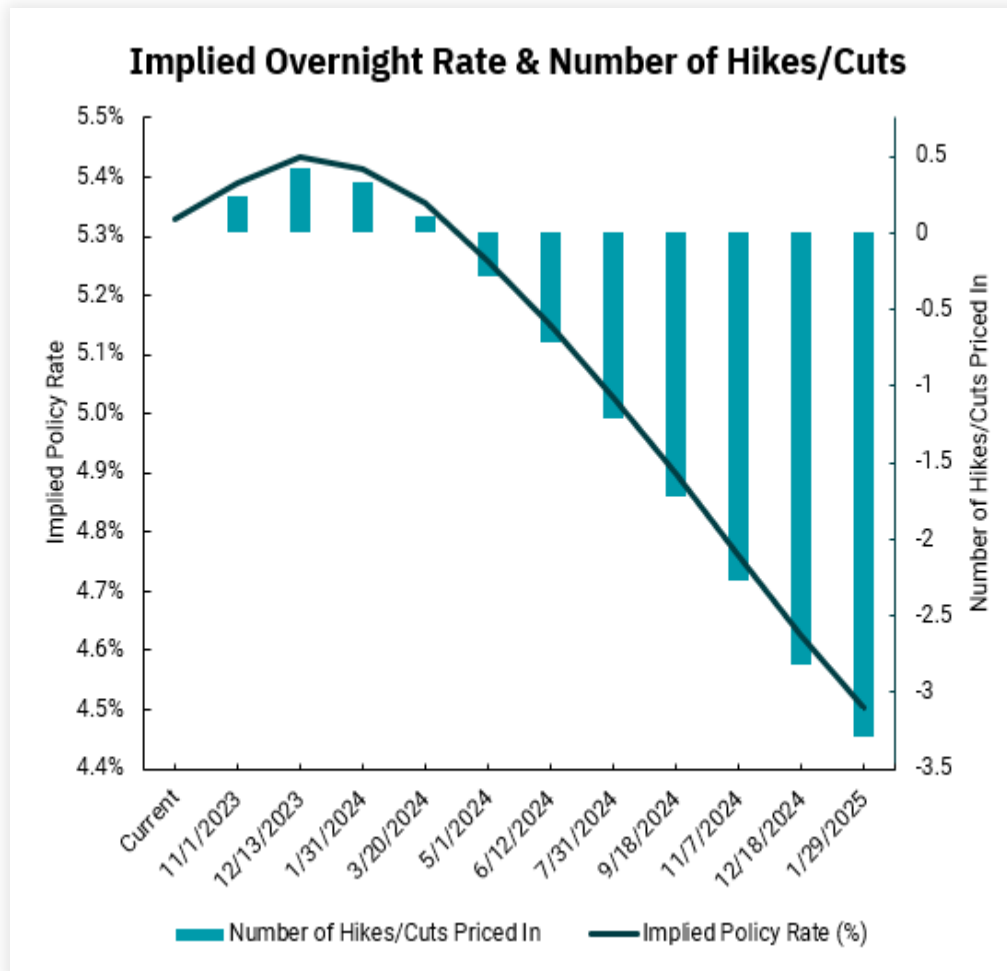


Weekly market update



Chart of the week (Oct. 13, 2023)



Forecasting the economy, markets and the future of interest rates is never easy. As recent events remind us, for all we know or think we know, things that are impossible to forecast and yet have material impacts on global, domestic, and local economies can happen, not to mention the oftentimes high human cost. Still, it can be helpful to think about possible outcomes as an exercise in attempting to measure the amount of risk one might be taking or have some idea of the range of returns one might expect.

Fed monetary policy is not the only thing influencing the domestic economy but is an important variable. Frankly, we have been surprised at how resilient the U.S. economy has been in the face of a significant period of rate increases and balance sheet reduction orchestrated by the Federal Reserve. Gross domestic product (GDP) growth remains positive, unemployment remains low, and while there are signs of consumer stress, we have recently pushed out our forecast on the possibility of a recession.

This does not mean the Fed cannot begin lowering rates as we move through 2024. Yet, we also have to understand it was only a few months ago when expectations were for rate cuts in the fourth quarter of 2023 - as in now. Instead, at its most recent meeting, the Fed penciled in the possibility of an additional rate increase between now and year-end. This week's chart shows what is currently built into the bond market based on rates of various maturities and the shape of the yield curve.

At present, the expectation is for inflation to continue its path toward the Fed's 2% target. Slowly, but continuing to decline over time. If this is correct, it should make sense for the Fed to begin easing rates and reducing the restrictive nature of their current policy. As the chart illustrates, the forecast is for overnight rates to fall between 0.75% and 1% next year, putting the overnight Federal Funds target around 4.5% from its current target of 5.25-5.5%.

Variances to this outlook could occur if inflation remains a bit stickier than forecast, and we know the Fed is well aware of the history of inflation coming in waves. This might mean the Fed acts a little differently than we have seen in recent years and is slower to reduce rates in order to reduce the chances of inflation bouncing back. At the same time, if events occur leading to the economy and inflation to slow more and faster than we currently expect, we could see rates fall even further than current forecasts. Our sense: Absent an exogenous shock, like further geopolitical unrest, we think inflation might be a bit harder to get down and the Fed might have to be slightly more restrictive for a bit longer. We do not think the Fed has to raise rates materially from here, but rate decreases might be slower to materialize.

Weekly market update

Commentary (Oct. 13, 2023)

Domestic Equities

- Large U.S. stocks have had a positive start to the fourth quarter, with gains over the past two weeks. Small caps continue to lag and have turned negative year-to-date. High interest rates pose a greater threat to small companies, which have a large percentage of long-term debt maturing in the next few years and will have to refinance at higher rates.
- Earnings season kicked off with large banks reporting this week. JP Morgan, Citi and Wells Fargo all beat expectations for both revenue and earnings as higher rates have allowed them to charge more for loans. The reports also showed that mortgage activity has declined sharply, more loans are starting to default and credit card balances are rising, with less being paid off each month.
- Oil prices rose sharply this week due to the crisis in the Middle East, one of the world's largest crude-producing regions.

Bonds

- U.S. Treasury yields retreated from recent highs on escalating conflict in the Middle East and falling rate hike expectations.
- The Federal Reserve (Fed) minutes from the committee's September meeting confirmed that a majority of the members believe that one additional rate hike will be needed this year. However, this sentiment may change, with several Fed officials over the last two weeks signaling that additional rate hikes may not be needed given the rise in U.S. Treasury yields over the last month.
- Credit markets were positive for the week, with both the high yield and investment grade segments benefitting from falling rates and narrowing spreads.
- In international markets, the central bank of Argentina hiked its main policy rate to 144% after inflation surged to 138% YoY in September.

International Equities

- Global investors looked past the conflict in the Middle East to push global stocks higher despite the headwinds of higher interest rates and volatile economic data.
- Foreign developed stock markets rebounded this week, with strong gains across Europe and the Pacific Rim markets. The rally in European stocks was bolstered by economic data from the United Kingdom, with reports showing modest economic growth despite the challenges from inflation and higher policy rates.
- Emerging markets found some momentum to break a three-week losing streak, with markets across Asia, Latin America and Europe posting gains. Chinese stocks advanced after a report that Beijing is considering broader fiscal stimulus, which could offer investors a confidence boost and support further gains in its stock market.

Economics

- The Bureau of Labor Statistics (BLS) reported the Consumer Price Index (CPI-U) increased 0.4% in September, lower than the 0.6% increase in August. Shelter prices were the largest contributor to the monthly increase. Over the prior 12 months, the index increased 3.7%. Excluding the more volatile food and energy, core CPI increased 0.3% in September and rose 4.1% over the prior 12-month period.
- Additionally, the BLS reported that the Producer Price Index for final demand rose 0.5% in September, as goods and services increased 0.9% and 0.3%, respectively.
- Finally, the BLS reported prices for imports increased 0.1% in September, mostly due to fuel costs. Despite the monthly increase, imports are 1.7% lower than 12 months ago. Export prices were 0.7% higher in September but have declined 4.1% over the prior 12 months.

Weekly Market Update

For Week Ending October 13, 2023

Markets

	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	33,670.29	0.8%	3.3%	14.5%
S&P 500 Index	4,327.78	0.5%	14.2%	19.9%
NASDAQ	13,407.23	-0.2%	28.9%	27.0%
S&P 400 Midcap Index	2,442.80	-0.5%	1.8%	8.0%
S&P 600 Smallcap Index	1,112.76	-1.0%	-2.5%	1.5%
MSCI EAFE	6,986.11	1.0%	6.1%	25.2%
MSCI Emerging Markets	494.30	1.5%	1.7%	14.3%
Bloomberg US Agg	2,019.41	1.0%	-1.4%	1.5%
Bloomberg Municipal 5 Yr	466.43	0.7%	-0.5%	2.0%
Bloomberg US Corporate	2,962.43	1.2%	-0.2%	4.5%
Bloomberg Glb Agg ex US Hdg	537.46	0.7%	3.1%	4.2%
Bloomberg High Yield	2,298.36	0.5%	5.1%	9.3%
MSCI US REIT Index	1,854.62	1.5%	-3.1%	3.2%
Bloomberg Commodity Index	238.94	2.8%	-2.8%	-4.6%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.50%	4.50%	3.25%
3-Month Treasury	5.48%	5.51%	4.34%	3.70%
1-Year Treasury	5.38%	5.42%	4.69%	4.43%
2-Year Treasury	5.05%	5.08%	4.43%	4.46%
5-Year Treasury	4.64%	4.76%	4.00%	4.20%
7-Year Treasury	4.65%	4.81%	3.97%	4.09%
10-Year Treasury	4.61%	4.80%	3.87%	3.94%
30-Year Treasury	4.75%	4.97%	3.96%	3.92%

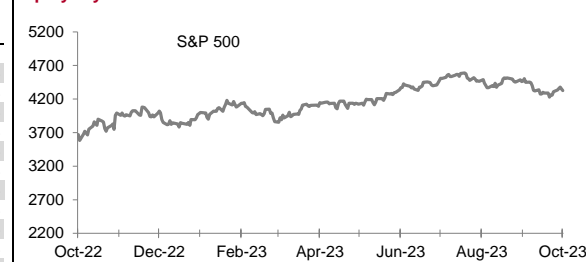
	Last Price/Yield	Prior Week	Year End	Year Ago
Consumer Rates				
30-Year Mortgage	7.80%	7.93%	6.66%	5.83%
Prime Rate	9.25%	9.25%	8.25%	7.00%
SOFR	5.31%	5.31%	4.77%	3.04%

	Last Price	Prior Week	Year End	Year Ago
Commodities				
Gold	1,932.82	1,833.01	1,824.02	1,666.37
Crude Oil (WTI)	87.69	82.79	80.26	76.91
Gasoline	3.61	3.72	3.21	3.90
Natural Gas	3.24	3.34	4.48	5.60
Copper	3.57	3.63	3.81	3.39

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	18.28	19.29	4.40	1.99
S&P 500	19.42	19.92	4.17	1.60
S&P 500 Value	16.79	17.35	2.71	2.13
S&P 500 Growth	22.24	22.88	7.53	1.17
NASDAQ	28.41	32.25	5.45	0.84
S&P Midcap 400	14.51	13.32	2.10	2.19
S&P Smallcap 600	13.84	12.55	1.62	1.96
MSCI EAFE	12.95	12.60	1.68	3.34
MSCI Emerging Markets	10.51	13.48	1.53	3.75

Source: Bloomberg

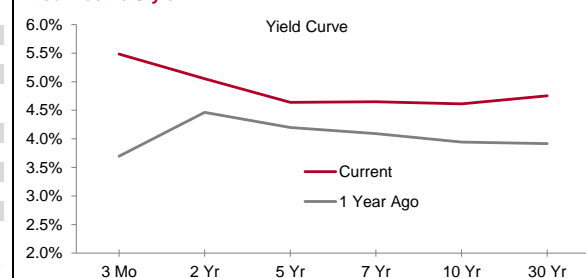
Equity Style



1 Month*			Year to Date*		
Value	Core	Growth	Value	Core	Growth
Large					
-4.39	-3.00	-1.85	7.31	14.17	20.44
Mid					
-6.02	-4.53	-4.01	-1.59	1.84	5.03
Small					
-6.02	-5.37	-4.68	-4.91	-2.49	-0.10

*S&P Indices

Fixed Income Style



1 Month*			Year to Date*		
Short	Interm.	Long	Short	Interm.	Long
Govt					
0.22	-0.50	-6.20	1.89	0.41	-9.28
Corp					
0.14	-2.33	-4.35	2.45	-0.30	-3.28
HY					
-0.47	-1.68	-4.23	7.03	5.24	1.58

*Bloomberg Indices.

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.7%	8.2%
Core Inflation	4.1%	6.6%
Personal Consumption Exp (PCE) Core	3.9%	5.2%

	Last Release	Year Ago
Jobs		
Unemployment Rate (U3)	3.8%	3.5%
Broader Unemployment Rate (U6)	7.0%	6.7%
JOLT Survey (in millions)	9.61	10.20
Jobless Claims (000's)	209	206
Change in Non-Farm Payroll (000's)	336	350
Average Hourly Earnings (Y/Y % Change)	4.2%	5.1%

	Last Release	Year Ago
Consumer & Spending		
Consumer Confidence (Conf Board)	103.0	107.8
Consumer Spending (\$ Bil)	18,727	17,692
Consumer Credit (\$ Bil)	4,969	4,779
Retail Sales (\$ Bil)	698	681

	Last Release	Year Ago
Housing		
Housing Starts (000's)	1,283	1,505
Case-Shiller Home Price Index	310.16	307.14

	Last Release	Year Ago
U.S. Productivity		
Real Gross Domestic Product (\$ Bil)	22,225	21,708
Quarter over Quarter Change	2.1%	-0.6%
Year Over Year Change	2.4%	1.9%
ISM Manufacturing	49.00	51.00
Capacity Utilization	79.67	80.71
Markit US Composite PMI	50.20	49.50

	Last Release	Year Ago
U.S. General		
Leading Economic Indicators	105.4	114.1
Trade Weighted Dollar Index	123.8	127.2
EUR / USD	1.05	0.98
JPY / USD	149.57	147.12
CAD / USD	0.73	0.73
AUD / USD	0.63	0.63

S&P 500 Sector Returns

	1 Month	YTD
Communication Services	-0.26%	44.67%
Information Technology	-0.89%	38.95%
Consumer Discretionary	-8.40%	25.49%
Industrials	-2.27%	4.93%
Energy	-2.20%	4.84%
Material	-4.22%	1.43%
Financials	-3.90%	-1.58%
Health Care	-1.55%	-3.00%
Real Estate	-4.53%	-4.68%
Consumer Staples	-6.41%	-7.55%
Utilities	-7.01%	-13.90%

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