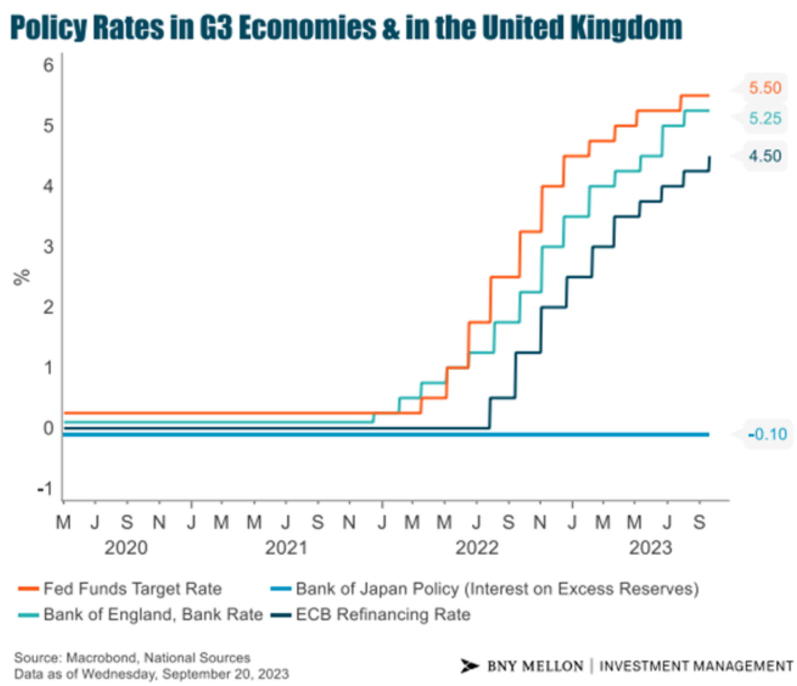
ENCORE INVESTMENT
ADVISORS

SEPTEMBER 2023 MARKET REVIEW

	9/30/2023 Level	QTD Change	1 Year Change
S&P 500	$4,288	-3.3%	21.6%
MSCI ACWI Ex USA	$265	-3.8%	20.4%
MSCI Emerging Markets	$495	-2.9%	11.7%
Bloomberg US Aggregate	$2,024	-3.2%	0.6%
10 Year Treasury Rate	4.58%	+74 BP	+94 BP
Bloomberg Commodity Index	$237	4.7%	-1.3%
Bitcoin	$26,917	-11.7%	37.6%

Now that the calendar has turned to October, we are finally through what has historically been the weakest two-month period for equity markets. 2023 has followed this familiar pattern after markets rallied in July, then trended lower in August, and then in September selling pressure accelerated, which has unfortunately carried over to early October. Global equities fell -3.5% for the quarter, slightly underperforming US fixed income which fell -3.2% as interest rates rose dramatically. On a year-to-date basis, global equities have returned 11.1%, due to strong performance out of the US and Japan. The main storyline, however, has been the recent move in the US treasury yield curve. As we will touch on below, short-term rates, being tied to central banking policy, have moved higher in lock step with the interest rate hikes in the Fed Funds Rate. It is the longer end of the yield curve that has been making noise more recently; the 10-year US treasury has risen about 130 basis points to around 4.8% over the past six months, driving significant capital losses for bond investors and simultaneously spooking equity investors.

There is no rhyme or reason in explaining why the end of summer tends to be a difficult period in markets. While the reason could have something to do with the changing weather or the start of a new school year, it is far more likely that as we near year-end, investors tend to reassess their portfolios to make changes based on their outlook for the upcoming year. The drivers of the volatility this year are the rapidly increasing interest rates, a weakening economic landscape in Europe and Asia, and self-inflicted wounds in the US. Stocks were able to shake off higher rates earlier in the year, however the recent move higher in interest rates has spurred investors to pivot from equities into money market and fixed income. Is the July and August change in interest rates (higher) and stocks (lower) indicative of seasonal factors, or has there been a major shift in outlook? The larger question is whether or not markets have entered a higher interest rate and inflation environment after a decade plus of low rates after the Global Financial Crisis.



We unfortunately do not have a crystal ball and cannot answer the above questions with any certainty; however, it is becoming highly likely that interest rates will remain elevated far longer than initially projected, barring a recession. The Fed, Bank of England, and European Central Bank (ECB) are leading the charge against persistent inflation through their interest rate and balance sheet policies. At the September Fed meeting, the Federal Open Market Committee (FOMC) adjusted their interest rate forecasts for 2024, which now show base rates at higher levels relative to their view three months ago. The FOMC maintains its base case of a soft landing through solid GDP growth and a strong employment market, coupled with easing inflation. However, in Powell's press conference he noted that a soft landing is the "primary objective" not a "baseline expectation"; a strange differentiation given their economic projections. This comment certainly played a role in sending stocks lower after the press conference. In Europe, the Bank of England maintained rates at 5.25%, while the ECB raised rates in September. The market expectation is that we have now reached peak rates in Europe and are at (or at least very close to) peak rates in the US.

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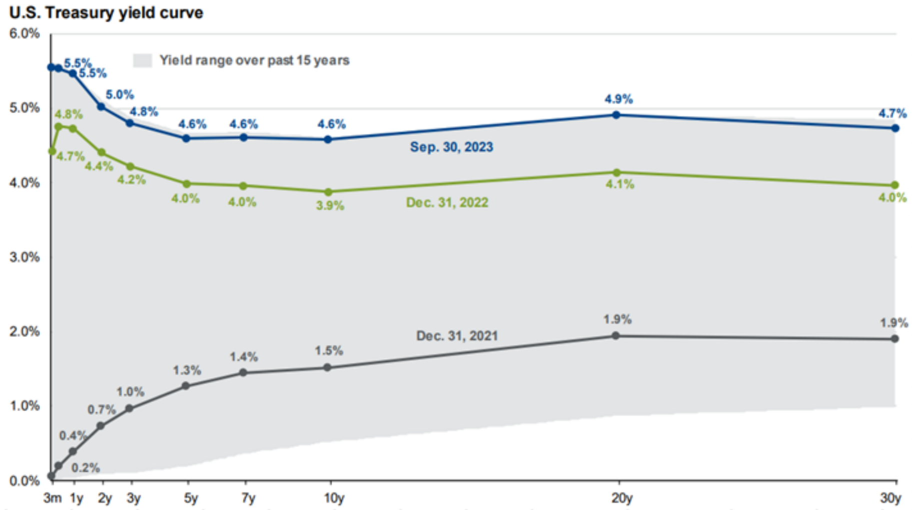
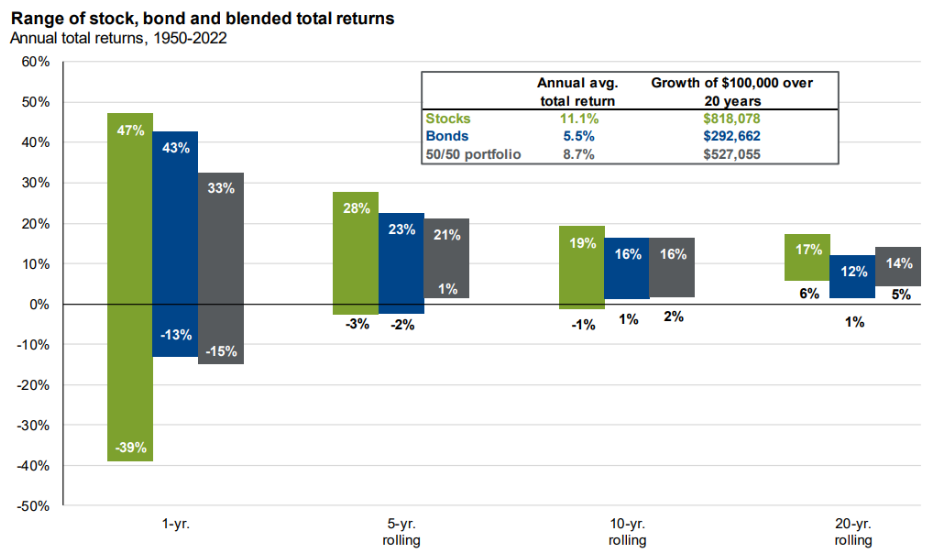


Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of September 30, 2023.

J.P.Morgan
ASSET MANAGEMENT

A "higher for longer" interest rate environment has a profound impact on investment portfolios and the broader economy. While interest rates clearly have an impact on expected returns, portfolios can perform well in both high and low interest rate environments. We believe that the largest driver of equity market returns is how corporations are performing, as measured by their earnings. Having said that, the relatively high level of interest rates today is surely impacting behavior, both individually and at a corporate level, through the propensity to save, spend and borrow. With cash yields over 5%, there is now an alternative to investing in equity markets for the first time in years. However, we caution that holdings of cash may cap upside potential but also limit the downside in turbulent markets. Higher mortgage, credit card, and auto loan rates are eating into consumers' pockets at a time where costs are also increasing. At a corporate level, many have issued fixed debt when interest rates were near zero, and if rates remain persistently higher over the near term, companies may need to incur significantly higher interest costs when their previous bonds mature. Clearly, at the end of the third quarter, there are now more reasons to be cautious than earlier in the year. Higher interest rates are negative at the margin, but do not signal a downturn in isolation. Self-inflicted wounds persist through labor disruptions in America and Europe. Dysfunction exists in the US government, and consumer spending is being propped up by expensive debt. The risk of an economic crisis is only heightened by these trends.

We continue to believe that investors should take advantage of short-term cash yields in addition to adding to fixed income positions at the margin despite the possibility of higher interest rates. On a longer-term basis, we continue to advocate for large weightings to global equities, as the expectation is for earnings growth to reaccelerate in the new year. With that said, we cannot ignore the risks of a 2024 recession, which would dent earnings outlooks and drag down stock prices. Our clients recently have asked about the likelihood of turbulent markets driving lower portfolio values over the coming year. Human nature for many of us leads to focusing on short term wins and losses, and thinking that we can time markets perfectly. But, as the majority of our clients are still in the workforce, or are even early in retirement, the focus should remain on the long term upside potential of investing in a diversified portfolio. The chart to the right from JPMorgan shows that over a long period of time (5+ years), a diversified portfolio has achieved a positive return 100% of the time since 1950. While we will never guarantee returns in the future, the bigger risk clients are facing today is not being invested while assets sit in checking or savings accounts earning tiny rates of return.



Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.
Returns shown are based on calendar year returns from 1950 to 2021. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2022.
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J.P.Morgan
ASSET MANAGEMENT

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Past Performance is No Guarantee of Future Results