QUARTERLY MARKET COMMENT
Third Quarter 2023

History implies, yet does not guarantee a repeat performance. But, this is what we got last quarter. Historically, the 3Q of the 3rd year of a presidential cycle is negative and the 3rd month of the 3Q is the most negative month of the quarter. After a nose-bleed run-up of just 7 stocks (known as the "magnificent 7") through July, the stock markets started to pull back for the remainder of the quarter. This was greatly influenced by the sharp rise in interest rates in the mid to long-term maturity of the bond market. For the 3rd quarter, long-term US Treasury bonds experienced a -12.58% return. The domestic and international stock market returns were in the low single digits. Real estate was also down. The only asset class with a positive return in the 3Q was US Commodities, up 5.81%. Energy was the best sector, up 12.2%, primarily driven by oil prices. Utilities, traditionally seen as a defensive sector, experienced the worst decline, down 9.2%.

To make some sense of where we are, it's important to reflect on where we have been. No doubt this has been and continues to be a very confusing time to invest. It has been an unprecedented last few years with the world experiencing a pandemic and the overwhelming policy response of stimulus injected into the global economy to jump-start us out of a recession. This led to high inflation, not just in the US. Central banks around the world moved swiftly to raise interest rates to bring down inflation. They are succeeding. The US inflation rate has gone from 9.1% last June to 3.6% last month. The Fed's goal is 2%, a rate that was difficult to achieve during the last decade at 0%. As a result, the markets have been digesting this smorgasbord of change. Short-term rates at 0% are not normal, but this is pretty much where we have been for well over a decade. People began to accept this as normal. Additionally, we have had an inverted yield curve (short-term rates yielding more than long-term rates) for almost 2 years now and this is not normal or healthy. Other than the Fed Fund rate, which the Federal Reserve controls, all other interest rates are market-driven. In August the yield on 10-year Treasury bonds swiftly moved up due to concerns surrounding the US deficit. This has created a great deal of pain as many consumer loans and credit cards are tied to this rate. Is the Fed done raising rates or could there be one more? Ultimately an objective is to get the yield curve back to normal (short-term rates lower than long-term rates). Are rate cuts coming in 2024? For now, the Fed has said, higher for longer.

It hasn't been the best of times, but it is certainly not the worst of times either. The underlying economy has been surprisingly resilient, defying all expectations in light of wars, labor union strikes, natural disasters, and political turmoil. Initially, there was a strong demand for supplies. This transitioned to services once supply chain issues were resolved. Inventories are right where they should be, unemployment is at historic lows, and job openings are at their highest point ever. This year GDP has grown from 2% to 2.4%, and 3Q is projected to be much higher. We are just starting to see the impact of higher mortgage rates on the housing market. Credit card debt is creeping up and savings rates are down. This may be the tipping point the Fed has been working towards- to slow down the economy. The most anticipated recession (or soft-landing) will happen sometime, we just don't know when. Short-term rates may not get cut until then.

It's easy to get caught up in the negative headlines. But remember, the markets are forward-looking, often 6 to 9+ months from where we are today. Just when we think things can't get worse, the markets seem to turn in a positive direction. Investing is about focusing on the long-term, not the short-term as the chart to the right illustrates.

Asset Index Category	3Q 2023 %	YTD Average %	5-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	-3.65	11.68	8.03	9.81
S&P 400 Index-Mid-size Companies	-4.58	2.95	4.38	7.24
Russell 2000 Index-Sm Companies	-5.49	1.35	1.02	5.21
US Real Estate Funds	-7.45	-3.32	2.15	5.23
Gold	-3.88	1.29	8.06	2.55
US Commodities	5.81	-1.22	6.45	-0.28
Global Real Estate Funds	-5.48	-4.23	-0.59	2.25
MSCI EAFE-Developed International	-4.71	4.49	0.58	1.11
MSCI EM Index-Emerging Markets	-3.71	-0.38	-1.89	-0.36
Barclays US Aggregate Bond Index	-3.23	-1.21	0.10	1.13
Long US Government Bond Index	-12.58	-10.75	-5.42	-2.25
Emerging Market Bond Index	-2.74	2.48	-0.33	0.42

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