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MARKET MINUTE

SEPTEMBER REVIEW 2023

This month's Market Minute reflects the views of our Investment Office and was composed by
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OVERVIEW

Simply put, September was an awful month in the financial markets. September has historically been the worst month of the year for the S&P 500 - since 1929 the S&P 500 has averaged a decline of -1.2% for the month of September[1] - and this September steamed rolled over the long-term average decline. The NASDAQ Composite was down -5.77% in September, while the S&P 500 lost -4.77%. The bond market was no place to hide as interest rose almost 20 basis points at the short end of the curve and over 45 basis points at the long end. While the economic news was generally favorable and one would have thought it as market friendly – in-line inflation data and job growth that is slowing but still healthy – the markets instead focused, again, on the Federal Reserve.

Following the conclusion of the September FOMC meeting, the first paragraph of the Federal Reserve press release reads as follows, "Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have slowed in recent months but remain strong, and the unemployment rate has remained low. Inflation remains elevated."[2] The markets' interpretation and their new mantra "Higher for Longer" dashed any hope for a decline in interest rates in 2023 and a realization that the Fed may not start cutting the Fed Funds rate until the back half of 2024. The news pushed the benchmark 10-year Treasury yield to levels not seen since 2007.[1]

U.S. EQUITY MARKETS As of September 30, 2023

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-3.4%	-2.1%	2.7%	19.2%
S&P 500	-4.8%	-3.3%	13.1%	21.6%
Russell 2000	-5.9%	-5.1%	2.5%	8.9%
Russell 1000 Growth	-5.4%	-3.1%	25.0%	27.7%
Russell 1000 Value	-3.9%	-3.2%	1.8%	14.4%

There were few places to hide from September's sell off in US equity markets. The S&P 500 fell by -4.8%, the tech-laden NASDAQ composite fell by -5.8%, and US small caps (Russell 2000 Index) fell by -5.9% during the month. Every sector declined in September except Energy (S&P Energy Sector Index) at +2.6%, which was buoyed by the steady rise in oil prices—West Texas Intermediate crude prices jumped from \$84 to \$91 per barrel during the month[1]. Value oriented stocks closed modestly better than growth peers, but both declined during the quarter—Russell 1000 Value Index -3.9% versus Russell 1000 Growth Index -5.4%. Given the Fed's relatively hawkish stance towards higher for longer, we are in an environment where positive economic surprises may induce more pain on US equities due to fears it will prompt more hiking by the Fed.

INTERNATIONAL EQUITY As of September 30, 2023

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-3.2%	-3.8%	5.3%	20.4%
MSCI EAFE	-3..4%	-4.1%	7.1%	25.6%
MSCI Emerging Markets	-2.6$	-2.9%	1.8%	11.7%
MSCI EAFE Small Cap	-4.4%	-3.5%	1.8%	17.9%

International equities fared no better in September than US equities. The international developed markets (MSCI EAFE Index) fell -3.4%, while emerging markets (MSCI EM Index) fell by -2.6%. In similar fashion to US markets, international small caps lagged their large cap peers (MSCI ACWI ex US Small Cap Index -3.8% versus MSCI ACWI ex US Index – 3.2%). International value stocks also outperformed their growth stock peers on a relative basis—MSCI ACWI Value Index -1.6% versus MSCI ACWI ex US Growth Index -5.3%). International equities were further impacted by the rising US dollar, which weighed on US investor returns. The economic backdrop for international equities is quite challenged now as Europe is on the brink of a mild recession and China continues to grapple with problems in its property sector, both of which are weighing on investor sentiment.

FIXED INCOME As of September 30, 2023

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-2.5%	-3.2%	-1.2%	0.6%
BarCap Global Aggregate	-2.9%	-3.6%	-2.2%	2.2%
BarCap US High Yield	-1.2%	0.5%	5.9%	10.3%
JPM Emerging Market Bond	-2.8%	-2.6%	1.1%	8.6%
BarCap Muni	-2.9%	-3.9%	-1.4%	2.7%

Due to the stunning rise in yields during the month – 2-year rates went from 4.87% to 5.05% and 10-year rates rose from 4.11% to 4.57%[1] - fixed income investments in general were clobbered. Even though high yield spreads were wider - the Bloomberg High Yield Index has a shorter duration than the Bloomberg Investment Grade Corporate Index (3.99 vs 7.00[1]), as such they are less sensitive to changes in interest rates – the high yield index outperformed the investment grade index. That being said, high yield was no place to hide as the Bloomberg High Yield Index was down -1.18%.

2021 and 2022 witnessed the first back-to-back annual declines in total return by the Bloomberg Aggregate Index since its inception in 1976[1]. Most fixed income professionals thought it was highly unlikely we would suffer for a third consecutive year. As of September 30, year-to-date the Bloomberg Aggregate Index is down -1.21% and may suffer an unprecedented third consecutive negative year should the 10-Year US Treasury yield continue to trend higher.

CONCLUSION & OUTLOOK

The Federal Reserve's dual mandate is to maintain maximum employment and keep prices stable. At this point in time the Fed has been fairly successful in achieving this dual mandate – inflation has been declining and unemployment is low. While Corporate America has been suffering through an earnings recession, we may be close to the bottom (analysts are looking for over 8% year-over-year earnings growth in Q4[3]) and most of their balance sheets are fundamentally sound. Could it be that the American economy may achieve the mythical soft landing?

As we look forward it is easy to get gloomy when reading about striking auto union workers, government shutdowns, European stagflation, Chinese real estate crisis, and the list goes on. What often gets lost in the gloom is the position of strength we are operating from in the United States. The consumer's buying patterns will fluctuate - buy a car this month to drive to Disneyland next quarter and then a new TV to watch the Disney channel during the winter months. But so long as the American consumer is employed, they will spend, and the economy keeps on humming.

Over the long term it has been more profitable to look forward with a positive viewpoint than fear of the future. September has historically been the worst month of the year and the fourth quarter historically is the best performing quarter[1]; as such, the odds argue for happier days ahead. Our goal is to successfully navigate through the ups and downs to achieve long-term financial goals for our clients.

SOURCES

1 Bloomberg LP
2 https://www.federalreserve.gov/monetarypolicy/files/monetary20230920a1.pdf
3 Factset Earnings Insight, 9/22/2024

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