

# MONTHLY MARKET PERSPECTIVES

September 2023

## U.S. ECONOMY

- The second estimate of second quarter GDP was revised down to 2.1% from 2.4%, reflecting lower inventories and nonresidential investment.
- The unemployment rate fell to 3.5% in July, from 3.6% in June.
- Consumer sentiment fell to 69.5 in August, down from 71.6 in July,
- Inflation, measured by the consumer price index (CPI), rose 0.2% in July, up 3.2% year over year, reflecting an increase in shelter prices accounting for 90% of the monthly rise.

## U.S. EQUITY MARKETS

- Volatility increased and the S&P 500 fell 1.59% in August. 99% of the S&P 500 has reported second quarter earnings with the majority reporting better-than-expected results. The blended earnings decline for the quarter is estimated to be 4.10%. The consumer discretionary sector had the largest blended earnings growth rate (54.56%) while the energy sector had the largest year-over-year decline (51.50%) in earnings. Companies with U.S.-focused businesses did better than those focused internationally. Analysts estimate that earnings will grow 2.2% this year and 12.0% in 2024.
- The Russell 1000 Value Index underperformed the Russell 1000 Growth Index (-2.70% versus -0.90%) in August. Large cap stocks, as represented by the Russell 1000 Index, outperformed small cap stocks, as represented by the Russell 2000 Index (-1.75% versus -5.00%). The energy and communication services sectors were the best performing, up 1.81% and -0.37% respectively, while utilities fell 6.16%.

## INTERNATIONAL ECONOMY AND MARKETS

- The MSCI EAFE Index, representing non-U.S. developed markets, fell 3.83%. The Bank of England raised its interest rate by 25 basis points (bps) to 5.25%.
- Emerging markets, represented by the MSCI Emerging Markets Index, fell 6.16%, driven by a 8.45% decrease in the MSCI China Index as investor worries about economic growth continued to mount.

## FIXED INCOME

- The yield on the 10-year U.S. Treasury rose as high as 4.34% during the month, the highest level since 2007, before settling at 4.12%. The 2-10 spread (the difference between the 10-year Treasury yield and two-year Treasury yield) narrowed its inversion to -76 bps from -92 bps in July. There are a few factors at play behind the recent rise in rates. Read more in our latest [SightLines](#).
- The Federal Open Market Committee (FOMC) minutes showed “almost all” participants judged it was appropriate to raise rates 25 bps to 5.25%-5.50% at its July meeting, a 22-year high, noting this would help to restore price stability. The minutes also stated there are signs inflation pressures could be abating; however, most participants see upside risk to inflation, “which could require further tightening on monetary policy.” This was reiterated during Federal Reserve (Fed) Chair Jerome Powell’s speech at the Jackson Hole Economic Symposium, acknowledging progress has been made in the fight against inflation but warning additional rate hikes could still come. Looking forward, the Fed intends to “proceed carefully,” remaining data dependent with three Fed meetings left in 2023.
- Traders of fed funds futures were pricing in a 7.0% probability that the Fed will raise the benchmark rate another 25 bps at the September meeting.
- Both investment-grade corporate and high-yield spreads widened during the month. The Bloomberg U.S. Aggregate Index fell 0.64%, and the Bloomberg U.S. Corporate High Yield Index rose 0.28%.

## CURRENCY/COMMODITIES/REAL ESTATE

- West Texas Intermediate (WTI) rose 2.24% to \$83.63/barrel in August from \$81.80/barrel in July.
- Gold prices fell in August, closing at \$1,940.19/oz., down 1.27% from \$1,965.09/oz. in July.
- The U.S. dollar rose in August against a basket of currencies, closing the month at 103.62 versus 101.86 in July.
- Domestic real estate finished the month lower, as the Wilshire U.S. Real Estate Securities Index fell 2.90% in August.

<b>North American Equity</b>	<b>MTD (%)</b>	<b>QTD (%)</b>	<b>YTD (%)</b>	<b>1 Year (%)</b>	<b>3 Year* (%)</b>	<b>5 Year* (%)</b>
Russell 3000 Index	-1.93	1.59	18.01	14.76	9.81	10.25
Standard & Poor's 500	-1.59	1.57	18.73	15.94	10.52	11.12
Standard & Poor's/TSX (CAD)	-1.37	1.17	6.94	8.49	10.36	7.80
<b>U.S. Equity by Size/Style</b>						
Russell 1000 Index	-1.75	1.63	18.58	15.40	9.93	10.77
Russell 1000 Growth Index	-0.90	2.44	32.17	21.94	8.25	13.81
Russell 1000 Value Index	-2.70	0.72	5.88	8.59	11.59	7.11
Russell 2000 Small Cap Index	-5.00	0.81	8.96	4.65	8.12	3.14
Russell 2000 Small Cap Growth Index	-5.21	-0.77	12.68	6.78	2.67	2.46
Russell 2000 Small Cap Value Index	-4.81	2.37	4.94	2.17	13.54	3.18
Russell Microcap Index	-6.65	-1.66	0.62	-4.79	6.04	0.89
<b>International Equity (USD)</b>						
MSCI AC World ex U.S.	-4.52	-0.63	8.78	11.89	3.99	3.33
MSCI EAFE	-3.83	-0.72	10.87	17.92	6.05	4.14
MSCI Europe	-3.97	-1.02	12.43	22.51	7.47	4.88
MSCI Pacific	-5.86	-1.74	-1.43	1.94	3.09	2.28
MSCI Japan	-2.42	0.52	13.59	15.30	3.88	3.11
MSCI Emerging Markets	-6.16	-0.32	4.55	1.25	-1.39	0.98
<b>U.S. Fixed Income</b>						
Bloomberg U.S. Treasury Bills: 1-3 Months	0.45	0.89	3.24	4.37	1.60	1.65
Bloomberg U.S. Aggregate	-0.64	-0.71	1.37	-1.19	-4.41	0.49
Bloomberg Gov't/Credit	-0.59	-0.67	1.53	-0.87	-4.58	0.75
Bloomberg Treasury	-0.52	-0.87	0.70	-2.07	-5.08	0.19
Bloomberg U.S. TIPS	-0.89	-0.77	1.09	-3.68	-1.49	2.29
Bloomberg Municipal Bond Index	-1.44	-1.05	1.59	1.70	-1.32	1.52
Bloomberg U.S. Credit	-0.72	-0.42	2.70	0.85	-4.08	1.32
Bloomberg Corporate High Yield	0.28	1.66	7.13	7.16	1.81	3.32
<b>Real Estate/Commodities/Alternatives</b>						
Wilshire U.S. Real Estate Securities Index	-2.90	0.11	6.97	-2.30	7.00	3.71
Wilshire Global ex U.S. Real Estate Securities Index	-2.70	2.38	0.04	-2.58	0.31	-1.93
Wilshire Global Real Estate Securities	-2.85	0.71	5.00	-2.34	5.04	1.97
Bloomberg Commodity Index	-0.77	5.44	-2.77	-8.67	15.18	6.68
S&P GSCI Commodity (S&P GSCI)	0.60	11.40	3.00	-1.77	26.19	5.53

Wilshire Liquid Alternatives Index	-0.29	0.54	3.15	2.31	1.85	1.59
Wilshire Liquid Alternative Equity Hedge Index	-0.34	1.18	7.44	7.86	5.74	3.40
Wilshire Liquid Alternative Event Driven Index	0.84	1.70	1.90	1.45	1.60	2.08
Wilshire Liquid Alternative Global Macro Index	-0.70	-1.48	-0.98	-2.77	4.10	3.08
Wilshire Liquid Alternative Multi-strategy Index	-0.31	0.96	3.59	3.09	2.01	1.00
Wilshire Liquid Alternative Relative Value Index	-0.34	0.25	1.59	-0.02	-0.99	0.37
Wilshire Focused Liquid Alternative Index	0.16	0.54	1.95	1.20	1.65	1.70

Source: Stifel Investment Strategy via Bloomberg as of August 31, 2023

\*Represents annualized returns

## DISCLOSURES

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Led by Stifel Chief Investment Officer Michael O’Keeffe, the Stifel CIO Office is comprised of several investment professionals. The team works collaboratively with other Stifel professionals to develop macroeconomic analysis, market analysis, strategic and dynamic asset allocation guidance, applied behavioral finance, and specific investment solutions for advisors and clients.

### Asset Class Risks

**Bonds** – Bonds are subject to market, interest rate, and credit risk. Prices on bonds and other interest rate-sensitive securities will decline as interest rates rise. Municipal bonds may be subject to state and alternative minimum taxes, and capital gains taxes may apply. High yield bonds have greater credit risk than higher quality bonds. Yields and market values will fluctuate, and if sold prior to maturity, bonds may be worth more or less than the original investment.

**Equities** – Portfolios that emphasize stocks may involve price fluctuations as stock market conditions change. Small and mid capitalization stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies.

**International/Global/Emerging Markets** – There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

**Alternative Investments** – Alternative investments involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing tax information, are not subject to the same regulatory requirements as more traditional investments, and often charge high fees, which may erode performance. An investment is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment. Alternative investments may include, but are not limited to: Real Estate Investment Trusts (REITs), Commodities, Futures, and Hedge Funds. **Real Estate** – When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance. **Commodities and Futures** – The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains. **Hedge Funds** – Investors should be aware that hedge funds often engage in leverage, short-selling, arbitrage, hedging, derivatives, and other speculative investment practices that may increase investment loss. Hedge funds can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information. While hedge funds may appear similar to mutual funds, they are not necessarily subject to the same regulatory requirements as mutual funds.

### Index Descriptions

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. The average market capitalization is approximately \$4 billion, and the median market capitalization is approximately \$700 million.

The Standard & Poor’s 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

The Standard & Poor's/TSX Composite Index is the benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange with about 250 companies included in it.

The NASDAQ Composite Index is a capitalization-weighted index that is comprised of all stocks listed on the National Association of Securities Dealers Automated Quotation System stock market, which includes both domestic and foreign companies.

The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The average market capitalization is approximately \$11 billion, and the median market capitalization is approximately \$3.5 billion.

The Russell 1000 Growth Index measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of those Russell 1000 index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the broader Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The average market capitalization is approximately \$490 million, and the median market capitalization is approximately \$395 million.

The Russell 2000 Growth Index measures the performance of those Russell 2000 index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index measures the performance of those Russell 2000 index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell Microcap Index is a capitalization-weighted index of 2,000 small cap and micro cap stocks, including the smallest 1,000 companies in the Russell 2000 plus 1,000 smaller U.S. based listed stocks. Over-the-counter stocks and pink sheet securities are excluded.

The MSCI World ex USA All Cap Index captures large, mid, small, and micro cap representation across 22 of 23 Developed Markets (D.M.) countries (excluding the United States). With 8,138 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in each country.

The MSCI EAFE Index (Europe, Australasia, and the Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips, and foreign listings (e.g. ADRs).

The MSCI Europe Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of the developed markets in Europe.

The MSCI Pacific Index captures large and mid cap representation across five Developed Markets (D.M.) countries in the Pacific region. With 470 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI EM (Emerging Markets) Europe, Middle East and Africa Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East, and Africa.

The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related, and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS (agency and nonagency). Provided the necessary inclusion rules are met, U.S. Aggregate-eligible securities also contribute to the multicurrency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt.

The Bloomberg U.S. Government/Credit Bond Index is a broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. It includes investment-grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related, and corporate securities.

The Bloomberg U.S. Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. The U.S. Treasury Index is a component of the U.S. Aggregate, U.S. Universal, Global Aggregate, and Global Treasury Indices.

The Bloomberg U.S. Treasury U.S. TIPS index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value.

The Bloomberg U.S. Municipal Index covers the U.S. dollar-denominated, long-term, tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

The Bloomberg U.S. Credit Index measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. It is composed of the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals, and local authorities.

The Bloomberg U.S. Corporate High Yield Bond Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

The Bloomberg Global Aggregate Bond Index is a flagship measure of global investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes U.S. dollar-denominated debt from sovereign, quasi-sovereign, and corporate E.M. issuers.

The Wilshire U.S. REIT Index is a float-adjusted market capitalization-weighted index that measures U.S. publicly traded real estate investment trusts (REITs), excluding mortgage REITs, net-lease REITs, real estate finance companies, home builders, large landowners and sub-dividers, hybrid REITs, and companies that have more than 25% of their assets in direct mortgage investments.

The Wilshire ex U.S. Real Estate Investment Trust Index<sup>SM</sup> (Wilshire ex U.S. REIT) measures global publicly traded real estate investment trusts, less all U.S. securities. The Wilshire ex U.S. REIT is a subset of the Wilshire ex U.S. Real Estate Securities Index<sup>SM</sup> (Wilshire ex U.S. RESI).

The Wilshire Global REIT Index is a float-adjusted, market capitalization-weighted index that measures global publicly traded real estate investment trusts (REITs), excluding mortgage REITs, net-lease REITs, real estate finance companies, home builders, large landowners and sub-dividers, hybrid REITs, and companies that have more than 25% of their assets in direct mortgage investments.

Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted two-thirds by trading volume and one-third by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the sixth to the tenth business day based on the roll schedule.

The S&P GSCI Crude Oil Index is a sub-index of the S&P GSCI Commodity Index. The production-weighted index reflects the returns that are potentially available through an unleveraged investment in the West Texas Intermediate (WTI) crude oil futures contract.

The S&P GSCI (formerly the Goldman Sachs Commodity Index) serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. The index was originally developed by Goldman Sachs. In 2007, ownership transferred to Standard & Poor's, which currently owns and publishes it. Futures of the S&P GSCI use a multiple of 250. The S&P GSCI contains as many commodities as possible, with rules excluding certain commodities to maintain liquidity and investability in the underlying futures markets. The index currently comprises 24 commodities from all commodity sectors.

The Wilshire Liquid Alternative Index<sup>SM</sup> measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe. The Wilshire Liquid Alternative Index (WLIQA) is designed to provide a broad measure of the liquid alternative market by combining the performance of the Wilshire Liquid Alternative Equity Hedge Index<sup>SM</sup> (WLIQAEH), Wilshire Liquid Alternative Global Macro Index<sup>SM</sup> (WLIQAGM), Wilshire Liquid Alternative Relative Value Index<sup>SM</sup> (WLIQARV), Wilshire Liquid Alternative Multi-Strategy Index<sup>SM</sup> (WLIQAMS), and Wilshire Liquid Alternative Event Driven Index<sup>SM</sup> (WLIQAED).

The Wilshire U.S. Real Estate Securities Index<sup>SM</sup> (Wilshire US RESI) measures U.S. publicly-traded real estate securities. Designed to offer a market-based index that is more reflective of real estate held by pension funds, the Wilshire US RESI is comprised of publicly-traded real estate equity securities and unencumbered by limitations of other appraisal-based indexes. It can serve as a proxy for direct real estate investing by excluding securities whose value is not always tied to the value of the underlying real estate. Exclusions include: mortgage REITs, net-lease REITs, real estate finance companies, mortgage brokers and bankers, commercial and residential real estate brokers, home builders, large landowners and sub-dividers of unimproved land, hybrid REITs and timber REITs. The rationale for the exclusions is that factors other than real estate supply and demand, such as interest rates, can influence the market value of these companies.

Indices are unmanaged, do not reflect fees or expenses, and you cannot invest directly in an index.

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