MARKET UPDATE

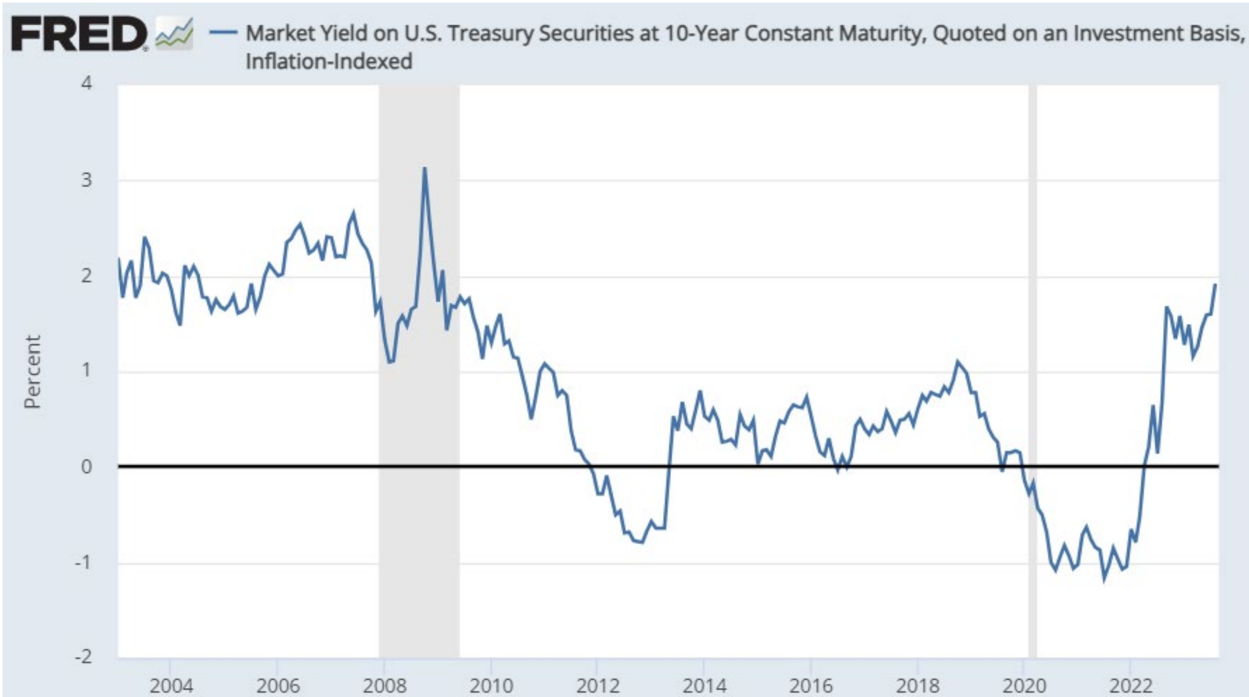
SEPTEMBER 11, 2023

The month of August saw bond yields rise while major equity indices fell, as investors rebalance portfolios following the strong first half of 2023. As nominal yields have risen, so too have real yields, offering opportunities in fixed income not seen in some time. Amidst these rising real yields, equity index returns turned negative: the Dow Jones Industrial was down (2.01%), while the S&P 500 and Nasdaq had their first negative month since February, down (1.59%) and (2.05%) respectively.

MAJOR STOCK INDEXES		
Index	***July %***	***YTD %***
S&P 500	-1.59%	18.73%
S&P 500 Equal Weighted	-3.16%	7.24%
Russell 1000 Growth	-0.90%	32.17%
Russell 1000 Value	-2.70%	5.88%
Dow Jones 30	-2.01%	6.37%
NASDAQ	-2.05%	34.88%
Russell 2000 (Small-Cap)	-5.00%	8.96%
MSCI EM (Emerging)	-6.13%	4.86%
MSCI EAFE (Developed)	-3.82%	11.35%
Barclays Agg Bond	-0.64%	1.37%
Municipals (10 Year)	-1.36%	1.22%

Source: FactSet

"T.I.A.A – There Is An Alternative" A real interest rate is arrived at by simply subtracting a measure of inflation from the nominal yield on a security such as the US 10 year treasury note. Following the Great Recession, this yield has been low or even negative in some cases, meaning the yield on bonds was not sufficient to match or significantly outpace inflation. Real yields have risen sharply following the Federal Reserve's rate hiking campaign and investor expectations for inflation going forward. The real yield on the 10-Year U.S. Treasury reached nearly 2% in August – a level in line with 2009.



Source: Federal Reserve Bank of St. Louis

Such real yields may now benefit savers, offering yields on cash and short-term fixed income investments that are meaningfully above inflation. It comes as no surprise that record numbers of investors have allocated to money market funds and FDIC deposits offering rates at or above 5%. Also noteworthy is the fact that such an environment allows investors to shorten duration by not requiring longer-dated securities to earn a return above inflation.

While high real rates are great for savers, the same cannot be said for equity investors who are dependent on growth and cash flow generation to generate positive returns. Equity valuations take into account interest rates to discount expected future cash flows back to the present. Higher interest rates reduce the value of cash flows far into the future, lowering present valuations. Companies with valuations that rely on lofty expectations of future growth are thus most impacted by rising rates. Conversely, dividend paying companies provide cash flows to investors closer to the present, making valuations less vulnerable to rising rates.

Not only do higher interest rates impact valuations, such a rate environment can also be a headwind for companies that rely on debt markets. For firms that are struggling to maintain positive cash flow, higher costs of refinancing their debt can cause liquidity issues and some may be unable to stay afloat.

Elevated rates may well be the new normal. The most recent speech of Fed Chair, Jerome Powell, in Jackson Hole Wyoming left no ambiguity. The Fed maintains its stance of keeping the policy rate elevated until inflation returns to its long-term target of 2%. If the economy continues to show resiliency, Powell indicated that future hikes could be on the table. Market participants have struggled to grasp this all year, betting on rate cuts in vain.

Index Name	Index Level	3 Yr Return Annualized
S&P 500 High Dividend Index TR Launch Date: Sep 21, 2015	30,466.71	13.60%
S&P 500 (TR) Launch Date: Sep 11, 1989	9,545.44	9.82%

Source: S&P Global

Our equity portfolio is comprised primarily of high-quality dividend paying stocks that are less impacted by rising real rates. As rates have risen over past three years, the total return of the S&P Dividend index outperformed the S&P 500 by 3.78%. While we are aware of the potential headwinds for equities in the short term, we remain focused, on our strategy as long-term investors. On fixed income we welcome the opportunity to earn positive real yields. While credit spreads remain historically tight, we continue to favor investment grade bonds on the short-end of the maturity curve issued by companies with strong balance sheets and low debt levels.

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.

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.*