QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

Oct 10, 2023

Quarter Ending September 30, 2023

Quarterly Performance	Q3 Index	YTD	Close
Dow Jones Industrial Average	-2.62%	1.09%	$33,507.50
NASDAQ Composite Price	-4.12%	26.30%	$13,219.32
Standard & Poor's Averages	-3.65%	11.68%	$4,288.05

The momentum that carried the equity markets throughout the first six months of 2023 started to fade in the third quarter. During Q3, both equity and fixed income indices finished in the red. The S&P 500 was down (3.65%) and the Bloomberg U.S. Aggregate bond index was down (3.23%). Broad-based equity markets are still up for the year; however, investor concerns turned toward the Federal Reserve, interest rates and how restrictive money policies are going to impact the U.S. economy moving forward.

Throughout the first six months of the year, the positive equity market performance was driven by the enthusiasm surrounding developments in artificial intelligence (AI) and its potential to impact almost every aspect of how we work and live. A concentrated group of mega-cap technology companies led the charge, elevating the equity markets as a whole. As we've mentioned in the past, we feel that the recent equity market performance is very misleading and doesn't reflect or represent what is actually happening in the economy. To put this in perspective, an equal-weight version of the S&P 500, which gives the same weighting to each company regardless of size, has gained only 0.1% for the year. Broad-based indices, like the S&P 500, are not a good barometer of economic activity.

Another concern we have is that investors are paying huge premiums for the same companies driving the equity market performance. The forward Price-to-Earnings (P/E) ratio of the 10-largest stocks now sits at 25.9x, which is more than 45% higher than the 17.8x multiple of the overall markets. Much like in 2021 and 2022, we think investors are back to their old habits of ignoring fundamentals and valuations.

U.S. Federal Reserve policy developments dominated the headlines during the last quarter. At its September meeting, the Fed maintained the federal funds rate at 5.25%-5.50%, a 22-year high. More importantly, Fed officials conveyed their intention to keep rates elevated for a longer duration than previously anticipated. The Federal Reserve is still very concerned about inflation and will do whatever it takes to cool down the economy.

To add to the market volatility, Fitch (one of the three major U.S. credit rating agencies) downgraded the U.S. sovereign credit rating from AAA to AA+ due to expected fiscal deterioration, growing government debt, and repeated debt ceiling standoffs.

The Institute for Supply Management's (ISM) Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing. It's based on a survey of manufacturing firms

across the country and measures sentiment as it pertains to several business indicators. A reading below 50 indicates that companies are reporting business contraction versus expansion. The ISM PMI came in at 49 in September, marking the 11th consecutive month below 50, which is the longest stretch since 2007-2009.

Consumers, which account for 70% of the U.S. economic output, may encounter some challenges ahead. Excess savings, built up during the pandemic-related shutdown, are starting to disappear. Aggregate savings peaked at $2.1 trillion in August 2021. As of June, the San Francisco Fed estimated that aggregate savings had dropped to $190 billion. At this pace, all of the excess savings accumulated will be gone by year-end. More consumers are now relying on credit cards to meet their daily needs. Credit card debt rose to over $1 trillion dollars for the first time in 2023. At the same time, default and delinquency rates on personal and auto loans are rising as well.

Moving forward, we continue to expect more market volatility. Looming issues such as the resumption of student loan payments, labor union strikes, rising corporate defaults, growing deficits and a potential government shutdown are causes for concern. These challenges, when combined with the current interest rate environment, have the potential to exert downward pressure on economic activity. Despite the resilience in the equity markets year-to-date, we feel that the risks of an economic slowdown remain elevated.

Have a great Fall!

Regards,

Jeffrey L. Farni, Sr.

John C. Farni