Quarterly Market Review

Third quarter 2023

Market Commentary

September Recap and October Outlook

“High-Pressure Equilibrium” and a New Era of Uncertainty

The outcome of the Fed's meeting in September was to hold rates at the current level. It has been described as a "hawkish pause," and the Fed was clear in post-meeting remarks and statements that one more increase is still possible in 2023.

Regarding the impact on the economy, markets, and consumers, a terminal rate that includes one more increase is less important than the messaging that rates will be higher for longer. Fewer (if any) cuts next year will mean pressure on businesses and consumers, and with inflation still at twice the Fed's preferred level, the impact of this new reality is unknown.

The post-2008, pre-pandemic era of low rates, low inflation, and ever-expanding values is firmly in the rearview mirror. The term used by one regional Fed president for what we're seeing now is "high-pressure equilibrium," where low unemployment and positive growth co-exist in tension with inflation that is above the Fed’s long-term target of approximately 2%.

Let's get into the data:

- **Consumer spending dropped vs. last month.** The Commerce Department reported personal incomes rose 0.4% in August, while consumer spending rose 0.4%. This is a decrease from July’s bump of 0.8%.
- **GDP expectations were revised up.** The Federal Reserve now expects 2023 GDP to increase 2.1%. In June, this number was 1.0%.
- **The personal savings rate rebounded a bit in August.** The Bureau of Economic Analysis reported a 3.9% rate.
- **The average 30-year fixed mortgage rate hit 7.53% at the end of September**, according to the Mortgage Bankers Association.

What Does the Data Add Up To?

A soft landing for the economy looks increasingly possible, but the economic plane doesn’t seem to be landing in the same country it took off from. For the first time since the recovery after the Global Financial Crisis really took hold, we may be seeing a lasting change that results in a new cycle.

If the Federal Reserve maintains the higher-for-longer position on interest rates, it will begin to have lasting implications. The FOMC meeting's Dot Plot of expectations for interest rates in 2024 showed an expected rate of 5.1%, up from 4.6% in June 2023. This implies two interest rate cuts instead of the four that were previously expected. Much tighter money supply over a longer period of time will likely result in pressure on companies that rely on infusions of capital to fund day-to-day operations as well as growth.

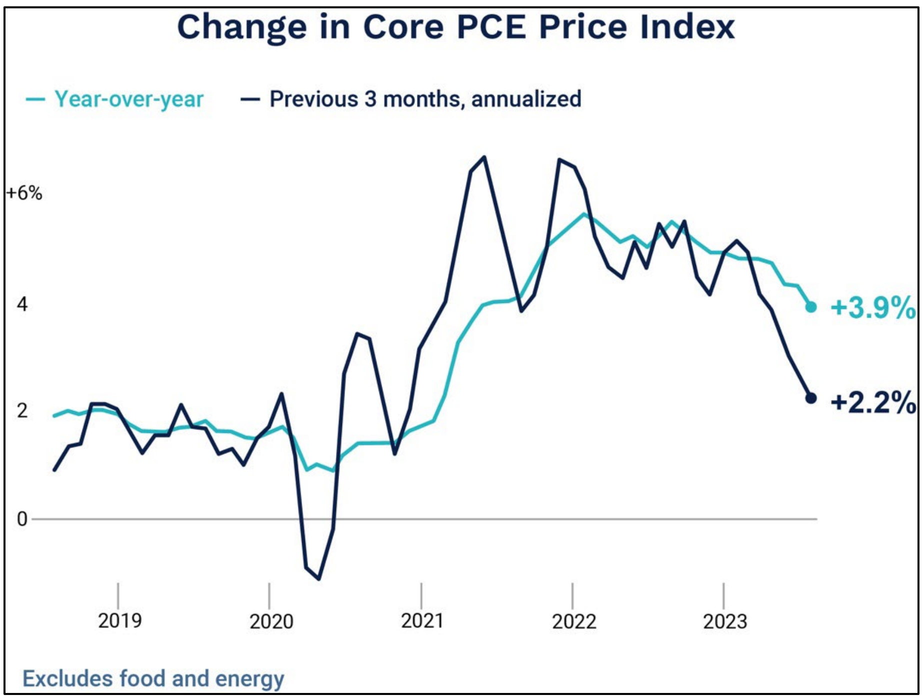
As we face what could be a new economic reality, we see a consumer who has apparently reached the end of the excess savings accumulated during the pandemic. The Federal Reserve Bank of San Francisco recently calculated that excess savings (defined as savings beyond what might be expected based on pre-pandemic trends) peaked in August 2021 at $2.1 trillion. This number had declined to less than $190 billion by the second quarter of 2023. However, Fed economists aren't the only ones analyzing this data; other results aren't as dire.

The reason savings matter is that consumer spending fuels the economy. It accounted for 68.3% of GDP as of June 2023, according to the Federal Reserve Board of St. Louis. A consumer without excess savings to spend may curtail expenditures, putting downward pressure on the economy. So far, this hasn't happened. But with the credit card balances topping $1 trillion, the cost to consumers of the ongoing spending spree is going up.

Besides business and personal balance sheets, another area of vulnerability is heightened uncertainty. A government shutdown was barely avoided at the end of September, and the short window to get an agreement on spending is beginning with chaos following an unprecedented removal of the House speaker.

Chart of the Month: The Personal Consumption Expenditures Index Is Telling a Positive Story

The Federal Reserve prefers to look at the PCE Index rather than CPI. PCE shows a normalizing in inflation levels over the last three months.



Source: U.S. Bureau of Economic Analysis. Chart: Axios Visuals

Equity Markets in September

- The S&P 500 was down 4.87%
- The Dow Jones Industrial Average fell 3.50%
- The S&P MidCap 400 declined 5.42%%
- The S&P SmallCap 600 was down 6.16%

Source: S&P Global. All performance as of September 30, 2023

The received wisdom about the equity market is that it hates uncertainty, but it doesn't seem too keen on Chairman Powell's efforts to convey how certain the Fed is that rates will not be going down soon. After a strong recovery from the bottom of the market on October 12, 2022, it was looking possible that a new bull market had begun. With another month of declines, the bear may not be ready to hibernate yet.

Ten of eleven sectors declined over September, and as of September 29, 499 issues had reported, with 76.2% beating estimates on earnings.

Bond Markets

The 10-year U.S. Treasury ended the month at a yield of 4.58%, up from 4.11% the prior month, reflecting the market's move to "risk off." The 30-year U.S. Treasury ended September at 4.71%. The Bloomberg U.S. Aggregate Bond Index returned -2.54%, with a year-to-date return of -1.20%.

The Smart Investor

A new cycle means that it's a good time to review your balance sheet, your financial goals, and your portfolio. Confirm your emergency fund is working for you, earning high interest while staying liquid and accessible. Finally, take comfort in a long-term plan that is checked and double-checked to account for major changes like we're seeing.

There are a lot of actions you can take now to ensure that you remain on track. Are you comfortable with the level of risk you are taking in your portfolio? With the market swinging around, you may want to trim risk, but it's a better idea to do it thoughtfully. If you decide to sell a position that has declined, you should be harvesting the tax loss to apply against gains. Tuning up a portfolio allocation should be done carefully, with an eye on your overall goals, your desired level of risk, and minimizing the costs and maximizing the benefit.

As we head into year-end, you'll also want to think through any moves you need to make before December 31. Are you maxing out your 401(k)? Are you making a charitable donation? Have all RMDs been made? Where will the funds come from for these distributions? The answer may be different now, considering declining market values over the last several months.

Thinking through your plan and tackling issues one step at a time is key. If the bear is going to continue to growl, you want to be prepared.

Quarterly Market Summary

Index returns

Q3 2023	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	-3.25%	-4.10%	-2.93%	-6.49%	-3.23%	-0.78%
Since Jan. 2001						
Average Quarterly Return	2.2%	1.5%	2.4%	2.1%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2001 Q3**	**2008 Q4**
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2022 Q1**	**2022 Q1**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2023, all rights reserved. Bloomberg data provided by Bloomberg.

Long-Term Market Summary

Index returns as of September 30, 2023

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
1 Year	20.46%	24.00%	11.70%	2.03%	0.64%	2.99%
5 Years	9.14%	3.44%	0.55%	0.01%	0.10%	0.83%
10 Years	11.28%	3.84%	2.07%	3.12%	1.13%	2.30%

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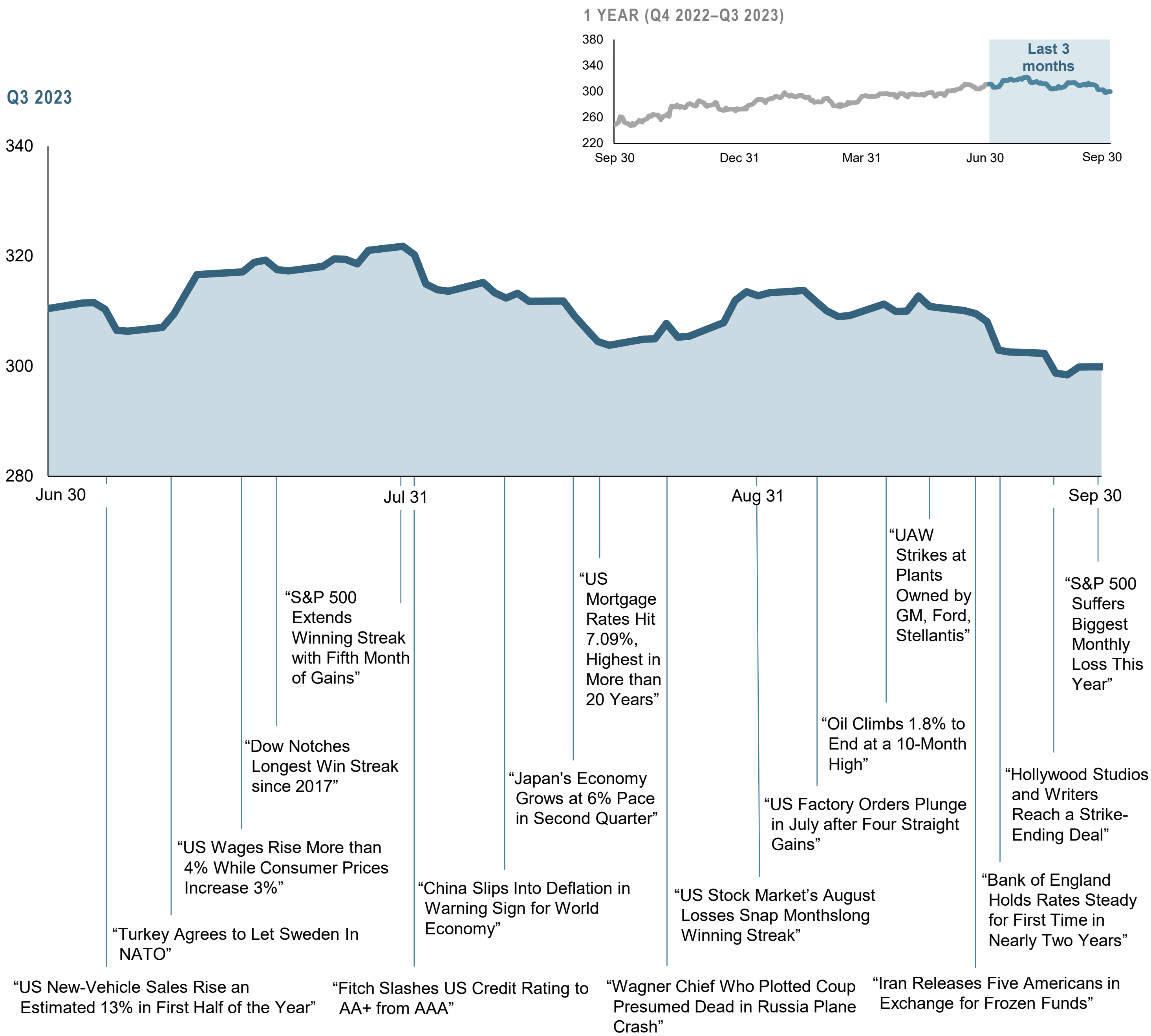
World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2023

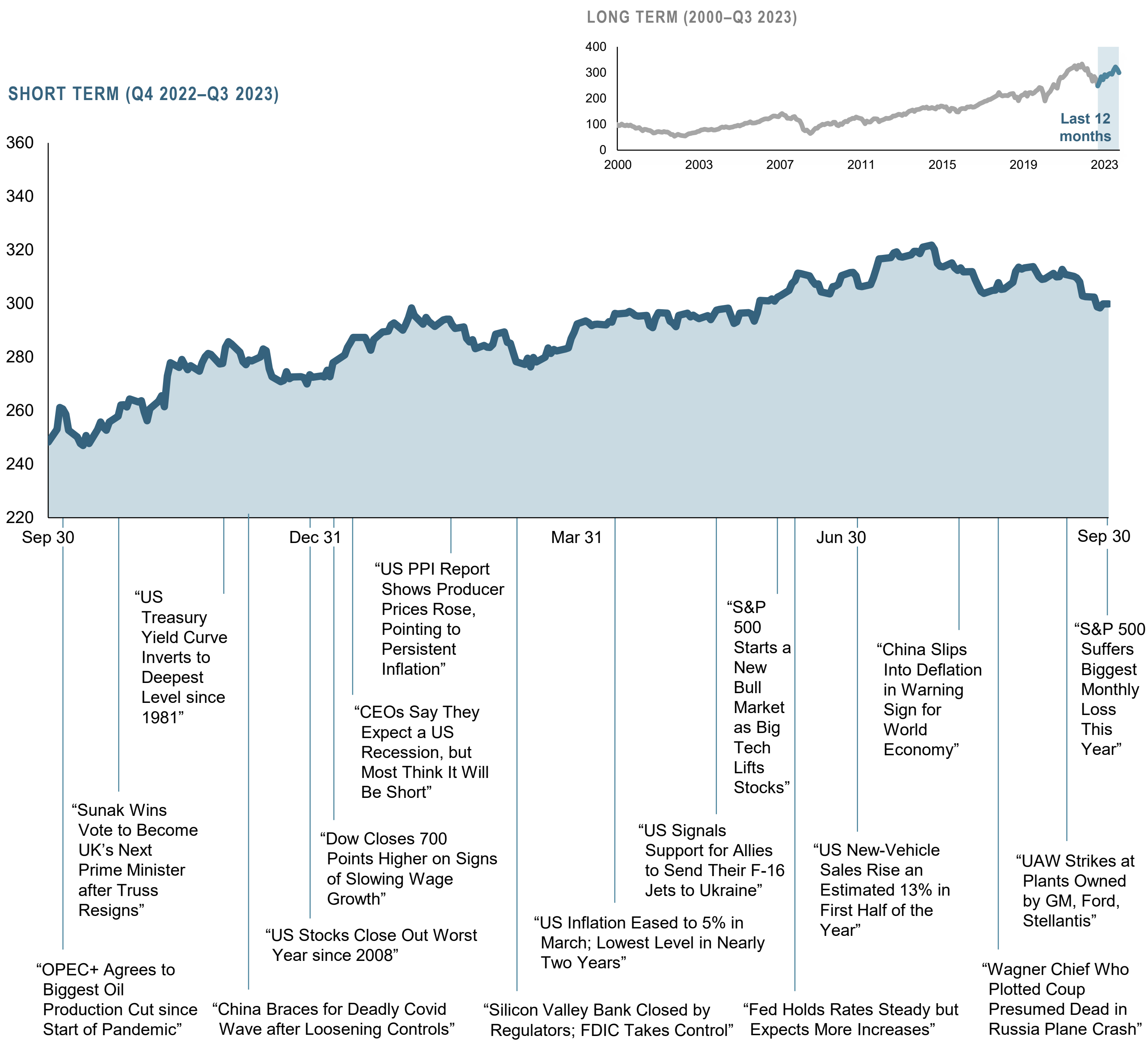


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio.
Past performance is not a guarantee of future results.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



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US Stocks

Third quarter 2023 index returns

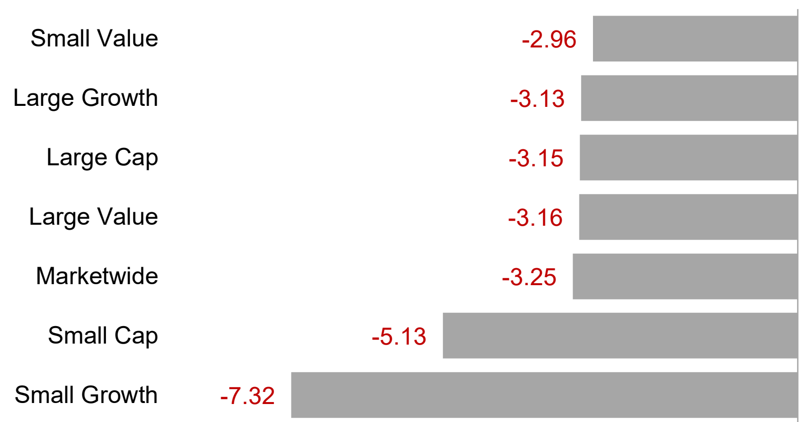
The US equity market posted negative returns for the quarter and outperformed non-US developed markets, but underperformed emerging markets.

Value underperformed growth within large caps and outperformed within small caps.

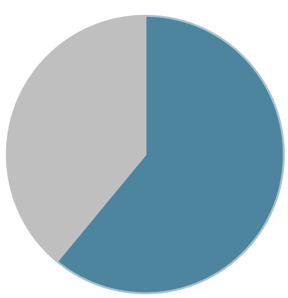
Small caps underperformed large caps.

REIT indices underperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



61%

US Market

$41.8 trillion

Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Small Value	-2.96	-0.53	7.84	13.32	2.59	6.19
Large Growth	-3.13	24.98	27.72	7.97	12.42	14.48
Large Cap	-3.15	13.01	21.19	9.53	9.63	11.63
Large Value	-3.16	1.79	14.44	11.05	6.23	8.45
Marketwide	-3.25	12.39	20.46	9.38	9.14	11.28
Small Cap	-5.13	2.54	8.93	7.16	2.40	6.65
Small Growth	-7.32	5.24	9.59	1.09	1.55	6.72

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International Developed Stocks

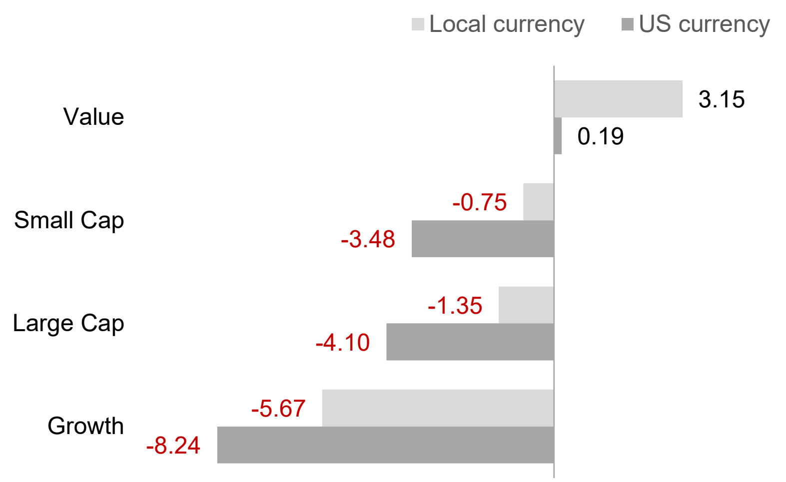
Third quarter 2023 index returns

Developed markets outside of the US posted negative returns for the quarter and underperformed both US and emerging markets.

Value outperformed growth.

Small caps outperformed large caps.

Ranked Returns (%)

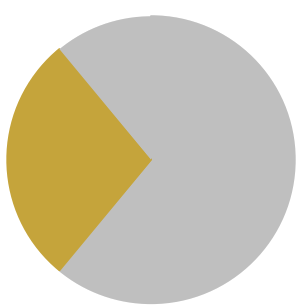


World Market Capitalization—International Developed

28%

International Developed Market

$19.1 trillion



Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Value	0.19	9.13	28.89	11.64	3.05	3.05
Small Cap	-3.48	1.83	17.32	1.85	1.28	4.13
Large Cap	-4.10	6.73	24.00	6.07	3.44	3.84
Growth	-8.24	4.38	19.27	0.47	3.37	4.36

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Emerging Markets Stocks

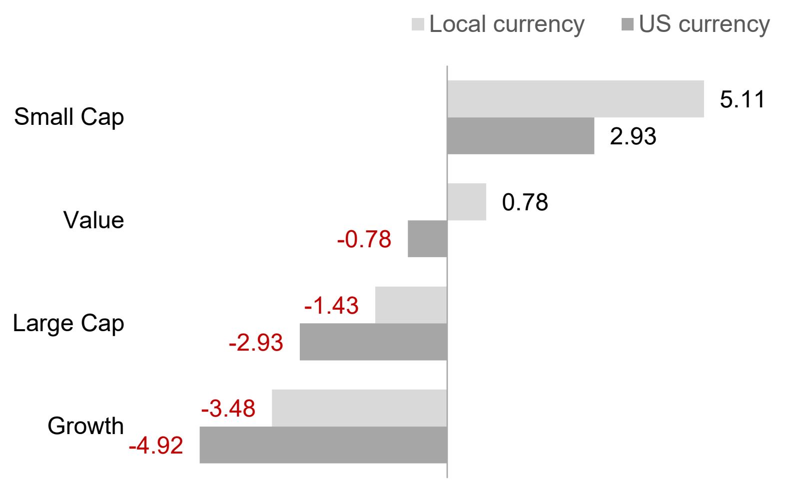
Third quarter 2023 index returns

Emerging markets posted negative returns for the quarter and outperformed both US and non-US developed markets.

Value outperformed growth.

Small caps outperformed large caps.

Ranked Returns (%)

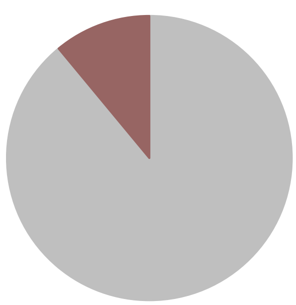


World Market Capitalization—Emerging Markets

11%

Emerging Markets

$7.6 trillion



Period Returns (%)

				Annualized		
Asset Class	QTR	YTD	1 Year	3 Years	5 Years	10 Years
Small Cap	2.93	13.74	23.06	10.61	6.45	4.57
Value	-0.78	5.70	16.03	4.40	0.38	1.21
Large Cap	-2.93	1.82	11.70	-1.73	0.55	2.07
Growth	-4.92	-1.76	7.71	-7.19	0.63	2.83

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Fixed Income

Third quarter 2023 index returns

Interest rates increased across all bond maturities in the US Treasury market for the quarter.

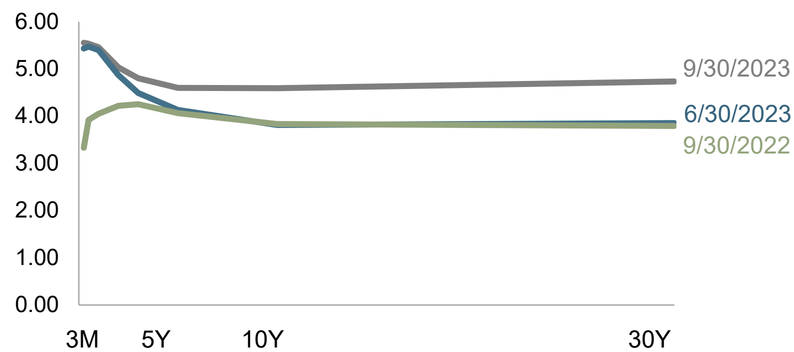
On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 31 basis points (bps) to 5.55%, while the 1-Year US Treasury Bill yield increased 6 bps to 5.46%. The yield on the 2-Year US Treasury Note increased 16 bps to 5.03%.

The yield on the 5-Year US Treasury Note increased 47 bps to 4.60%. The yield on the 10-Year US Treasury Note increased 78 bps to 4.59%. The yield on the 30-Year US Treasury Bond increased 88 bps to 4.73%.

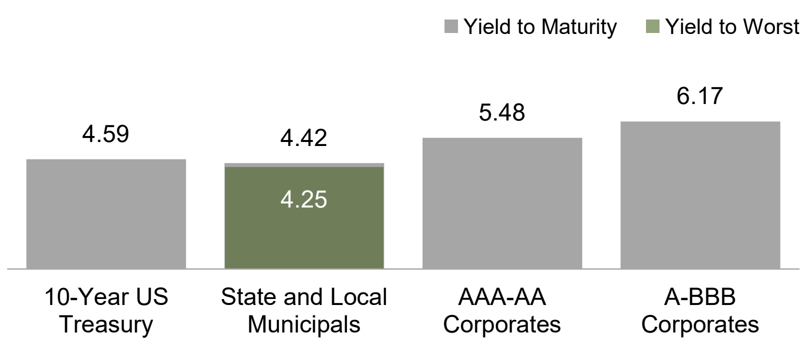
In terms of total returns, short-term US treasury bonds returned +0.17% while intermediate-term US treasury bonds returned -0.81%. Short-term corporate bonds returned +0.25% and intermediate-term corporate bonds returned -0.96%.[1]

The total returns for short- and intermediate-term municipal bonds were -0.94% and -2.96%, respectively. Within the municipal fixed income market, general obligation bonds returned -4.10% while revenue bonds returned -4.04%.[2]

US Treasury Yield Curve (%)



Bond Yields Across Issuers (%)



Period Returns (%)

Asset Class	QTR	YTD	1 Year	Annualized 3 Years	Annualized 5 Years	Annualized 10 Years
ICE BofA US 3-Month Treasury Bill Index	1.31	3.60	4.47	1.70	1.72	1.11
ICE BofA 1-Year US Treasury Note Index	1.21	2.90	3.68	0.60	1.46	1.00
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.56	2.10	2.68	-1.05	1.03	1.15
Bloomberg U.S. High Yield Corporate Bond Index	0.46	5.86	10.28	1.76	2.96	4.24
FTSE World Government Bond Index 1-5 Years	-1.01	-0.15	3.68	-3.80	-0.84	-1.00
Bloomberg U.S. TIPS Index	-2.60	-0.78	1.25	-1.98	2.12	1.74
Bloomberg U.S. Aggregate Bond Index	-3.23	-1.21	0.64	-5.21	0.10	1.13
Bloomberg Municipal Bond Index	-3.95	-1.38	2.66	-2.30	1.05	2.29
Bloomberg U.S. Government Bond Index Long	-11.79	-8.50	-9.04	-15.66	-2.78	0.75

1. Bloomberg US Treasury and US Corporate Bond Indices.
2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.** Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. Bloomberg data provided by Bloomberg.

Global Fixed Income

Third quarter 2023 yield curves

With the exception of the UK and Australia, interest rates generally increased across global developed markets for the quarter. In the UK, short- to intermediate-term rates decreased. In Australia, ultrashort-term rates decreased.

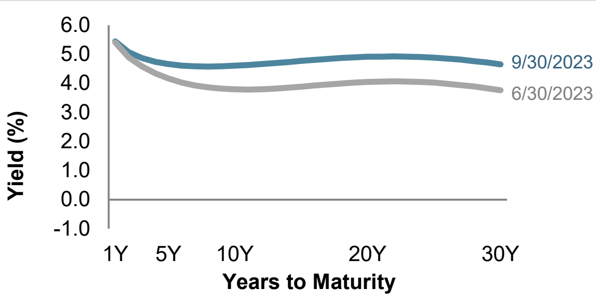
Realized term premiums were generally negative across global developed markets.

In Japan, ultrashort-term nominal interest rates were negative. In the UK, Germany, Canada, and Australia, the short-term segment of the yield curve was inverted.

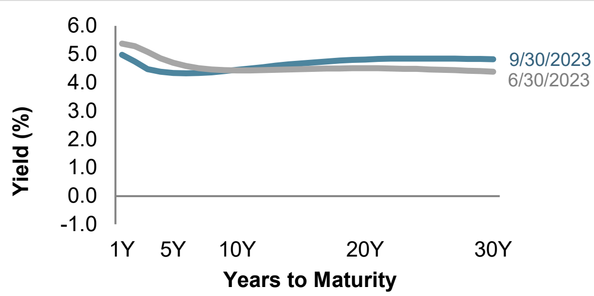
Changes in Yields (bps) since 06/30/2023

	1Y	5Y	10Y	20Y	30Y
US	3.4	49.2	81.2	86.5	89.4
UK	-39.4	-36.3	1.7	31.2	43.4
Germany	14.7	18.7	42.1	54.6	60.4
Japan	6.0	26.1	36.2	41.9	36.3
Canada	15.6	61.8	76.7	75.2	73.7
Australia	-11.0	20.5	42.8	47.8	49.7

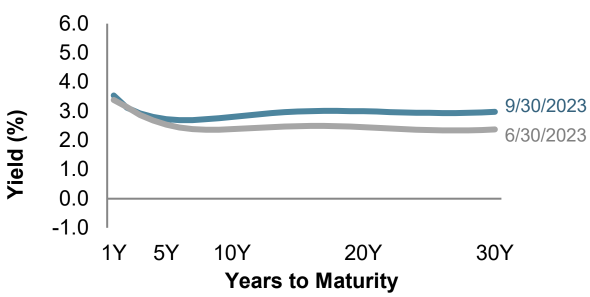
US



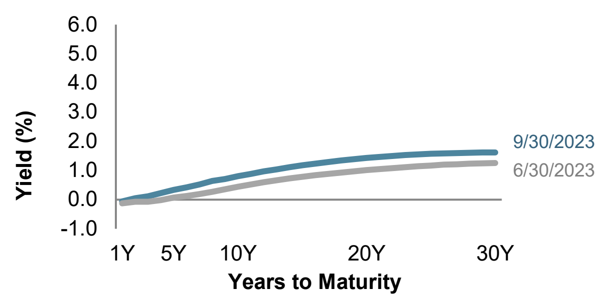
UK



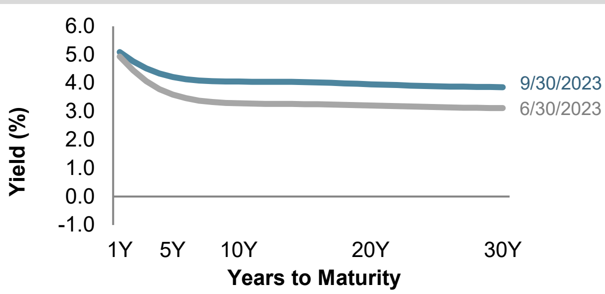
Germany



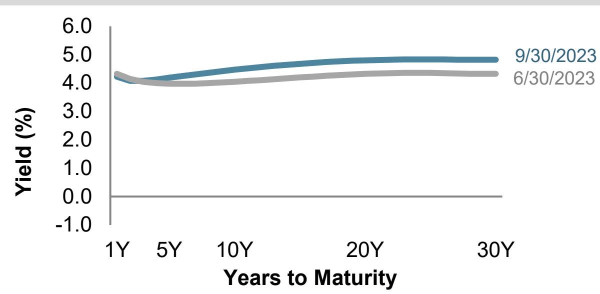
Japan



Canada



Australia



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In USD. July 1926–June 2023. Quarterly returns for value and growth based on the Fama/French US Value Research Index and the Fama/French US Growth Research Index, respectively. Data provided by Fama/French. The Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. See "Index Descriptions" for descriptions of the Fama/French index data.

Index Descriptions: Fama/French US Value Research Index: Provided by Fama/French from CRSP securities data. Includes the lower 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973). Fama/French US Growth Research Index: Provided by Fama/French from CRSP securities data. Includes the higher 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

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