GALECKI FINANCIAL MANAGEMENT FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	-4.77%	-3.27%	13.07%
Russell Midcap Index	-5.02%	-4.68%	3.91%
Russell 2000 Index	-5.89%	-5.13%	2.54%
Dow Jones Industrial Average	-4.72%	-3.18%	13.00%
Morgan Stanley EAFE Index	-3.42%	-4.11%	7.08%
DJ US Real Estate Index	-7.28%	-8.56%	-4.86%
S&P Commodity Index	4.12%	15.98%	7.24%
Barclays Aggregate Bond Index	-2.54%	-3.23%	-1.21%

INDEX RETURNS

Domestic equity indexes posted steep declines in the third quarter. The S&P 500 dropped 4.77% in September and is now only up 13.07% on the year. However, most of this return has been from the largest 7 stocks in the index. Mid-cap stocks and small-cap stocks were down roughly 5-6% in the quarter and are now only up 3.9% and 2.5% on the year respectively.

Developed International stocks declined 4.11% in the third quarter and are now up 7% according to the EAFE Index. Japan and Spain have been the best performers this year with returns of 11.5% and 16.1% respectively. Emerging markets have been mixed with China declining 7% on the year while Mexico is still up 19.2%. India finished with a decent quarter by advancing 2.87%. Meanwhile, commodities are up 7.24% on the year.

Bonds dropped in the third quarter with the Barclay's Aggregate Bond Index declining 3.23% in the quarter which now drops the annual return to -1.2%. Long-term bonds were down roughly 13% in the quarter.

ECONOMIC REVIEW AND OUTLOOK

Are we in a rolling recession? That has been the big question for the last year or so. Manufacturing has been contracting for 11 straight months. It appears that consumers are ignoring this data as they continue to spend on the service side of our economy. Consumer spending makes up nearly 70% of our Gross Domestic Product. People are still traveling and still spending. The hope is that when consumer spending begins to wane, we will get a bump from the manufacturing side of the economy.

If we do have an official recession in 2024, it is likely to be relatively benign. The average recession only lasts about 10 months, and we usually only see a decline of 2% in GDP. Since there is not a lot of excess in the cyclical data, it is hard to imagine steep declines from these historically average levels.

The Leading Economic Index declined 0.4% in August to 105.4 following a 0.3% decline in July. Industrial Production increased 0.4% in August. The Capacity Utilization rate (which measures how much slack is in the economy) moved up to 79.7% which is in line with it's long-term average.

Non-farm payrolls rose by 336,000 in September and the unemployment rate remained at 3.8%. Weekly unemployment claims were 209,000 for the week ending October 7, 2023. The 4-week moving average is at 206,250. There are 9.6 million job openings in the U.S. which is down from 10.1 million in July. Job layoffs have remained stable while the number of individuals quitting their jobs has dropped. It is important to remember that the unemployment rate is a lagging indicator. It is often very low when we enter recessions and typically peaks 6 months after we exit a recession. Top leading indicators would be the yield curve, durable goods orders, the stock market, manufacturing orders, and building permits.

Manufacturing registered 49.0% on the ISM PMI index in September. While this was an increase of 1.4 percentage points, it still marks 11 straight months of contraction. The New Orders Index came in at 49.2% which was up 2.4 percentage points from the prior month. The ISM Services index was at 53.6% in September. This was 0.9 percentage points lower than August. This index has now expanded for nine straight months. The Business Activity Index came in at 58.8% which was a 1.5 percentage point increase from August. New Orders for the service sector came in at 51.8%, but this was a drop of 5.7 percentage points from August.

The JPM Global Manufacturing PMI was at 49.1 in August and has been in contraction territory for 13 straight months. The Euro area is at 57.1 while Emerging Economies are growing at 52.7.

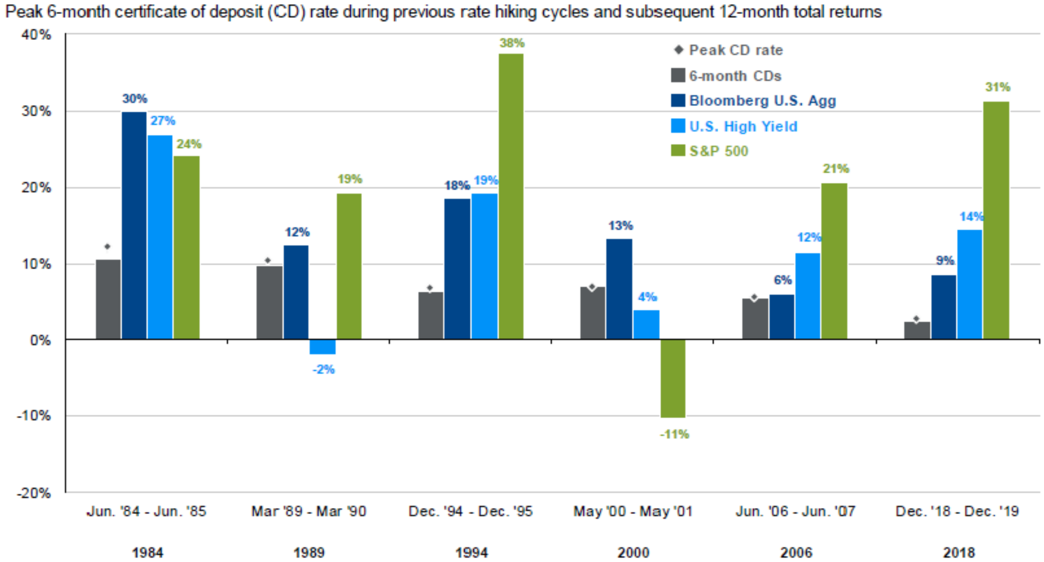
EQUITY AND BOND MARKETS

What are the Magnificent Seven stocks? They are Apple, Microsoft, Alphabet (GOOG), Amazon, Nvidia, Telsa, and Meta (Facebook). These seven companies now make up 28% of the market cap weighting in the S&P 500 and are responsible for about 65% of the annual return. While the P/E ratio for these companies is almost 30, the remaining companies in the index are around 17 which is in line with their long-term average.

Should we just buy CDs and collect more than 5% in interest? This is a great question. There is no doubt that cash alternatives like CDs have their place. If you have short-term goals that you need cash for, collecting 5% in a CD is better than leaving it in a savings account earning less than 1%. However, when CD rates have been near their peaks in the past, almost every other asset class has outperformed them over the next twelve months. The chart below shows six different peak CD rate cycles. In almost every occurrence, investors were better off owning traditional bonds, high yield bonds, or the S&P 500. We are not suggesting that CDs are bad or do not have a purpose. We just don't believe they are the long-term answer for everyone's portfolio.

Investment opportunities outside of CDs

Peak 6-month certificate of deposit (CD) rate during previous rate hiking cycles and subsequent 12-month total returns



Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, J.P. Morgan Asset Management.

When we look at domestic stocks, value stocks appear to be more attractive at these levels than growth stocks. The current P/E ratio for value stocks is around 13.7 while growth stocks are trading around 24.4 times earnings. In addition, international equities continue to look attractive relative to U.S. equities. International stocks are trading at a 30% discount to domestic stocks from a P/E ratio perspective.

We believe the Federal Reserve is near the end of their rate hike cycle. If this is indeed the case, then bonds are attractive at these levels. Adding in duration to the bond portfolio could really enhance returns going forward.

PORTFOLIO MANAGEMENT

The Investment Committee has been looking at our allocation closely this year due to the run-up in the Magnificent Seven stocks. While we need to maintain some exposure to that area, we are trying to increase exposure to more value-oriented and fundamentally sound companies. U.S. stocks typically post their best returns in the fourth quarter with an average gain of 4% dating back to 1957.

Our fixed income allocation has performed relatively well even though the Aggregate Bond Index is down roughly 1.2% on the year. Bonds have been a drag on portfolios for more than a decade. We believe that bonds should really help carry portfolio returns over the next 3-5 years as rates decline and investors earn higher yields.

We design our portfolios to have an asset allocation strategy that provides optimal diversification and performance. Over a short time-horizon, this type of diversified portfolio can decline in value. However, if we keep a long-term perspective and ignore short-term volatility, the probability of achieving our desired returns significantly increases. Remember, “Time in the Market” is more important than “Timing the Market”.

FINANCIAL PLANNING

Below are a few Financial Planning reminders as we head into the final quarter of 2023:

Indiana 529 Plan Contributions – Indiana taxpayers receive a 20% State tax credit for contributions made into College Choice 529 plans. A contribution of $7,500 results in the maximum tax credit available of $1,500. Contributions must be received by December 31, 2023. Website: www.collegechoicedirect.com

401(k) Contributions – The maximum deferral amount is $22,500. If over age 50, the catch-up contribution amount is $7,500. Employee contributions must be made by December 31, 2023.

IRA/Roth IRA Contributions – The contribution limit is $6,500 with a $1,000 catch-up contribution if over age 50. The deadline for contributions is April 15, 2024.

SIMPLE IRA Contributions – The contribution limit is $15,500 with a $3,500 catch-up contribution if over age 50. Employee contributions must be made by December 31, 2023.

Health Savings Account Contributions - The maximum contribution is $7,750 if covered under a family high deductible health insurance plan. The single contribution is $3,850. If the account holder is over age 55, another $1,000 can be contributed. This deadline is April 15, 2024.

Medicare Open Enrollment begins on October 15, 2023, and lasts through December 7, 2023. If you are already enrolled in Medicare, this is the annual opportunity to adjust your Part D Drug Plan, Supplement Plan (Medigap), or Advantage Plan.

Open enrollment for health insurance Marketplace plans (HealthCare.gov), with a coverage date of January 1, 2024, begins on November 1, 2023, and ends on December 15, 2023. Open enrollment officially ends on January 15, 2024, but if you enroll after December 15th, coverage will not start until February 1, 2024.

Required Minimum Distributions (RMDs) must be withdrawn by December 31, 2023. Failure to satisfy an RMD can result in a 50% excise tax on the amount that should have been withdrawn. The Secure Act 2.0 changed the RMD age to 73 for anyone born between 1951 and 1959. If born in 1960 or later, the new RMD age is 75.

Qualified Charitable Distributions (QCDs) can still be made upon an account owner reaching 70.5. This year the maximum QCD amount is $100,000 per taxpayer. QCDs are a way to give funds directly to a 501(c)3 charity from an IRA. Any amount given in this manner (up to the limit) is not subject to income taxes. Once an account owner is officially RMD age, the amount given to charity helps to satisfy the RMD amount.

COMPANY NEWS

Galecki Financial Management is owned and operated by six shareholders: A.T. Kohout, Brady McArdle, Melanie Colwell, Kevin Chandler, Andy Young, and Chloe Blythe. All our owners are CERTIFIED FINANCIAL PLANNER™ professionals. Andy Young is also a Certified Public Accountant (CPA) and Melanie Colwell is a Certified Divorce Financial Analyst™. Read more about our owners and all our amazing team members by visiting our website: https://galecki.com/our-team/

A.T. Kohout
Favorite Song:
Yellow Ledbetter by Pearl Jam

Brady McArdle
Favorite Book:
Gray Man series by Mark Greaney

Melanie Colwell
Favorite Movie:
The Sound of Music

Kevin Chandler
Favorite Musical Group:
Mumford & Sons

Andy Young
Favorite TV Show:
Seinfeld

Chloe Blythe
Favorite Musical Group:
Dave Matthews Band

If you would like to schedule an appointment with a Certified Financial Planner™ Professional, please visit www.galecki.com