Market Summary: 3rd Quarter 2023

The reality of interest rates staying higher for longer finally began to sink into both the Stock and Bond markets. Stronger economic data as well as persistent confirmation by the Federal Reserve of higher rates, pushed long term interest rates up by 0.73% during the quarter. This rapid rise in rates caused a decline in prices in almost all sectors of the global markets. The only bright spot was energy, which gained +4.7% due to supply cuts from Russia and Saudi Arabia, raising concerns of an imbalance in the oil market. Within the U.S. equity market, the AI driven rally earlier in the year was driven by 7 stocks within the "Growth" sector and helped pull the rest of the market up. However, with rising rates, valuations became even more stretched and proved to be unsustainable. Still there remains a huge performance gap of over +29% between "Growth" vs. "Equal Weight" stocks (see below), but it is all due to the performance of just a handful of stocks. Meanwhile the majority of the stock market is near flat performance for the year. The good news was that earnings did come in stronger than expected for the quarter; however corporate guidance for future growth was pessimistic. In sum, the path ahead looks much more challenging in the face of higher interest rates.

Index Returns:	QTD	YTD		QTD	YTD		QTD	YTD
US Blend Equity (Equal Weight)	-4.90%	1.69%	U.S. Growth	-2.87%	31.37%	U.S. Short Bond	0.11%	1.39%
Foreign Developed	-3.66%	6.74%	U.S. Value	-3.31%	-0.53%	Intermediate Corp Bond	-3.40%	-1.64%
Emerging Equity	-4.07%	0.92%	Small Blend	-5.17%	2.50%	High Yield Bond	-0.33%	4.14%

Market Outlook: The path of Inflation and Interest Rates will be the dominant drivers of the market in the near term and over the next year. Though inflation has improved, currently near 4%, it remains well a over the 15 year average and Fed's target of 2%, which will keep the Fed in a tightening position. The bigger issue is the onslaught of increased Treasury debt, the Fed's Quantitative Tightening (selling bonds) and how it all will get absorbed in the market. Since 2019, the national debt has grown from $22 trillion to over $33 TRILLION, an INCREASE of $11 trillion (half of which was in the last 2 years). This huge increase in debt supply is behind the move up in longer term rates. This increased supply of debt will continue to pressure prices lower/interest rates higher. Adding to the debt issuance is the cost of servicing the debt which is now +500 bpts (+5%) higher. This additional cost will be quite poignant over the next year as 30% of the total US debt is maturing and will be reissued at much higher rates. What this all means is the cost of borrowing and the cost of capital is rising dramatically, and will be a significant headwind for all risk assets. The good news is the economy appears resilient and growth will e positive but likely subdued.