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.

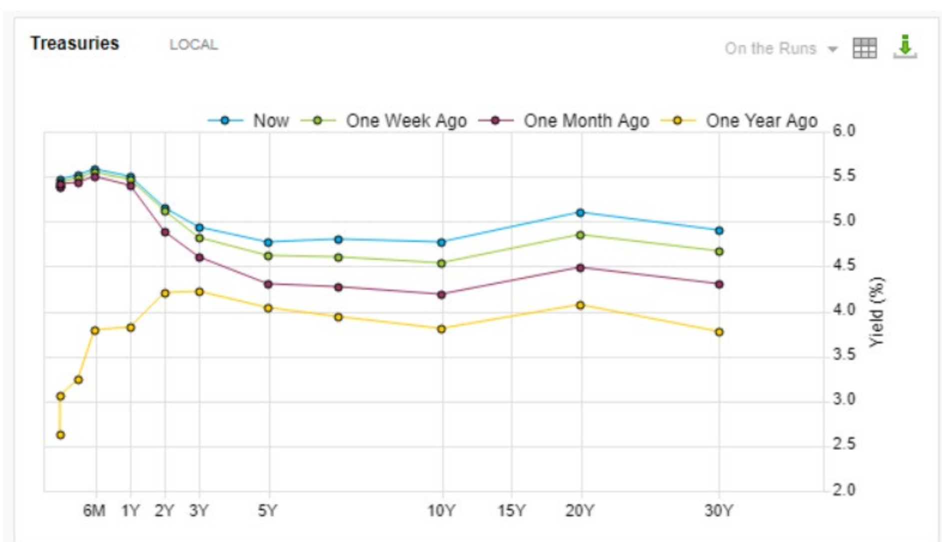
MAJOR STOCK INDEXES		
Index	***September***	***YTD***
S&P 500	-4.77%	13.07%
S&P 500 Equal Weighted	-5.08%	1.79%
Russell 1000 Growth	-5.44%	24.98%
Russell 1000 Value	-3.86%	1.79%
Dow Jones 30	-3.42%	2.73%
NASDAQ	-5.77%	27.11%
Russell 2000 (Small-Cap)	-5.89%	2.54%
MSCI EM (Emerging)	-2.57%	2.16%
MSCI EAFE (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.

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.