

Open-End Net Fund Flows (\$)	8/23	7/23	YTD (Aug)
Equity	-40.8B	-42.6B	-299.2B
Taxable Bond	0.8B	10.7B	36.7B
Municipal Bond	-2.0B	0.4B	3.2B
Hybrid	-11.1B	-6.4B	-65.5B
Taxable Money Market	107.6B	21.5B	729.4B

Key Interest Rates/Yields	9/29/23	8/31/23	9/30/22
Federal Funds Target Rate	5.50%	5.50%	3.25%
2-Year T-Note	5.05%	4.87%	4.28%
5-Year T-Note	4.61%	4.26%	4.09%
10-Year T-Note	4.57%	4.11%	3.83%
Bond Buyer 40	5.05%	4.64%	5.03%

Commodities/U.S. Dollar	9/23	YTD	12 Mo.
U.S. Dollar Index (DXY)	2.47%	2.56%	-5.30%
Refinitiv/CC CRB Excess Ret.	0.93%	2.44%	6.05%
Crude Oil/WTI (per Barrel)	8.56%	13.12%	14.22%
Natural Gas (per million BTUs)	5.82%	-34.55%	-56.71%
Gold Bullion (Ounce)	-5.08%	1.20%	11.17%

Total Return Performance

U.S. Stock Indices	9/23	YTD	12 Mo.
S&P 500	-4.77%	13.06%	21.59%
DJIA	-3.42%	2.73%	19.18%
Nasdaq 100	-5.02%	35.37%	35.31%
S&P MidCap 400	-5.26%	4.24%	15.46%
Russell 2000	-5.89%	2.51%	8.87%
Russell 3000	-4.76%	12.38%	20.43%

U.S. Styles/Market Caps	9/23	YTD	12 Mo.
S&P 500 Growth	-4.87%	18.10%	19.81%
S&P 500 Value	-4.64%	7.54%	22.14%
S&P MidCap 400 Growth	-4.80%	6.83%	16.15%
S&P MidCap 400 Value	-5.75%	1.53%	14.45%
Russell 2000 Growth	-6.60%	5.23%	9.55%
Russell 2000 Value	-5.21%	-0.58%	7.76%

Foreign Stock Indices (USD)	9/23	YTD	12 Mo.
MSCI World NET (Ex-U.S.)	-3.37%	6.73%	24.00%
MSCI Emerging Markets NET	-2.62%	1.82%	11.70%
MSCI Europe NET	-3.97%	7.96%	28.85%
MSCI BRIC NET	-1.12%	-1.13%	7.67%
MSCI EM Latin America NET	-2.30%	12.89%	19.37%
Nikkei 225	-4.31%	9.03%	21.37%

Bloomberg Fixed Income Ind.	9/23	YTD	12 Mo.
U.S. Treasury: Intermediate	-0.96%	0.28%	1.30%
GNMA 30 Year	-3.09%	-1.77%	0.29%
Municipal Bond (22+)	-4.56%	-2.03%	3.06%
U.S. Aggregate	-2.54%	-1.21%	0.64%
Intermediate Corporate	-1.37%	1.35%	4.11%
U.S. Corporate High Yield	-1.18%	5.86%	10.28%
Global Aggregate	-2.92%	-2.21%	2.24%
EM Hard Currency Aggregate	-2.42%	1.06%	8.57%

Sources: Bloomberg and Investment Company Institute

Past performance is no guarantee of future results. Historical performance figures for the indices are for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and an investor cannot invest directly in an index.

Climate

At its most recent meeting (September 20, 2023), the Federal Open Market Committee (FOMC) voted to keep the federal funds target rate (upper bound) unchanged at 5.50%, marking the second pause in a series of eleven increases since March 16, 2022. Notably, the “dot plots” now indicate that the FOMC may implement just two rate cuts in 2024, down from the four cuts indicated at their meeting in June. Perhaps one reason for the change in the FOMC’s outlook is recent inflation data. In a signal that rates may need to stay higher for longer, inflation, as measured by the twelve-month trailing change in the Consumer Price Index (CPI), accelerated from 3.0% at the end of June 2023 to 3.7% at the close of August. Should rates remain elevated, we could see yields continue to rise. As discussed in the “Stock Market” and “Bond Market” sections below, rising yields on the 10-year Treasury note (T-note) may offer insight into the S&P 500 Index’s decline in September. Additionally, U.S. consumers are spending down their savings as they cope with higher prices and rising rates. The Federal Reserve Bank of San Francisco estimates that as of June 2023, U.S. households held less than \$190 billion of the excess savings (defined as the difference between the savings rate during the pandemic recession and its pre-recession trend). For comparison, excess savings peaked at nearly \$2.1 trillion in August 2021.

Stock Market

The S&P 500 Index (“Index”) closed September 2023 at 4,288.05, 10.60% below its all-time closing high of 4,796.56 on 1/3/22, according to Bloomberg. As of 9/29/23, the S&P MidCap 400 and S&P SmallCap 600 Indices stood 14.04% and 21.47%, respectively, below their record closing highs. In September 2023, the S&P 500 Index posted a total return of -4.77%. Ten of the eleven major sectors that comprise the index registered negative total returns for the month. The top-performer was Energy up 2.63%, while the worst showing came from Real Estate which was down 7.25%. The S&P 500 Index posted a total return of 13.06% over the trailing 12-month period ended 9/29/23. Six of the eleven major sectors were up on a total return basis. The index’s top performer was Communication Services, up 40.43%, while the worst showing came from Utilities which fell by 14.41%. September marked the second consecutive monthly decline in the Index. The equity risk premium could provide some insight into the index’s recent weakness. The equity risk premium (the difference between the earnings yield of the Index and the yield on the 10-year T-note) fell as low as 1.1 percentage points in July. A lower risk premium indicates that investors may not be receiving sufficient compensation for investing in equities versus government bonds, which are often viewed as low-risk.

Bond Market

The yield on the benchmark 10-year T-note closed trading on 9/29/23 at 4.57%, up 46 basis points (bps) from its 4.11% close on 8/31/23, according to Bloomberg. The 4.57% yield stood 230 bps above its 2.27% average for the 10-year period ended 9/29/23. On a year-to-date (YTD) basis, through 9/29/23, the yield on the 10-year T-note rose by 70 bps. The yield on the 2-year T-note stood 48 bps higher than the yield on the 10-year T-note at the end of September. This marks 15 months in a row where the yield curve has remained inverted between these two benchmarks. The 2/10 yield curve was inverted for six to twenty-four months before all but one U.S. recession between 1955 and 2018. From our perspective, the recent retreat in equity prices may be reflective shifting investor sentiment resulting from higher yields. As compensation for risk, an equity investment is expected to provide investors with the potential for higher returns when compared to a fixed income allocation. As the yield offered by government-backed debt rises, bonds becomes more attractive relative to investors’ equity return expectations. In turn, investors may choose to allocate more of their capital into government-backed bonds instead of equities.

Takeaway

Higher interest rates and rising bond yields appear to be having an impact on many facets of the U.S. economy. Under the burden of higher rates, home affordability fell to its lowest level since 1984 in September, with monthly payments requiring nearly 38% of a median U.S. household’s income. Black Knight reported that the typical mortgage payment (including principal and interest) for a median priced home in the U.S. with a 30-year fixed-rate mortgage and a 20% down payment stood at \$2,423 per month as of 8/24/23, an increase of 91% over the past two years. It’s not just consumers that are feeling the pinch. Moody’s revealed that its speculative-grade corporate default rate stood at 4.3% in August 2023, up from 2.8% in December 2022. Moody’s puts the historical average default rate at 4.1%. That said, consumer default rates remain below their historical averages. The S&P/Experian Consumer Default Composite Index stood at 0.78% in July (most recent data), up from 0.57% a year ago, but still well-below its 1.60% average since inception (7/31/04). Government bond yields have surged, pressuring equity valuations while at the same time offering investors a more competitive alternative to the equity markets. The real yield (yield minus inflation) offered by the 10-year T-note stood at 0.87% on 9/29/23, up from 0.41% on 8/31/23.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	4796.56	1/3/2022	1655.45	10/8/2013	4288.05	-10.60%	13.06%	1.61%
S&P 500 Growth	3423.28	12/27/2021	880.67	10/9/2013	2761.18	-19.34%	18.10%	1.27%
S&P 500 Value	1644.72	7/31/2023	765.00	10/8/2013	1519.95	-7.59%	7.54%	2.03%
S&P MidCap 400	2910.70	11/16/2021	1218.55	3/23/2020	2502.12	-14.04%	4.24%	1.81%
S&P MidCap 400 Growth	1427.19	11/16/2021	551.40	10/9/2013	1173.94	-17.74%	6.83%	1.54%
S&P MidCap 400 Value	932.50	2/2/2023	373.28	3/23/2020	810.53	-13.08%	1.53%	2.13%
S&P 100	2219.44	1/3/2022	736.27	10/8/2013	2009.73	-9.45%	19.00%	1.53%
DJIA	36799.65	1/4/2022	14776.53	10/8/2013	33507.50	-8.95%	2.73%	2.16%
Nasdaq 100	16573.34	11/19/2021	3142.54	10/9/2013	14715.24	-11.21%	35.37%	0.88%
Russell 2000	2442.74	11/8/2021	953.72	2/11/2016	1785.10	-26.92%	2.51%	1.74%
Russell 2000 Growth	1709.62	2/9/2021	573.10	2/11/2016	1140.98	-33.26%	5.23%	0.74%
Russell 2000 Value	2643.45	11/8/2021	1067.63	3/23/2020	2037.04	-22.94%	-0.58%	2.71%
Russell 3000	2804.93	1/3/2022	994.26	10/9/2013	2462.06	-12.22%	12.38%	1.59%
MSCI World Net (ex U.S.) (USD)	7936.92	9/6/2021	4189.62	2/11/2016	7121.20	-10.28%	6.73%	3.31%
MSCI Emerging Markets Net (USD)	699.23	2/17/2021	296.25	1/21/2016	494.90	-29.22%	1.82%	2.89%
Ibovespa/Brazil (USD)	29488.46	1/2/2020	9077.09	1/21/2016	23279.05	-21.06%	10.68%	5.32%
RTS/Russia (USD)	1919.58	10/25/2021	628.41	1/20/2016	1007.58	-47.51%	8.56%	5.45%
S&P BSE 500/India (USD)	337.94	1/13/2022	112.04	9/30/2013	329.80	-2.41%	12.09%	1.30%
Shanghai Composite/China (USD)	832.07	6/12/2015	320.10	3/20/2014	426.21	-48.78%	-2.32%	2.77%
KOSPI/South Korea (USD)	2.93	6/16/2021	1.16	3/19/2020	1.82	-38.09%	3.00%	1.87%
Hang Seng (USD)	4241.01	1/26/2018	1871.10	10/31/2022	2274.45	-46.37%	-7.17%	3.99%
MSCI Euro (USD)	1705.00	9/6/2021	865.50	3/18/2020	1448.05	-15.07%	11.27%	3.48%
S&P 500 Consumer Discretionary	1673.27	11/19/2021	467.16	10/9/2013	1264.00	-24.46%	26.58%	0.90%
S&P 500 Consumer Staples	841.99	4/20/2022	408.47	10/8/2013	727.36	-13.61%	-4.76%	2.73%
S&P 500 Energy	737.09	6/23/2014	179.94	3/18/2020	694.19	-5.82%	5.99%	3.43%
S&P 500 Utilities	394.81	9/12/2022	187.99	10/7/2013	299.20	-24.22%	-14.41%	3.67%
S&P 500 Financials	688.85	1/12/2022	263.53	10/8/2013	552.16	-19.84%	-1.65%	1.94%
S&P 500 Banks	461.87	1/12/2022	180.19	2/11/2016	289.63	-37.29%	-9.34%	3.72%
FTSE NAREIT All Equity REITs	980.08	12/31/2021	483.48	3/23/2020	650.53	-33.62%	-5.67%	4.51%
S&P 500 Health Care	1664.59	4/8/2022	576.96	10/9/2013	1501.22	-9.81%	-4.09%	1.73%
S&P 500 Pharmaceuticals	1038.11	9/12/2023	444.84	10/9/2013	971.55	-6.41%	-2.11%	2.54%
NYSE Arca Biotechnology	6319.77	2/8/2021	2021.33	10/9/2013	5014.81	-20.65%	-4.86%	0.27%
S&P 500 Information Technology	3207.29	7/18/2023	509.96	10/8/2013	2905.56	-9.41%	34.72%	0.88%
Philadelphia Semiconductor	4039.51	12/27/2021	485.11	10/9/2013	3434.29	-14.98%	36.92%	1.36%
S&P 500 Communication Services	288.46	9/1/2021	130.86	12/24/2018	222.21	-22.97%	40.43%	0.82%
S&P 500 Industrials	936.97	8/1/2023	392.07	10/9/2013	857.57	-8.47%	4.50%	1.78%
S&P 500 Materials	569.63	12/31/2021	234.97	1/25/2016	494.54	-13.18%	2.61%	2.12%
Philadelphia Gold & Silver	167.76	4/14/2022	38.84	1/19/2016	107.48	-35.93%	-9.75%	2.20%
Refinitiv/CC CRB Excess Return	329.59	6/9/2022	106.29	4/21/2020	284.53	-13.67%	2.44%	N/A
ICE BofA Perpetual Preferred	319.67	9/22/2021	181.79	10/9/2013	278.90	-12.75%	2.70%	7.32%
ICE BofA U.S. High Yield Constrained	522.13	12/28/2021	313.74	2/11/2016	490.99	-5.96%	5.97%	8.96%

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