NEW REPUBLIC PARTNERS

MARKET COMMENTARY

3Q 2023

NEW REPUBLIC PARTNERS

Market Commentary

Market Monitor 2023	Q3	YTD
MSCI All-Country World Index	-3.4%	10.1%
S&P 500 Index	-3.3%	13.1%
Bloomberg U.S. Agg. Index	-3.2%	-1.2%
Bloomberg Commodity Index	4.7%	-3.4%

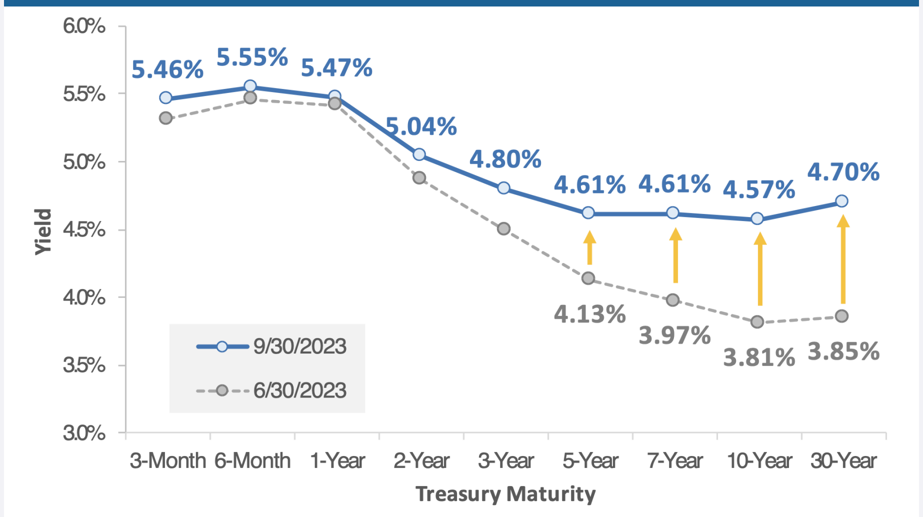
Yields Still on the Rise

Stocks and bonds alike suffered in 3Q driven by a strong increase in real rates over the quarter which continued into October. Meanwhile, real assets and the broad commodity complex were up over the same period. The sharp rise in yields was a big development during the quarter. As seen in the below chart, the 7-year yield rose 0.64% during the quarter, while the 10-year and 30-year yields both rose by more than 0.75%.

With the economy holding stronger than expected and oil prices rising in 3Q, there is a growing realization that the Fed may need to keep interest rates higher for longer to prevent inflation from becoming entrenched. The recent rise in yields indicates the market is preparing for a longer period of higher interest rates and fewer near-term rate cuts.

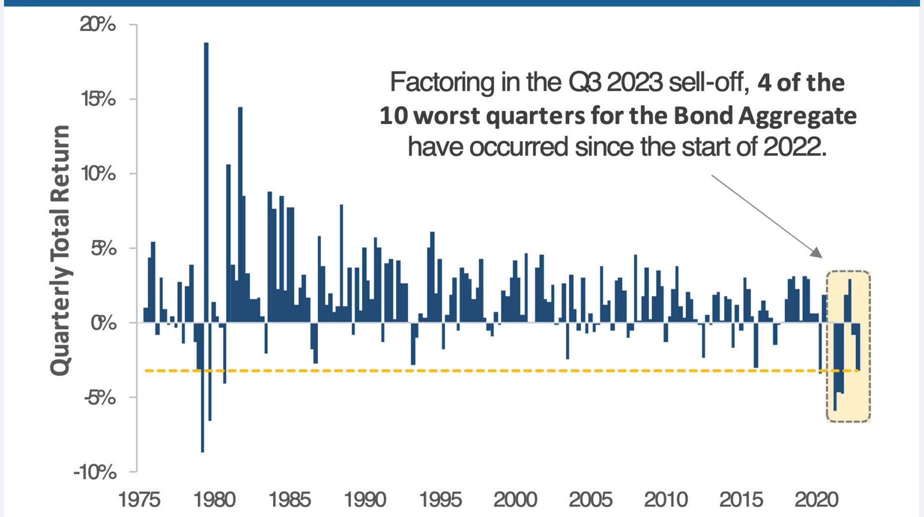
Rising interest rates were also a significant headwind for bonds during the third quarter. The graph below shows the quarterly total return of the Bloomberg Bond Aggregate Index, which puts the losses in perspective. The Bond Aggregate Index tracks a wide array of Treasury, corporate, and municipal bonds and generated a total return of -3.2% during the third quarter, nearly matching the decline in equity markets (S&P 500 -3.3%).

Treasury Yield Curve Movement During the Third Quarter



Source: U.S. Treasury. Data as of September 30th, 2023.

Bloomberg U.S. Bond Aggregate Index



Source: MarketDesk. Data as of September 30th, 2023.

NEW REPUBLIC PARTNERS

Market Commentary

Time to Think Differently in Fixed Income

Bonds have not experienced a sequence of negative returns like the current trend since the 1970s, which was the last time the Fed aggressively raised interest rates to combat inflation. Factoring in the 3Q sell-off, four of the 10 worst quarters for the Bond Aggregate Index (since '75) have occurred since the start of 2022. So, while savers are earning significantly more interest compared to the last decade, the higher interest income is being offset by falling bond prices.

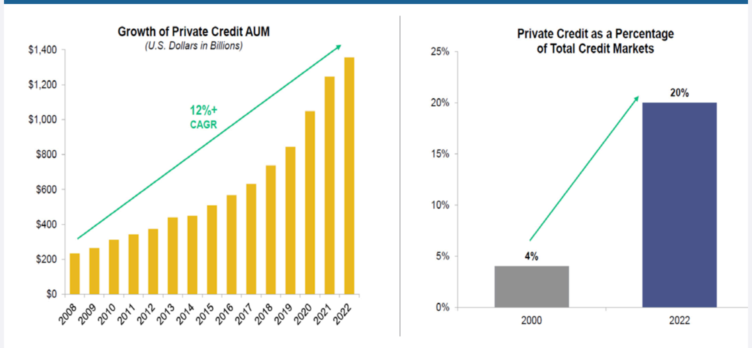
Like in 2022, it has not paid to take on bond duration in portfolios in 2023. Rather, investors could earn 5+% in T-bills while waiting out the market uncertainty. Barbelling one's fixed income exposure between T-bills/money markets and private credit is an attractive proposition in today's environment.

With a backdrop of elevated inflation, higher base rates, constrained bank lending and tight capital markets, private credit looks all the more attractive in our view. Banks are still staring down mark-to-market losses on their bond portfolios and potentially more stringent capital requirements which will reduce their willingness to lend and continue to expand the opportunity set for private credit managers. Private credit as a percentage of total credit markets has grown from 4% in 2000 to 20% in 2022 and it is set to penetrate even further as traditional financing capacity recedes further. Over the medium term, we expect market conditions for private credit to remain attractive with wider pricing, more conservative leverage levels, and stronger covenants than in years prior. Our managers remain highly selective and are investing in lower middle market businesses with a focus on predictable earnings, manageable capital structures, and healthy liquidity. As one of our private credit managers, Crescent Capital, recently highlighted, the current market environment represents an extremely compelling time for private credit investing, with increased deal flow as buyout activity recovers and loan volume increasingly shifts to the private market. At the same time, we are seeing strong credit quality, attractive economic terms and more defensive capital structures.

Not all Rallies Created Equal

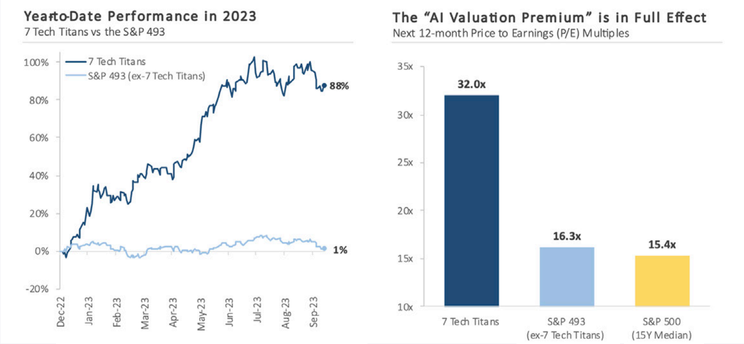
Turning back to equities, aside from energy, all S&P sectors were down in the quarter and the famed Magnificent 7 that had driven the market YTD declined [slightly] over 3Q. Despite negative returns during the quarter, the major stock indices still posted strong gains for the year. The S&P 500 has returned 13.1% through the end of September, while the Nasdaq 100 has gained 35.1% this year after falling -33.1% in 2022. Under the hood though, most equities have not participated in the rally. For instance, the equal weight S&P 500 and Russell 2000 indices have both produced slight losses YTD; micro cap stocks and the real estate sector have each declined around 10%. Altogether, this year's performance has not been an impressive start to a new bull market, and without the Magnificent 7 and a handful of industries, 2023 would feel very different.

Private Credit Taking Market Share



Source: Preqin.

Market Themes - 7 Tech Titans vs the S&P 493



Disclosures Data is based on constituents of the S&P5OO. The 7 Tech Titans include: Apple(APPL), Microsoft-(MSFT), Alphabet(GOOGL),Amazon (AMZN),Nvidia(NVOA) ,Tesla (TSLA),ard Meta (MET A} Latest available data as of 9/30'2023.

Source: MarketDesk.

Market Commentary

Not all Rallies Created Equal continued

The strength of the U.S. economy has continued to surprise many forecasters as we have seen Goldilocks like data points with labor softening slightly and inflation decelerating. Prognostications of an economic recession have been pushed out to 2024, and analysts' earnings revisions in the U.S. appear to have troughed over the past two months. However, there is no guarantee that the Fed will not overtighten for fear of a 1970s double dose of inflation. And the pinch from higher real rates has arguably been delayed as consumers spend down their excess savings. We recognize that markets rarely give an all-clear signal, but the narrow rally and elevated valuations keep us cautious with respect to U.S. equity exposure.

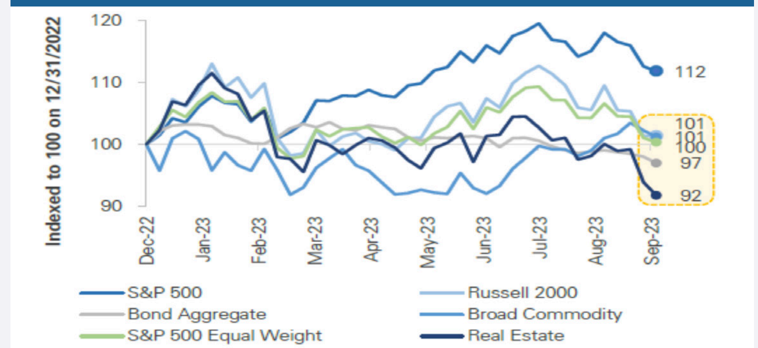
Update on International Markets: Going Where the Growth Is

International stocks underperformed U.S. stocks during the third quarter as rising Treasury yields caused the U.S. dollar to strengthen. The MSCI EAFE Index of developed market stocks returned -4.9%, while the MSCI Emerging Market Index returned -4.1%. Year-to-date, international markets have underperformed U.S. stocks due to their lower exposure to both growth-oriented stocks and the emerging artificial intelligence industry.

For much of the year we have had a strategy of "going where the growth is," with tactical allocations in our international exposure emphasizing Asia over Europe. And while China has disappointed in its post-COVID-19 rebound and been lacking in market animal spirits, India has begun to emerge as a bright spot. As one of our long-tenured EM managers, Arisaig Partners, points out in their market analyses, the building blocks of a successful EM equity story are falling into place for India with an urbanizing, growing middle class driving economic growth at scale with deep capital markets and a strengthening stock market culture.

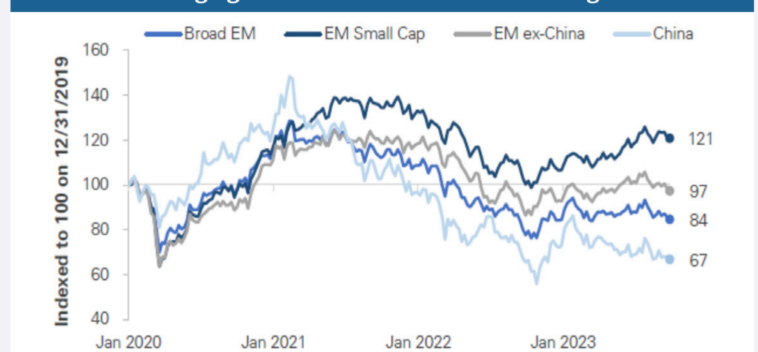
The demographic story in India stands in stark contrast to trends in China: India is set to grow its working-age population by 96 million over the next decade — 3x that of SE Asia (29m) and 6x that of the U.S. (15m) — and the country will have the largest contribution to middle-class growth over the next 7 years (642m vs. China at 304m). Structural reforms over the past 7 years in digitization, tax, and financial inclusion are taking root, mitigating previous governors on the growth of its middle class. In addition, with its improving infrastructure, India has grown in importance as a manufacturing hub for industries beyond pharmaceuticals.

Most Asset Classes Haven't Participated in tlhe Rally



Source: MarketDesk. Analysis uses SPY, IWM, ACWX, AGG, DBC, RSP, and VNQ as asset class proxies.

Emerging Market Factor Performance Diverges



Source: ManketDesk. Analysis uses EEM. EEMS, EMXC, and MCHI as proxies.

[1] J.P. Morgan.

NEW REPUBLIC PARTNERS

Market Commentary

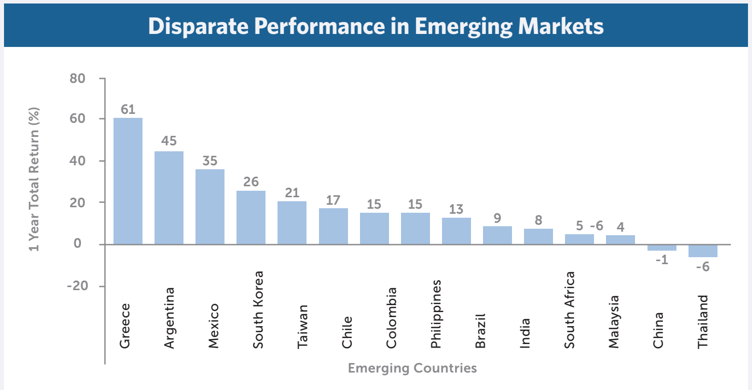
Update on International Markets: Going Where the Growth Is continued

More recently, domestic equity ownership has increased as Indian households diversify away from gold and real estate as their primary assets. Brokerage account penetration has risen 3x in the past decade and yet these households are only 8% penetrated vs. 65% in the U.S. or 15% in China. This helps balance the capital markets by having strong domestic inflows and support of local markets when foreign investors are buying and selling based on risk on/off sentiment.

The demographic dividend and deepening equity market culture in India are apparent to the market and help support a market premium for India relative to the rest of EM. However, as another one of our EM managers, Tree Line Group, highlighted to us, the adage from tech investing of "overestimating the short term while underestimating the long term" applies to India. Your entry point and position sizing matters.

Picking Your Spots in Disparate Emerging Markets

A discerning EM manager, like Arisaig or Tree Line, with a sufficiently long time horizon is needed to take advantage of not only India, but the country-by-country opportunity set that arises in EM. More broadly, this is why we favor active management in the EM universe as EM countries are more disparate than they are similar, and the index is more a reflection of where economic and earnings growth have been and not where they are going. Hence, when investing in emerging markets, our preference is to follow the Gretzky adage and "skate to where the puck is going, not where it has been."



Source: MarketDesk.

—NRP Investment Committee

October 27, 2023

Disclosure

NEW REPUBLIC PARTNERS

704.626.1526

NEWREPUBLICPARTNERS.COM