HUGHES | FINANCIAL SERVICES, LLC

Q3'23 Economic *update*

Historically, the third quarter tends to be the worst quarter of the year in equity markets and this year's third quarter didn't buck that trend. September was very uncomfortable for investors as volatility increased, equities moved lower, Congress waited until the 11th hour to pass a stopgap funding bill, and the Federal Reserve announced the possibility of a rate hike before year-end. The prospect of interest rates staying higher for longer also did not resonate well with investors.

The major indexes ended the third quarter lower than they started. In September, the S&P 500 dropped 4.9%, and the Dow Jones Industrial Average (DJIA) fell 3.5% for the month. For the quarter, the S&P 500 fell 3.7%, ending its three-quarter-long gains streak at 4,288. The DJIA ended the quarter down 2.7%, closing at 33,507.

By the end of the quarter, some of the more optimistic outlooks from investors dwindled as concerns and volatility increased. Government and economic uncertainty, stubborn inflation, and the news of another potential rate hike this year took the lead on investor worries.

The quarter included the Fed once again increasing interest rates in July, a slight uptick in inflation, and continued talk of a pending recession. However, the U.S. economy held its ground with a strong job market and positive consumer spending confidence. Personal Consumption Expenditure (PCE), which the Feds closely watch, increased 3.9% for the 12-month period ending in August. At their September meeting, the Fed decided to keep the federal funds rate range at 5.25 – 5.50% and upgraded their view of the pace of the economy as "solid" rather than the "moderate" pace it had previously assigned. They noted that, "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."

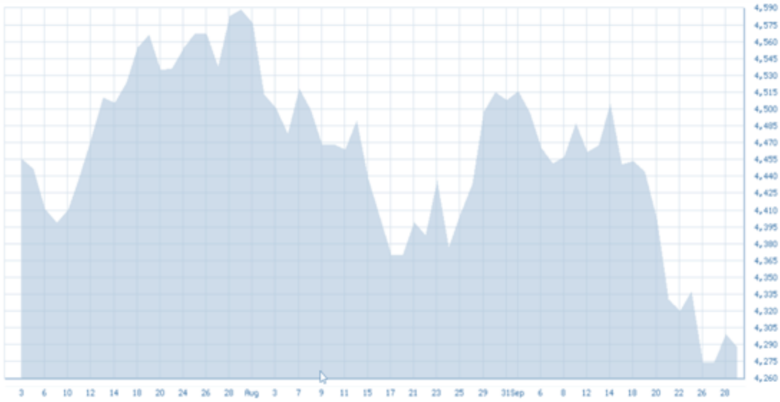
IN-PERSON WORKSHOPS:

Year-End Economic and Tax Planning

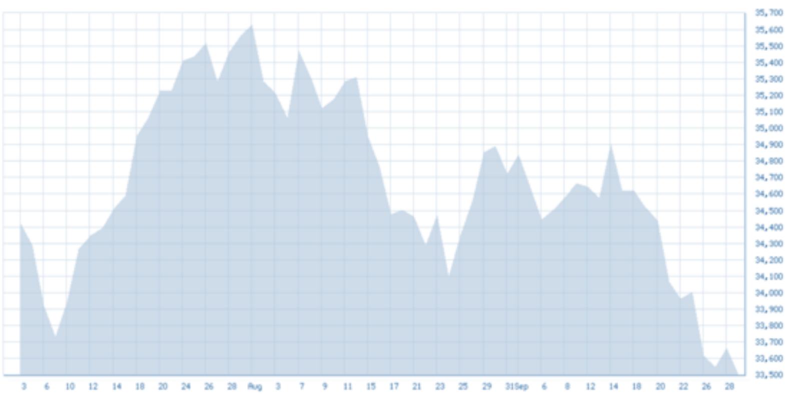
- Wednesday, November 15th
- 11:45 am – 1:00 pm
- Smith-Gill Auditorium
2121 Cooperative Way, Herndon, VA
- Lunch will be provided
- Register online at www.h4fs.com

S&P 500 and DJIA Quarter 3 2023

S&P 500 4,288 -3.7%



DJIA 33,507 -2.7%



MONEY RATES *(as posted in Barron's 9/25/2023)*

	LATEST WEEK	YR AGO
Fed Funds Rate*	**5.35%**	3.09%
Bank Money Market[z]	**0.59%**	0.13%
12-month Certif[z]	**1.96%**	0.78%

*Z – Bankrate.com; * - Average effective offer*
(Source: Barron's; bankrate.com)

The labor market remained strong in the third quarter. Although inflation's slow downward trend toward pre-pandemic levels continues, increased labor costs are placing a strain on businesses looking for employees. The current demand for labor keeps pushing wage inflation, with real wages being higher than pre-pandemic. Unemployment, a key economic indicator closely watched by the Fed, has now been under 4% for 19 months in a row.

One setback during the quarter was when inflation numbers for August posted their biggest monthly increase for 2023. However, upon close examination, the core Consumer Price Index (CPI) decelerated. Equities initially fell in response to the release of this data but rebounded shortly thereafter. While the September inflation data is set to be released in late October, it should be noted that August's inflation rate grew 3.7% year-over-year, a much better number than last August's year-to-year inflation rate of 8.3%.

In late September, the House of Representatives cancelled their pre-planned two-week recess to avoid a possible government shutdown. A short-term funding bill was needed to be approved by Congress and President Biden by October 1st, and as of late September, they hadn't yet passed a bill. Without it, a government shutdown was imminent. With just hours to spare, the House struck a deal, passing a 45-day stopgap government funding bill, diverting a potentially catastrophic event.

What does all this activity mean? Will the third quarter's gloominess set us up for a stock-market rally in the coming months, or will uncertainty prevail and send U.S. equities further down the receding trend?

Historically, the fourth quarter of the year is the best quarter for the U.S. stock market, with an average gain of more than 4% since 1950. However, if we have learned anything from the past few years, anything is possible. As an investor, the third quarter confirms that volatility is still prevalent. We remain firm in our philosophy that investing is a long-term commitment. Having a long-term-centered, diversified plan can help you weather market volatility and economic uncertainty. We know that short-term trading or investing is not for everyone as it can prove to be riskier and less tolerant of market fluctuations and instability.

As your financial advisors, we are committed to keeping you apprised of any changes and activities that could directly affect your financial situation. We are available to review your investments and make sure they are still congruent with your time horizon, risk tolerance, and goals.

The Bond Market & Treasury Yields

While equities moved down, bond yields moved up. After the Federal Reserve meeting in September, bonds yields rose, continuing their multi-decade highs. On Wednesday, September 20th, the yield on the benchmark 10-year treasury note closed at 4.35%.

On September 27th, the 10-year note hit a high of 4.61%, its highest rate since 2007. To end the third quarter, the 10-year treasury note closed at 4.59%, the 20-year treasury ended at 4.92% and the 30-year note closed at 4.73%.

Since April 2022, we have seen an inverted yield curve, meaning longer maturities have a lower yield than some short maturities. This trend remained true in the third quarter, with one-year treasury yields ending the quarter on September 29th at 5.55%, and the 10-year, 20-year, and 30-year treasury yields ending at 4.59%, 4.92%, and 4.73%, respectively. Historically, this has been a key indicator of a pending recession. However, the U.S. economy remains strong due to a continued low unemployment rate, wage growth, and slowing inflation. As these are all key economic indicators, we will continue to watch and monitor the data.

If you are interested in exploring how to add more bonds as part of a diversified portfolio, please contact us. As your financial advisor, we want to help you make the best decision for your portfolio. Note: while diversification in your portfolio can help you pursue your goals, it does not ensure a profit or guarantee against loss.

Moving forward, please keep in mind that a Fed decision to ease up or reverse interest rates will narrow the opportunity to get lower-risk, higher yielding bonds quickly. For right now, the Fed has signaled potentially one more interest rate increase in 2023, keeping the window open for higher short-term rates.

We will continue to monitor how the Fed's movements and rising interest rates are affecting bond yields.

TREASURY YIELDS COMPARISON				
	5-Year	10-Year	20-Year	30-Year
Jan 3, 2023	3.94	3.89	4.06	3.88
Sept 29, 2023	4.60	4.59	4.92	4.73

Q3 HIGHLIGHTS

- The Fed raised interest rates in July, but refrained from raising rates in September, keeping the 5.25 – 5.50% target rate range
- A 45-day stopgap bill was signed at the 11th hour, avoiding a potential government shutdown
- Inflation continues to slow down from 2022's highs, reaching 3.7% in August
- Treasury yields are still providing favorable returns
- Money market returns remain high
- There is still debate on whether the U.S. will see a "soft landing" or a recession
- Volatility and uncertainty in the economic environment remain
- Staying the course and maintaining a well-devised, long-term focused plan has historically served investors well
- We are always here to serve you and your family

INFLATION
INTEREST RATES

The Federal Reserve decided to not increase interest rates during their September session, leaving the rate range at 5.25 – 5.50%. However, they signaled another rate hike is likely to happen later this year due to the continued strength of the economy and the slight rise in inflation. "We are committed to achieving and sustaining a stance of monetary policy that is sufficiently restrictive to bring inflation down to our 2% goal over time," stated Fed Chair Jerome Powell.

"We will proceed carefully as we decide whether to tighten further or, instead, to hold the policy rate constant and await further data," Powell said. "It is the Fed's job to bring inflation down to our 2% goal, and we will do so."

Interest Rate Increases 2022 - 2023

FOMC Meeting Date	Basis Point Change	Target Rate Range
July 26, 2023	+ 25	5.25 – 5.50%
May 3, 2023	+ 25	5.00 – 5.25%
March 22, 2023	+ 25	4.75% - 5.00%
February 1, 2023	+ 25	4.50% - 4.75%
December 14, 2022	+ 50	4.25% - 4.50%
November 2, 2022	+ 75	3.75% - 4.00%
September 21, 2022	+ 75	3.00% - 3.25%
July 27, 2022	+ 75	2.25% - 2.50%
June 16, 2022	+ 75	1.50% - 1.75%
May 5, 2022	+50	0.75% - 1.00%
March 17, 2022	+25	0.25% - 0.50%

In September, Consumer Price Index (CPI) reports for August were released. The White House announced that inflation was 0.6% in August and 3.7% over the past 12 months. Both rates were a step up from recent inflation reports with August showing the biggest monthly increase to date for 2023. The main culprit for this jump was the significant price increase of gasoline, which flew over 10.6% in August. Consumers cringed at the price of filling up their gas tanks as the cost of fuel and food continued to put a strain on budgets. Transportation costs, including gas, are the second largest expenses for U.S. households, the first being housing costs.

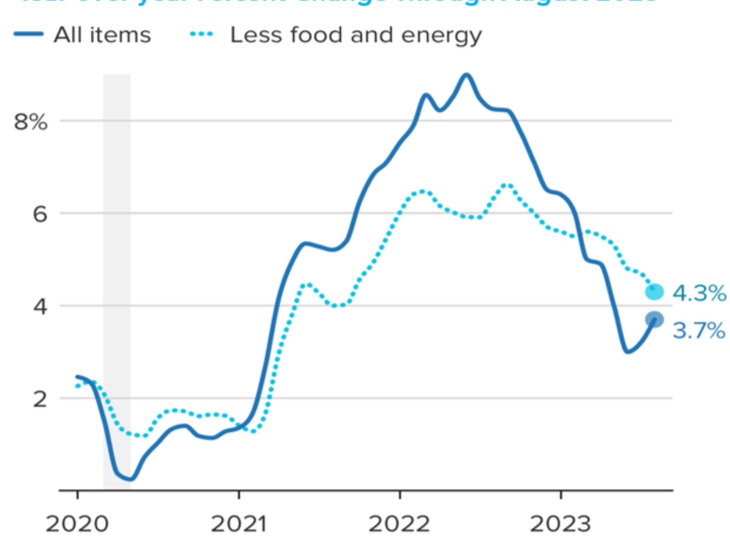
Many economists believe this slight uptick will be short lived. "This should just be a temporary interruption of the downward trend," said Andrew Hunter, Deputy Chief U.S. Economist at Capital Economics. He continued, "Broadly, we're already seeing pretty clear signs the situation is approaching normal again."

To put things in perspective, without the energy and food sectors, core inflation only rose 0.1% during this period. When you look "under the hood," the year-over-year percentage change for the CPI through August 2023 went down in August when you remove food and energy from the data.

The CPI measures the average change in price across a broad array of goods and services. The good news is the core CPI continued to decelerate. The core CPI is a better indicator of where inflation is headed, and the Fed focuses on this data to help them determine their approach to battling inflation.

Like all aspects of financial planning that may affect you, we are keeping a vigilant eye on interest rates and inflation.

U.S. Consumer Price Index (CPI)
Year-over-year Percent Change Through August 2023



Source: U.S. Bureau of Labor Statistics

Investors should enter the fourth quarter of 2023 with an understanding that it might be a volatile one. The sentiment that interest rates would soon be lowered dwindled during the third quarter on the news of a possible rate hike before year-end. Most analysts believe the interest rate hiking cycle is peaking. However, "higher for longer" has become the new interest rate theme.

INVESTOR OUTLOOK

Historically, the fourth quarter is a strong quarter for U.S. stock markets. Since 1928, including some very tough Octobers (remember October 1987?), the S&P 500 on average experienced positive returns during the fourth quarter.

Yet, as of the printing of this report, there are some key concerns that may affect the trajectory of the markets in the near future. Oil prices have recently soared, and this could continue, especially amidst the recent Mideast war conflicts. Additionally, there is monetary policy uncertainty, and the 2024 race for the White House and Congressional seats may prove to be one of the most caustic and challenging elections ever.

The Federal Reserve will be keeping a close eye on key indicators such as housing, labor markets, and core goods. It's critical that the Fed does not overshoot its target and trigger the U.S. economy into a speedy downturn. Most of us are hoping for a "soft enough landing" that allows us to avoid a recession, a primary objective of the Feds.

Keep in mind that a soft landing could mean slow economic growth for some time. Regardless of the outcome, it is always prudent to watch your expenses and make smart money and investment decisions. Having some financial liquidity, staying out of debt, and planning for any large cash commitments, such as a wedding or new car purchase, should be taken into consideration in your financial plan.

We believe in proactive preparation to ensure you have your personal financial situation set up to best weather anything the economy may bring. The past few years have taught investors that it's healthier to expect the unexpected.

From an investor standpoint, we stand firm that investing in equities is a long-term commitment. We acknowledge that volatility is still prevalent, so we want you to be prepared to proceed with caution. Although long-term stability should be a key goal for smart investors, the coming months ahead could bring market challenges to the surface.

Please remember, investors with a long-term plan that stayed the course and remained diversified and invested historically were rewarded. We believe this still holds true for today's investors. Savvy investors have a long-term mindset and well-devised and diversified financial plans.

Our goal is to provide you with a solid financial strategy designed to best weather any market environment. We are not in the business of trying to predict the future. While past performance is not a guarantee of current or future results, history shows us that returns from equities after a recession have been fruitful.

Heading into the fourth quarter, we will continue to keep an eye on inflations rates, economic growth data, global issues, and monetary policy moves. There is a strong possibility that the Fed will increase rates (possibly by .25%) before the end of the year, depending on the data the Fed receives.

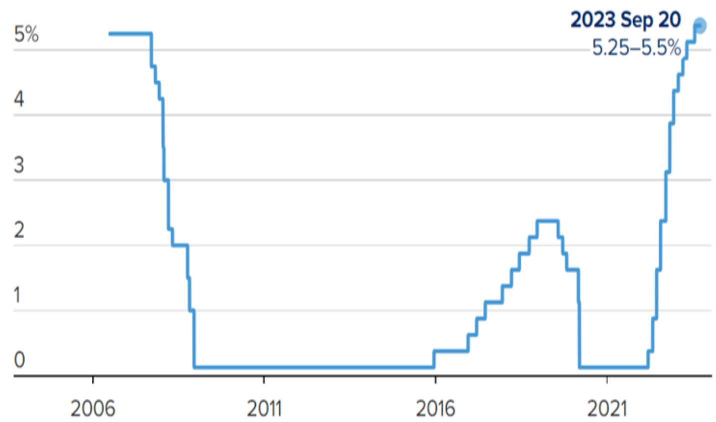
As we approach the end of the year, it's a good time to go over certain key action items that can help keep your finances in good order. Some year-end items to consider include:

- ☐ Maxing out your retirement contributions (for those still working). If you haven't already, maximize your retirement savings contributions into your 401(k) or any employee-sponsored plan. If you don't have a workplace plan, call us to see if you can contribute to an IRA.
- ☐ Reviewing if partially or fully converting to a Roth IRA makes sense and what that looks like taxwise. **Warning:** This conversion is complicated, so please contact us to see whether it's a good option for your situation.
- ☐ Proactively reviewing your plan for future college expenses by starting or contributing to a 529 college savings plan.
- ☐ Reviewing any year-end tax harvesting opportunities (i.e., looking into selling stocks and funds that have lost value to offset your taxes).
- ☐ Revisiting your annual budget for 2024. Is your budget consistent with your needs and goals?
- ☐ Rechecking your estate plan (especially your beneficiaries).
- ☐ Finalizing your year-end charitable giving (including donating to your favorite charities and benefiting from knowing you are helping others).

The coming months could be filled with uncertainty and some heavy market volatility. Here are a few tips we have for you to help you through uncertain times are:

- Keep your head down and minimize your viewing or responding to any mass media, including the news and social media.
- Live within your means and avoid incurring any more debt than necessary.
- If possible, continue to add to your savings.
- If needed, review your financial situation with us.

Federal Funds Target Rate *(2006 - September 2023)*



Source: Federal Reserve Bank of New York
Note: From December 2008 to present, the chart reflects the midpoint of the Federal Reserve's target range.

We take pride on serving our clients by offering the following:

- A proactive, individually tailored approach to each client's financial goals and needs.
- Consistent and meaningful communications throughout the year.
- A schedule of regular client meetings.
- Continuing education for all our team members on issues that may affect our clients.
- Proactive planning to navigate a changing market environment.

We always recommend discussing any changes, concerns, or ideas that you may have with us prior to making any financial decisions so we can help you determine your best strategy forward. Additionally, life happens, and we want to always make sure your portfolio addresses any major life changes. There are often important factors to consider, including tax ramifications, increased risk, and time horizon changes when altering anything in your financial plan.

Please remember that as a valued client, we are here to serve you! Feel free to contact us with any concerns or questions you may have. We always appreciate the trust and confidence you have placed in our firm.

Year-over-Year Price Changes (August 2023)

Good news for bacon and egg lovers, not so good news for veggie lovers. The grocery store bill continues to be a strain on U.S. household budgets. While we have seen some products decrease in price, others continue to rise.

Bacon	- 6.4%
Eggs	- 18.2%
Butter	- 4.8%
Frozen Veggies	+ 14.7%
Apples	+ 8.5%
Baby Food & Formula	+ 8.4%

hughes NEWS

In September, a few members of the HFS team traveled to Dallas, TX, for the Academy of Preferred Financial Advisors (APFA) conference. APFA provides timely education and training in topics that can impact our clients.

In October, Scott Hughes, Berkeley Meredith and Patrick Moore attended the Charles Schwab IMPACT 2023 conference in Philadelphia, PA. While there, they were able to take part in a variety of educational experiences and hear from a lineup of inspirational speakers, all of which are designed to help us better serve our clients. The event wrapped up with a concert by headliner John Mellencamp.

We are accepting new clients!

Do you feel your advisor is fully aware of your financial situation? If you would like us to look at your personal financial picture and how the market environment may affect it, please call us at (703) 669-3660 and we would be happy to schedule a complimentary discovery consultation.

Clientservices@h4fs.com | (703) 669-3660 | www.h4fs.com

HFS

Founded in 2009, Hughes Financial Services, LLC, is an independent Registered Investment Advisor (RIA) firm working closely with individuals and families in or near retirement to provide direction and strategies on how to financially achieve their personal goals and dreams.

We adhere to the highest fiduciary standards when providing advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- investment management
- tax planning
- estate planning
- risk/protection management
- education planning

The financial advisors at Hughes Financial Services proudly hold a variety of professional designations and certifications including the prestigious Certified Financial Planner™ (CFP®) certification and are well-versed in several financial disciplines. We specialize in helping employees and retirees of local government, school systems and U.S. military with their retirement options.

Our combined education and experience allow us to offer you independent financial advice and solutions we are proud to provide.

Located in Herndon, Virginia (Fairfax County), Hughes Financial Services works with clients across the United States.

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