

MARKET COMMENTARY

Q3 2023 COMMENTARY

Economic Summary

During the quarter, all major equity indices sputtered as interest rates marched higher across the yield curve. The Federal Reserve (the Fed) increased short-term interest rates once during the quarter, taking the target rate up to between 5.25% and 5.50%. The Fed is currently observing inflation and the general economy before making its next move. Inflation declined for much of the last year and only recently ticked higher due to rising energy prices (Chart 1). The overall economy continues to plug along as multiple economic indicators show that it remains healthy.

The stronger economy has many market participants expecting higher interest rates for longer. Evidence of this is apparent in the large move during the quarter in longer-dated interest rates, as the 10-year U.S. Treasury Note yield increased from 3.8% to 4.6%, a level not seen since the summer of 2007. Corporate earnings revisions have pushed higher during the last two quarters, further quelling recessionary fears (Chart 2). While an economic slowdown is still possible, the probability of a serious recession has diminished due to the strength of the overall economy.

The Stock Market

Most U.S.-domiciled indices were down single digits during the quarter as higher interest rates pulled investors away from equities. Evidence of this could be seen in the high-dividend paying sectors of Utilities, Real Estate, and Consumer Staples, which were the three worst performing sectors in the S&P 500® during the quarter.

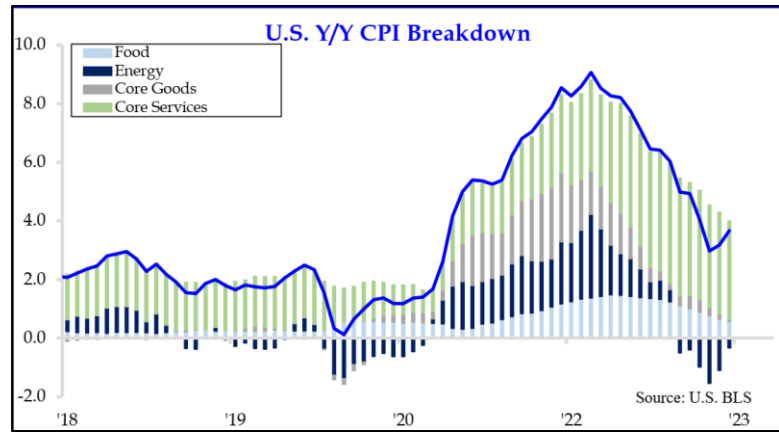


Chart 1
 Source: Strategas Research Partners, "Quarterly Review in Charts", 10/2/23

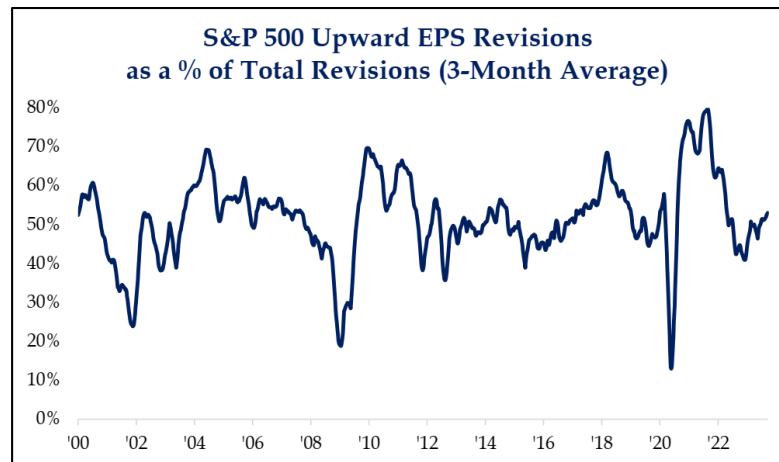


Chart 2
 Source: Strategas Research Partners, "Quarterly Review in Charts", 10/2/23

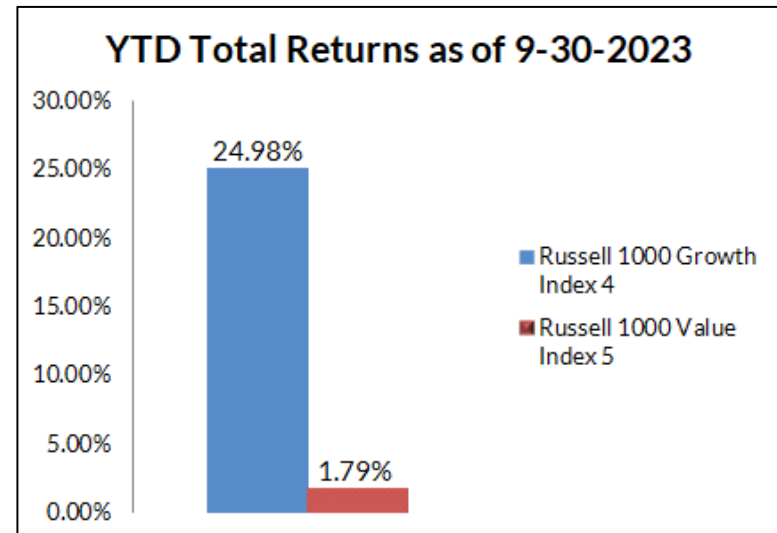
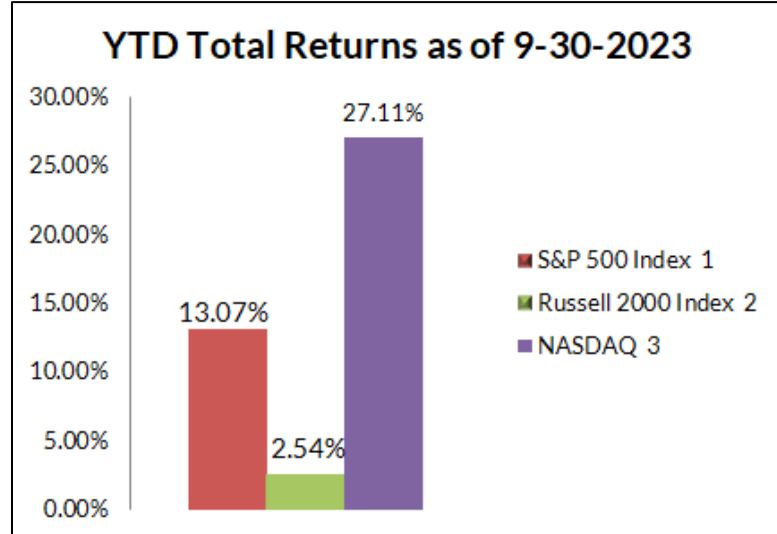
The Stock Market (continued)

Large-cap stocks continued to outperform small-cap stocks during the quarter and furthered the performance gap between the Russell 2000® and the S&P 500® year-to-date (Chart 3). In the same vein, growth stocks bested value, furthering the performance differential for the year (Chart 4). From a valuation perspective, equities are in line with historical averages with pockets of undervalued stocks available in various sectors.

The Bond Market

Two years of increasing interest rates have pushed yields to multi-decade highs. At current levels, bonds are starting to attract crossover buyers from other asset classes who wouldn't have looked at fixed income in years past. In this environment, we are prudently adding duration to select holdings that capitalize on higher yields.

Corporate credit spreads tightened marginally during the quarter and stayed within historical averages. Select corporate bonds remain attractive on a risk-reward basis, with additional exposure added selectively.



Charts 3 & 4
Source: Morningstar Direct

¹The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. ²The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index. ³The NASDAQ Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange (more than 2500 stocks). You cannot invest directly in an index. ⁴The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. ⁵The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.

Past performance does not guarantee future results.