MARCUM
WEALTH

Strategy Newsletter – 4th Quarter 2023

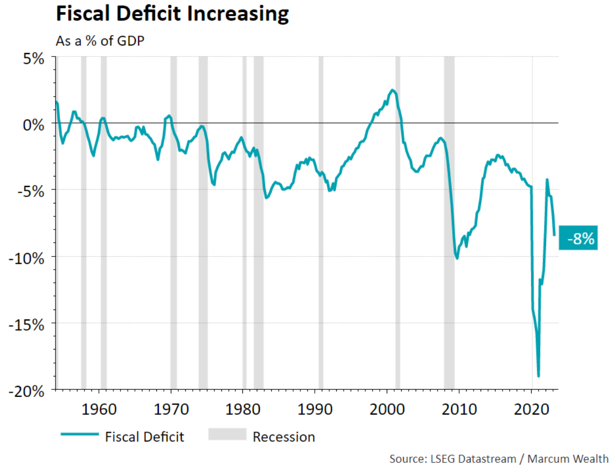
- Positive economic surprises keep pushing recession calls further into the future.
- Stocks took a breather after three prior positive quarters.
- What happens as we near the end of an interest rate hiking cycle?
- Higher mortgage rates are catching up to real estate.

Economy

By accounting definition, if the public sector is running a deficit, the private sector has a surplus.

The deficit is increasing today. Arguably, we have the same level of fiscal stimulus that we would see in a recession. This is one of many reasons the constant recession forecasts missed the mark.

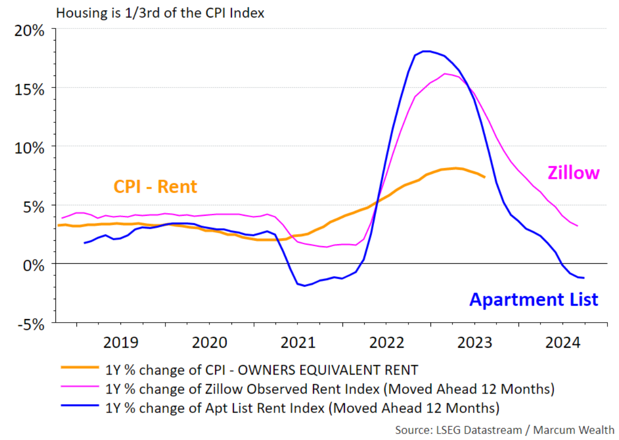
Fiscal Deficit Increasing



At 8% of Gross Domestic Product, plus the excess savings that households have from the last few years, there is plenty of money going into the economy.

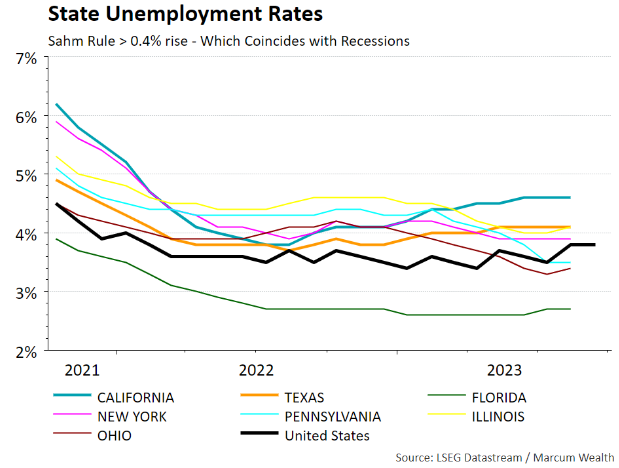
All that cash increases the risk of inflation coming back after its fall from the June 2022 peak. The annual change hit highs of 9.1% and fell below 4%. One key driver that could push it lower in the next few months is rental rates. The calculation method for the official government statistics is far behind the real world. As seen below from Zillow and Apartment List, rents will likely trend down over the next 12 months.

Rents are Falling Fast... But CPI Lags Real World



The labor market remains strong at a 3.8% national unemployment rate. Of the seven most populous states, California is the only one with a material rise from its lows, going from 3.8% to 4.6%.

State Unemployment Rates

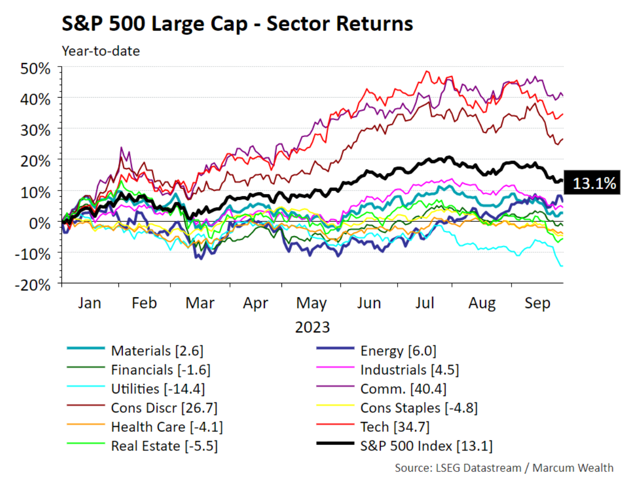


Equity

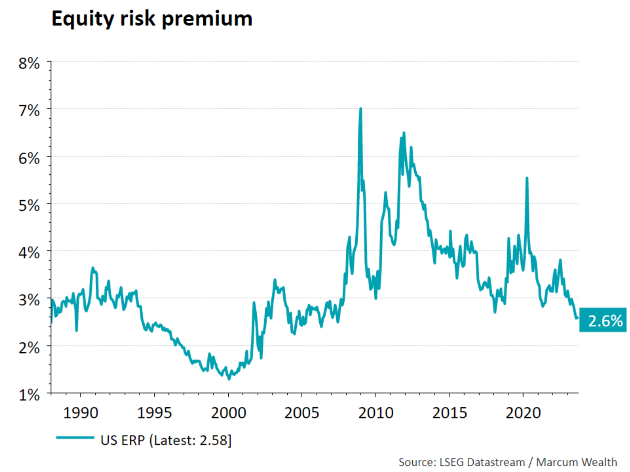
After three straight quarters of great returns, the market took a step back during the third quarter. Interestingly, value stocks outside the U.S. held up relatively well, while growth stocks outperformed at home, driven by large-cap technology stocks.

U.S. Equity	3Q 2023
Large Cap Stock	
S&P 500	-3.3%
Small & Mid Cap Stock	
S&P 400 Mid Cap	-4.3%
S&P 600 Small Cap	-5.3%
All Cap Style Indices	
S&P 1500 Value	-4.2%
S&P 1500 Growth	-2.7%
International Equity	**3Q 2023**
MSCI EAFE	-4.0%
MSCI EAFE Value	0.7%
MSCI EAFE Growth	-8.6%
MSCI Emerging Markets (EM)	-2.8%
MSCI EM Value	-0.6%
MSCI EM Growth	-4.9%

Only three sectors are outperforming so far in 2023: communications, technology, and consumer discretionary. the three largest underperformers are interest rate sensitive sectors, including utilities, REITs, and consumer staples.

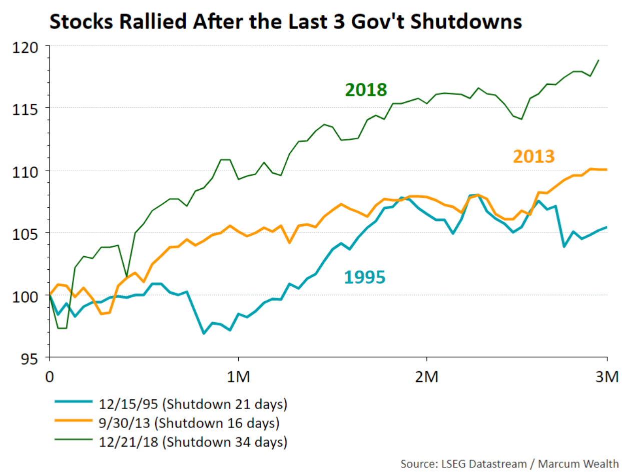


As interest rates continue to climb, bonds become a viable alternative to equities for generating returns. The equity risk premium (ERP) measures this difference, which fell to 2.6%. In the late 1990s, the ERP fell for five straight years. This is not a great timing tool but does give a relative value measure.



The government shutdown was delayed until mid-November. There is some confidence that a deal will get done sooner rather than later.

We have a small sample size of past government shutdowns, but the market trended higher after each of the previous three episodes.



The Marcum Wealth Asset Allocation Frameworks have a small overweight to equities. U.S. mall caps and international equities remain undervalued. The momentum for U.S. large caps remains positive and strong.

Fixed Income

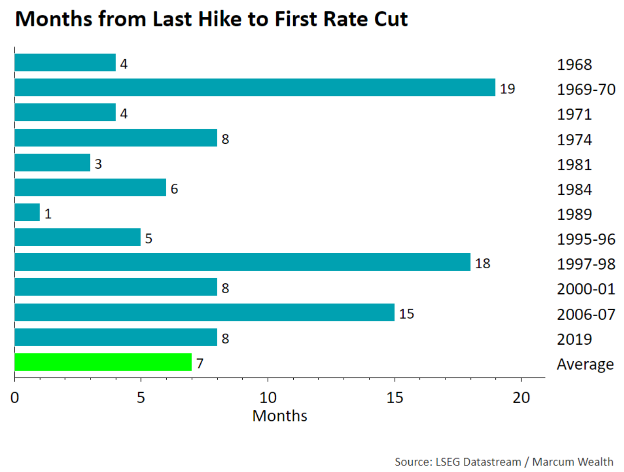
Bonds dropped for the second straight quarter after interest rates accelerated higher in the third quarter. The 10-year Treasury hit a recent high of 4.8%.

Fixed Income	3Q 2023
Bloomberg U.S. Aggregate Bond	-3.4%
Bloomberg Corporate Inv. Grade	-3.2%
Bloomberg High Yield Bond	0.5%
Bloomberg Global ex. U.S. Treas.	-5.3%
Bloomberg Municipal Bond	-4.3%
Bloomberg TIPS	-3.7%

The bond selloff comes at a time when the Federal Reserve looks to be at the end of its hiking cycle. While there was talk of another interest rate increase in the fourth quarter, it seems less likely.

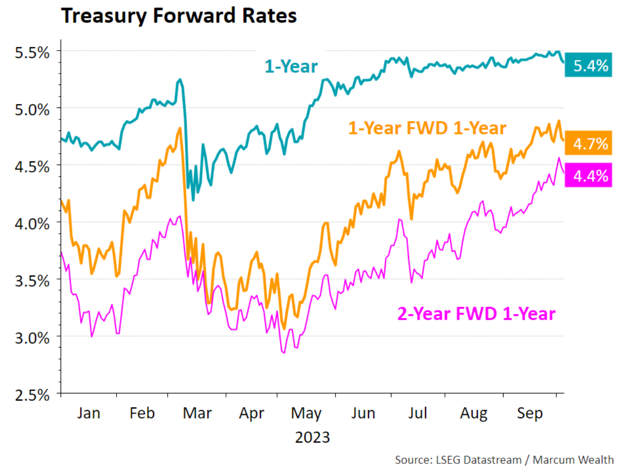
Typically, bonds rally during this ‘pause’ phase. It has been the opposite this time.

Historically, the Fed pauses for an average of seven months. Interest rate cuts then follow pauses. The range for the next first interest rate decrease is from one month to 19 months.



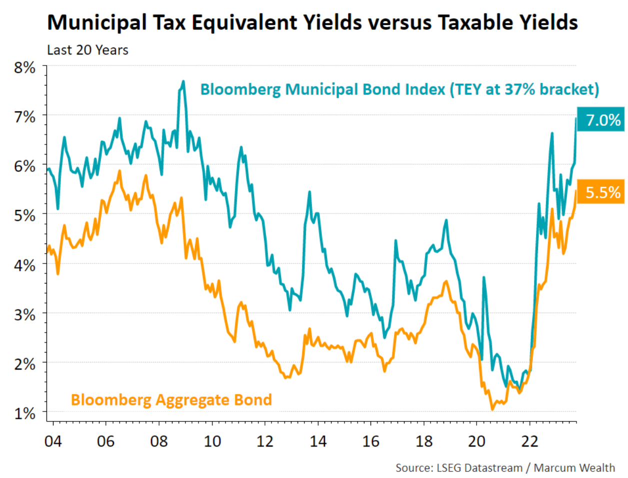
For bond investors, this may mean enjoying the interest rates on the shorter end of the yield while it lasts. The Fed’s economic projections put the long-run Fed fund’s rate at 2.5%, far below today’s target level of 5.375%.

The forward curve of the bond market gives pricing on where yields will be in the future. The following chart shows where the market expects the one-year Treasury bill yield level in one year and two years into the future.



Of course, this all comes down to the path of inflation. Over the last 15 months, inflation trended lower and closer to the Fed’s target. However, it remains stubbornly above the target levels. Hence, the “higher interest rates for longer” theme continues.

Today, municipal bonds hit the highest yield levels in 15 years. For investors in the highest tax bracket, the index has a tax-equivalent yield of 7%.



The Marcum Wealth Asset Allocation Frameworks recently deceased the portfolio exposure to corporate credit. Allocations hold a small underweight to fixed income.

Real Estate

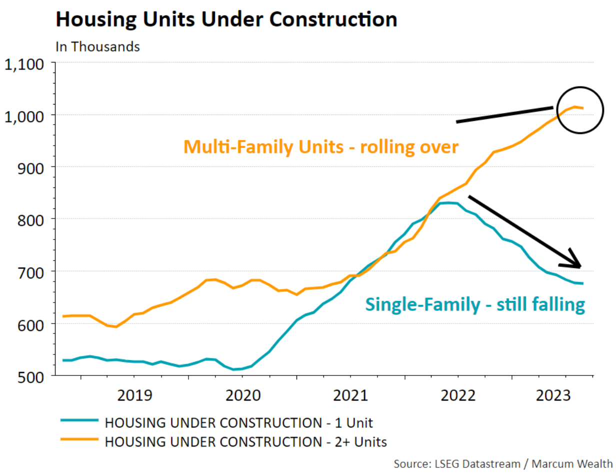
With the rise in interest rates during the third quarter, REITs took a step back in performance.

Real Estate	3Q 2023
Wilshire U.S. REIT	-6.4%
Wilshire Int'l REIT	-3.1%

Development for new apartments hit the highest level since the 1970s recently. Low rates, migration to new areas, and steady demand contributed to developer confidence.

It looks to have peaked recently as higher interest rates make new construction less profitable.

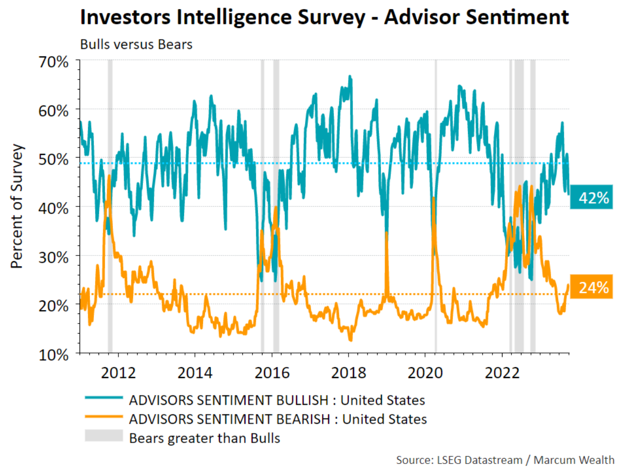
This follows the pattern on the single-family housing side. As mortgage rates near 8%, the lack of affordability is just too much for households to keep bidding up homes.



The Marcum Wealth Asset Allocation Framework continues to maintain equal weight exposure to REITs.

Summary

In October of last year, investors were the least bullish they had been in three years. However, over the next nine months, the markets rallied while climbing the 'wall of worry.' Following a negative third quarter for risk assets, bears increased above the long-term average. It remains to be seen if this reset is sufficient to sustain the one-year-old bull market.



Marcum Wealth Asset Allocation Frameworks

	Income	Conservative	Balanced	Moderate	Growth
Asset Class	Strategic	Strategic	Strategic	Strategic	Strategic
Equity	**20%**	**35%**	**50%**	**65%**	**80%**
U.S. Equity	12%	21%	30%	39%	48%
International Equity	6%	11%	15%	20%	24%
Emerging Markets Equity	2%	4%	5%	7%	8%
Fixed Income	**77%**	**62%**	**47%**	**32%**	**17%**
US Fixed Income	69%	56%	42%	29%	15%
Global Bonds	8%	6%	5%	3%	2%
Real Estate / REITs	**3%**	**3%**	**3%**	**3%**	**3%**

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.

Important Disclosure Information

Marcum Wealth, LLC ("Marcum") is an investment adviser registered with the United States Securities and Exchange Commission. Registration as an investment adviser does not imply a specific level of skill or training. A copy of Marcum's current written Disclosure Brochure discussing its advisory services, fees, and material conflicts of interest is available upon request.

Past performance does not guarantee future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Marcum), or any non-investment related content, made reference to directly or indirectly in this communication, will be profitable, equal any corresponding historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Certain strategies and vehicles referenced in this communication, such as private investments, Opportunity Zones, and ESG investing, may present increased or novel risks, including potentially higher management fees, reduced liquidity, shorter performance histories, or increased legal or regulatory exposure, compared to more traditional publicly traded securities and investment strategies. All investors should consider these potential risks in light of their individual circumstances, objectives, and risk tolerance. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from Marcum. The asset allocations reflected in this communication are targets only. Actual allocations can and often will deviate from these targets, including in instances of volatile markets, large deposits or withdrawals, or during account rebalancing.

Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Marcum account holdings correspond directly to any comparative indices or categories. **Please Also Note**: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Marcum accounts; and (3) a description of each comparative benchmark/index is available upon request.

Not all services described herein will be necessary or appropriate for all clients. The scope of the services to be provided depends upon the needs of the client and the terms of the engagement. The potential value and benefit of the adviser's services will vary based upon a variety of factors, such as the client's investment, tax, and financial circumstances, and overall objectives. Neither personalized services nor financial or professional resources or processes should be construed as a guarantee of a particular outcome. All investing comes with risk, including risk of loss.

If you are a Marcum client, please remember that it remains your responsibility to advise Marcum, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify/advise us, in writing, to the contrary, we shall continue to provide services as we do currently. Marcum is neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or accounting advice. Tax and accounting services provided by Marcum, LLP. Insurance services provided by Marcum Insurance Services, LLC.