September 2023

Monthly Market Commentary

We hope that you were able to enjoy the Labor Day Weekend! For most, Labor Day Weekend is bittersweet. On one hand summer has come to an end, but on the other hand Fall weather, Football, and kids returning to school are in full swing. For those residing in the Midwest, enjoy these next couple of months before it gets frigid. We wish you all continued health and happiness in 2023!

August portrayed a typical month of summer lull with meagre volumes. Globally, equity markets saw a small correction early in the month only to retrace and end the month slightly lower. On the fixed income side, interest rates saw a renewed leg higher on the long end of the curve that is wholly emblematic of higher real rates vs interest rates at the short end of the curve controlled by FED policy. This dynamic can be attributed to new information the market may be starting to reflect. We believe this is a function of structurally higher deficits requiring more treasury issuance while US debt was recently downgraded, and the FED continues unwinding its balance sheet. Also, inflation continues to remain sticky and elevated with renewed expectations for inflation inflecting higher that creates an uncertainty with respect to interest rate policy and higher for longer rates. In essence, investors are now demanding higher term-premium to own long term treasuries, and this is the basis for risk-free rates that underpin valuation across the asset class spectrum. This dynamic has not had an impact on asset prices yet and does not imply an imminent reset in valuation, however, it warrants some caution at the index level as valuations are higher relative to what would be consistent with a 2% real yield.

As we come to the end of the second quarter earnings season, companies have reported an aggregate revenue and earnings growth of 0.5% and -2.9% YoY compared to 3.6% and 0.1% YoY growth in the prior quarter. The trajectory of fundamentals continues to slow albeit at a snail’s pace and better than what was expected initially. The ISM services index remains in expansion with the latest print at 54.5 vs 52.7 prior while the ISM manufacturing index remains in contraction at 47.6 vs 46.4 prior. Considering the various economic indicators, we are now approaching the latter part of the economic slowdown that peaked in second quarter of 2021 and opportunities should start to present themselves over the next few quarters.