Monthly Market Review

Multi-Asset Class | October 2023

pfm asset management

U.S. Equity

► Domestic equity markets, as represented by the S&P 500 Index (S&P), returned -4.77% in September.

► Within the S&P, only one of the 11 sectors posted positive returns. The Energy sector was once again the best performer for the month, returning 2.63%, while the second-best performing sector, Healthcare, posted a return of -2.97%. Real Estate was the worst performing sector, posting a return of -7.25%.

► Negative returns were seen across all market capitalizations, with small-caps (Russell 2000) returning -5.89%, mid-caps (Russell Mid Cap Index) returning -5.02%, and large-caps (Russell 1000 Index) returning -4.70%. Value stocks outperformed growth stocks across small and large capitalizations, but growth outperformed within the mid-caps market capitalization.

Non-U.S. Equity

► Non-U.S. equity markets, represented by the MSCI ACWI ex-U.S., returned -3.16%. Developed markets, represented by the MSCI EAFE Index, saw returns of -3.42%, and emerging markets (EM), represented by the MSCI Emerging Markets Index, saw returns of -2.62% in September.

► Within the ACWI ex-U.S. Index, only one of the 11 sectors posted positive returns. Energy was the best performing sector, with a return of 2.74%. Financials, the second-best performer in September, posted a return of -0.80%. Information Technology was the worst performing sector, posting a return of -5.62%.

► Regionally, non-U.S. equities also saw negative returns across the board, with Japan performing the best, returning -2.10%. Europe ex-UK was the worst performing region, returning -4.89% in September.

Fixed Income

► Treasury yields continued to rise across the curve in September, with greater changes on the longer end. On the long end, the 10-year saw a 46-basis point (bps) increase in rates and the 30-year saw an increase of 49 bps. On the shorter end, the 2-year saw an increase of 18 bps and the 5-year saw an increase of 36 bps, leading the Broad Treasury Index to return -2.38% for the month.

► The Bloomberg U.S. Aggregate Index (Aggregate) returned -2.54% in September. Investment-grade (IG) credit as a whole returned -2.60%, AAA-rated bonds returned -1.40%, AA-rated bonds returned -2.85%, A-rated bonds returned -2.73%, and BBB-rated bonds returned -2.63%. High-yield corporates saw a return of -1.18% during the month.

Alternatives and Other Asset Classes

► Real estate investment trusts (REITs), represented by the FTSE NAREIT Index, returned -6.80%. Only one of the nine real estate sectors had positive returns for the month. The Lodging/Resorts sector did the best, returning 0.85%. The worst performing sector of the month was Diversified, returning -12.67%.

► The active contract for West Texas Intermediate (WTI) crude rose to $90.79/barrel in September, up $7.16 from $83.63/barrel at the end of August.

Items to Watch

► The September Federal Open Market Committee (FOMC) meeting ended with the decision to keep the target rate unchanged, as the monetary policymaking body looks to balance growth with continued elevated inflation. Looking forward, the post meeting statement kept a reference to possible "additional policy firming", while the updated dot plot showed the median dot for 2024 and 2025 raised to 5.125% and 3.875%, with increased expectations of a 'higher-for-longer' policy.

► In combination with the Federal Reserve (Fed) forecasts, the September employment report has raised market expectations for a possible rate hike in the fourth quarter, as total payroll employment rose by 336,000, nearly double the consensus estimate. Tempering this surprise in growth was the unemployment rate, which held steady at 3.8% and the growth of average hourly earnings, which cooled slightly to 4.2% year-over-year.

► The dysfunction of federal budget negotiations has raised concerns for U.S. debt, as credit rating firms consider (potentially) downgrading the economy. The rating risk combined with the Federal Reserve's messaging is creating a much costlier environment for government borrowing that will weigh heavily on the growing U.S. budget.

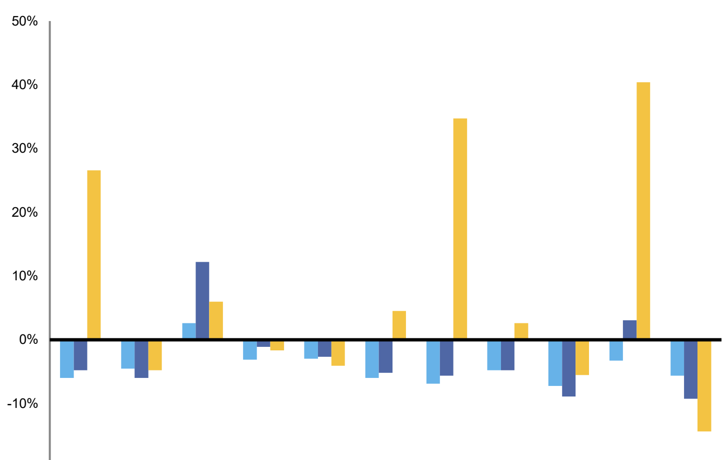
► Globally we saw various economic indicators in contractionary territory for Europe, while China remains expansionary. The HCOB Eurozone manufacturing index remained relatively flat month-over-month at 43.4, marking the fifteenth consecutive month of market deterioration, while the services PMI slightly rose to 48.7 from 47.9 in August. The S&P Global China Manufacturing and Services readings dipped to 50.9 and 50.2, respectively.

► Looking forward, the combination of low PMI readings and the August decline in retail sales raise worries about the possibility of recession in Europe. In China, we are keeping a close watch on the potential for increased domestic tourism during "golden week." The expectation is that travel could increase 15% from 2019 levels. If this comes to fruition, it may provide a short-term boost to demand, though whether or not that can be sustained remains to be seen.

Total Return of Major Indices				
Domestic Equity	**MTD**	**QTD**	**YTD**	**1 YR**
S&P 500	-4.77%	-3.27%	13.05%	21.59%
Russell 3000	-4.76%	-3.26%	12.37%	20.43%
Russell 2000	-5.89%	-5.14%	2.51%	8.87%
Russell 1000	-4.70%	-3.15%	12.99%	21.17%
International Equity	**MTD**	**QTD**	**YTD**	**1 YR**
MSCI ACWI ex-U.S.	-3.16%	-3.77%	5.34%	20.39%
MSCI EAFE	-3.42%	-4.11%	7.08%	25.65%
MSCI Emerging Markets	-2.62%	-2.93%	1.82%	11.70%
Fixed Income	**MTD**	**QTD**	**YTD**	**1 YR**
Bloomberg U.S. Agg	-2.54%	-3.23%	-1.21%	0.64%
Bloomberg Global Agg	-2.92%	-3.59%	-2.21%	2.24%
Bloomberg U.S. HY	-1.18%	0.46%	5.86%	10.28%
Alternatives	**MTD**	**QTD**	**YTD**	**1 YR**
FTSE NAREIT Equity	-6.80%	-7.13%	-2.14%	2.99%
Bloomberg Commodity	-1.12%	3.31%	-7.06%	-5.96%

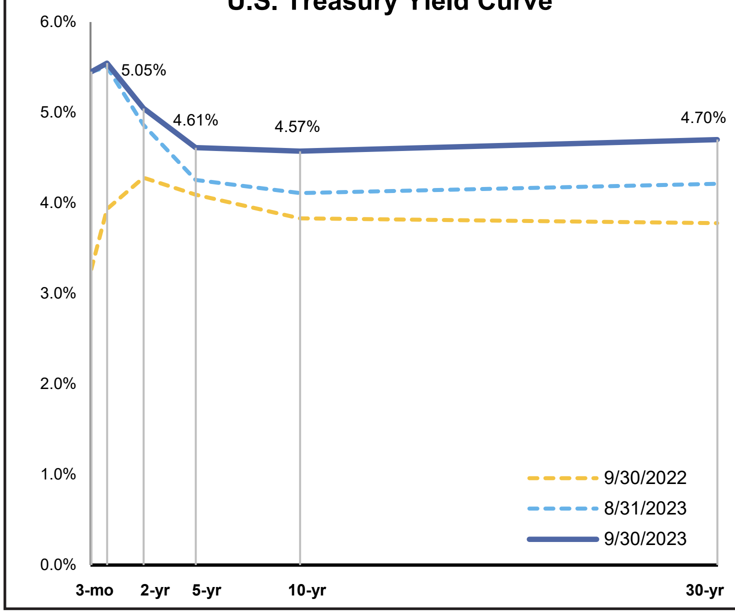
Economic Indicators		
Domestic	**Current**	**Previous Month**
Unemployment Rate (%)	3.8%	3.5%
Initial Jobless Claims (4 week average)	211 K	217.3 K
CB Leading Economic Indicators	-0.4	-0.3
Capacity Utilization	79.7%	79.5%
GDP (annual growth rate)	2.1%	2.2%
University of Michigan Consumer Confidence	68.1	69.5
New Home Starts	675 K	739 K
Existing Home Sales	4 MM	4.1 MM
Retail Sales (YoY)	2.0%	1.6%
U.S. Durable Goods (MoM)	0.2%	-5.6%
Consumer Price Index (YoY)	3.7%	3.2%
Producer Price Index (MoM)	2.1%	0.3%
Developed International*	**6/30/2023**	**3/31/2023**
Market GDP (annual rate)	1.8%	2.3%
Market Unemployment	4.3%	4.2%

Stock Market Sector Performance (S&P 500)

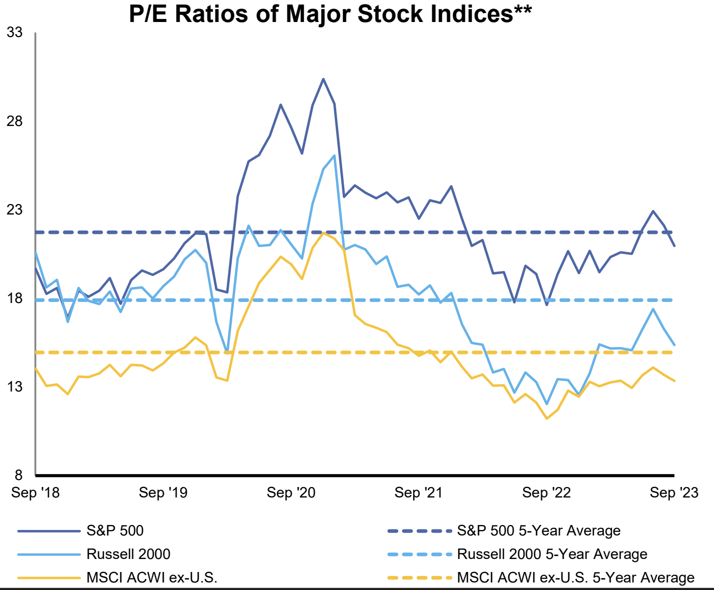


	Cons. Disc.	Cons. Staples	Energy	Financial	H'lthcare	Industrial	Info. Tech	Materials	Real Estate	Telecom	Utilities
MTD	-5.98%	-4.53%	2.63%	-3.14%	-2.96%	-5.96%	-6.87%	-4.78%	-7.25%	-3.26%	-5.63%
QTD	-4.80%	-5.97%	12.22%	-1.13%	-2.65%	-5.16%	-5.64%	-4.76%	-8.90%	3.07%	-9.25%
YTD	26.58%	-4.76%	5.99%	-1.65%	-4.09%	4.50%	34.72%	2.61%	-5.51%	40.43%	-14.41%

U.S. Treasury Yield Curve



P/E Ratios of Major Stock Indices**



Source: Bloomberg. Data as of September 30, 2023, unless otherwise noted.
**Developed market data is calculated with respect to the weightings in the MSCI World ex-U.S. Index. Most current data is as of June 30, 2023 due to release dates of numerous countries.*
***P/E ratios are calculated based on one-year-forward estimates and adjusted to include only positive earning results for consistency.*

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