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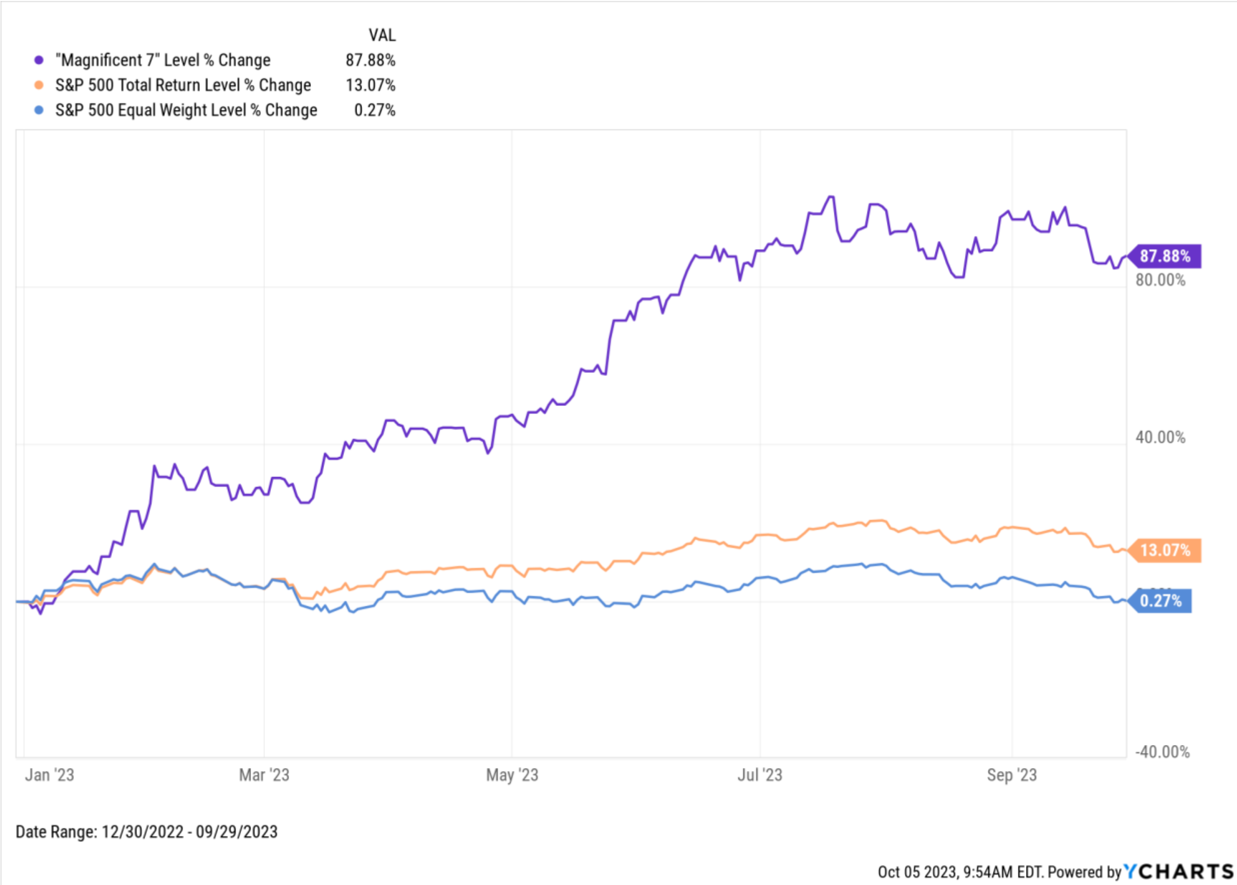
MARKET INSIGHTS - October 11, 2023
Seasons Change, Should You?

New England is well known for its changing seasons. The summer to fall transition, in particular, is noticeable this time of year as the sun-filled days get shorter, the nights get colder, football and soccer fields get used and the leaves start turning amazing colors. Long gone are shorts, t-shirts and sandals as jeans, jackets, shoes and socks are needed. The financial markets also tend to be seasonal and during the September/October period the changes can be quite pronounced. It is well documented that September tends to be the weakest month for markets and this year was no exception as the S&P 500 fell -4.9% during the month and closed the 3rd quarter in the red as well as stocks slid -3.7%.

With the Federal Funds rate now at an upper range of 5.5% rate, steadily increasing from near zero back in March 2021, it has taken a toll on rate sensitive sectors like Utilities, Real Estate and Financials, which have all been particularly weak. Meanwhile commodity-based sectors such as Energy have benefited from increased demand and limited supply as the price of oil marches towards $100 per barrel.

Outside of what has been dubbed "the Magnificent 7" (Nvidia (NVDA), Meta Platforms (META), Amazon.com (AMZN), Microsoft (MSFT), Apple (AAPL), Alphabet (GOOGL) and Tesla (TSLA)), stocks in general really haven't performed as well as might be expected despite the S&P 500 being ahead +13% year-to-date on a total return basis at quarter-end. These top seven companies have soared to new heights and now account for a whopping 27% of the entire index.



As we move into October with investors and the financial markets a bit on edge, the increased volatility could likely continue. Volatility does not necessarily mean a negative outcome. In fact, the month of October has historically been positive on average by month-end. However, it also tends to be one of the more volatile months with quite a few impactful market events throughout the years.

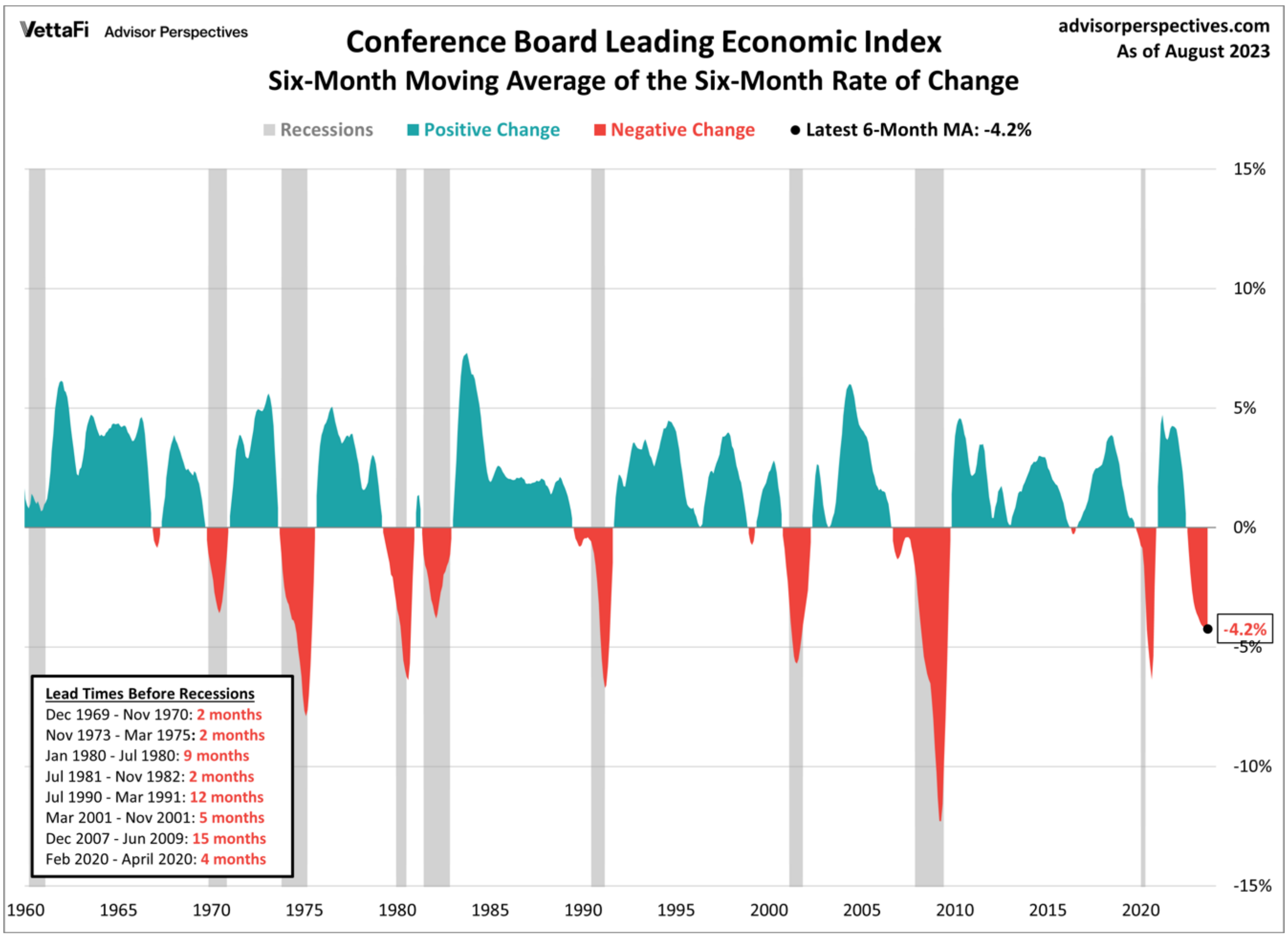
One cause of concern is short-term interest rates which are quite elevated. The 1-month to 2-year Treasury rates are all currently above 5% as the Federal Reserve continues its fight against inflation. This compares to the end of 2021 when these same rates ranged from 0.25% to 0.75%. That's a 5% increase in just under two years and levels we haven't seen in over 16 years going back to 2007. The dramatic rise in rates impacts the cost of borrowing and investing for businesses and consumers alike, along with just about everything else. *"The truth is that the rate of interest is not a narrow phenomenon applying to only a few business contracts, but permeates all economic relations. It is the link which binds man to the future and by which he makes all his far-reaching decisions. It enters into the price of securities, land and capital goods generally, as well as into rent, wages, and the value of all "interactions".*[1]

As has been widely advertised, the yield curve is inverted (and has been for the past 15 months) despite yields rising on the long end as well. The 10-year Treasury now stands at 4.6% at month-end, a level it hasn't been at since September 2007. Hopefully, at this point, the Federal Reserve has completed its tightening cycle and we have seen the last of the rate hikes. The Fed did decide to hold rates steady at their most recent meeting with

[1] Irving Fisher, *"The Rate of Interest,"* The MacMillan Company (1907), p. 336

inflation on the retreat, but left the door open for another hike if needed and indicated that rates will remain higher for longer. Meanwhile, the consumer is starting to show signs of weakness as retail sales growth has dipped below the historical average and credit card debt is on the rise. The excess savings from the mountain of fiscal stimulus provided during the Covid crisis and beyond is almost all but gone and student loan payments are set to resume. A saving grace has been employment which remains strong.

What does this mean for the economy and the market outlook for the remainder of the year? The leading indicators (LEI) have been telling the story of a recession for quite some time now, but we have so far avoided it. The LEI has been “in the red” for an astonishing 17 months while interest rates have been steadily rising. Most of the negative impact has been felt among the manufacturing components, but the financial components are starting to give way with credit conditions deteriorating. This suggests economic activity will decelerate and possibly contract in the coming 6 to 12 months.



With regards to the financial markets, stocks remain and always will remain, an important instrument for long-term investors to create wealth through increasing profits and the return of capital. They have been somewhat resilient this year as corporate profits have decreased less than feared. Yet as we pointed out previously, the positive gains have been contained to a narrow band of winners. In the short-term, we think investors should be cautious and not jump on the bandwagon. If the economy were to stumble or a negative event were to surface, the risk of a “flight to quality” moment increases. With interest rates elevated, cash and bond positioning has not been this attractive in a long time. For investors, much like the change in seasons can prepare people for what comes next, as markets transition it makes sense to rebalance and allocate accordingly to take advantage of the increased yields. There will come a day when stocks have a tailwind again, but it’s okay to wait. It’s not always going to be sunshine and rainbows. Those who are prepared for the stormy days, while demonstrating patience and prudence, will be rewarded with even sunnier days ahead.

“The stock market is a device for transferring money from the impatient to the patient” – Warren Buffett.

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Financial Market Data					
	September	September	Q3	2023	1 Year
U.S Stock Markets	**Closing Price**	**Monthly**	**Quarter**	**YTD**	**Return**
S&P 500 Index Price	$ 4,288.05	-4.9%	-3.6%	11.7%	19.6%
Dow Jones Industrials	$ 33,507.50	-3.5%	-2.6%	1.1%	16.6%
NASDAQ Composite	$ 13,219.32	-5.8%	-4.1%	26.3%	25.0%
Russell 2000 Index	$ 1,785.10	-6.0%	-5.5%	1.4%	7.2%
International Stock Markets	**Closing Price**				
MSCI EAFE Index	$ 2,031.26	-3.7%	-4.7%	4.5%	22.3%
MSCI Emerging Markets Index	$ 952.78	-2.8%	-3.7%	-0.4%	8.8%
U.S. Fixed Income	**Closing Price**				
90 Day T-Bill	$ 214.14	0.4%	1.3%	3.7%	4.6%
Bloomberg U.S. Aggregate	$ 2,024.02	-2.5%	-3.23%	-1.2%	0.6%
Bloomberg Municipal	$ 1,225.16	-2.9%	-3.95%	-1.4%	2.7%
	Closing Price				
Gold	$ 1,843.80	-5.1%	-3.6%	1.7%	10.3%
Oil (WTI Spot)	$ 91.04	9.0%	28.9%	13.6%	13.9%
Bitcoin	$ 26,917.20	-1.4%	-11.7%	62.1%	37.6%

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Sector Returns (S&P 500)*	Yield %	Monthly %	2023 YTD	1 Year %
Communication Services	0.8%	-2.8%	36.6%	36.5%
Technology	0.9%	-5.3%	31.7%	36.6%
Consumer Discretionary	0.9%	-4.8%	24.6%	11.9%
Energy	3.4%	3.0%	3.3%	29.2%
Industrials	1.7%	-6.0%	3.2%	22.8%
Materials	2.1%	-4.6%	1.1%	17.6%
Financials	2.0%	-3.4%	-3.0%	10.5%
Health Care	1.7%	-4.2%	-5.2%	6.6%
Consumer Staples	2.8%	-5.1%	-7.7%	4.0%
Real Estate	3.9%	-7.9%	-7.7%	-0.9%
Utilities	3.6%	-7.0%	-16.4%	-9.0%
*https://www.sectorspdr.com/sectorspdr/				

Economic Indicators	Current**	Sep-22	Sep-21	Sep-20	Sep-19
Real GDP quarterly	0.5%	0.7%	0.8%	7.6%	1.1%
Real GDP annualized	2.0%	2.6%	3.2%	30.4%	4.5%
Real GDP (prior 12 months)	1.9%	1.7%	4.7%	-1.5%	2.7%
Unemployment Rate	3.8%	3.5%	4.8%	7.9%	3.5%
Inflation (Core CPI)	3.7%	8.2%	5.4%	1.4%	1.7%
Fed Funds Target (upper limit)	5.50%	3.25%	0.25%	0.25%	2.00%
30-year Mortgage Rate	7.31%	6.70%	3.01%	2.90%	3.64%
10-year Treasury Yield	4.59%	3.97%	1.54%	0.66%	1.64%
10-2 Year Treasury Yield Spread	-0.44%	-0.33%	1.23%	0.55%	0.04%
CB Leading Economic Index (LEI)	-6.3%	-2.7%	5.3%	2.9%	0.1%
**most recent reported or current estimate					