Newsletter

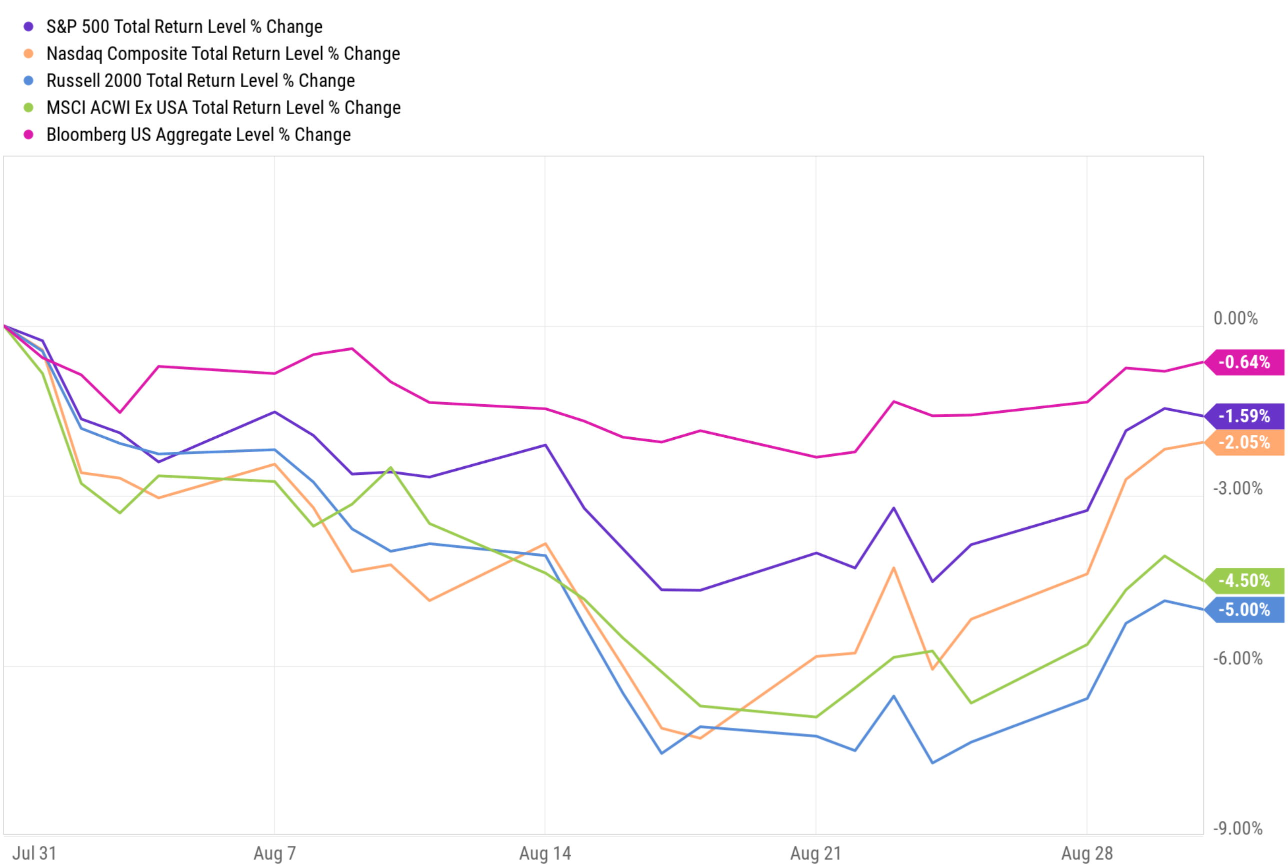
September 2023

Weak Returns

A spike in interest rates during the month of August led to weak returns across most markets. In addition, recall that we warned last month that August and September tend to be the two weakest months of the year. The S&P 500 declined -1.59%, the NASDAQ Composite lost -2.05%, the Russell 2000 dipped -5.00% and the MSCI ACWI index fell -4.50% during the month.

The bond market slipped modestly as the market grappled with a gaggle of events that could imply higher interest rates ahead. The 10-year US Treasury rate rose from 3.96% last month to 4.09% at the end of August. Accordingly, the Bloomberg US Aggregate index shed -0.64% during the period. (CHART 1)

Chart 1 - Weak Returns



Source: yCharts and Portfolio Partners

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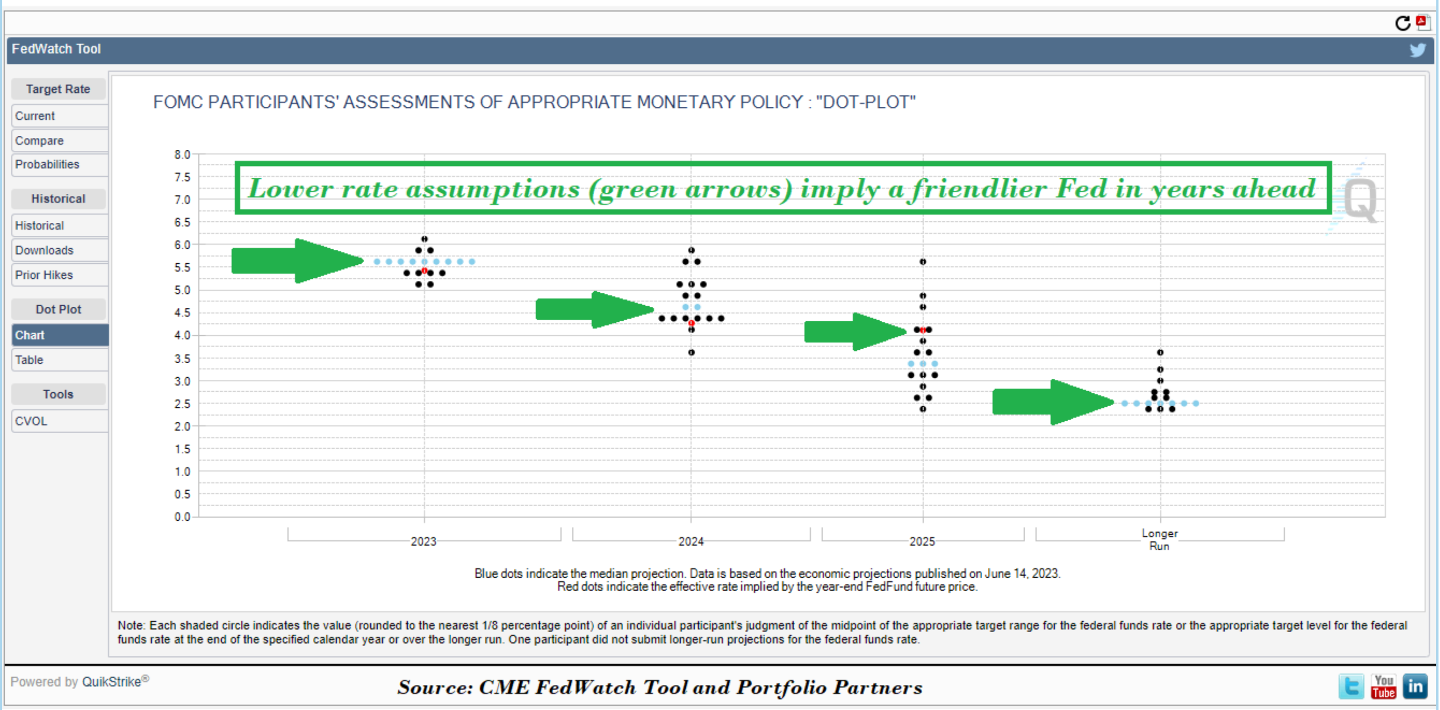
Cues from Yields

A plethora of events combined to push U.S. Treasury yields higher (and stocks lower) during August. First, the Bank of Japan (BoJ) announced in late July that it would be more flexible with yield curve control (YCC), which implies higher rates for Japanese bonds. Second, the U.S. Treasury has boosted bond sales to over \$100 billion from previous level of around \$96 billion. Third, strong economic data has rekindled fears of "re-flation" (from disinflation). Lastly, the Federal Reserve Board (Fed) continues to shrink its balance sheet, which means less demand for Treasuries.

Despite the rise in treasury yields, the CME FedWatch Tool continues to imply market expectations for the effective federal funds rate will likely remain at the current target of 5.25% to 5.50% through the end of 2023 and into 2024. This is important information as it continues to represent a divergence between the bond market and guidance from the Federal Reserve Board (Fed) for a target rate of 5.50% to 5.75%. We believe this relationship is noteworthy and implies the market is now looking forward to an incrementally more friendly Fed environment in the months (and years) ahead, which is typically positive for stocks and bonds. (CHART 2)

CHART 2



Source: CME FedWatch Tool and Portfolio Partners

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Data JOLTS Our Minds

We have kept our clients focused on employment over the past few newsletters to provide a simple data point that may correlate to the general condition of the economy. In this context, we have introduced the unemployment rate and initial claims data as different ways to monitor general employment. This month we will introduce the JOLTS report, which is the Job Openings and Labor Turnover Survey. According to the U.S. Bureau of Labor Statistics, “these data serve as demand-side indicators of labor shortages at the national level.”

If labor is in short supply (more jobs than people to fill them), wages often rise and vice versa. The Fed uses the JOLTS data to help assess the likelihood of continued wage inflation as they formulate interest rate policy. The July 2023 JOLTS report stated that the number of new job openings decreased to 8.83 million, which is below the 9.37 million average since the COVID-related lows in March 2020 but above the long-term average of 5.24 million since December 2000. (CHART 3)

We interpret this to mean that the job market is still healthy, but the Fed policy is having its intended effect of slowing down new job creation to help subvert inflationary pressures. This is often referred to as a “soft landing” and implies that the Fed can slow the economy just enough to stop inflation, but not so much that the economy breaks. We will continue to monitor and update as new clues are revealed.

Source: U.S. Bureau of Labor Statistics and Portfolio Partners

MARKET TRACKER – 8/31/2023				
INDEX	**3 mo**	**1 yr**	**3 yr**	**5 yr**
S&P 500	8.28%	15.94%	10.52%	11.12%
MSCI ACWI ex-USA	3.93%	12.49%	4.49%	3.83%
BLOOMBERG US AGGREGATE	-1.06%	-1.19%	-4.41%	0.49%

(Source: yCharts and Portfolio Partners)

MARKET TRACKER – 8/31/2023	
S&P 500	4,507.66
DIJA	34,721.91
NASDAQ	14,034.97
WTI CRUDE OIL	$83.63/BARREL
GOLD	$1,938.20/OUNCE
10-YEAR TREASURY FIELD	4.09%
UNEMPLOYMENT	3.80%
GDP	2.10%
PPI	0.80% Year-Over-Year
CORE CPE (INFLATION)	4.24% Year-Over-Year

(Source: yCharts, Dorsey Wright and Portfolio Partners)

Thank you for your trust and support.
Stay focused on your long-term objectives.

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The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as “growth” based on a multi-factor analysis.

The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.

The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of large-cap U.S. equity securities that are classified as “value” based on a multi-factor analysis.

The index, a member of the Dow Jones Total Stock Market Indices family, is designed to measure the performance of small-cap U.S. equity securities.

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The S&P 500® Consumer Discretionary comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

The S&P 500® Utilities comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks and is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange. The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index. The MSCI EAFE index is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. The Bloomberg Barclays US Aggregate Bond Index, which was originally called the Lehman 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 debt securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody’s and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The MSCI All-Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

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