bank demand has declined along with their need for deposits. Increasing supply at a time of shrinking demand could also push U.S yields above our fair-value target.

In the third quarter, PIA moved portfolio durations toward neutral relative to our respective benchmarks, given the rise in interest rates towards more fair value levels. We continue to overweight corporate debt, with a focus on high quality credits with strong balance sheets. Our Industrial credits provide incremental risk-adjusted yield, and our Financials are senior domestic debt we believe offer attractive compensation for their sector volatility. We maintained a modest overweight in Agency MBS during the quarter, given relative value. In our Plus strategies, we maintained our high yield credit exposure, given attractive current yield levels in the asset class.

PIA Investment Strategy Group

KEY RATES

	9/30/23	12/31/22	12/31/21
Fed Funds Target Rate	**5.25-5.5%**	**4.25-4.5%**	**0.0-0.25%**
3 Month LIBOR	**5.66**	**4.77**	**0.21**
On-the-run Treasuries:			
3 Months	**5.45**	**4.34**	**0.03**
6 Months	**5.54**	**4.75**	**0.18**
2 Years	**5.04**	**4.43**	**0.73**
5 Years	**4.61**	**4.00**	**1.26**
10 Years	**4.57**	**3.88**	**1.51**
30 Years	**4.70**	**3.96**	**1.90**

Source: Bloomberg

KEY ECONOMIC INDICATORS

as of	9/30/23	12/31/22
U.S. $ (DXY)	**106.2**	**103.5**
Oil	**90.8**	**80.3**
Gold	**1,848.6**	**1,824.0**
CRB	**284.5**	**277.7**
GDP	**2.1**	**2.6**
CPI	**3.0**	**6.5**
Core (Ex - Food & Energy)	**3.9**	**4.9**
Unemployment Rate	**3.8**	**3.5**
Consumer Confidence	**103.0**	**109.0**
S&P/Case-Shiller – Comp-20	**0.1**	**4.8**

Source: Bloomberg

INDEX RETURNS

	3Q'23	YTD	1-Year
Bloomberg –			
Universal	**-2.88%**	**-0.62%**	**1.61%**
Aggregate	**-3.23**	**-1.21**	**0.64**
Gov-Credit	**-3.00**	**-0.85**	**0.93**
Int. Gov-Credit	**-0.83**	**0.65**	**2.20**
Corporate	**-3.09**	**0.02**	**3.65**
Treasury only	**-3.06**	**-1.52**	**-0.81**
1-3 year Gov	**0.72**	**1.72**	**2.47**
ICE BofA – 1-yr T-Note	**1.21**	**2.90**	**3.68**
High Yield	**0.46**	**5.86**	**10.28**
Global Aggregate	**-3.59**	**-2.21**	**2.24**
Emerging Markets Debt	**-2.31**	**0.91**	**7.56**
S&P 500	**-3.27**	**13.06**	**21.59**
DJIA	**-2.10**	**2.73**	**19.18**
NASDAQ 100	**-2.86**	**35.37**	**35.31**
MSCI EAFE	**-4.04**	**7.63**	**26.37**

Source: Bloomberg

SECTOR RETURNS

3Q'23	Total Return	Excess Return
U.S. Treasuries	**-3.06%**	**0.00%**
Government-related U.S. Agency	**-2.00**	**0.29**
Government-related Credit	**-2.48**	**0.32**
Corporate	**-3.09**	**0.84**
Corporate Financials	**-1.79**	**0.53**
Corporate Industrials	**-3.69**	**0.93**
Corporate Utilities	**-4.03**	**1.42**
Corporate AAA-rated	**-6.31**	**1.06**
Corporate AA-rated	**-4.25**	**0.85**
Corporate A-rated	**-3.24**	**0.63**
Corporate BBB-rated	**-2.71**	**1.04**
Corporate High-Yield	**0.46**	**1.02**
Mortgage-backed Securities-FR	**-4.05**	**-0.85**
CMBS	**-1.02**	**0.35**
ABS	**0.25**	**0.29**

Source: Bloomberg

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Investing involves the risk of loss, including the loss of principal invested. Past performance is not an indicator of future results.

INDEX DESCRIPTION

Bloomberg U.S. Universal Index represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment-Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment-grade or below investment-grade. Some U.S. Universal Index constituents may be eligible for one or more of its contributing subcomponents that are not mutually exclusive. These securities are not double-counted in the index.

Bloomberg U.S. Aggregate Bond Index is an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The issues must be rated investment grade, be publicly traded, and meet certain maturity and issue size requirements.

Bloomberg U.S. Government/Credit Bond Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Intermediate Government/Credit Bond Index is the Intermediate component of the U.S. Government/Credit index. The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Bloomberg U.S. Corporate Bond Index covers USD-denominated, investment-grade, fixed-rate, taxable securities sold by industrial, utility, and financial issuers. It includes publicly issued U.S. corporate debentures and secured notes that meet specific maturity, liquidity, and quality requirements. Securities in the index roll up to the U.S. Credit and U.S. Aggregate indices. The U.S. Corporate Index was launched on January 1, 1973.

Bloomberg U.S. Treasury Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the Index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices.

Bloomberg U.S. 1-3 Year Government Bond Index consist of securities in the U.S. Government Index with a maturity from 1 up to (but not including) 3 years. Securities issued by the U.S. Government (i.e., securities in the Treasury and Agency Indices). Inclusions: Public obligations of the U.S. Treasury with a remaining maturity of one year or more. Publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government.

ICE BofA 1-Year US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury note that matures closest to, but not beyond, one year from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date.

Bloomberg Corporate U.S. High Yield Index - covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The Yankee sector has been discontinued as of 7/1/00. The bonds in the former Yankee sector have not been removed from the index, but have been reclassified into other sectors.

Bloomberg Global Aggregate Index provides a broad-based measure of the global investment-grade fixed-rate debt markets. The Global Aggregate Index contains three major components: the U.S. Aggregate Index (USD 300 million), the Pan-European Aggregate Index (EUR 300 million), and the Asian-Pacific Aggregate Index (JPY 35 billion). In addition to securities from these three benchmarks (94.4% of the overall Global Aggregate market value), the Global Aggregate Index includes Global Treasury, Eurodollar (USD 300 million), Euro-Yen (JPY 35 billion), Canadian (CAD 300 million), and Investment-Grade 144A (USD 300 million) index-eligible securities not already in the three regional aggregate indices. The Global Aggregate Index family includes a wide range of standard and customized subindices by liquidity constraint, sector, quality, and maturity. The Global Aggregate Index is a component of the Multiverse Index.

The Bloomberg EM USD Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. The index is broad-based in its coverage by sector and by country, and reflects the evolution of EM benchmarking from traditional sovereign bond indices to Aggregate-style benchmarks that are more representative of the EM investment choice set. Country eligibility and classification as an Emerging Market is rules-based and reviewed on an annual basis using World Bank income group and International Monetary Fund (IMF) country classifications. This index was previously called the Barclays US EM Index and history is available back to 1993.

S&P 500 Index – The S&P 500 index includes 500 leading companies in leading industries of the U.S. economy. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The Dow Jones Industrial Average (DJIA) is an index used to measure the performance of the U.S. financial markets. Introduced on May 26, 1896 by Charles H. Dow, it is the oldest stock price measure in continuous use. Over the past century "the Dow" has become the most widely recognized stock market indication in the U.S. and probably in the entire world. Most of the stocks included in the index are listed on the New York Stock Exchange, and are all large blue-chip companies that reflect the health of the U.S. economy. All but a handful of these have major business operations throughout the world, thus providing some insight into the economic well-being of the global economy.

The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No security can have more than a 24% weighting. The index was developed with a base value of 125 as of February1, 1985. Prior to December 21, 1998 the Nasdaq 100 was a cap-weighted index.

MSCI EAFE Index is a capitalization weighted index that monitors the performance of stocks from Europe, Australiasia, and the Far East.

Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly.

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