W A I N W R I G H T   I N V E S T M E N T   C O U N S E L , L L C

FINANCIAL MARKETS HIGHLIGHTS

Third Quarter 2023

As we close the third quarter and look towards the end of the year, few figures in the capital markets have a more important task ahead than Federal Reserve Chairman Jerome Powell. Powell's multi-year battle with inflation continued this quarter with another interest rate hike in July, launching Treasury rates to their highest levels in 15 years and mortgage rates to their highest in 30. While many anticipated this hike, resilient consumer spending coupled with near historic low unemployment rates have investors grappling with when the hikes will end, and how long rates will remain near current levels … or higher.

In a speech at Jackson Hole on August 25, Chairman Powell reiterated that the Fed's job is to bring inflation down to two percent, and that there is a long way to go. If the Fed is able to curb inflation by slowing growth, the natural effect of higher interest rates via induced savings and inhibited debt-dependent capital investment, the result will be the oft-referred "soft landing," a situation Powell described as a plausible outcome, but not a baseline expectation. Despite his statement downplaying the importance of said "soft landing," many believe this to be his most important task for the remainder of this year and all of the next.

The market has changed its assessment of what Fed policy will be, with market indicators pointing towards interest rates staying higher for longer. The yield curve remains inverted, which has been a reliable indicator of a coming recession, so it is clear that Powell has his hands full in his balancing act between one: reducing inflation; two: maintaining full employment; and a distant three: preventing a recession.

The S&P 500 Index of large and mega-cap stocks finished the quarter down 3.3%. Energy was the sole winner, up 12.2%, coinciding with oil prices breaking $90 per barrel for the first time since November of last year.

The Russell 2000 index of smaller company stocks returned -5.1% during the quarter, the MSCI EAFE index of international, developed market stocks declined 4.1%, and the MSCI Emerging Markets index fell 2.9%. Growth and value stocks performed similarly, down 3.3% and 3.2%, for the broad Russell 3000 Growth and Value indices, respectively.

Bond markets as evidenced by the Bloomberg Aggregate Bond Market index fared similarly to equity markets, down 3.2% in the third quarter. Short-term high quality Government and Agency bonds were positive, returning 0.7%. Corporate high yield bonds continued their solid performance, with quarterly gains of 0.5% bringing year-to-date returns to 5.9%. Long-term Treasuries fared the worst, expected given their higher sensitivity to interest rate increases, down 11.8%.

Commodities and commodity-related sectors generally outperformed during Q3. Master Limited Partnerships, which are generally in the business of commodity storage and transport, gained 9.9%, and the S&P North American Natural Resources Index returned 8.1%. Gold was modestly down for the quarter, while bitcoin declined 11.5%. The dollar was quite strong due to

Selected Index Returns (%) as of September 30, 2023 (Source: Morningstar Direct). 3, 5, 10 year returns are annualized.

	Jul.	Aug.	Sep.	QTR	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	3.21	-1.59	-4.77	-3.27	13.07	21.62	10.15	9.92	11.91
S&P 400	4.13	-2.89	-5.26	-4.20	4.27	15.51	12.05	6.06	8.94
Russell 2000	6.12	-5.00	-5.89	-5.13	2.54	8.93	7.16	2.40	6.65
Wilshire U.S. REIT Index	3.06	-2.84	-6.53	-6.41	-0.17	3.94	5.74	2.87	6.01
MSCI EAFE	3.24	-3.83	-3.42	-4.11	7.08	25.65	5.75	3.24	3.82
MSCI Emerging Markets	6.23	-6.16	-2.62	-2.93	1.82	11.70	-1.73	0.55	2.07
Bloomberg U.S. Aggregate Bond	-0.07	-0.64	-2.54	-3.23	-1.21	0.64	-5.21	0.10	1.13
Bloomberg High Yield	1.38	0.28	-1.18	0.46	5.86	10.28	1.76	2.96	4.24

relatively high and rising domestic rates, appreciating 2.4% against a broad basket of currencies compiled by the St. Louis Federal Reserve.

In economic news, gross domestic product, or GDP, increased at an annual rate of 2.1% during Q2. Unemployment remains near historic lows at 3.8%. The labor participation rate has returned to pre-pandemic levels, reaching 62.8% for the first time since February of 2020, but labor strikes are gaining traction, as three notable strikes either started or ended in the third quarter.

On the corporate earnings front, the most important front we would argue, news continues to be reasonably good. According to LSEG I/B/E/S[1], fourth quarter S&P 500 earnings are expected to increase 11% year-over-year, in-line with forecasts provided by Yardeni Research. Earnings growth that solid is more than enough to support the S&P 500 which currently trades around 23x trailing 12 month earnings. Moreover, while much is rightly made of the large representation of technology stocks in the indexes and their being the primary driver of returns, infrequently is it acknowledged that if large pockets of the stock market that have lagged should come to lead, such as healthcare and financials, that could move the broad markets nicely higher.

With summer ending, children returning to school, and sweater weather upon us here in Boston, we here at Wainwright wish you a happy autumn season, and a warm rest of your year.

[1] London Stock Exchange Group, Institutional Brokers' Estimate System.

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