Financial Markets Review

November was the month of the reversal in just about all things related to financial markets. Everything from financial asset performance to investor sentiment to economic indicators to Fed policy expectations ended up doing a complete 180 given their course over the past few months. And in a very much welcomed turn of events, it wasn't just Technology stocks that participated in the rally, although the Information Technology sector still led all sectors higher, as the tech-laden Nasdaq climbed 10.70%. The S&P 500 and S&P 500 Equal-Weight Index rose 8.92% and 9.18%, respectively. And even small-cap equities joined the party with the Russell 2000 advancing 8.83%.

The equity rally was indeed a relief over the persistent decline that started in the late summer months. However, the biggest relief, which also happened to be the catalyst behind the recovery in equities, was the decline in interest rates leading to a subsequent rise in bond prices. Treasuries experienced one of the best months on record, as the 2-year Treasury note fell 35 basis points to yield 4.70%. And, after piercing 5% in October, the 10-year Treasury bond yield plummeted 55 basis points to end November around 4.35%. Lower interest rates and higher bond prices weren't limited to just Treasury securities as the U.S. Aggregate Bond Index rose nearly 5% in November, which was the largest monthly gain since 1985.

For the better part of the past two years, equity valuations and prices have been driven by the direction of interest rates. Finance 101 taught us that as interest rates rise, the present value of future cash flows declines. All else being equal, the value of that asset is less when discounting the cash flows at a higher interest rate. Over the past four months, the correlation between the S&P 500 and Treasury yields has painted this picture. On July 31st, the S&P 500 closed at a year-to-date high of 4,589. A few days later the 10-year Treasury yield broke out of its trading range and closed at a year-to-date high of 4.19%. As the 10-year Treasury continued its trek toward 5%, the S&P 500 moved downward in lockstep. After nearly an 11% decline, the S&P 500 bottomed out around 4,100 on October 27th, which was four trading days after the 10-year Treasury peaked at 5.02%. As of this writing, the 10-year Treasury is back to 4.19% and the S&P 500 is trading around 4,580. It was a complete roundtrip for the two securities.

There were a few catalysts that set off the precipitous decline in rates and ignited the rally in equities, but none more important than the return of economic "bad news is good news." Intuitively, this doesn't make much sense. Afterall, one would think that good economic news would be good for equities and bad economic news would be bad for equities. Why would you want to invest in stocks if the economy is slowing? Well, good economic news typically equates to higher interest rates. In a strong economy, an increase in demand leads to higher prices and inflation, which the Federal Reserve attempts to contain through hiking the Federal Funds rate, and vice versa in a weak economy. As we previously highlighted, the equity market and interest rates are very correlated at the moment, so any decline in interest rates will drive equities higher.

Over the past month, several economic indicators have begun to soften and hint at weakness and a slowing of demand in the economy. This "bad" economic news led the Federal Reserve to pause on hiking interest rates any further at their November FOMC meeting. And, most recently, Fed Governor Waller stated that current Fed policy is well-positioned to slow the economy, and continued disinflation over the next couple of months could lead to rate cuts. In mid-October, the market was barely pricing in a 25 basis point rate cut in 2024 that if it did happen, would not be until Q4. Fast forward 6 weeks later, the market is pricing in roughly 125 basis points of rate cuts to begin in a mere four months' time. That is quite the reversal in interest rate expectations over such a short time period!

For now, "bad news" will remain "good news" for stocks. As long as the economy can slow in a measured manner, then lower interest rates will remain supportive of equity valuations. However, if the economic landscape turns from a slowdown to an outright contraction, then bad news will become bad news. There is a fine line between the Fed having the flexibility to cut interest rates and being forced into cutting interest rates. As we embrace the former, it's imperative that we remain cognizant of the risks to the latter.

Castle Tandem Fund Update

As 2023 comes to a close, many companies will begin to take the last few weeks of the year and first few weeks of the New Year to set expectations for 2024. And, while setting expectations for the coming year, companies will often update their dividend plans. Over the past several weeks, a number of our core holdings have announced increased dividend payments to shareholders. These companies include the following:

Amphenol (APH)	+5%
Automatic Data Processing (ADP)	+12%
Becton Dickinson (BDX)	+4%
Brown Forman (BF.B)	+6%
Brown & Brown (BRO)	+13%
Hormel Foods (HRL)	+3%
Nike (NKE)	+9%
Roper Technologies (ROP)	+10%
Stryker (SYK)	+7%
Visa (V)	+16%
Waste Connections (WCN)	+12%

Dividend growth is one aspect that we require of companies in the Castle Tandem Fund, but more importantly, it is the companies' ability to grow revenues, earnings, and cash flows to justify and sustain the growth of their dividend. With three quarters in the books and one left to go, the aggregate earnings growth expectation of our core holdings is 2.4% for 2023.

As has been the case for the past several years, the noise in the market will only grow louder throughout next year. Between the upcoming U.S. Presidential election, geopolitical tensions, and economic uncertainty, the deluge of news will be inescapable. Rather than focus on the news du jour, it is our job to stay focused on the task at hand – own growing companies and pay reasonable prices for them. As long as we remain steadfast in our discipline and approach, the noise will be just that... noise.

William "Billy" L. Little, Jr., CFA
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 Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. The Bloomberg US Aggregate Index is a bond index representing intermediate term investment grade bonds traded in the United States.

As of September 30, 2023 the Castle Tandem Fund held the following positions mentioned in this report: Amphenol (APH, 2.61% of Fund total net assets), Automatic Data Processing (ADP, 1.37% of Fund total net assets), Becton Dickinson (BDX, 2.29% of Fund total net assets), Brown Forman (BF.B, 1.76% of Fund total net assets), Brown & Brown (BRO, 1.85% of Fund total net assets), Hormel Foods (HRL,2,78% of Fund total net assets), Nike (NKE, 1.80% of Fund total net assets), Roper Technologies (ROP, 1.10% of Fund total net assets), Stryker (SYK, 2.49% of Fund total net assets), Visa (V, 3.48% of Fund total net assets), and Waste Connections (WCN,1.72% of Fund total net assets).

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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