Monthly Market Views

International Private Banking Division

AUGUST 2023

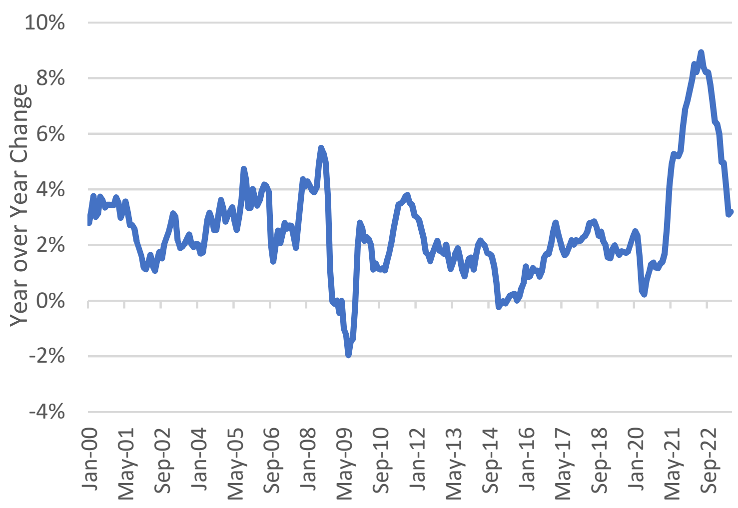
After raising rates[1] to a target of 5.5% over the past year and a half, the US Federal Reserve may be on the cusp of a regime change. With inflation decelerating and the US economy continuing to grow, the probability that the US Fed Funds rate has peaked appears high.

Rising interest rates have been a mixed blessing for investors. On one hand, they have broadly decreased the value for duration sensitive assets. On the other hand, they have made today's environment ripe with opportunities for earning returns on capital; for risk-free investments like US Treasury Bills, at rates not available since the early 2000's. Based on an expectation of a flat or decreasing rate environment, a barbell allocation that combines short-term and long-term investments could be prudent.

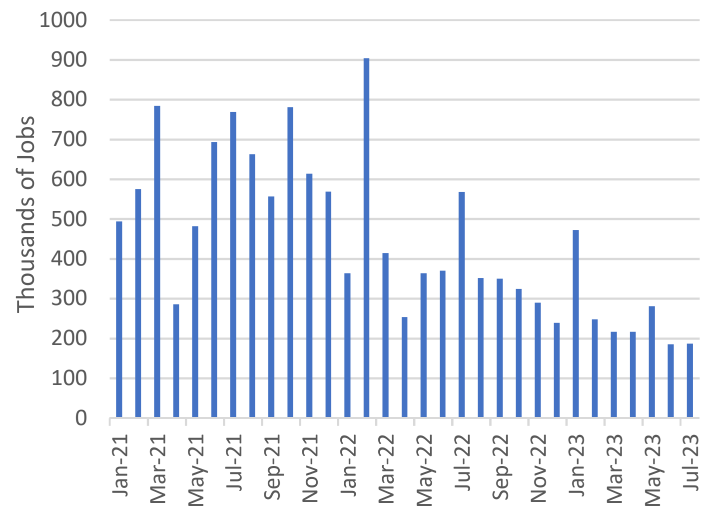
The economic consequences of the US Federal Reserve's interest rate hikes over the past year and a half were always uncertain. Prevailing views throughout this period have oscilated between hard & soft economic landing scenarios. Ranging from 1) Inflation is engrained in expectations and will require a significant economic downturn to revert to pre-covid trend, to 2) Inflation is temporary and can revert to near pre-covid trend with modest economic pain.

Monetary policy always operates with a lag, so there is still a great deal of uncertainty about the ultimate effects of past interest rate hikes. However, based on recent data on inflation, which is down to the low 3% range (Exhibit 1[2]), and employment, with job growth remaining positive (Exhibit 2[3]); we believe that as of now a soft-landing scenario, like #2 above, is a more likely outcome.

Consumer Price Index for All Urban Consumers (Exhibit 1)

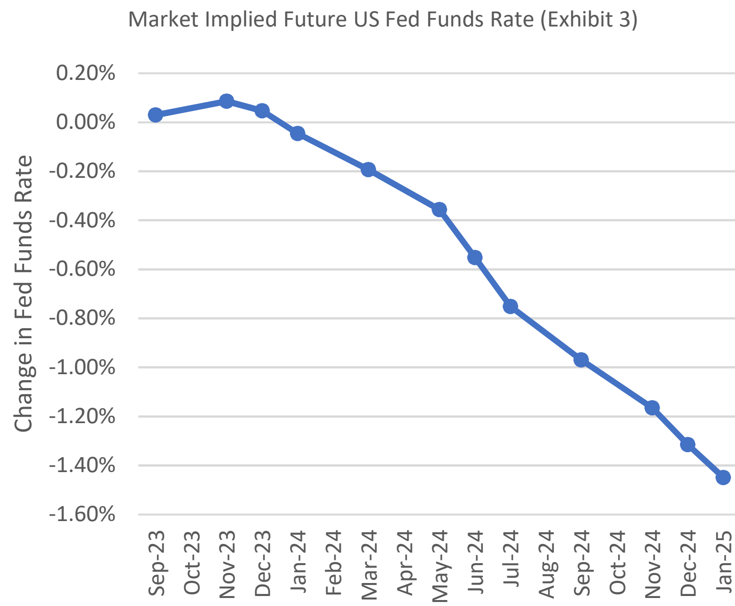


US Nonfarm Employment Growth (Exhibit 2)



[1] Fed Funds Rate
[2] Source: Federal Reserve Bank of St. Louis, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average, Percent Change from Year Ago, Monthly, Seasonally Adjusted
[3] Source: Federal Reserve Bank of St. Louis, All Employees, Monthly change in Nonfarm, Thousands of Persons, Monthly, Seasonally Adjusted

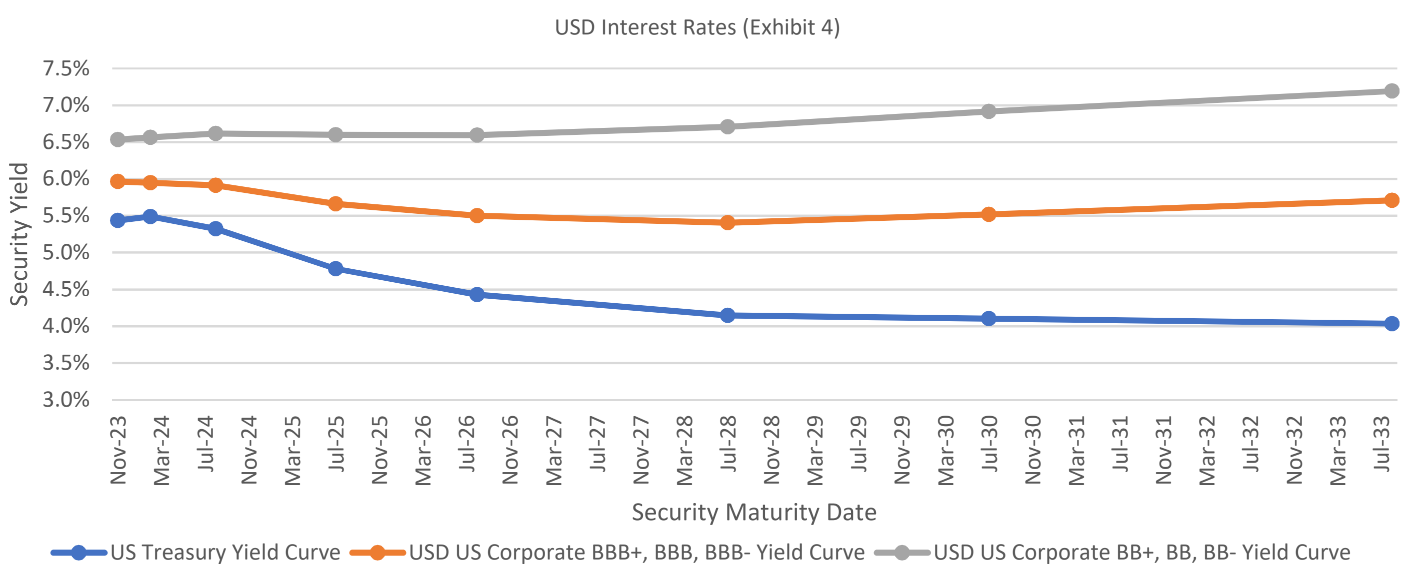
These trends in employment and inflation have also resulted in markets re-pricing their expectations for future rate hikes. While market rate projections tend to change often and should not be relied upon too much, they do provide a useful perspective into the positioning of the average market participant. Fixed income markets are currently pricing in just a slight chance for additional rate hikes (exhibit 3[4]), and a steady decline in rates going forward.



Coming back to how investors can think of their portfolios and market opportunities.

There is a general bifurcation in today's interest rate environment (Exhibit 4[5]); with risk-free and investment-grade bonds having an inverted term structure (shorter term bonds yield more than medium term bonds), and high-yield bonds having a positive term structure (longer term bonds offer higher yields).

Our preferred strategy in this environment involves what is sometimes called a "barbell approach". Essentially building a portfoio that combines shorter term (1-2 year bonds) with longer term (8 years+), underweighting or forgoing investment in medium term bonds. The precise allocation would of course need to be based on personal suitability; but the overall strategy allows investors to harness today's high short-term yields, while also allowing investors to lock-in historically elevated longer-term rates.



[4] Source: Bloomberg Terminal, 8/10/2023
[5] Source: Bloomberg Terminal, 8/10/2023

Economic Overview

	GDP Forecast (2023)	GDP Forecast (2024)	Inflation Forecast (2023)	Inflation Forecast (2024)	IG Credit Downgrade
Argentina	-2.1%	0.0%	116.4%	112.2%	N/A
Brazil	2.2%	1.5%	4.8%	4.1%	N/A
Chile	-0.1%	2.0%	7.8%	3.8%	Low
Mexico	2.4%	1.5%	5.6%	4.0%	Medium
Peru	1.6%	2.5%	6.6%	3.5%	Low
Uruguay	1.0%	2.6%	6.5%	6.5%	High
Israel	2.8%	3.3%	4.3%	2.8%	Very Low
USA	1.6%	0.6%	4.1%	2.5%	Very Low

Data Source: Bloomberg Terminal, as of August 6, 2023

Market Overview

Equity		Foreign Exchange		Fixed Income	
S&P 500 Index	17.8%			Global High Yield	6.8%
Nasdaq Composite	32.2%	USD	-0.9%	Global IG Cor: 50%	3.3%
Euro Stoxx 50 Pr	19.0%	EURUSD	2.6%	US Corp. High Yield	6.6%
FTSE 100 Index	5.0%	GBPUSD	5.0%	Corporate (USD)	2.7%
Nikkei 225	25.9%	USDJPY	-9.4%	EM High Yield	5.7%
Hang Seng Index	0.0%	USDCNY	-4.4%	Investment Grade	2.8%
Brazil Ibovespa Index	8.1%	USDBRL	8.3%	Treasuries	0.4%
S&P Merval Tr Ars	132.4%	USDARS	-38.1%	U.S. Treasury	0.9%
S&P/Bmv Ipc	13.1%	USDMXN	14.8%	Sovereign	4.9%
MSCI ACWI	15.1%			Global Aggregate	1.4%

Data Source: Bloomberg Terminal, as of August 6, 2023

Chief Investment Officer, IPB
Alex Polshikov
+1-212-551-8297
APolshikov@IDBNY.com

IMPORTANT DISCLOSURES

This Monthly Market View (“Communication”) is produced by Israel Discount Bank of New York (“IDB Bank”). IDB Bank is a registered service mark of Israel Discount Bank of New York.

The opinions are those of the Bank’s International Private Banking division and are made as of the date of this commentary, and are subject to change without notice. There is no guarantee these opinions will come to pass. Other Affiliates and Bank divisions may have opinions that are different from and/or inconsistent with the views expressed herein.

This commentary is for our clients’ general information. It does not take into account the particular investment objectives, financial situation, or needs of individual clients and does not contain investment recommendations. It is not an offer or solicitation to buy or sell any securities or to adopt any investment strategy. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by the Bank to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. Past performance is no guarantee of future results. Investment involves risks. International investing involves additional risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments.

Investment Products:

<table>
<tr><td>Are Not FDIC Insured</td><td>Are Not Bank Deposits</td><td>Are Not Bank Guaranteed</td></tr>
<tr><td colspan="2">Are Not Insured by Any Federal Government Agency</td><td>May Lose Value</td></tr>
</table>