

August 2023 Investment Newsletter

Both equity and fixed-income markets fell in August. The S&P 500 fell -1.6% as all sectors were down except for Energy, which rose 1.8%. Utilities fell the most (-6.2%), followed by Consumer Staples (-3.6%), Materials (-3.3%), and Real Estate (-3.0%). The Small-cap Russell 2000 index fell -5.0%. Yields on U.S. 10-year Treasuries rose for the fourth straight month reaching 4.1%, though mid-month levels reached 4.36%. The 5-year U.S. treasury rose towards 4.5% before retreating to 4.2% by month end. Within fixed-income markets, the Bloomberg U.S. Aggregate Bond Index fell for the fourth month in a row (-0.6%), U.S. Corporate HY Bonds rose 0.3%, and Municipal bonds fell -1.4%.

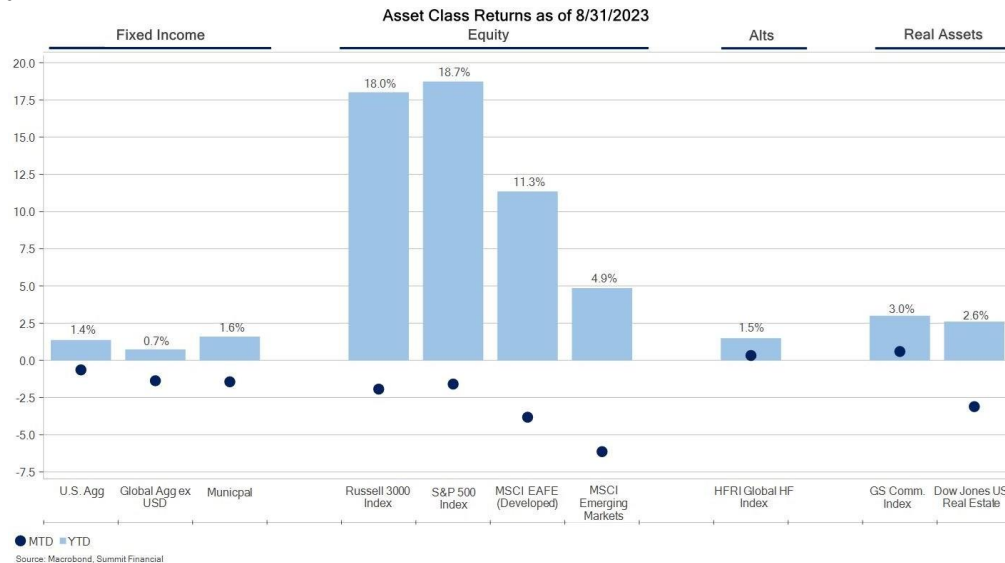
During the Federal Reserve’s Jackson Hole Symposium, its’ annual policy conference, Chair Powell indicated that while inflation has moved down from its peak, “it remains too high” and that returning to the 2% target will “require a period of below-trend economic growth as well some softening in labor market conditions.” Powell further indicated that he would like to see sustained progress on reducing goods inflation. With regard to future growth, he stated: “there may be significant further drag in the pipeline.” While he did not indicate if the Fed would achieve a soft landing, he did reiterate that the current rate is restrictive and confirmed that policy would return to being data-dependent. A drag in growth, however, does not appear to be the case this quarter. According to the Atlanta Fed’s GDPNow estimate, U.S. GDP is forecasted to grow 5.6% in the third quarter. This rate is well above the trend and has been driven by strength in manufacturing, retail sales, and housing starts.

Looking forward, per the CME Fed Futures market, investors forecast that the Fed Funds rate will remain unchanged for the remainder of the year at 5.25% to 5.50%. By year-end 2024, futures markets predict that the Fed is likely to reduce rates by an estimated 75 basis points towards 4.5%. If this forecast holds, rates will remain at their highest levels since the 1999-2000 period.

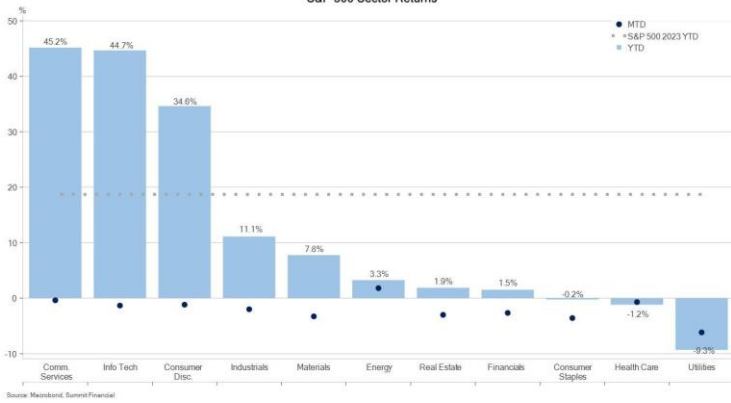
Within fixed-income markets, the curve remains deeply inverted with short-term treasuries still offering the highest yield, peaking at the 3-month term with a yield of 5.56%. The 1-year U.S. treasury is at 5.37%, then yields drop to 4.85% for the 2-year and 4.23% for the 5-year. During the month, credit rating agency Fitch downgraded U.S. credit from AAA to AA+. The near-term impact seemed muted as neither rates nor credit spreads moved notably in response to the downgrade. Credit spreads for both investment grade and high-yield corporate bonds remain in line with historic ranges from prior cycles and are not yet near recessionary levels. Inflation expectations remain contained with 5-year breakeven rates holding steady at 2.2%, very near the Fed’s long-term target of 2%. Given the rise in long-term rates, extending duration, especially for investment-grade bonds, provides a reasonable risk-reward trade-off.

Corporate earnings were in line with expectations, but growth levels were mixed. In general, earnings across consumer-facing firms were weaker while earnings across enterprise technology and industrials were stronger. Notably, analysts have begun to raise estimates again. After cutting expectations over the past year, Q3 and Q4 2023 EPS estimates have been revised higher as have forecasts for 2024. With the S&P forward PE multiple near 19x, and given the rate backdrop, it is likely difficult for the multiple to expand further from here.

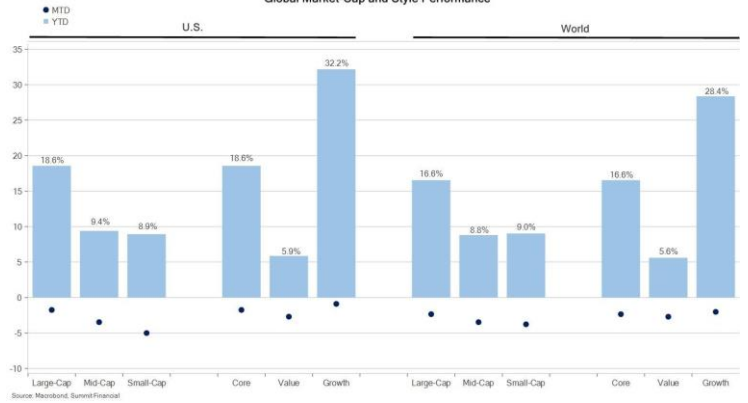
Globally, economic growth rates are mixed. Growth in China continues to struggle with Q3 GDP estimates expected to come in at 4.6%, versus 6.3% from the prior year. Expectations are for weaker growth in areas like manufacturing, production, and energy utilization. Eurozone GDP for Q2 came in flat compared to the previous quarter. France and Spain grew slightly at 0.5% and 0.4% respectively, while Germany was flat and Italy declined at 0.3%. GDP growth for Japan increased by 1.5% QoQ, which is the fastest expansion since Q4 2020.



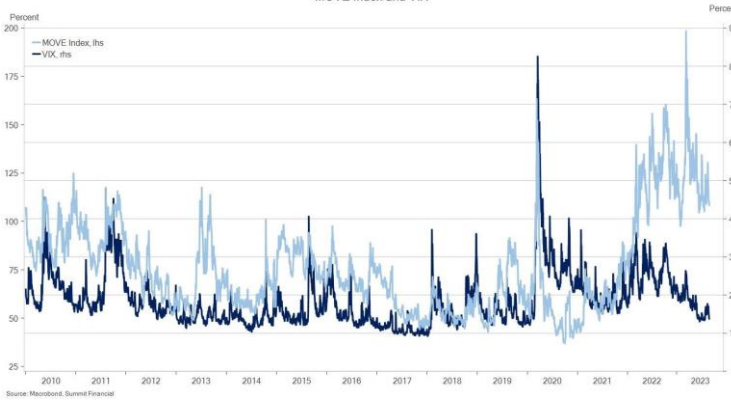
S&P 500 Sector Returns



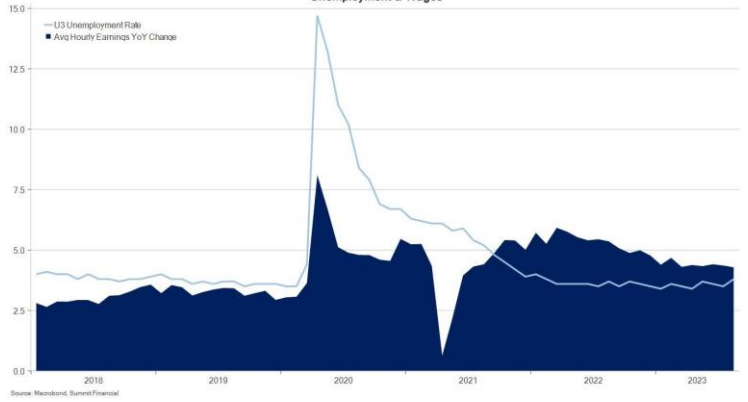
Global Market-Cap and Style Performance



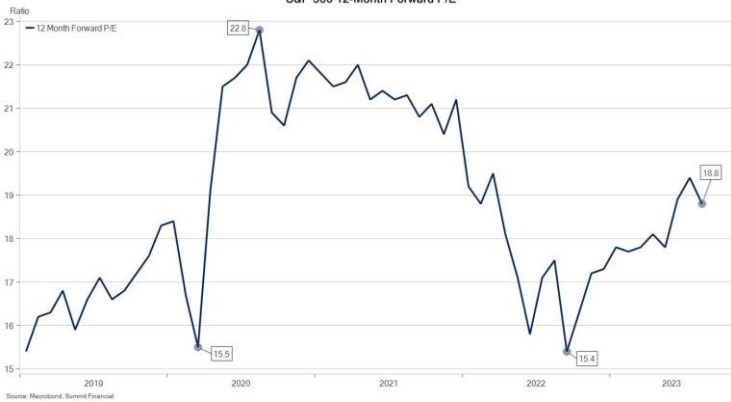
MOVE Index and VIX



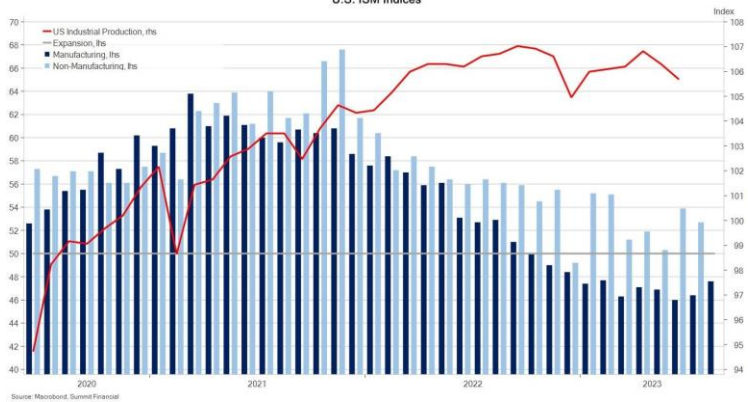
Unemployment & Wages



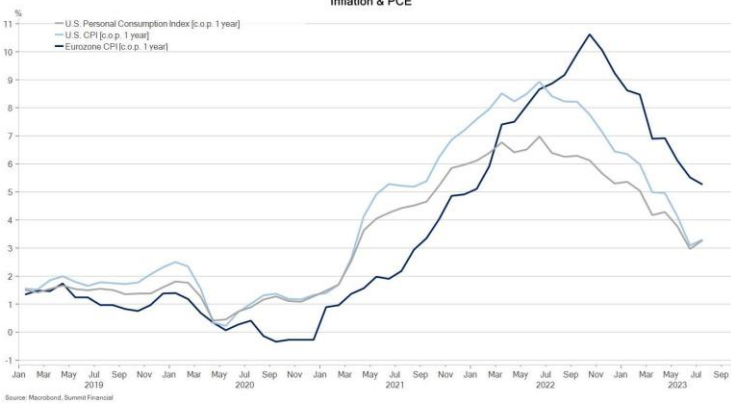
S&P 500 12-Month Forward P/E



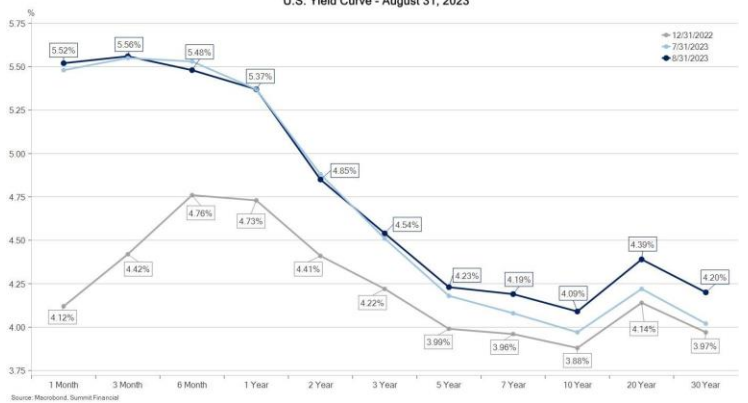
U.S. ISM Indices

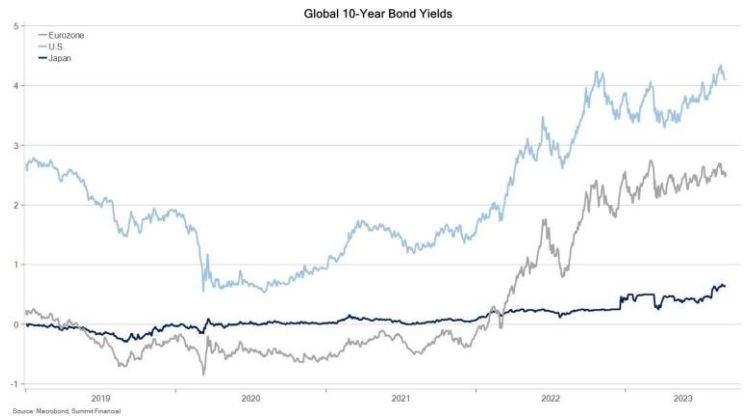
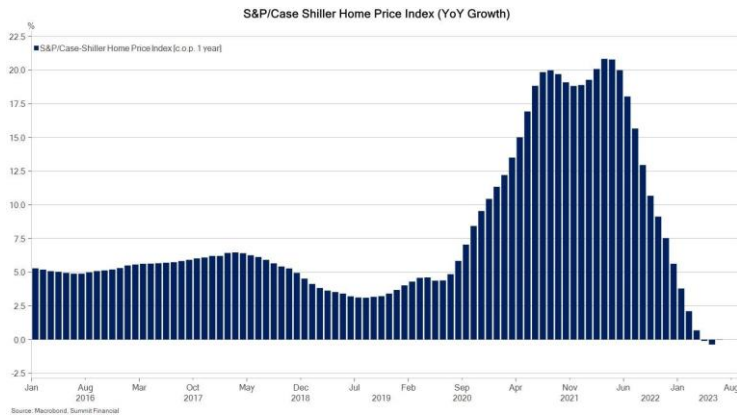


Inflation & PCE



U.S. Yield Curve - August 31, 2023





Disclaimer

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It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership; The Russell 1000 Index measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000 Index representing approximately 90% of the total market capitalization of that index. It includes approximately 1,000 of the largest securities based on a combination of their market-cap and current index membership; The Russell Midcap Index measures the performance of the mid-cap segment of the US equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies; the S&P 500 Index is a market capitalization-weighted Index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor’s chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of eleven different sectors; the MSCI EAFE Index (Europe, Australasia, Far East) captures large- and mid-cap representation across developed markets countries around the world excluding the US and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the MSCI Emerging Markets Index captures large- and mid-cap representation across emerging markets countries across the world. The index covers approximately 85% of the free float-adjusted market capitalization in each country; The MSCI World Index captures large- and mid-cap representation across developed markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the Bloomberg Commodity Index reflects commodity futures price movements and is calculated on an excess return basis. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the 6th-10th business day based on the roll schedule; the Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency); the Bloomberg Barclays Global Aggregate Ex US Index is a measure of investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in US dollars are excluded; the Bloomberg Barclays Municipal Bond Index covers the US dollar-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds; the Dow Jones US Real Estate Index measures the performance of real estate investment trusts (REITs) and other companies that invest directly or indirectly in US real estate through development, management, or ownership, including property agencies; The Bloomberg Barclays US Corporate High-Yield Index measures the US dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded; The HFRX Global Hedge Fund Index is comprised of funds representing the overall hedge fund universe. Constituent funds include but are not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, even driven, macro, merger arbitrage, and relative value arbitrage. The underlying strategies are asset weighted based on the distribution of assets in the hedge fund industry; The S&P Case-Shiller Home Price Index measures the value of single-family housing within the US. The index is a composite of single-family home price indices for the nine US Census divisions. Leading economic indicators (LEI) are statistics that precede economic events. They predict the next phase of the business cycle. The OECD Composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend, continue to strengthen in most major economies. The MOVE Index measures US interest rate volatility. The index tracks the movement in US treasury yield volatility implied by current prices of 1-month OTC options. The Cboe Volatility Index (VIX) is a real-time index that represents the market’s expectations for the relative strength of near-term price changes of the S&P 500 Index. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The Consumer Confidence Index is a measure based on a survey administered by The Conference Board that reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectations for inflation, stock prices and interest rates. A treasury Bill (T-Bill) is a short-term US government debt obligation backed by the treasury Department with a maturity of one year or less. The ISM manufacturing index, also known as the purchasing managers’ index (PMI), is a monthly indicator of US economic activity based on a survey of executives covering all North American Industry Classification System’s businesses in the manufacturing sector. The ISM Non-Manufacturing Index is a monthly indicator of US economic activity based on a survey of executives covering all North American Industry Classification System’s businesses in the services (or non-manufacturing) sector. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss. 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