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Joy Zheng joined New Frontier in 2018 as a Research Analyst after graduating from Boston University with a M.S. in Mathematical Finance. She is a member of the Investment Committee and her responsibilities include supporting the Investment and Research teams. Her interests include computational finance, quantitative analysis and risk management.

Q3 2023 Performance Review

October 26, 2023

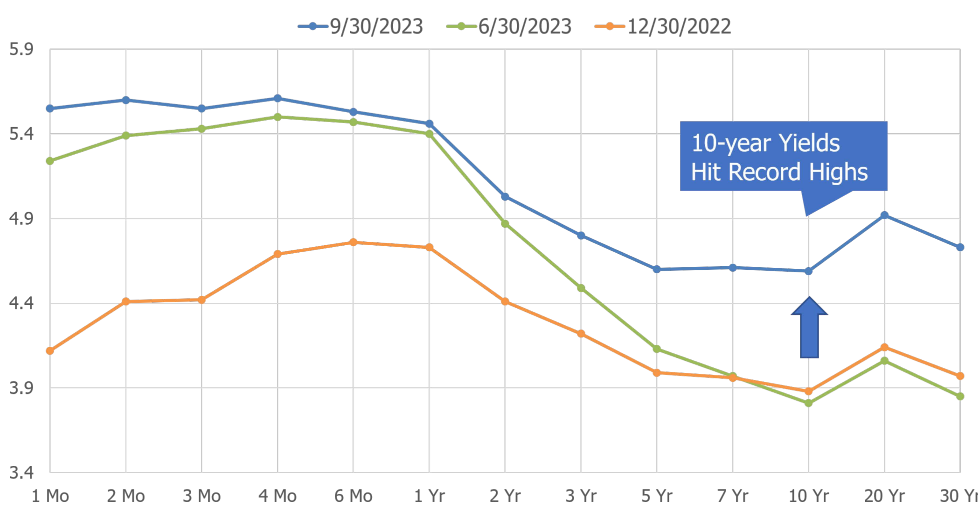
Key Takeaways

- Higher-for-longer rates drove up long-term rates, pushing the 10-year Treasury yield to its highest point since 2007, marking a significant rise.
- Equity markets fell after peaking in July, repricing recession risk.
- All risk assets declined this quarter, particularly long-duration bonds, resulting in negative returns across New Frontier's ETF portfolios.

Market Performance

While the Fed's decision to raise rates by 25 basis points in July and keep them steady in September aligned with market expectations, their surprising hawkish stance following September's meeting, implied fewer rate cuts in 2024 than previously projected, dramatically driving up long-term rates. The 10-year Treasury yield hit its highest level since 2007, having stayed below 4% in the year's first half.

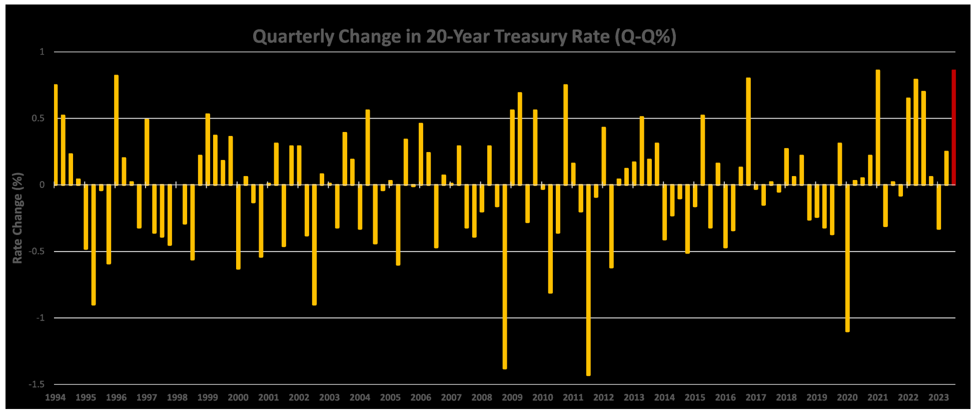
Rising Long-term Rates Reacting to the Fed's Higher-for-Longer Rates



Source: U.S. DEPARTMENT OF THE TREASURY

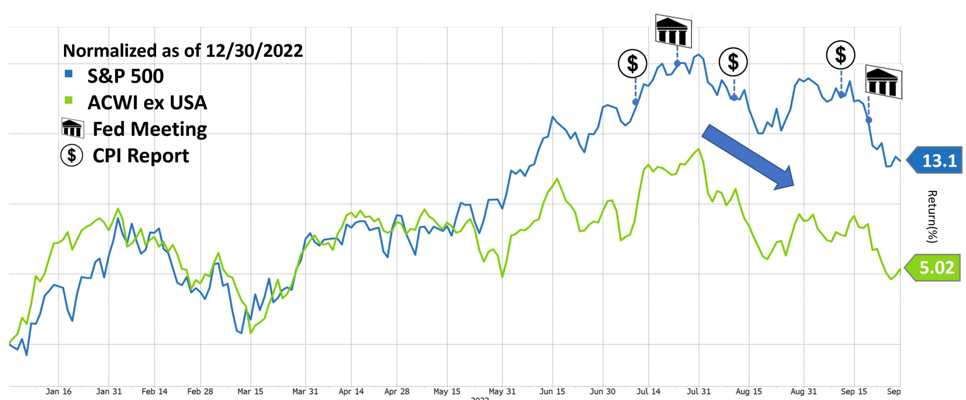
The spike in long-term rates during the third quarter, highlighted by an 86 bps increase in 20-year Treasury rates illustrated in red below, marked the largest rise since 1994. A comparable increase occurred during the first quarter of 2021 as a result of markets swiftly pricing in higher inflation expectation. However, this time, the higher long-term rates were primarily a result of an increased term premium, which represents the extra yield demanded for holding long-term bonds. Higher long rates lead to tighter financial conditions, slowing the economy, which could potentially substitute for Fed's future rate hikes if sustained.

Largest Quarterly Increase in Long Rates since 1994



Source: U.S. DEPARTMENT OF THE TREASURY

Below is a year-to-date overview of both US and international equity markets. They reached their peak at the end of July when soft landing optimism was at its highest. Following this, equity markets began to decline as they processed the various pieces of information regarding Fed policies and inflation data, bringing the discussion of a potential recession back to the table.

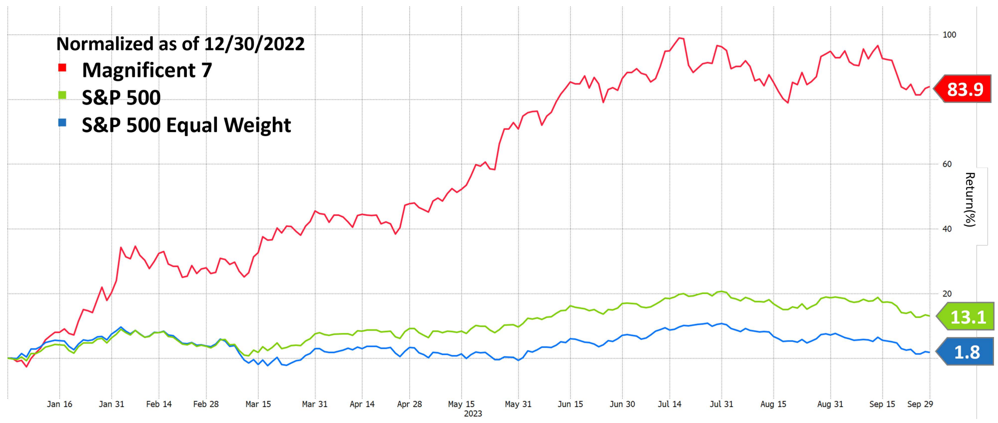


Source: Bloomberg

Equities Repricing Recession Risk

Although the performance of the Magnificent 7, which refers to the seven mega-cap US tech stocks benefiting from AI this year, has been muted this quarter, they still account for almost all the gains in the S&P 500 for 2023. As shown in the chart below, the red line represents the Bloomberg equal-weighted Magnificent 7 index, up 84% this year. Excluding their dominant contribution, the equally weighted S&P 500 has only seen a modest gain of 1.8% this year, less than even the return on cash. This level of concentration in the US stock market is historically unprecedented.

Concentration in the Stock Market



Source: U.S. DEPARTMENT OF THE TREASURY

Asset Class Performance

Equity:

Global equities fell 3.7% this quarter but are still up 10% for the year. US large-cap growth stocks, initially buoyed by AI enthusiasm in the first half of the year, lost momentum and trailed behind value stocks this quarter, although they still led by large margin on a year-to-date basis. Small caps also lagged behind large caps, with small-cap growth significantly detracting from the portfolio performance. Conversely, US low volatility stocks held up relatively well, providing stability for conservative risk profiles.

International markets echoed this decline on the back of strengthening dollar and weakening growth, with global ex-US equities losing 4.5%. European stocks fell by 5.6%, with Asia-Pacific and Emerging Markets seeing similar losses of around 3%. Additionally, exposure to US REITs was another main detractor from the portfolio performance during the quarter.

	Return(%) Q3	YTD
Global Equity	-3.72	9.94
Global ex-U.S. Equity	-4.49	5.02
U.S. Large Cap Value	-2.31	0.17
U.S. Large Cap Growth	-3.63	28.37
U.S. Small Cap Value	-3.04	2.15
U.S. Small Cap Growth	-6.64	7.31
U.S. Low Vol	-2.11	1.78
U.S. High Dividends	-3.70	-8.05
U.S. Real Estate	-8.58	-5.44
Gold	-3.83	1.07
Europe	-5.64	6.94
Asia-Pacific	-3.19	5.02
EAFE Min Vol	-3.38	4.59
Emerging Markets	-3.45	2.91
Intl. Small Cap	-3.38	4.76
ex-U.S. Real Estate	-3.14	-5.83

Source: Bloomberg. All ETFs are total return in US dollars. PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. Data as of 30 September 2023.

Fixed Income:

Bonds had a challenging quarter, adjusting to higher-for-longer interest rates. US Aggregate bonds fell 3.2%, leading to a 1% decline year-to-date. Long Treasury bonds were impacted significantly, losing 11.8% this quarter, erasing gains from the first half of the year.

On the other hand, bonds less sensitive to rate changes, including Treasury Floating Rate bonds, short-term Treasury, and short-term high yield ETFs, performed better, with gains up to 1.3%. International bonds fell due to a strengthening US dollar. Municipal bonds underperformed their taxable counterparts, making the taxable-equivalent yields of AAA municipal bonds now more attractive than those of Treasury bonds.

	Return(%) Q3	YTD
U.S. Aggregate Bonds	-3.22	-1.03
Treasury Floating Rate Bonds	1.34	3.83
Short Treasuries	0.68	1.67
Intermediate Treasuries	-1.94	-0.68
Long Treasuries	-11.82	-8.04
U.S. TIPS	-2.67	-0.68
Mortgage-Backed	-3.95	-2.11
Inv-Grade Corporates	-4.68	-0.62
Long Corporates	-7.46	-2.35
Short High Yield	0.64	5.53
High Yield	0.00	5.26
Municipal Bonds	-3.28	-1.10
Intl. Treasuries	-5.40	-4.23
Emerging Bonds	-3.47	0.79
Convertible Bonds	-2.48	7.81

Source: Bloomberg. All ETFs are total return in US dollars. PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. Data as of 30 September 2023.

Portfolio Performance

All New Frontier's ETF portfolios experienced negative returns in the third quarter, reflecting a broader decline in nearly all risk assets. The table below shows net-of-fees performance for Global Core, Tax-Sensitive and Multi-Asset Income ETF portfolios across various time frames.

Focusing on the Global Core and Tax-Sensitive portfolios, three highlights include:

- While cash outperformed all risky bonds this year, our portfolios with shorter durations were more resilient to rate changes compared to US Agg bonds.
- Our portfolios, less concentrated in large-cap growth compared to the S&P 500 or ACWI due to a diversified exposure to international and small-cap stocks, resulted in less pronounced returns this year.
- Alternative exposure to REITs and gold did not help this year, yet they could be beneficial for risk hedging amid an uncertain outlook.

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Dividend-focused equities performed in line with the broader equity markets this quarter, though lagging on a year-to-date basis. Our Multi-asset Income portfolios benefited from diversified exposure to a wide range of high-dividend funds across various markets, with Emerging Market dividends particularly contributing to the relative performance this quarter. Currently, our portfolios yield over 5%.

Global Core	Stock/Bond	QTD	YTD	1Y	3Y	5Y	10Y	Inception Date
Global Income	20/80	-1.81	1.88	5.67	-1.19	1.68	2.42	10/31/2004
Global Balanced Income	40/60	-2.81	2.71	8.48	-0.22	2.82	3.98	10/31/2004
Global Balanced	60/40	-3.33	3.89	11.35	1.50	3.79	5.19	10/31/2004
Global Balanced Growth	75/25	-3.59	4.85	13.42	3.09	4.41	5.90	10/31/2004
Global Growth	90/10	-3.81	5.91	15.44	4.77	4.96	6.52	10/31/2004
Global Equity	100/0	-4.02	6.52	16.34	5.29	5.06	6.72	10/31/2004
Global Tax-Sensitive	**Stock/Bond**	**QTD**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**	**Inception Date**
Global Income (TS)	20/80	-3.03	-0.29	3.86	-1.51	1.34	2.40	10/31/2004
Global Balanced Income (TS)	40/60	-3.66	1.10	6.95	0.10	2.51	4.05	10/31/2004
Global Balanced (TS)	60/40	-3.88	2.93	10.25	1.91	3.50	5.25	10/31/2004
Global Balanced Growth (TS)	75/25	-3.96	4.40	12.80	3.38	4.21	5.97	10/31/2004
Global Growth (TS)	90/10	-3.97	5.95	15.40	4.86	4.86	6.62	10/31/2004
Global Equity (TS)	100/0	-4.04	6.92	16.82	5.44	5.13	6.86	10/31/2004
Multi-Asset Income	**Stock/Bond**	**QTD**	**YTD**	**1Y**	**3Y**	**5Y**	**10Y**	**Inception Date**
Multi Asset Income Conservative	40/60	-1.78	0.64	7.40	1.70	2.47	3.88	6/30/2012
Multi Asset Income Balanced	60/40	-2.24	0.18	9.06	4.01	2.96	4.51	6/30/2012
Multi Asset Income Growth	75/25	-2.30	-0.15	10.22	5.85	3.26	4.79	6/30/2012

*New Frontier performance is net of platform and strategist fee as of 9/30/2023. See disclosures for additional information.
PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

Conclusion

Efforts to sustainably bring down inflation stalled in Q3, indicating that the path to reach the 2% target remains bumpy. Both bond and equity markets had a harsh reality check during the quarter grappling with the Fed's commitment to keep higher rates for longer. While holding cash has been appealing, it's crucial to consider how to effectively employ cash within the broader context of an efficient portfolio. Remember to remain aware of concentration risks and stay committed to the diversified core solution.

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Disclosures

The performance of New Frontier indices is calculated by S&P Dow Jones Indices. Since these are not investable securities, the performance does not include trading costs or advisor fees.
The benchmark for the global indices blends the MSCI ACWI IMI NR (stocks) and FTSE Treasury Bill 3 Month USD (bonds).

The benchmark for the U.S. indices is comprised of stock/bond ratio blend of S&P 500 NR USD (stocks) and FTSE Treasury Bill 3 Month USD (bonds). Index calculation is based on New Frontier's full transaction history beginning October 29, 2004 for the global indices and June 6, 2019 for the U.S. indices. †Yield information is provided by Morningstar for individual underlying assets. New Frontier Advisors, LLC ("New Frontier") is retained as a portfolio strategist ("Strategist") to provide model portfolios. Model portfolios are provided either (1) to registered investment advisors or broker-dealers ("Financial Advisors") through third-party asset management platforms ("Sponsors"), or (2) to individual clients where New Frontier acts as subadvisor to the client's Financial Advisor and accesses the client's account through a qualified custodian ("Custodian") to execute the model portfolio's transactions. New Frontier does not provide investment advisory services tailored to the individual needs and objectives of any investor. New Frontier acts solely as subadvisor, strategist, model provider, and/or model manager, and its relationship with any investor is limited to a subadvisory role working with the investor's Financial Advisor. Investors should consult with their Financial Advisor if they have any questions concerning the information provided here.

The performance shown here is the performance of New Frontier's model portfolios on Sponsors. Returns from inception of the taxed profiles on October 29, 2004 until July 1, 2009 (except for 20/80 which switched on October 1, 2010 and 40/60 which switched on January 1, 2010) and the inception of the MAI profiles on July 1, 2012 until October 1, 2012 for the 40/60 and 60/40 profiles or April 1, 2013 for the 75/25 profile do not reflect the actual investment results of any individual investor, as investor-level data is not available for those periods. Therefore, these returns represent the performance of a hypothetical investor's account whose assets were managed in line with the model portfolios during that period, assuming the model portfolio's signals were promptly implemented. Actual investors' performance results for those periods would have varied based upon the timing of contributions and withdrawals from individual accounts. Since the switching date when investor-level account data became available, performance results are a weighted average of actual investor returns in accounts following each model portfolio offered by New Frontier. Returns in excess of one year are annualized. New Frontier acquires gross of fees monthly composite performance data of the accounts invested in each model portfolio at each Sponsor and weights the returns according to each Sponsor's assets under management for that model. Some Sponsors provide insufficient performance information for New Frontier to include them in the weighted average. On the account level, each Sponsor sets the criteria for account exclusion and rules for return calculation. We consider our partner Sponsors to be reliable sources of information, but we are unable to warrant that the data will be complete or error-free as we do not have direct access to individual account data at any of our Sponsors. We also track our model portfolios using publicly available ETF prices as an outside check on Sponsor data.

The performance shown is net of underlying ETF fees and trading fees, and we deduct estimated Strategist and Sponsor fees from the historical data provided by our Sponsors at the highest fee rate reflected by an account in the composite for that Sponsor. Fees are subtracted on a quarterly basis, so performance for a period of less than one quarter may not show the full impact of fees. This includes reinvestment of income and deductions for transaction costs. It does not include advisory fees that may be charged by individual Financial Advisors, which may range as high as 2% per year, or custody fees. On one small platform, the custody fees are deducted since they are not separated from the Sponsor fee. Thus the reported performance does not reflect the compounding effect of any such fees.

The performance displayed here does not guarantee future results. As market conditions fluctuate, the investment return and principal value of any investment will change. Diversification may not protect against market risk. There are risks involved with investing, including possible loss of principal. Volatility represents the expected risk of the portfolio relative to major asset classes. Before investing in any investment portfolio, the investor and Financial Advisor should carefully consider the investor's investment objectives, time horizon, risk tolerance, and fees. The Financial Advisor assumes full responsibility for determining the suitability and fitness of each portfolio for their clients.

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