

Quarterly Market Update

Third Quarter 2023

The summary below is for educational purposes only. Please call us with any questions or if you would like to schedule a review or discuss other financial matters.

Late Summer Doldrums

Stocks have enjoyed a strong performance over the course of this year, thanks to a much slower pace of rate hikes, expectations (or optimism) that the Federal Reserve would stop hiking interest rates and eventually start cutting them, and the absence of a widely forecasted recession.

The rally that began last October for the S&P 500 Index peaked at the end of July and has subsequently fallen a modest 6.6% by the end of the third quarter.

| Index | Q3 Return* | | YTD Return |
|-------------------------------|----------------------------------|----------|--------------------------|
| DJIA ¹ | -2.62% | | 1.09% |
| NASDAQ Composite ² | -4.12% | | 26.30% |
| S&P 500 Index ³ | -3.65% | | 11.68% |
| The Global Dow ⁴ | -2.94% | | 7.57% |
| Bond Yields | Yield as of Sept 30 & Q3 Change* | | Yield as of Dec 31, 2022 |
| 3-month T-bill | 5.55% | +0.12% | 4.42% |
| 2-year Treasury | 5.03% | +0.16% | 4.41% |
| 10-year Treasury | 4.59% | +0.78% | 3.88% |
| 30-year Treasury | 4.73% | +0.88% | 3.97% |
| Commodities | Price as of Sept 30 & Q3 Change* | | Price as of Dec 31, 2022 |
| Oil per barrel ⁵ | \$90.79 | +\$20.15 | \$80.26 |
| Gold per ounce ⁶ | \$1,866.10 | -\$63.30 | \$1,826.20 |

Sources: U.S. Treasury, MarketWatch *Q3: June 30, 2023 - September 29, 2023, and YTD: Dec 31, 2022 – September 29, 2023

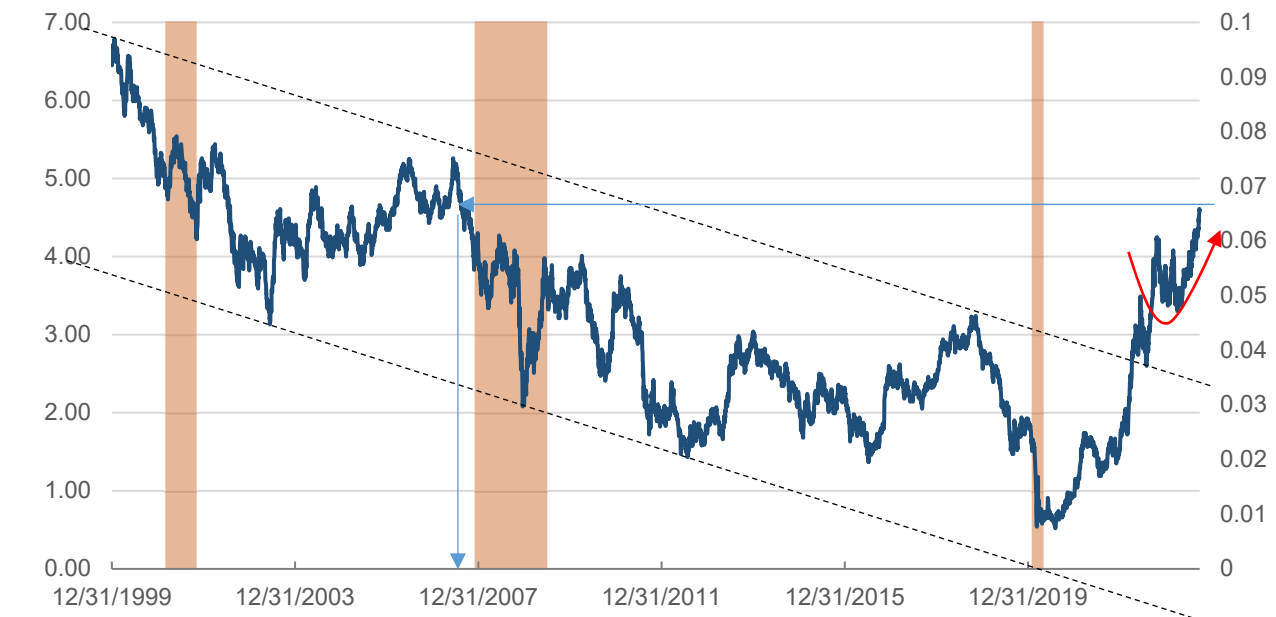
Investors are attempting to price in what analysts call “higher for longer.” “Higher” refers to interest rates and “longer” refers to how long rates might stay higher before any rate cut. All else equal, higher interest rates can create headwinds for equities because higher interest rates compete for investor dollars.

Notably, Treasury yields have turned higher, as Figure 1 illustrates.

10-Year Treasury Yield

Percent

Fig. 1

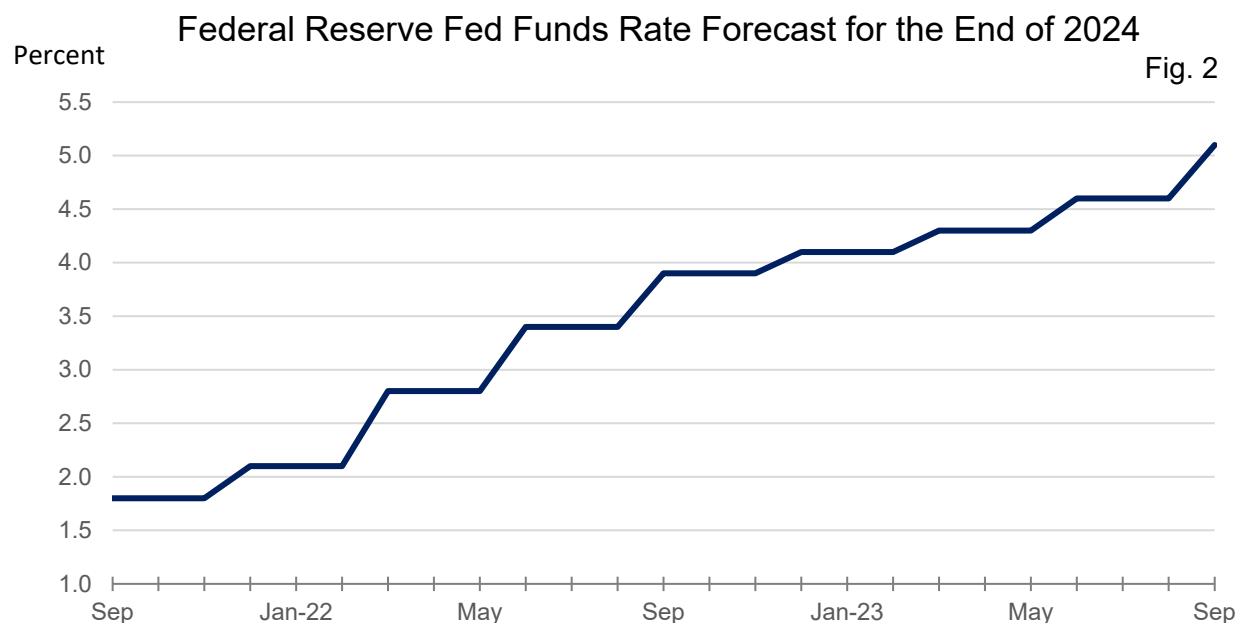


Source: St. Louis Federal Reserve, NBER Shaded areas mark recessions 9/29/2023

Throughout the remainder of the year, the Treasury will be required to borrow a significant amount of money and as a result, yields may rise to attract buyers of the newly issued bonds. Moreover, the Federal Reserve surprised many by adopting a more aggressive tone than anticipated at its September meeting.

It's Hard to Forecast the Future

The Federal Reserve releases its forecasts for GDP, inflation, and unemployment every quarter (December, March, June, and September). The Fed maintained the fed funds rate at 5.25% - 5.50% in September but hinted at another rate hike this year, and raised its year-end 2024 estimate of the fed funds rate from 4.6% to 5.1% (Figure 2).



Source: Federal Reserve Sep 2023 Projections are subject to change.

Note that the Fed's projections in Figure 2 have almost tripled over the last two years as it hopes to rein in stubbornly high inflation. In fact, the Fed raised its forecast every quarter since September 2021, when it first issued a forecast for year-end 2024.

Two years ago, the Fed expected a 2024 year-end fed funds rate of about 1.8%. At that time, the Fed was calling the surge in inflation "transitory." Today, the Fed's forecast for December 2024 is 5.1%.

The best and brightest minds struggle to accurately forecast future events because projections rely on developing patterns based on historical data. But patterns may change over time, reducing the effectiveness of these models. In addition, the influence of different variables on the economy can fluctuate from one economic cycle to another, as each cycle has its own unique characteristics.

For example, rising interest rates raise borrowing costs and should slow consumer and business spending. But economic growth has been surprisingly resilient. As Fed officials are fond of saying, there are "long and variable lags" regarding the impact from changing interest rates.

Final Thoughts

As we have emphasized in the past, focus on what you can control. You can't control the economy or stock market returns, but you can control your investment strategy.

Having a written financial plan is the roadmap to your financial goals. It allows you to track your progress, and it reduces uncertainty. Research shows that a solid plan also supports sound money habits.

We recognize that you have a choice of financial services firms, and we value opportunity to serve you. Our goal is to provide our clients with the very best service, and we are always pleased to assist you in any way we can.

Please let us know if you have any questions and if you would like to schedule a review or discuss other financial matters.



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¹ The Dow Jones Industrials Average is an unmanaged index of 30 major companies, which cannot be invested into directly. Past performance does not guarantee future results.

² The NASDAQ Composite is an unmanaged index of companies, which cannot be invested into directly. Past performance does not guarantee future results.

³ The S&P 500 Index is an unmanaged index of 500 larger companies, which cannot be invested into directly. Past performance does not guarantee future results.

⁴ The Global Dow is an unmanaged index composed of stocks of 150 top companies, which cannot be invested into directly. Past performance does not guarantee future results.

⁵ CME Group front-month contract; Prices can and do vary; past performance does not guarantee future results.

⁶ CME Group continuous contract; Prices can and do vary; past performance does not guarantee future results.

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