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Commerce Concepts

Market Updates, Asset Allocation, and Investment Education for Plan Participants and Individuals

Taking a Look at Target Allocation Funds

An asset allocation fund provides a bundled, diversified portfolio of investments intended to be suitable for investors of a given age and/or risk tolerance. In the world of asset allocation funds, there are basically two choices available: target date or target risk. They may look very similar, but there's one important difference: target risk funds maintain a static risk outlook, while target date funds may change significantly over time.

What is a target date fund?

Target date funds offer an all-in-one way to manage retirement savings, asset allocation, and diversification. They have become a staple of workplace retirement plans, where they are often the default investment option for new employees. They are also a common option for IRAs and 529 college savings plans.

A target date fund is based on (and named after) the approximate year when an investor plans to start withdrawing money. In a retirement plan, that date is the anticipated retirement date. In a college savings account, it's the year a child will enter college.

As the target date grows closer, the mix of investments in the fund becomes more conservative. By shifting its portfolio allocations over time, a target date fund helps investors manage risk automatically.

Two types of target date funds

The formula that determines how the fund's asset mix will change over time is referred to as a "glide path." There are two approaches the glide path formula may take, commonly referred to as "to" and "through."

In a "to" fund, the glide path ends at the target date. In a "through" fund, the mix of assets tends to shift more gradually, and continue to change beyond the target date. "Through" funds tend to hold a larger percentage of stocks for longer periods of time, which may make them riskier options in the short term. However, it may also give them the potential for greater returns at and after the target date (such as when a person has entered retirement but may still be slowly drawing from the fund for many more years).

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Michelle H. of Western Pacific Building Materials

Visit thecommco.com/commerce-concepts for the answer to last issue's question.

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Retirement & Investment Services

Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends. See page four for index definitions.

Source:
Raymond James Financial Services

Market Update

Through June 30, 2023

		Trailing Returns			
		3 mos	12 mos	5 yrs	10 yrs
Blue Chip US Stocks	Dow Jones Industrial Average	3.97%	14.23%	9.59%	11.26%
Large Company US Stocks	S&P 500	8.74%	19.59%	12.31%	12.86%
Small Company US Stocks	Russell 2000	5.21%	12.31%	4.21%	8.26%
Non-US Stocks	MSCI EAFE (Gross Div)	3.22%	19.41%	4.90%	5.91%
US Bonds	Bloomberg US Aggregate	-0.84%	-0.94%	0.77%	1.52%
Cash Alternatives	ICE B of A 3 Month US Tsy Bill	1.17%	3.59%	1.55%	0.98%

To be entered into a drawing to win a

$25 Gift Card,

email free@thecommco.com with the answer to this question:

Which target date fund is likely to hold more stocks: one that goes "to" its target year, or "through" the same year?

Economic Snapshot

Gross Domestic Product (GDP)
GDP growth is expected to continue to moderate over the next several quarters and we expect recession to start in 4Q23.

Housing and Construction
The housing market is no longer falling. However, we expect the sector to remain weak in the coming quarters, as high mortgage rates and affordability challenges reduce the pool of potential buyers.

Manufacturing
Manufacturing output, as measured by the Manufacturing Production Index, has remained positive but weak.

Employment
Nonfarm payrolls have remained strong during the first half of the year, but we expect the labor market to cool during the second half.

Monetary Policy
We expect at least one more hike before interest rates reach a terminal rate, where they should remain for several months.

Inflation
Inflation is likely to continue to slow as economic activity weakens in the second half of the year. Furthermore, we expect shelter costs to slow down considerably and push headline inflation lower.

Investment Strategy Quarterly: Published by Raymond James and Associates, July 2023. For a complete PDF copy of the current issue of Investment Strategy Quarterly, click here or email newsletter@thecommco.com.

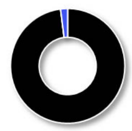
June Market Review

- Equities capped off a remarkable first half of the year by continuing to gain value even as the Federal Reserve (Fed) signaled that its inflation fighting program could yield two more rate increases in 2023. But with a long-expected recession still failing to appear, investors seemed to focus, instead, on the possibility of a pain free untying of 2022's post-COVID tangles. For example, the tech-heavy NASDAQ saw its best first half of the year in four decades, rising almost 30% year to date.
- Despite the market gains, near-term caution is warranted. Yield curve inversions – when short-term bond yields are higher than long-term yields – can be an indicator of a looming recession. The average depth of the last four inversions that signaled coming recessions was -60 basis points (bps) when comparing yields on 10-year Treasurys to 3-month Treasury bills. We currently sit at -172 bps and this could get steeper if the Fed follows through with raising interest rates.
- The length of inversion may signal a more meaningful degree of impact on the economy than the depth does. Before the last four recessions, the average time the yield curve was inverted was 189 days. At 247 days through June 30, the length of the current inversion is well past the average.

For additional asset allocation and disclosure information, please [click here](#) or visit the Resources section of our website at [thecommco.com](#)

Strategic Asset Allocation Models

As of July 2023

Equities Fixed Income Cash Alternatives					
	Conservative	Moderate	Balanced	Growth	Aggressive
Equity	**30%**	**48%**	**63%**	**77%**	**98%**
Equity allocation comprises:					
U.S. Large Cap Blend	20%	22%	27%	32%	45%
U.S. Large Cap Growth	0%	3%	5%	7%	8%
U.S. Large Cap Value	0%	3%	5%	7%	8%
U.S. Mid Cap Equity	4%	7%	9%	11%	13%
U.S. Small Cap Equity	1%	3%	5%	7%	8%
Non-U.S. Developed Market Equity	5%	10%	8%	9%	11%
Non-U.S. Emerging Market Equity	0%	0%	4%	4%	5%
Fixed Income	**68%**	**50%**	**35%**	**21%**	**0%**
Fixed income allocation comprises:					
Investment Grade Intermediate Maturity	58%	41%	31%	21%	0%
Investment Grade Short Maturity	0%	0%	0%	0%	0%
Non-Investment Grade (High Yield)	7%	6%	4%	0%	0%
Non-U.S. Fixed Income	3%	3%	0%	0%	0%
Multi-Sector Fixed Income	0%	0%	0%	0%	0%
Alternative Investments	**0%**	**0%**	**0%**	**0%**	**0%**
Cash & Cash Alternatives	**2%**	**2%**	**2%**	**2%**	**2%**
Totals	**100%**	**100%**	**100%**	**100%**	**100%**

These asset allocation targets are based on our changing views of the risk and return in the various asset classes, looking out over three or more years. The models assume fully allocated portfolios and do not take into account outside assets, additional cash reserves held independent of these models, or any actual investor's unique circumstances. Investors should consult their financial advisor to decide how these models might assist in the development of their individual portfolios. Material is provided for informational purposes only and does not constitute a recommendation.

The investment profile is hypothetical, and the asset allocations are presented only as examples and are not intended as investment advice. Asset allocation and diversification do not assure a profit or protect against loss. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in small- and mid-cap stocks generally involves greater risks, and therefore may not be appropriate for every investor. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Real estate investments can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

Index definitions: The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The ICE BofAML 3-Month US Treasury Bill index consists of a single issue that is purchased at the beginning of the month and held for a full month. At month's end, that issue is sold and rolled into a newly selected issue, which is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. The selected issue must have settled on or before the month-end rebalancing date. Past performance may not be indicative of future results. An investment cannot be made in these indexes. The performance mentioned does not include fees and charges, which would reduce an investor's returns.

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the commerce company
Retirement & Investment Services

5440 SW Westgate Drive, Suite 110
Portland, OR 97221
thecommco.com

tel 503-203-8585
fax 503-203-8590
toll 800-203-8510

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Regardless of whether they are designed on a "to" or "through" basis, funds with the same target date can have different glide paths. For example, there could be significant variations in the stock allocations of funds that are nearing the same target date. Their underlying investment holdings, turnover rates, fees, and performance may also vary.

Target date funds offer convenient automatic rebalancing and can be a good choice for younger or inexperienced investors, or those who prefer a hands-off strategy; however, hands-on investors or those nearing retirement may prefer a more customized investment portfolio.

What are target risk funds?

In contrast to target date funds, target risk funds are designed to invest at a certain degree of risk, which does not change over time. Funds are generally given labels such as conservative, moderate, growth, or aggressive, and investors select their portfolio based on their preferred level of risk. Each fund contains a diversified mix of investments tailored to the targeted risk tolerance. While the underlying investments in a target risk portfolio may change, the overall asset allocation is intended to remain at the specified risk level and does not grow more conservative over time.

If you choose to invest in a target risk fund, it's good practice to periodically assess your risk tolerance to determine if the portfolio's allocation is still appropriate for your financial goals and situation.

Target date and target risk funds both give investors a simple, but not customized, way to maintain a diversified investment portfolio. If you have any questions about whether target date or target risk funds are right for you, or if you'd like to discuss your portfolio's allocation or risk level with a financial advisor, email us at newsletter@thecommco.com.