



## 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 yields of 1-year, 2-year, 5-year and 10-year U.S. Treasuries increased by 6, 15, 45 and 73 basis points, respectively. The yield curve inversion was reduced by more than half and ended the quarter at 47 bps.

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 National Bureau of Economic Research (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.

The fund is currently positioned with a slightly longer duration relative to the benchmark and an overweight in corporate credit. The industrial and financial credits in the fund provide incremental risk-adjusted yield and offer attractive compensation for their sector volatility and the utility credits provide additional portfolio diversification with low sector volatility. The fund's allocation to floating rate securities will benefit from any future increases in the Federal Funds Rate by the Federal Reserve. We believe the asset-backed and commercial mortgage-backed securities in the fund offer value on a risk-adjusted basis.

PIA Investment Strategy Group



Pacific Income Advisers is an investment management firm registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. PIA manages a variety of fixed income and equity assets for primarily United States clients. The information contained herein is based on internal research derived from various sources and does not purport to be statements of all material facts relating to the securities mentioned. Fund holdings and/or sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

**The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contains this and other important information about the investment company, and it may be obtained by calling 800-251-1970 or visiting [www.PIAMutualFunds.com](http://www.PIAMutualFunds.com). Read it carefully before investing.**

*Mutual Fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund may invest in derivatives, which may involve risks greater than the risks presented by more traditional investments. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities that the ETF or mutual fund holds. It will also bear additional expenses, including operating expenses, brokerage costs and the potential duplication of management fees. These risks are fully disclosed in the Prospectus.*

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of the country's economic health.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

Consumer Confidence Index (CCI) is a survey, administered by The Conference Board, that measures how optimistic or pessimistic consumers are regarding their expected financial situation.

The Bureau of Labor Statistics (BLS) is a federal agency that collects and disseminates various data about the U.S. economy and labor market.

The Conference Board (CB) is a not-for-profit research organization that distributes vital economic information to its peer-to-peer business members.

The Federal Open Market Committee (FOMC) is the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy specifically by directing open market operations (OMOs).

Monetary - consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Fiscal policy is the use of government spending and taxation to influence the economy. Governments typically use fiscal policy to promote strong and sustainable growth and reduce poverty.

Basis point (bp) - A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

Yield - The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost.

Duration - A commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

Benchmark - The ICE BofAML 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. You cannot invest directly in an index.

Quantitative tightening (QT) (or quantitative hardening) is a contractionary monetary policy applied by a central bank to decrease the amount of liquidity within the economy.

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. You can not invest directly in an index.

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 February 1, 1985. Prior to December 21, 1998 the Nasdaq 100 was a cap-weighted index. You can not invest directly in an index.

The Bloomberg U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. You cannot invest directly in an index.

The U-6 (Unemployment) rate measures the percentage of the U.S. labor force that is unemployed, plus those who are underemployed, marginally attached to the workforce, and have given up looking for work.

An inverted yield curve shows that long-term interest rates are less than short-term interest rates.

The National Bureau of Economic Research (NBER) is a private, nonpartisan organization that facilitates cutting-edge investigation and analysis of major economic issues.

The Conference Board Leading Economic Index is an American economic leading indicator intended to forecast future economic activity.

The Bank Term Funding Program (BTFP) was created to support American businesses and households by making additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors.

**Past performance is not a guarantee of future results.**

The PIA Funds are distributed by Quasar Distributors, LLC



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