



MARKET UPDATE

OCTOBER 6, 2023

The month of September was the toughest month this year for both stocks and bonds. As bond yields have increased over the year, stocks have mostly brushed such movement off. However, this month had the stock market taking notice and turning decisively lower. The S&P 500 fell 4.77%, the NASDAQ Composite fell 5.77%, and the Dow Jones Industrial Average fell 3.42%. In the meantime, U.S. Treasury yields rose across the curve with the 10-year settling at 4.58% at the end of the month, up 11.31% from 4.10% the month prior.

MAJOR STOCK INDEXES		
<i>Index</i>	<i>September</i>	<i>YTD</i>
S&P 500	-4.77%	13.07%
S&P 500 Equal Weighted	-5.08%	1.79%
Russell 1000 Growth	-5.44%	24.98%
Russell 1000 Value	-3.86%	1.79%
Dow Jones 30	-3.42%	2.73%
NASDAQ	-5.77%	27.11%
Russell 2000 (Small-Cap)	-5.89%	2.54%
MSCI EM (Emerging)	-2.57%	2.16%
MSCI EAFE (Developed)	-3.37%	7.59%
Barclays Agg Bond	-2.54%	-1.21%
Municipals (10 Year)	-2.76%	-1.57%

Source: FactSet

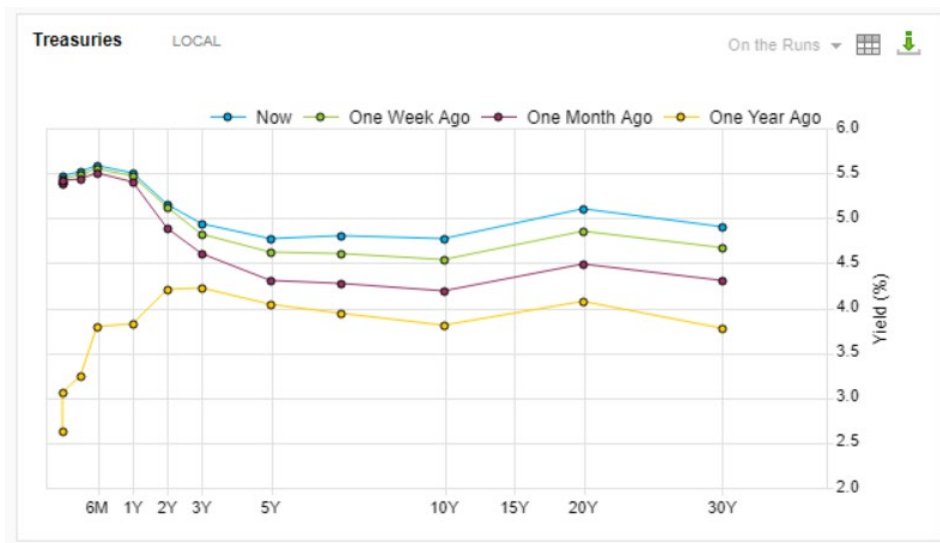
The U.S. Treasury market is often regarded as the foundation of financial markets and has for the better part of the past decade supported increasing stock prices through low or near-zero yields. This support appears to be waning as rates have risen following the Federal Reserve's efforts to combat inflation and we see term premiums turning positive for the first time in several years. Positive term premiums indicate investors seek additional yield to lock up dollars beyond money market exposure.

10-year Treasurys, term premium



Source: Federal Reserve Bank of New York, WSJ.com

While term premiums have trended down for decades, positive term premiums are more in line with historical figures. The negative term premiums we have seen have been the norm amidst our current inverted yield curve regime. Over the course of September, we have seen a steepening of the yield curve, contributing to the newfound positive term premium while also bringing longer term yields in line with policy rates. Perhaps fixed income investors have acquiesced to persistent Federal Reserve messaging that its benchmark interest rate will be maintained or even increased over the coming FOMC meetings and that the battle against inflation has yet to be won.



Source: FactSet

Such higher yields reduce the present value of growth stocks that rely on the future as opposed to more current earnings. The Russell 1000 Value fell 3.86% in September while the Russell 1000 Growth fell 5.44%, a 1.58% differential. Darlings of the Magnificent Seven fell the most in some cases with NVIDIA and Apple down 11.87% and 8.87% respectively.

Evidence points toward bond yields remaining elevated. While political brinksmanship in Congress has led to shutdown standoffs, government deficit spending shows no sign of abating. Meanwhile increased

supply of U.S. Treasuries places upward pressure on yields. Additionally, the economy is resilient with estimates of real GDP for 2023 at 2.00% and remaining positive for the foreseeable future. Finally, unemployment sits near record lows at 3.8%, bolstering the finances of American families while also sustaining the currently cooling but elevated inflation.

September has demonstrated that changes in the yield curve do not impact all stocks equally. We remain defensive in our equity allocation and believe thoughtful stock selection based on factors including business model, management quality, corporate governance, financial profile, and valuation can mitigate some of the yield-related volatility seen over the Federal Reserve's rate hiking campaign. We continue to favor investment grade fixed income and have maintained shorter duration positions which has provided portfolios with a relative benefit amidst the present steepening. Investors are tasked not only with determining what level interest rates may reach and be maintained but also the point at which the level is supportive or not supportive of equity valuations. Arriving at such a determination is both an art and a science. As such we monitor indices, markets, and economies from both a qualitative and quantitative perspective, seeking to build the most appropriate, risk-adjusted portfolio positioning for each one of our clients.

As always, we appreciate the opportunity to work with you. Please do not hesitate to reach out to your Seacoast Wealth Management team with any questions.

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Sources: JP Morgan Asset Management; NASDAQ; FactSet; Bloomberg; Broadridge: *Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks.*