October 2023

DeMarche Dashboard

A Flash Report on Markets and the Economy

Data and Commentary for the Period Ended 10/31/2023

Global Overview

Nearly all broad-based indices fell in October, with the exception of 3-Month US Treasury Bills Index and Bloomberg Commodity Index. Markets were primarily driven by geopolitical tensions and concerns about future economic growth. Although third quarter U.S. GDP and corporate earnings beat analysts' expectations in October, fear of slowing global growth and skyrocketing U.S. yields had a broader influence on domestic markets as the S&P 500 Index declined 2.1%. This is only nominally less than the MSCI World Index, which lost 2.9% and was dragged down by European countries.

U.S. Markets & Economy

Domestic returns for equities and fixed income faced another challenging month with most broad-based indices closing in the red. Beginning with Fed policy, the market predicted the Fed will hold rates steady at 5.5% during the FOMC meeting in November. This is in contrast to Fed meeting minutes, which revealed concerns about the potential for increased inflation as a result of global oil disruption causing rising food prices. Furthermore, the Fed pointed to robust current economic growth, which will likely keep them committed to a restrictive rate stance until inflation aligns with the Fed's objective, an average of 2% over the long-run. In spite of the Fed's higher for longer mentality, third quarter GDP grew at an impressive annual rate of 4.9%. This growth is primarily attributed to higher wages and strong retail sales. For instance, month-over-month retail sales exceeded expectations, growing by 0.7%, outpacing the forecast of 0.3%. Miscellaneous store retailers and nonstore retailers saw the most significant upticks. This robust performance in retail sales continues to contribute to persistent headline inflation, which has remained steady at 3.7%. GDP was not the only metric showing growth, as the Manufacturing PMI reached 50 points in September, signifying a stabilization in the health of the manufacturing sector, while Composite PMI grew to 51 points. Employment levels also remained stable, but have begun to trend downward. More specifically, U.S. non-farm payrolls increased 150,000 in October, below expectations of 160,000, and down from the previous month's report of 297,000. This aligns with the unemployment rate, which is still low, but did tick up to 3.9%. Nevertheless, equity indices fell due to the rapid rise in Treasury yields, which has also caused investors to grow concerned about the future economic environment as reflected in consumer confidence dropping to 63.8 points. Earnings season is underway, as approximately half of the companies in the S&P 500 Index have reported results. So far, 78% of these companies reported positive EPS surprise and 62% reported positive revenue surprise. To no surprise, the information technology sector led the charge in earnings beats, with 95% of companies reporting earnings above estimates, whereas the energy sector provided the biggest drag with only 60% of companies reporting an earnings beat. Despite these better-than-expected earnings, the S&P 500 Index fell 2.1% in October. The Russell 1000 Value Index also declined by 3.5%, despite its larger weight to financials, in particular banks such as Citigroup, Wells Fargo, and JP Morgan and Chase which all beat earnings expectations. Finally, small cap stocks widened their underperformance relative to large peers, as seen by the Russell 2000 Index declining 6.8% while the Russell 1000 Index only fell 2.4%. This may be in part due to the perception of small cap stocks having greater sensitivity to economic conditions.

As discussed, U.S Treasury yields soared to new heights further eroding longer-term bond returns. Investment-grade corporate spreads widened from 125 basis points to 132 basis points, driven by the risk-off sentiment alongside interest rate volatility and turmoil in the Middle East. Sector wise, all Bloomberg Indices showed negative performance, but corporates, financials, and industrials led the way down, as reflected in the Bloomberg U.S. Govt/Credit which declined 1.4%.

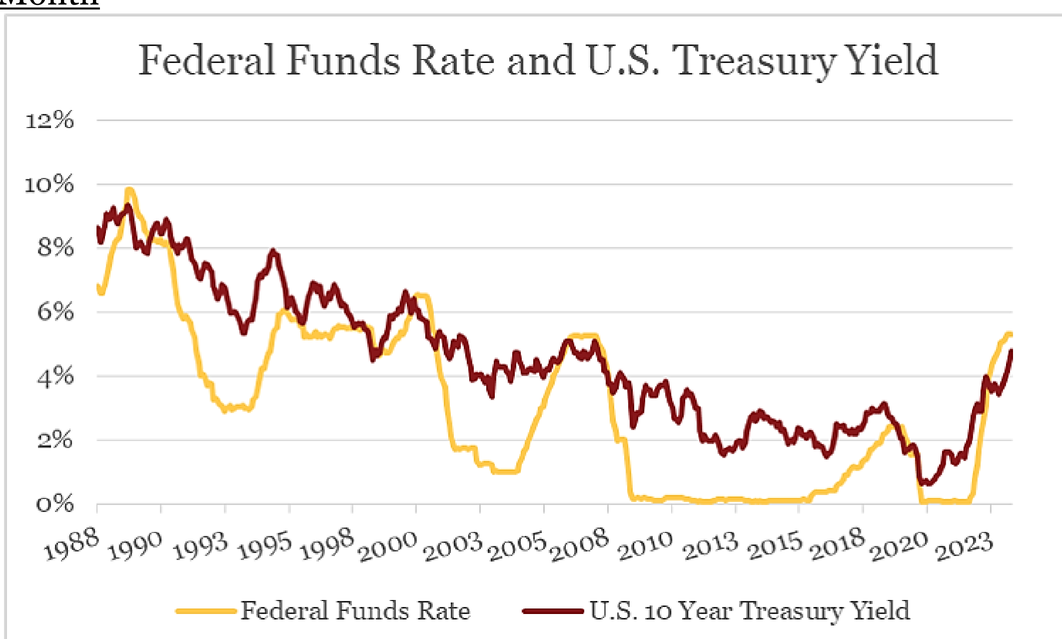
International Markets & Economy

International markets experienced heightened turmoil compared to the U.S. due to the escalating conflict in the Middle East. The conflict is expected to be geographically contained, preventing massive oil and supply shocks from rippling through the global economy. Notably, oil prices have fallen from their year-to-date peak in September due to concerns of global economic health. Nevertheless, oil prices still raise concerns in Europe as ECB policymakers have highlighted overall the inflation risk stemming from this conflict. The Eurozone continues to fear the possibility of a recession, especially following the Q3 GDP release, which declined 0.1% quarter over quarter. Further reflecting negative sentiment, Composite PMI continued to slump further into contractionary territory, declining to 46.5 points in October. Moreover, there has been a consistent decline in manufacturing and industrial production for the third consecutive month, indicating weakening demand. These ongoing concerns about high interest rates that could push the Eurozone into a recession, contributed to the MSCI Europe Index losing 3.7% last month. As for China, the stock market continued to free fall at the beginning of October, but was temporarily stabilized when the central government announced new debt issuance to support infrastructure and rebuilding costs. Additionally, multiple Chinese companies unveiled share buyback plans in October. Despite the fiscal stimuli and positive third quarter GDP growth of 1.3%, sentiment in China remains uncertain, leading to a 4.3% decline in the MSCI China Index. China's poor market performance drug the MSCI Emerging Markets Index down 3.9% during the month.

In the News

Continuing the upward trajectory since the September spike, the 10-year Treasury yield has reached a new 16-year high. As seen in the chart below, historically, the Federal Funds rate and the U.S. 10-year Treasury yield have generally moved in similar manner. This current surge is attributed to strong economic growth and reduced Treasury holdings from the largest buyers (Fed, commercial banks, and foreign buyers). So, what does this mean moving forward? In the short-term, the rising yields make it less likely for the Fed to implement an additional hike, which could further impact long-term bond returns. This is evidenced by the Bloomberg U.S. Govt/Credit Long Index losing 4.5% last month. In the longer-term, higher mortgage rates and borrowing costs could potentially have a negative impact on economic growth, as higher interest rates may reduce overall lending activity. For now, GDP growth remains strong at a 4.9% rate, but housing sales have felt the pinch and have declined steadily since February 2023. Yield spikes can create volatility in the equity market as well, as demonstrated by the VIX Index (CBOE Volatility Index), which hit a low point in early September, but has been on the rise over the last month and a half, indicating increased market volatility and fear. Despite equity volatility and negative bond returns, more expensive debt can act as a tailwind for private debt lenders, offering them an opportunistic market condition to capitalize on higher yields due to the floating rate nature of debt.

Chart of the Month



Source: FRED

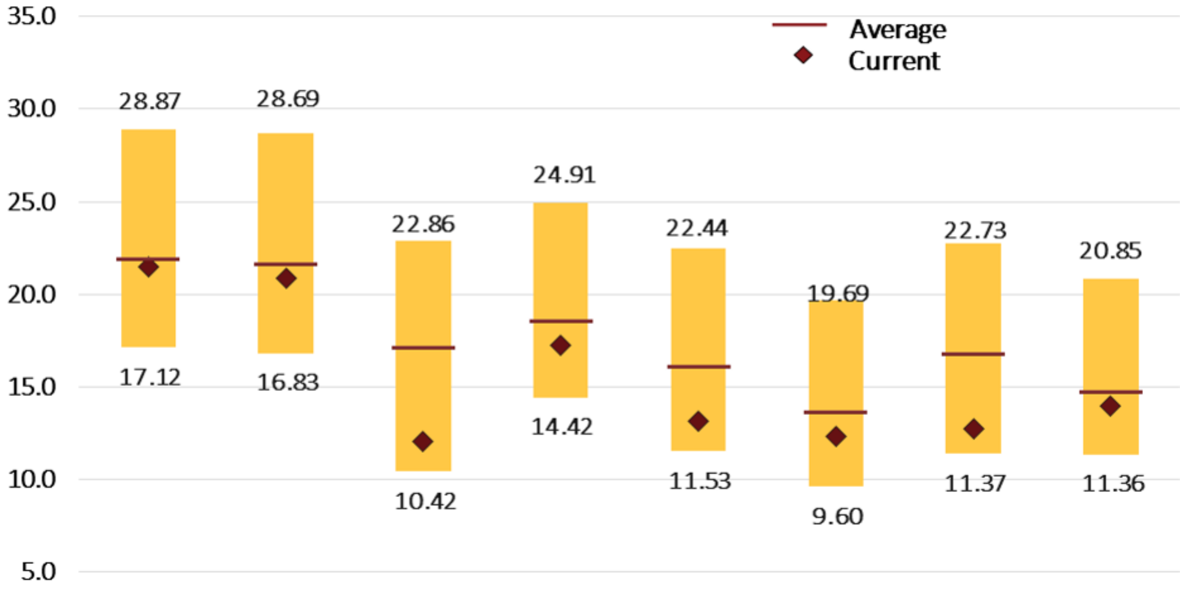
Capital Markets Overview

		TRAILING			ANNUALIZED			
		1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Broad Market	MSCI World NR USD	(2.90)	(9.31)	7.88	10.48	8.14	8.27	7.53
	Bloomberg US Agg Bond TR USD	(1.58)	(4.69)	(2.77)	0.36	(5.57)	(0.06)	0.88
	Russell 3000 TR USD	(2.65)	(9.08)	9.41	8.38	9.19	10.23	10.52
	DJ Industrial Average TR USD	(1.26)	(6.55)	1.44	3.17	9.84	7.96	10.34
	NASDAQ Composite PR USD	(2.78)	(10.42)	22.78	16.96	5.61	11.96	12.61
	MSCI EAFE NR USD	(4.05)	(10.88)	2.74	14.40	5.73	4.10	3.05
	FTSE Treasury Bill 3 Mon USD	0.47	1.39	4.29	4.94	1.94	1.80	1.16
	Bloomberg Commodity TR USD	0.27	(1.19)	(3.19)	(2.97)	15.79	6.65	(0.57)
Domestic Equities	S&P 500 TR USD	(2.10)	(8.25)	10.69	10.14	10.36	11.01	11.18
	S&P MidCap 400 TR	(5.34)	(12.91)	(1.30)	(1.06)	9.23	7.03	7.95
	S&P SmallCap 600 TR USD	(5.74)	(15.06)	(4.97)	(7.65)	8.98	4.28	7.13
	Russell 1000 TR USD	(2.42)	(8.63)	10.28	9.48	9.53	10.71	10.88
	Russell 1000 Growth TR USD	(1.42)	(7.62)	23.20	18.95	8.70	14.22	13.82
	Russell 1000 Value TR USD	(3.53)	(9.75)	(1.80)	0.13	10.21	6.60	7.60
	Russell Mid Cap TR USD	(4.99)	(12.90)	(1.28)	(1.01)	6.04	7.14	8.05
	Russell Mid Cap Growth TR USD	(5.10)	(12.70)	4.28	3.35	0.79	8.09	9.09
	Russell Mid Cap Value TR USD	(4.95)	(12.98)	(4.44)	(3.56)	8.78	5.69	6.89
	Russell 2000 TR USD	(6.82)	(16.69)	(4.45)	(8.56)	3.95	3.31	5.63
	Russell 2000 Growth TR USD	(7.71)	(18.29)	(2.87)	(7.63)	(1.83)	2.68	5.67
	Russell 2000 Value TR USD	(5.97)	(15.15)	(6.46)	(9.93)	9.73	3.26	5.20
International Equities	MSCI ACWI Ex USA NR USD	(4.13)	(11.35)	0.99	12.07	3.03	3.46	2.54
	MSCI EAFE NR USD	(4.05)	(10.88)	2.74	14.40	5.73	4.10	3.05
	MSCI EAFE Growth NR USD	(3.69)	(13.71)	0.46	10.79	0.47	4.46	3.77
	MSCI EAFE Value NR USD	(4.40)	(8.02)	5.08	18.11	10.97	3.30	2.10
	MSCI Japan NR USD	(4.50)	(8.77)	6.20	16.79	1.79	2.93	3.90
	MSCI AC Asia Ex Japan NR USD	(3.87)	(12.44)	(4.27)	13.52	(5.44)	2.09	2.71
	MSCI Europe NR USD	(3.73)	(11.23)	3.93	15.74	7.95	4.82	3.00
	MSCI United Kingdom NR USD	(4.17)	(8.78)	2.32	12.88	12.42	3.42	1.76
	MSCI EAFE Small Cap NR USD	(5.87)	(13.03)	(4.16)	6.47	0.26	1.58	3.36
	MSCI EM NR USD	(3.89)	(12.16)	(2.14)	10.80	(3.67)	1.59	1.19
Fixed Income	Bloomberg US Govt/Credit TR USD	(1.42)	(4.30)	(2.26)	0.74	(5.58)	0.30	1.08
	Bloomberg US Govt/Credit Interm TR USD	(0.46)	(1.55)	0.19	2.18	(3.01)	0.95	1.16
	Bloomberg US Govt/Credit Long TR USD	(4.50)	(12.51)	(9.65)	(3.66)	(12.78)	(1.44)	1.26
	ICE BofA US High Yield TR USD	(1.24)	(2.11)	4.66	5.82	1.24	2.88	3.78
	Credit Suisse HY USD	(1.26)	(11.18)	(1.13)	13.40	(2.02)	2.55	3.00
	Morningstar LSTA US LL Index TR USD	(0.02)	2.13	10.14	11.92	6.00	4.46	4.22
	FTSE WGBI NonUS USD	(4.22)	(11.18)	(1.13)	13.40	(2.02)	2.55	3.00
	Bloomberg Gbl Agg Ex USD TR USD	(0.92)	(6.08)	(4.08)	2.59	(8.81)	(3.01)	(1.92)
REITs	FTSE Nareit All REITs TR	(3.53)	(13.12)	(8.51)	(7.94)	2.62	2.18	5.19
	Wilshire US REIT TR USD	(4.55)	(13.31)	(4.71)	(4.78)	4.98	2.54	5.10

USD - US dollar priced index **TR** - Total Return **PR** - Price Return **LCL** - Local Currency Priced Index **NR** - Return includes reinvested net dividends

Source: Morningstar

Current Trailing P/E vs. Trailing 5-Year High, Low, Average



	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Mar-21	Mar-21	Nov-17	Mar-21	Mar-21	Jan-21	Mar-21	Jan-21
Low Month	Dec-18	Dec-18	Sep-22	Dec-18	Sep-22	Oct-22	Sep-22	Sep-22

Source: Morningstar

Economic Indicators

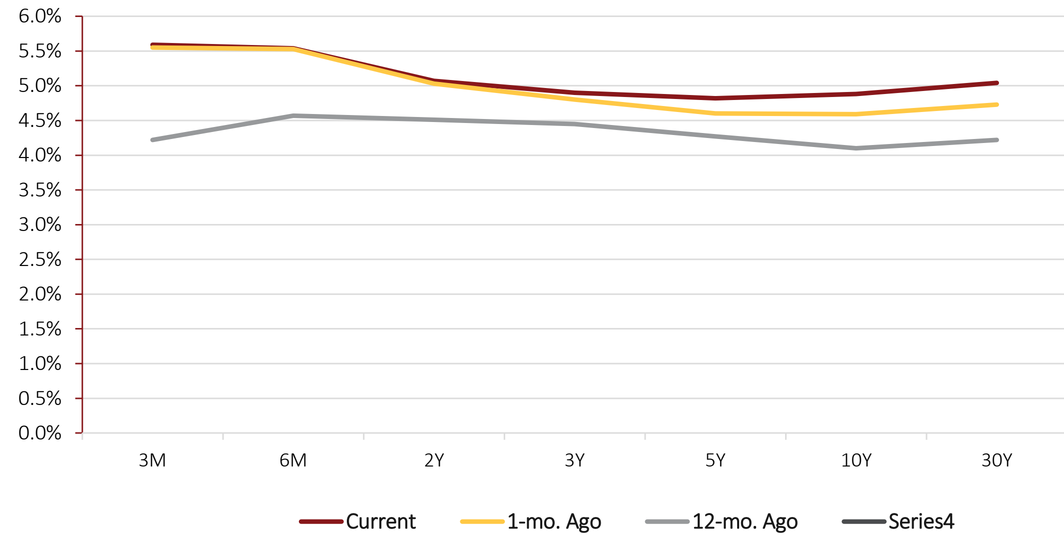
	GDP			Unemployment Rate	Interest Rates	Exchange Rates[3] per US $		Inflation[2]
	Latest[1]	2023[1]	2024[1]	*(Most recently available)*	*Sovereign Bonds, 10 Year*	Current	1 Year Ago	*(Most recently available)*
United States	4.90	2.20	1.30	3.90	4.88	-	-	4.10
China	1.30	5.10	4.60	5.00	2.72	7.32	7.22	0.80
Japan	1.20	1.80	1.00	2.60	0.95	149.60	146.02	2.80
United Kingdom	0.20	0.30	0.80	4.30	4.51	1.22	1.16	6.10
Euro Area	-0.10	0.60	1.10	6.50	3.51	1.06	1.00	4.20
Germany	-0.10	-0.20	0.90	5.80	2.81	1.10	1.00	4.30
France	0.10	1.00	1.20	7.20	3.43	0.94	1.00	4.60
Italy	0.00	0.80	0.80	7.40	4.73	1.10	1.00	4.21
Canada	0.00	1.20	1.40	5.70	4.07	1.39	1.35	2.80
India	1.90	6.30	6.00	7.10	7.35	83.07	80.25	5.02
Mexico	0.90	3.30	2.50	2.90	10.21	18.05	19.84	5.76
Brazil	0.90	3.20	1.70	7.70	11.82	4.95	5.28	5.95

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD
2. In terms of Core CPI
3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

U.S. Treasury Yield Curves

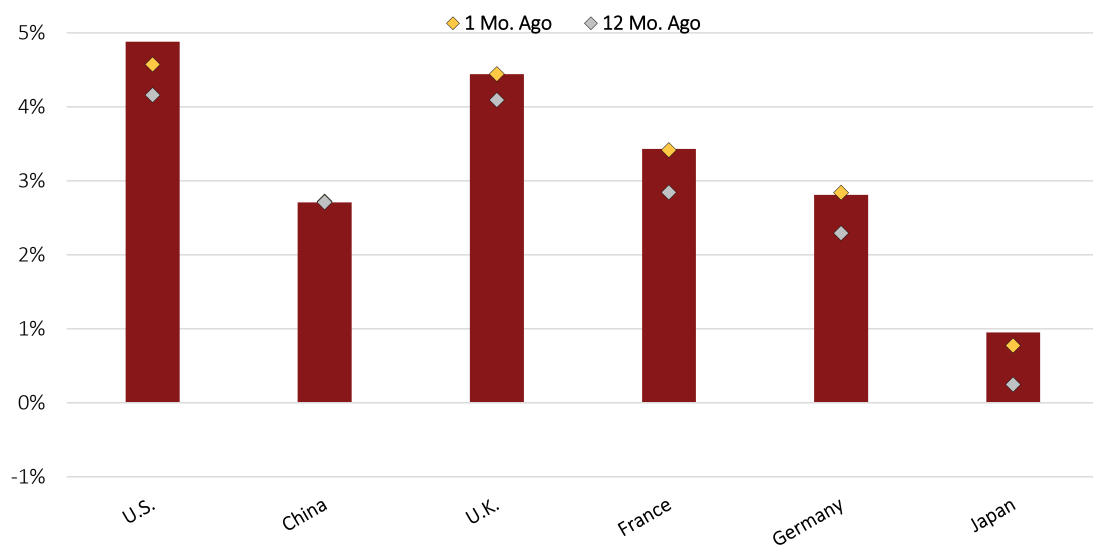
as of 10/31/2023



Source: Federal Reserve Bank

10-Year Sovereign Yields

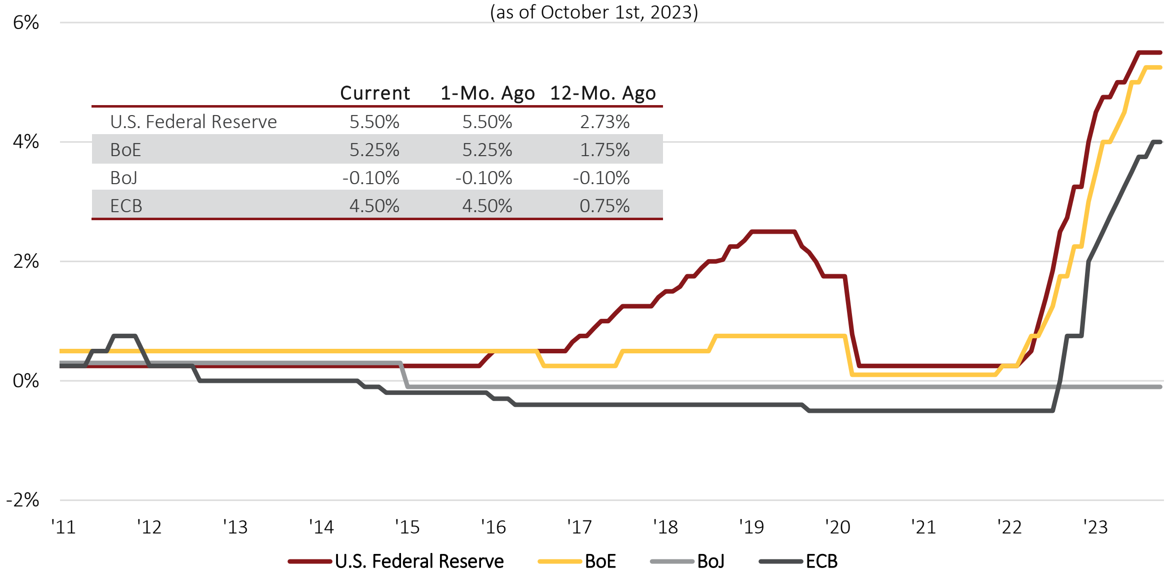
as of 10/31/2023 (most recently available)



Source: Trading Economics

Central Bank Policy Rates

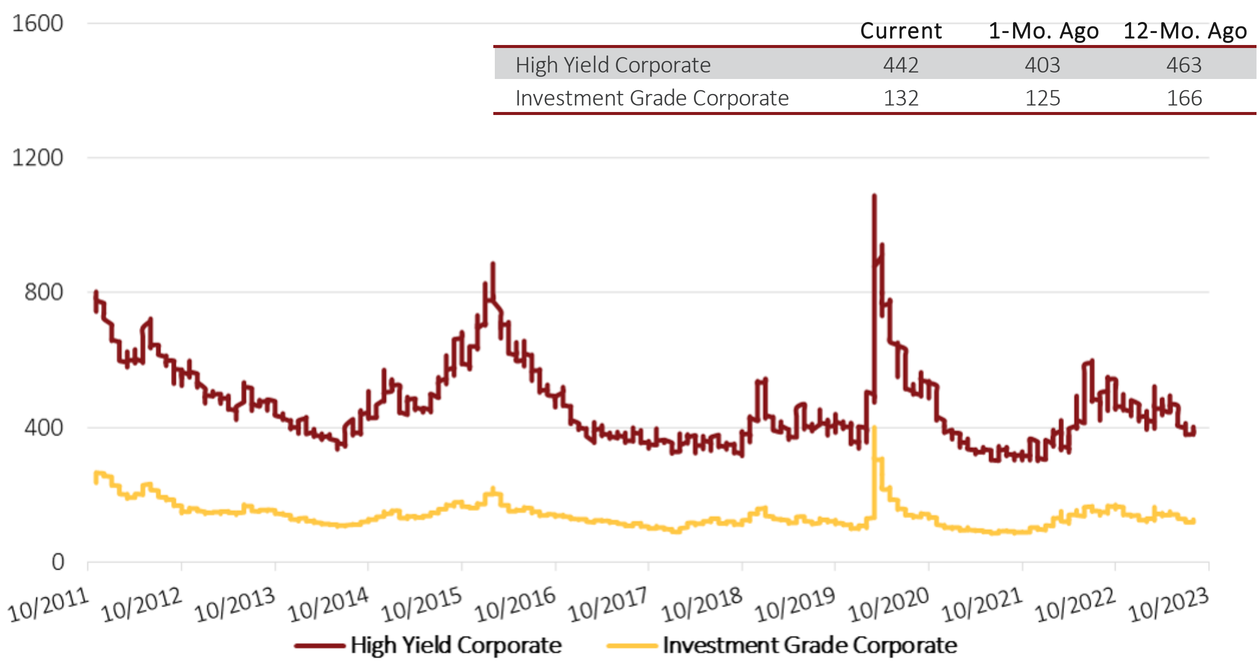
(as of October 1st, 2023)



	Current	1-Mo. Ago	12-Mo. Ago
U.S. Federal Reserve	5.50%	5.50%	2.73%
BoE	5.25%	5.25%	1.75%
BoJ	-0.10%	-0.10%	-0.10%
ECB	4.50%	4.50%	0.75%

Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

Corporate Bond Average Spread (bps)



	Current	1-Mo. Ago	12-Mo. Ago
High Yield Corporate	442	403	463
Investment Grade Corporate	132	125	166

Source: Federal Reserve Bank