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The Investment Corner

In the first half of 2023, stock indices mounted a strong recovery from the losses of 2022. Bond prices stabilized from last year's disappointing returns as the Fed's aggressive rate hikes appeared to be moving inflation toward their target. We know from experience that markets, like most things, generally don't move in straight lines. That became evident in the

third quarter.

Bonds prices also fell under pressure as the Federal Reserve repeatedly stated that their "job wasn't done" and that rather than cutting rates, they could continue to rise. This abruptly shifted the narrative to "higher for longer." The yield on the 10-year Treasury, a key rate that affects residential mortgages, rose from roughly 3.8% to 4.6%. This pushed the 10-year to the highest level since 2007. Bond prices fell, erasing gains for the year. Keep in mind that bond prices and interest rates move inversely to each other. Bond

math is complicated.

The "higher for longer" view on interest rates also affected stocks. The S&P 500, just a couple of months ago, was up about 20%. This was largely driven by a handful of big tech stocks as they emerged from last year's drubbing and fueled on by hopes of artificial intelligence gains. Since those developments may take years to materialize, the rise in rates caused a repricing of those potential earnings. Yes, stock math is also complicated.

Domestic Equities

For all the headlines and drama, losses were fairly muted. The S&P 500 slid 3.3% for the quarter and is still up 13.1% for 2023. Smaller stocks are often seen as more susceptible to high interest rates due to their weaker balance sheets. The Russell 2000 dropped 5.1% for the quarter but is still up by 2.5% for the year.

International Equities

The story was mostly the same for international stocks even though there is an additional overlay of currency movements. The MSCI EAFE index of developed market stocks moved down 4.1% for the

quarter. It remains up a respectable 7.1% for the year. Emerging markets edged down 2.9% for the quarter and are still positive by 1.8% for 2023.

Bonds

As noted, the Fed's persistently hawkish stance pressured bond returns. The Barclays Aggregate, a measure of the total bond market, fell 3.2% for the quarter. The index has dropped a modest 1.2% for the year. Understandably, people don't like to see declines in their investment statements in any asset class. The significant rise in interest rates could bring opportunity to long-term investors. While it has not been pleasant in the short-term, the increase bodes well for future returns of the asset class.

Looking Ahead with Principles and Perspective

With markets swinging from gains to losses depending on the latest Fed announcement or news item, some may find investing overwhelming. While we follow market movements closely, we believe that solid investment principles are vital.

One principle we use was put forward 200 years ago. Despite being followed by investment luminaries over the years, like Peter Lynch and Charlie Munger, it gets little atten-

% Return of 09/30/2023

<u>Equity Indexes</u>	<u>3rd Q</u>	<u>1 YR</u>	<u>3 Yr</u>
S&P 500	-3.3	13.1	10.2
Russell 2500	-5.1	2.5	7.2
MSCI EAFE	-4.1	7.1	5.8
Emerging Mar-	-2.9	1.8	-1.7
Wilshire REIT5	-6.4	-0.2	5.7
<u>Bond Indexes</u>			
TIPS	-2.6	-0.8	-2.0
Aggregate	-3.2	-1.2	-5.2
Governments	-3.0	-1.4	-5.7
Mortgages	-4.1	-2.3	-5.1
Investment Corporate	-3.1	0.0	-4.9
Long Corporate	-7.2	-2.7	-9.1
Corporate High-Yield	0.5	5.9	1.8
Municipals	-3.9	-1.4	-2.3

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tion. German mathematician, Carl Gustav Jacobi, is still remembered for solving some of the most difficult mathematical problems of his day. One of the keys to his method was “inversion.” Rather than approaching a problem and seeking a solution, he would focus on the desired solution and work back to the problem. Simple but effective.

This has important applications in investing. By starting with a desired result, say a confident retirement or leaving a legacy for heirs, one could eliminate a lot of the distractions and dead ends from the calculations. This clarity helps design portfolios that are risk-aware, goals-based and could lead to better outcomes. That is the solution we are seeking.

As we have come through these eventful years, our principles have served us well. There is, however, still much work to do as the investment landscape continues to change. We are here for you.

Sources: Forbes, CNBC, S&P Global, Wall Street Journal, The Economist, Federal Reserve Bank, Morningstar Direct, MSCI

The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guar-

antee of future results. Three-year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Russell 2500 Index measures the performance of the 2,500 smallest companies (19% of total capitalization) in the Russell 3000 index. The S&P 500 index measures the performance of 500 stocks generally considered representative of the overall market. The Wilshire REIT Index is designed to offer a market-based index that is more reflective of real estate held by pension funds. CRN-6001913-100523