



Markets At A Glance

Period	S&P 500	DJIA	MSCI EAFE	MSCI Emerging Markets	Barclays Intermediate Govt/Credit	Barclays 1-15 Yr Muni	INFLATION (CPI)
3rd Quarter	-3.3%	-2.1%	-4.1%	-2.9%	-0.8%	-2.9%	0.4%
12 Months	21.6%	19.2%	25.7%	11.6%	2.2%	2.5%	3.5%

Equity markets pulled back in the third quarter, primarily in reaction to higher interest rates. Investors shifted from concerns that the U.S. was headed into a recession to concerns that the economy is too strong and interest rates are not likely to be coming down for some time. Bond values also declined as interest rates rose across the full range of maturities.

The U.S. economy is slowing as the impact of higher interest rates is felt more broadly, but the strong labor market has helped keep growth positive. Corporate earnings have been better than expected so far in 2023. Consumer spending has held up very well but will be tested by higher oil prices and any softening in the labor market. Inflation has continued to decline and is well off the peak level last year. It will not be easy to get from current inflation levels to the Fed's long-term target of 2%. As a result, markets expect interest rates to stay higher for longer.

The Fed is nearing an end to the current rate hiking cycle, but its members intend to keep rates high as long as it takes to get inflation down further. Higher interest rates have resulted in yields on money market funds and other short-term investments that are very attractive and higher than they have been in some time. It is important to keep in mind that if the Fed starts cutting rates, yields could move much lower. Historically, when the Fed starts cutting rates, they usually make significant cuts very quickly. To minimize this risk of reinvesting at meaningfully lower yields, we believe this is a good time to lock in attractive yields on high quality intermediate-term bonds. These bonds continue to serve as a core component of balanced portfolios.

Markets are likely to continue to struggle until there is more visibility to the future path of interest rates. The next several months of inflation data and other economic reports will be closely watched. The overall economic outlook remains healthy, with growth slowing but not collapsing. If third quarter corporate earnings continue the strong trend of the last several quarters, markets will feel much better about the outlook for 2024 earnings.