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Market Flash Report

September 2023

Key Takeaways

- Market News: US stocks had their worst month of the year in September and Q3 was the first negative performing quarter since Q3 2022. This pullback came in response to the Fed's message that interest rates are set to stay higher for longer than previously anticipated. The S&P 500 and Nasdaq were down -3.3% and -3.9% for the quarter.
- Small Caps: The Russell 2000 fared even worse, down -5.1% for the quarter as health care, telecom, and utilities were all down double digits. The small cap index is down almost -11% from its peak at the end of July.
- Energy: Oil prices surged close to 30% during the quarter. As a result, commodities had their strongest quarter since Q1 2022 and Natural Resource equities were among the top performers for Q3.
- Bonds: While the short end of the treasury yield curve moved very little during the quarter, the long end moved substantially. The 10-year treasury yield jumped almost +75 bps during Q3. As a result, bonds (other than high yield) were negative for a second straight quarter.
- Currency and Foreign Stocks: The U.S. dollar climbed over +4% the last two months, dragging down returns of international equities for U.S. domiciled investors. In local currency terms, the MSCI EAFE Index dropped less than -1%, however, in USD terms, fell approximately -4%.

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Index Performance (as of 9/30/2023)

Equity	Q3 2023	One-Year	Three-Year
U.S. Large Cap	-3.3%	21.6%	10.2%
U.S. Small Cap	-5.1%	8.9%	7.2%
Developed Non-U.S.	-4.0%	26.3%	6.3%
Emerging Market	-2.8%	12.2%	-1.3%
Real Assets			
Real Estate	-4.6%	3.6%	0.6%
Commodities	4.7%	-1.3%	16.2%
Natural Resource Equities	8.1%	24.1%	32.8%
Fixed Income			
Core Plus			
U.S. High Yield Debt	0.5%	10.3%	1.8%
Emerging Market Debt	-3.2%	14.9%	-1.9%
Core Bonds			
U.S. Aggregate Bonds	-3.2%	0.6%	-5.2%
U.S. Treasuries	-3.1%	-0.8%	-5.8%
U.S. Municipal Bonds	-2.2%	2.3%	-1.4%

Month-End Values/Yield	Current	Prior Month	One-Year
CBOE Volatility Index	17.5	13.6	31.6
10-Year Treasury Yield	4.6%	4.1%	3.8%

Sources: Bloomberg, Morningstar, treasury.gov. S&P Dow Jones Indices.

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved. Returns over one year have been annualized.

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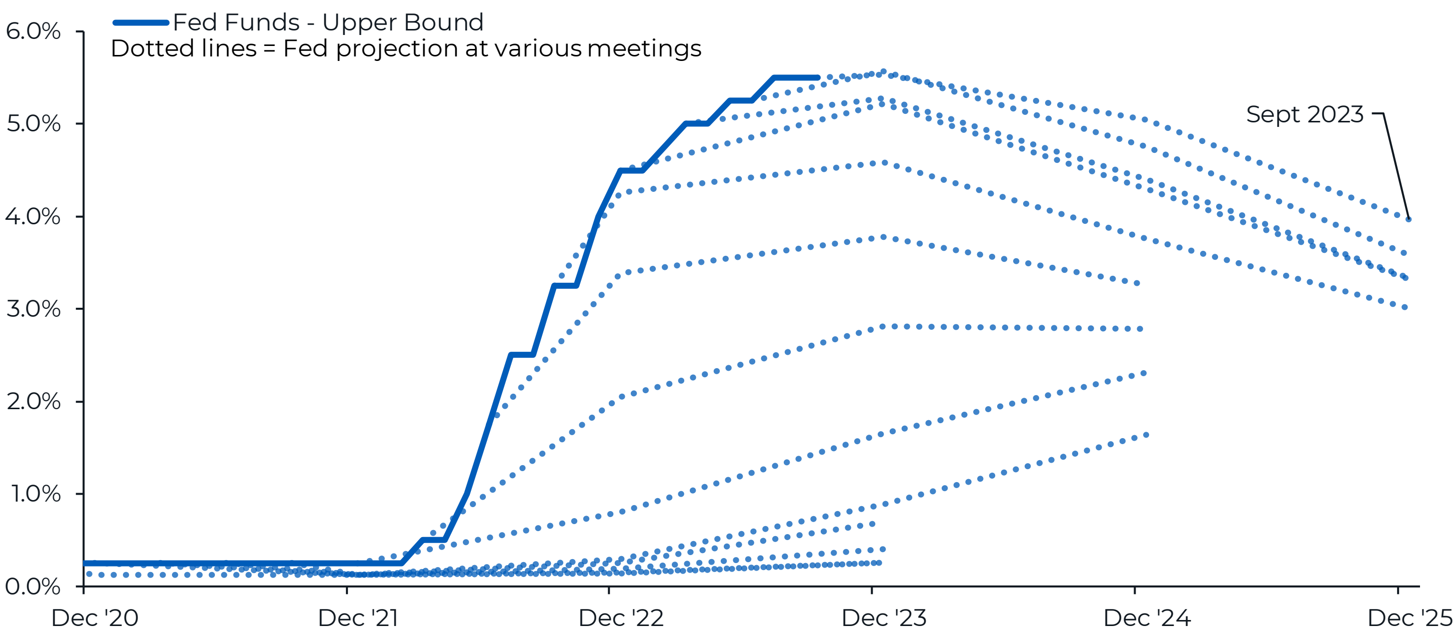
Quarterly Commentary

- Monetary Policy: The FOMC lifted the fed funds rate to an upper bound of 5.50% in July and then held rates at that level in September. Both votes were unanimous, suggesting that all members are on the same page in terms of policy. In their Summary of Economic Projections, the Fed highlighted that they believe interest rates will need to be at elevated levels for longer than once anticipated to combat inflation and bring growth down to normalized levels. The 10-year treasury rose to a 16-year high of 4.8% (from 4.4% prior to September's meeting) and the national average mortgage rate moved to 7.9% from 7.6% despite leaving the Fed Funds rate unchanged.
- Inflation: Consumer prices rose +3.7% YoY in August, up from +3.2% in July and +3.0% in June. Oil prices per barrel jumped into the $90s in September, up from just under $70 in early July. Higher energy prices contributed to a larger reading for August at +0.6% MoM. Core CPI (less food and energy sectors) is stilling running hot but is down to +4.3% from +4.8% in June. Shelter costs remain the outlier anchoring inflation readings higher due to its large weighting. However, the year-over-year reading has cooled steadily from its peak in March. August was the lowest month-over-month change for shelter costs since January 2022 at +0.3%.
- Labor Market: The U.S. economy added 336,000 jobs in September which was more than the largest estimate and the first month since January to deliver greater than 300,000 net jobs added. The two-month net revision in payrolls also bucked a trend of negative adjustments as August and July were revised higher by a combined 119,000. Jobless claims and continuing claims are hovering around 8-month lows at 207,000 and 1.66m. A strong labor market could continue to push bond yields higher.
- Housing: While home sales are well off their peak in late 2020, new home sales have found a resurgence this past year, up +6% whereas existing home sales are down -15% YoY. Home prices hit new highs in July and are up over +5% in 2023 despite poor demand. High mortgage rates have kept inventories close to multi-decade lows, keeping prices in line.
- Credit: Many might have forgotten that the U.S. government's credit rating was cut by Fitch during the quarter and Moody's declared that they might cut their rating if the government shuts down. While sovereign CDS spreads are down from last year (a measure of gov't default risk), the U.S. remains higher than other developed countries at 48.4 bps vs 33 bps for the UK, 30.7 for France, and 22.7 for Germany. A gov't shutdown has been avoided for now, but the next deadline is November 17th.

Fed's rate projections have moved steadily higher and markets reacted in Q3



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