Financial Markets Review

October was just a continuation of a trend that began to really take hold at the end of July. Up until the time of this writing, the unabated move higher in long-term Treasury yields has rattled equity markets. As the back end of the Treasury curve rose by more than 30 basis points in October, the S&P 500 and Nasdaq fell by 2.20% and 2.78%, respectively, while the small-cap Russell 2000 index gapped even lower to the tune of 6.88%.

Over the span of the past three months, each of the U.S. major equity indices has fallen into "correction" territory, which is typically defined as a decline of more than 10%. Since its year-to-date closing high on July 26th, the S&P 500 has fallen nearly 11%. The Russell 2000 has fared much worse as it approaches bear market territory, which is often defined as a 20% decline. As financial pundits attempt to explain away each zigzag of the market and try to put a label on everything, the reality is we are in the same market cycle that we've been in for nearly two years now.

As of the most recent month-end, the S&P 500 closed around the 4200 level. The first time the S&P 500 traded at this level was roughly two and a half years ago in May 2021. Over the course of the past 30 months, the S&P 500 has gone nowhere. Now, we have spent a good bit of time writing about the disparity between the market-cap weighted S&P 500 and the equal-weighted S&P 500. As a quick refresher, the market-cap weighted S&P 500 is dominated by a handful of very large companies, whereas the equal-weighted S&P 500 does just what its name implies, it equally weights each company in the S&P 500, which gives a better representation of the "average" stock. So, while the market-cap-weighted S&P 500 is slightly up over the past 30 months, over that same time period, the equal-weighted S&P 500 has fallen. And the Russell 2000, well, that's now down more than 20% from where the small-cap index traded two and a half years ago.

Given that the S&P 500 equal-weighted index and the Russell 2000 index are both significantly lower than their record highs set two years ago and continue trading lower than where they started this year, it's hard to make the case that the bear market has concluded. From a strictly valuation perspective, the bear market has cleansed a lot of the excesses that built up when we lived in a zero or even negative interest rate world. Many companies are back to trading at valuation levels last seen 10 to 15 years ago. So, given the current level of interest rates, and short of rates going significantly higher, the first stage of this bear market is likely closer to the end than the beginning. The second stage and biggest wild card of all will be the path of the economy and corporate earnings.

Over the next few quarters, it should become clearer as to whether or not the U.S. economy can avert a recession. The economic landscape is slowly weakening as seen by the recent softening in the service sector and labor market. However, it does not appear that the economy is falling off a cliff. If the much anticipated "soft landing" can be achieved, then the current expectation of 12% corporate earnings growth in 2024 should be realized. If everything lines up as currently expected by the market, then it would provide a nice springboard for the average company to power through this agonizing market and put the bear to rest once and for all. Until there is more clarity on the economic front, I suspect we will remain firmly entrenched within the trading range that we've found ourselves in for over two years now.

Castle Tandem Fund Update

One of the hallmarks of a bear market is its ability to frustrate and grind you down. As soon as a sense of recovery comes over the market, a new threat enters the picture, and all hope is washed away. Sometimes these conflicting emotions occur over a matter of hours and days in a highly volatile market. And other times, it's something that builds up over months and even years.

In order to persevere, one needs to maintain discipline and patience. These traits are absolutely critical in being able to conserve capital and position yourself to generate future wealth. As previously mentioned, bear markets are highly volatile and emotionally draining market cycles. The magnitude of the swings in either direction can often lead one to do the wrong thing at the wrong time (i.e., buying high and selling low). By having and, most importantly, following a strict disciplined approach, you can limit the volatility of your portfolio, which will go a long way to leaving your emotions and feelings in check. Ultimately, by lowering the volatility and limiting the drawdowns of your portfolio, you will be well positioned to take advantage of opportunities when they become present.

Our number one job as a portfolio manager is to maintain that discipline, so that you know what to expect regardless of the market environment. We are not trying to time when to be "all-in" or "all-out". We are not trying to chase the hottest trends or conform to the latest narrative. Our goal is to provide a consistent, repeatable experience. It's a process void of emotion and bias that allows us to manage a portfolio based solely on math. Markets and narratives change daily, but our investment philosophy and process do not.

Source: Source of all data is FactSet, unless otherwise noted.

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Senior Vice President
19 Years of Investment Experience

Billy Little is a shareholder, Senior Vice President, and Portfolio Manager for Tandem Investment Advisors, Inc. Mr. Little began his career in the investment industry in 2004, as a Financial Advisor with Ameriprise Financial in Baltimore, Maryland. Mr. Little joined Tandem in 2006. Mr. Little oversees Tandem's corporate financials, including business planning, budgeting, and vendor negotiations. Mr. Little also directs Tandem's quantitative and fundamental research. He is a regular member of the CFA Institute and past President of the CFA Society South Carolina. Mr. Little graduated from the College of Charleston with a Bachelor of Arts in Business Administration with a concentration in Finance.

The opinions expressed are those of the Fund's Sub-Adviser and are not a recommendation for the purchase or sale of any security.

The Standard & Poors 500 Index (S&P 500) is an index of 500 stocks. The S&P 500 Equal Weight Index is the equal-weight version of the S&P 500. The Russell 2000 Index measures the performance of the small-cap segment of the US equity universe.

The investment objectives, risks, charges and expenses of Castle mutual funds must be considered carefully before investing. The prospectus for each Fund contains this and other important information about the investment company, and it may be obtained by calling 1-877-743-7820, or visiting www.castleim.com. Read it carefully before investing.

Important Risk Information

The risks associated with the Fund are detailed in the Fund's Prospectus. Investments in the Fund are subject to common stock risk, sector risk, and investment management risk. The Fund's focus on large-capitalization companies subjects the Fund to the risks that larger companies may not be able to attain the high growth rates of smaller companies. Because the Fund may invest in companies of any size, its share price could be more volatile than a fund that invests only in large-capitalization companies. Fund holdings and asset allocations are subject to change and are not recommendations to buy or sell any security.

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