



## Q3 2023

### Commentary

As expected, the equity markets in Q3 experienced a reversal of the strong rally that characterized the first half of the year. The main factors that contributed to the negative performance of stocks were:

- The Federal Reserve's decision to raise interest rates for the fourth time this year in July, signaling a continued hawkish stance on monetary policy. This increased the borrowing costs for businesses and consumers and put pressure on the valuations of growth-oriented sectors such as technology and consumer discretionary.
- Ongoing trade tensions between the U.S. and China, which escalated in August when both sides imposed new tariffs on each other's goods. This raised concerns about the impact of the trade war on global growth, especially in emerging markets that rely heavily on exports to China.
- Uncertainty surrounding the U.S. fiscal policy, as Congress faced a deadline to pass a spending bill and avoid a government shutdown at the end of September. The political gridlock also delayed the passage of the bipartisan infrastructure bill, which was expected to boost economic activity and create jobs.
- The surge in oil prices, reaching their highest level since 2014, in September, driven by supply disruptions in Venezuela and Iran, and production cuts by OPEC and its allies. Higher oil prices increased inflation expectations and weighed on consumer spending power.

As a result, most major U.S. equity categories had negative returns in Q3. The S&P 500 index, which represents the U.S. large-cap stocks, declined by (3.27%).

### Portfolio Review

During the 3<sup>rd</sup> quarter of 2023, the Sapphire Star Covered Call Strategy fared relatively well declining a mere (0.28%) net, versus a decline of (1.57%) for the blended benchmark and (3.15%) for the Russell 1000 Index. During the quarter Amgen +22.03%, Phillips 66 +27.13% and Exxon Mobil Corporation +10.55% aided the strategy, while Apple (11.61%), American Express Company (14.06%), and Microsoft Corporation (7.06%) were the biggest detractors. By the end of the quarter the energy minerals, technology services and finance sectors were the three sectors with the largest portfolio weight while the communications, consumer durables and consumer non-durables sectors were the three lowest weighted economic sectors represented in the strategy.

### Looking Forward

Looking ahead to the final quarter of the year we believe that some of the challenges that faced the equity markets in Q3 may persist or intensify. The Fed's monetary policy stance, which may become more hawkish if inflation continues to rise, could result in the widely expected raise by the Fed in December and possibly a signal for more rate hikes in 2024. Another factor is the trade dispute between the U.S. and China, which may not be resolved anytime soon despite ongoing negotiations. The

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U.S. is set to impose another round of tariffs on \$200 billion worth of Chinese goods in January, unless a deal is reached before then.

Some positive factors that may support the equity markets in Q4, include the strong fundamentals of the U.S. economy, which continues to grow at a solid pace, supported by robust consumer spending, business investment, and job creation. The earnings growth of U.S. companies, which is expected to remain healthy in Q4 despite facing some headwinds from higher interest rates, a stronger dollar, and rising input costs. The valuation of global stocks, which has become more attractive after the Q3 correction, especially relative to bonds. And finally, the seasonality effect, which tends to favor equities in the last quarter of the year due to factors such as holiday spending, year-end bonuses, and tax-loss harvesting.

While the final stretch of 2023 may present some volatility and uncertainty, we will be seeking the best opportunities for long-term investors who can look beyond the short-term noise and focus on the fundamentals and valuations of individual stocks and sectors.

As always, we welcome any questions or concerns that you have and thank you for confidence in the Sapphire Star Covered Call Strategy.

Regards,

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