Market Commentary—Third Quarter of 2023

The major equity market indices ended the third quarter on a down note with the S&P 500 Index posting the largest monthly loss of 2023. All the major equity indices as well as the broad bond indexes posted losses for the third quarter. However, all the equity market indexes are positive for 2023 with the S&P 500 Index and Nasdaq showing double-digit results primarily from the momentous gains of the seven largest stocks by Market Cap. This out performance is narrow as the broader market indexes have single digit returns for the year. The breadth of the S&P 500 Index has not matched the performance for the year. The current volatility of the equity markets is high due to many economic and geopolitical worries. The third quarter earnings season is beginning, and earnings are estimated to grow by less than one per cent from the prior quarter. However, projected forward earnings estimates are quite optimistically high. Recent market weakness clearly reflects higher inflation and higher interest rates continuing longer, and the many uncertainties brought from the outcomes of labor strikes, upcoming elections, conflicts in Ukraine and most recently in the Middle East.

The table below provides year to date and third quarter returns as of 9/30/2023 (percentages are for total returns):

Time Period	**Dow Jones Industrial Average**	**S&P 500 Index**	**Nasdaq Composite**	**Barclays U.S. Aggregate Bond**
Year To Date	2.7%	13.1%	27.1%	-1.2%
Third Quarter	-2.1%	-3.3%	-3.9%	-3.2%

Is a Recession Coming?

The most recent US Nonfarm Payroll report was surprisingly strong showing strong job creation that exceeded expectations, and the US Unemployment rate continues to be a low four per cent. Home construction and existing sales are down in 2023 primarily due to higher interest rates, as mortgage rates have more than doubled since the beginning of the year and are their highest in over twenty years. Projecting the direction of interest rates is extremely difficult. It does appear that US Treasury yields are peaking. Continued higher inflation and higher interest rates do not bode well for the equity and bond markets. The financial markets will be negatively impacted until the current trend ends and reverses course. Last, the economies of China and Europe have been notably weak in 2023. The US trade deficit has dramatically declined in 2023 after a record increase in 2022. One may conclude that global supply chains may be changing, or the dollar's strength is also a factor in this decline. Economic slowness in China and Europe if it persists will negatively impact the US economy in time.

Appropriate Actions to Take

We have taken a more defensive approach as of late given the current market environment and we will continue to do so until the inflation rate subsides, interest rates normalize, and there is more clarity of the state of the hot geopolitical issues at hand. Recently a US Government shutdown was avoided by a short-term resolution being passed. Given that the US House of Representatives is without a speaker another shutdown deadline looms in November. We will continue our focus on companies with strong balance sheets, solid profit margins and upward revisions to earnings estimates, as well as an overall lower risk profile. These companies may be better positioned to weather potential ups and downs.

Please review your report and contact us if you wish to schedule a time to discuss your investment portfolio, the current markets and economy or any other related financial matter in person or over a video/phone call.