

August 2023

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 8/31/2023

Global Overview

Equity asset classes fell in August, primarily in reaction to uncertain monetary policy and deteriorating economic conditions in Europe. Domestically, the pace of Fed rate hikes have not been as aggressive as initially planned, paving the way for additional hikes in the future. Europe's economy continued to slow, though an uptick in inflation during August has left room for the possibility of another hike. Meanwhile, China continued to grapple with economic challenges, putting downward pressure on emerging markets returns and contributing to the MSCI All Country World Index posting negative returns of 2.9%.

U.S. Markets & Economy

U.S. equity asset classes fell over the last month amid macroeconomic uncertainty rising globally. Domestically, the pressures of Fitch's downgrade of the U.S. debt weighed on investor sentiment. While the credit downgrade has no meaningful impact to domestic or foreign investors, it did signal a more challenging fiscal outlook ahead. Additional uncertainty revolved around the Fed and the possibility of another rate hike or a shift to a holding pattern. The Fed's minutes revealed a hawkish stance due to persistent inflation resting above the Committee's long term goal of 2%. However, with the labor markets remaining robust, Fed Chair Powell has not ruled out future tightening. In July, the Fed staff unanimously supported a rate hike, but now the staff is divided on the next appropriate monetary policy step. Market-implied rates reflect similar sentiment, anticipating about a 50% chance of an additional hike next month. Nevertheless, the market still is holding out hope for a soft landing to avoid a more significant recession and market downturn. Core inflation remains elevated at 4.7% and strong second quarter retail sales added to the upward pressure on credit card delinquency rates, which are on the rise. Additionally, the resumption of student debt payments signals less discretionary income and lower savings ahead. Unemployment increased in August from 3.5% to 3.8%, contrary to continuing jobless claims, which surprised to the downside and remained steady at 1.68 million. This domestic economic uncertainty resulted in a 1.6% decline in the S&P 500 Index. While smaller caps once again underperformed their larger cap counter parts, all cap sizes saw declines in the month. Utilities and consumer staples sectors dragged down the market the most, with energy being the only sector to post significant positive returns. Nevertheless, large cap growth stocks continued to outperform large value stocks, with the Russell 1000 Growth Index declining 0.9%, while Russell 1000 Value fell 2.7%. Both indices, however, still maintain positive year-to-date returns.

Fixed income echoed the growing uncertainty, as government and corporate bonds fell in August. Investment-grade securities faced challenges following the news of Moody's and S&P downgrading multiple banks' credit ratings due to weaker profitability and declining asset quality. Despite this, investment grade corporate spreads remain tight, falling from 1.4% to 1.3%. ABS and CMBS were among the few sectors that posted positive returns, but future CMBS performance remains uncertain due to "higher for longer" interest rate mentality, which makes refinancing more difficult despite economic strength. This led to the Bloomberg U.S. Aggregate Index losing 0.6% last month, while still remaining positive year-to-date at 1.4%. Finally, the 2-year and 10-year Treasury yield inversion narrowed this month from -91 basis points to -76 basis points.

International Markets & Economy

International equities fared similarly to the U.S. Beginning with the Euro Area, inflation held steady at 5.3% year-over-year, despite expectations of 5.1%. In response, the markets have started predicting a 55% likelihood of a 25 basis point hike in September. But, high interest rates of 4.25% continue to eat into production, with Composite PMI falling further into contractionary territory at 46.7 points. This decline aligns with consumer confidence, which fell to -16 points, the lowest since late 2022. Collectively, these factors resulted in a 4.0% decline in the MSCI Europe Index. In China, the struggles of slowing economy took a negative turn as inflation dipped below 0 to -0.3%, creating a

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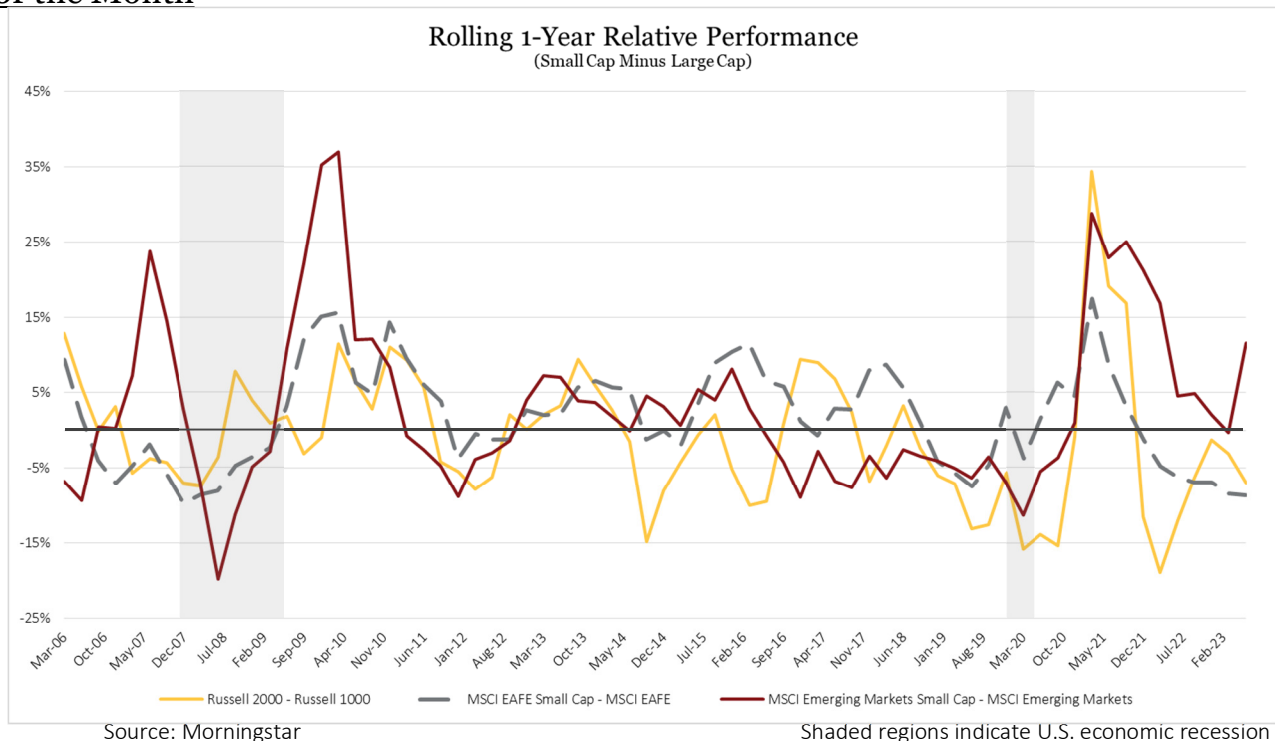
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deflationary environment. China responded by unexpectedly cutting one-year benchmark rates in attempt to combat deflation. In spite of the rate cut, turmoil in the Chinese property markets, which were driven by falling prices, put one of China's largest homebuilders at the brink of defaulting on their debt. Housing troubles, coupled with concerns about future growth, contributed to negative sentiment, leading the MSCI China Index to fall 9.0%. Even in the developed economy of Hong Kong, Manufacturing PMI contracted, and consumer sentiment turned bearish, weighing on returns in DM large-cap indices. Although China's returns dragged down emerging markets, some countries provided positive news, including Brazil and Chile, which began cutting interest rates. Additionally, Mexico may be on the upswing, with their highest PMI in years posted in July at 53.2 points, easing inflation, and upward trending consumer confidence. Nevertheless, China's substantial presence in the emerging markets index contributed to a 6.2% decline in the MSCI EM in August.

In the News

Throughout market history, there has been a generally accepted trend of small-cap stocks outperforming their large-cap counterparts, but not during periods of economic struggles. This idea is seen below in the Chart of the Month which shows the periods that favored small or large-cap stocks. Over the last decade and a half, this pattern has held, with small-cap stocks, known for their volatility, surging following U.S. economic recessions. Notably, over the past couple years, emerging market small cap stocks have outperformed their larger counterpart while developed markets small caps have been lagging. One reason for this divergence is the economic link between real GDP and small cap stock performance. In 2022, advanced economies reported real GDP of 2.7% while the emerging markets reported growth of 4.0%. IMF real GDP projections for 2023 and 2024 illustrate a similar story with advanced economies expected to grow at a 1.5% annual rate while emerging markets are expected to grow once more at 4.0%. Although other factors contributed to recent developed markets small-cap underperformance, such as the regional banking and lower earnings from the Russell 2000, emerging markets small-caps have benefitted from better economic growth prospects. While numerous factors influence relative performance of asset classes, the economic environment can be an indicator of leadership between large and small cap stocks, particularly as demonstrated in the emerging market sphere.

Chart of the Month



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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(2.39)	6.99	16.11	15.60	8.41	8.33	9.28
	Bloomberg US Agg Bond TR USD	(0.64)	(1.06)	1.37	(1.19)	(4.41)	0.49	1.48
	Russell 3000 TR USD	(1.93)	8.52	18.01	14.76	9.81	10.25	12.23
	DJ Industrial Average TR USD	(2.01)	6.10	6.37	12.58	9.08	8.31	11.43
	NASDAQ Composite PR USD	(2.17)	8.50	34.09	18.78	6.03	11.59	14.61
	MSCI EAFE NR USD	(3.83)	3.80	10.87	17.92	6.05	4.14	4.93
	FTSE Treasury Bill 3 Mon USD	0.46	1.35	3.33	4.44	1.63	1.68	1.07
	Bloomberg Commodity TR USD	(0.77)	9.70	(2.77)	(8.67)	15.18	6.68	(0.93)
Domestic Equities	S&P 500 TR USD	(1.59)	8.28	18.73	15.94	10.52	11.12	12.81
	S&P MidCap 400 TR	(2.89)	10.38	10.06	10.71	12.83	6.97	10.09
	S&P SmallCap 600 TR USD	(4.14)	9.47	7.24	5.53	12.61	3.82	9.48
	Russell 1000 TR USD	(1.75)	8.49	18.58	15.40	9.93	10.77	12.55
	Russell 1000 Growth TR USD	(0.90)	9.45	32.17	21.94	8.25	13.81	15.63
	Russell 1000 Value TR USD	(2.70)	7.41	5.88	8.59	11.59	7.11	9.15
	Russell Mid Cap TR USD	(3.47)	8.74	9.40	8.38	9.25	7.35	10.04
	Russell Mid Cap Growth TR USD	(3.30)	7.33	15.51	13.00	3.84	7.95	11.03
	Russell Mid Cap Value TR USD	(3.54)	9.39	5.93	5.65	12.07	6.12	8.93
	Russell 2000 TR USD	(5.00)	9.00	8.96	4.65	8.12	3.14	7.96
	Russell 2000 Growth TR USD	(5.21)	7.45	12.68	6.78	2.67	2.46	8.17
Russell 2000 Value TR USD	(4.81)	10.50	4.94	2.17	13.54	3.18	7.36	
International Equities	MSCI ACWI Ex USA NR USD	(4.52)	3.82	8.78	11.89	3.99	3.33	4.38
	MSCI EAFE NR USD	(3.83)	3.80	10.87	17.92	6.05	4.14	4.93
	MSCI EAFE Growth NR USD	(4.69)	0.61	10.96	15.22	2.24	4.47	5.78
	MSCI EAFE Value NR USD	(2.96)	7.15	10.86	20.74	9.70	3.41	3.84
	MSCI Japan NR USD	(2.42)	4.64	13.59	15.30	3.88	3.11	5.45
	MSCI AC Asia Ex Japan NR USD	(6.41)	2.02	2.33	(0.61)	(2.92)	0.83	4.39
	MSCI Europe NR USD	(3.97)	3.72	12.43	22.51	7.47	4.88	4.97
	MSCI United Kingdom NR USD	(4.01)	3.12	7.67	14.82	10.49	3.39	3.19
	MSCI EAFE Small Cap NR USD	(3.33)	3.88	6.54	9.18	2.39	1.53	5.67
	MSCI EM NR USD	(6.16)	3.47	4.55	1.25	(1.39)	0.98	2.99
Fixed Income	Bloomberg US Govt/Credit TR USD	(0.59)	(0.98)	1.53	(0.87)	(4.58)	0.75	1.63
	Bloomberg US Govt/Credit Interm TR USD	(0.01)	(0.43)	1.75	0.55	(2.58)	1.16	1.46
	Bloomberg US Govt/Credit Long TR USD	(2.31)	(2.63)	0.87	(5.09)	(10.04)	(0.25)	2.64
	ICE BofA US High Yield TR USD	0.29	3.37	7.22	7.01	1.86	3.16	4.39
	Credit Suisse HY USD	0.34	3.40	7.61	7.28	2.27	3.17	4.32
	Morningstar LSTA US LL Index TR USD	1.17	4.79	9.11	9.42	5.97	4.40	4.22
	FTSE WGBI NonUS USD	(2.03)	(0.68)	0.30	(0.02)	(9.67)	(3.76)	(1.66)
	Bloomberg Gbl Agg Ex USD TR USD	(1.97)	(0.46)	0.11	0.65	(7.54)	(2.66)	(1.12)
REITs	FTSE Nareit All REITs TR	(3.27)	4.39	1.85	(7.59)	4.32	3.35	7.12
	Wilshire US REIT TR USD	(2.84)	5.57	6.80	(2.44)	6.92	3.69	7.07

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

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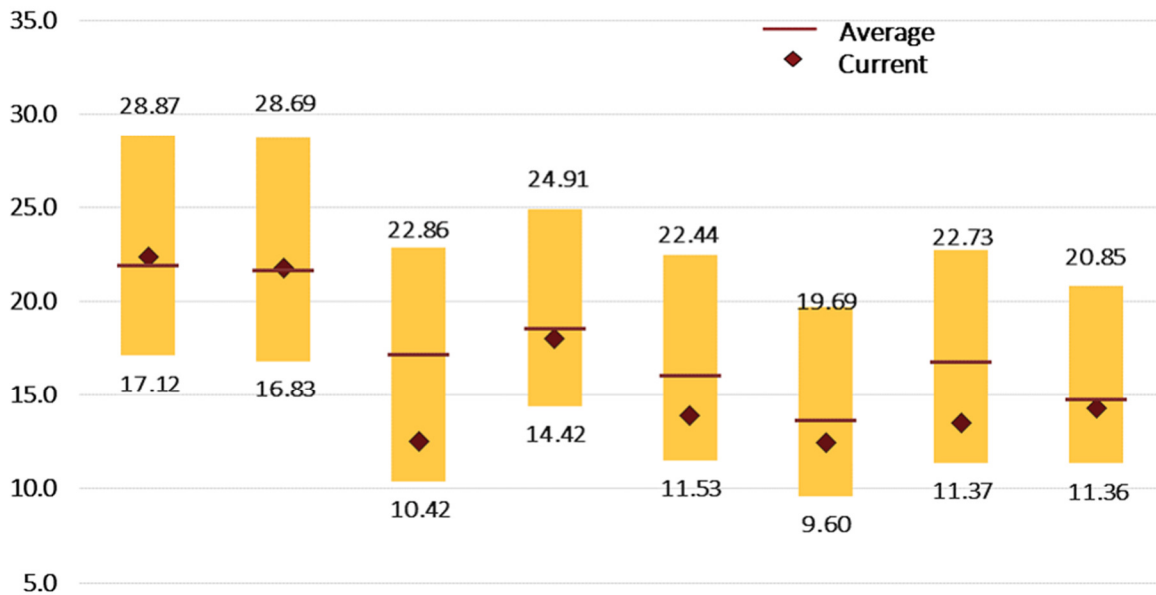
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Current Trailing P/E vs. Trailing 5-Year High, Low, Average



	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Mar-21	Mar-21	Nov-17	Mar-21	Mar-21	Jan-21	Mar-21	Jan-21
Low Month	Dec-18	Dec-18	Sep-22	Dec-18	Sep-22	Oct-22	Sep-22	Sep-22

Source: Morningstar

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³ per US \$		Inflation ²
	Latest ¹	2023 ¹	2024 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	2.10	1.60	1.00	3.80	4.09	-	-	4.70
China	0.80	5.40	5.10	5.30	2.69	7.26	6.89	0.80
Japan	1.50	1.30	1.10	2.70	0.65	145.68	138.69	3.10
United Kingdom	0.20	0.30	1.00	4.20	4.36	1.27	1.16	6.90
Euro Area	0.30	0.90	1.50	6.40	3.26	1.08	1.01	5.30
Germany	0.00	0.00	1.30	5.70	2.47	1.10	1.01	5.50
France	0.50	0.80	1.30	7.20	2.98	0.90	1.01	5.00
Italy	-0.40	1.20	1.00	7.60	4.19	1.10	1.01	4.78
Canada	0.00	1.40	1.40	5.50	3.57	1.35	1.31	3.20
India	1.90	6.00	7.00	8.00	7.19	82.81	79.51	7.44
Mexico	0.80	2.60	2.10	3.10	9.34	16.88	20.09	6.08
Brazil	0.90	1.70	1.20	7.90	11.14	4.93	5.19	6.25

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

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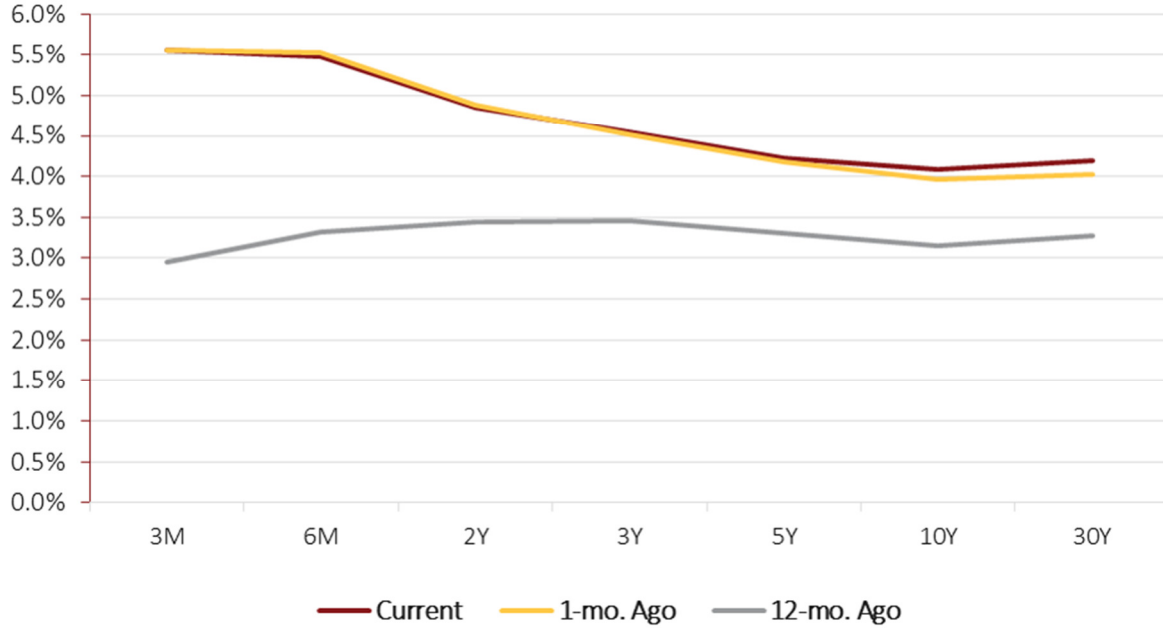
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U.S. Treasury Yield Curves

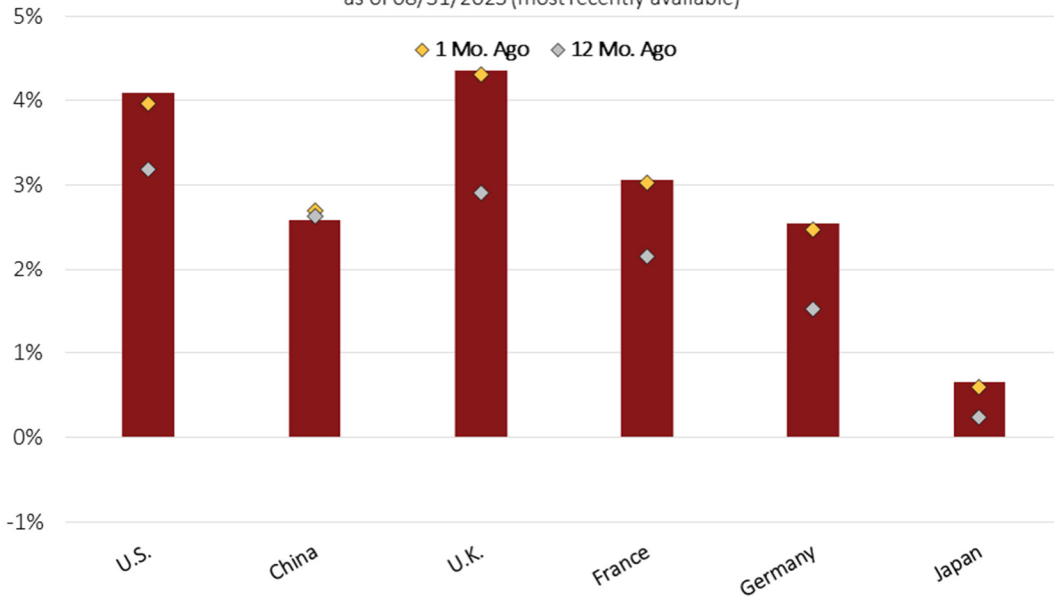
as of 08/31/2023



Source: Federal Reserve Bank

10-Year Sovereign Yields

as of 08/31/2023 (most recently available)



Source: Trading Economics

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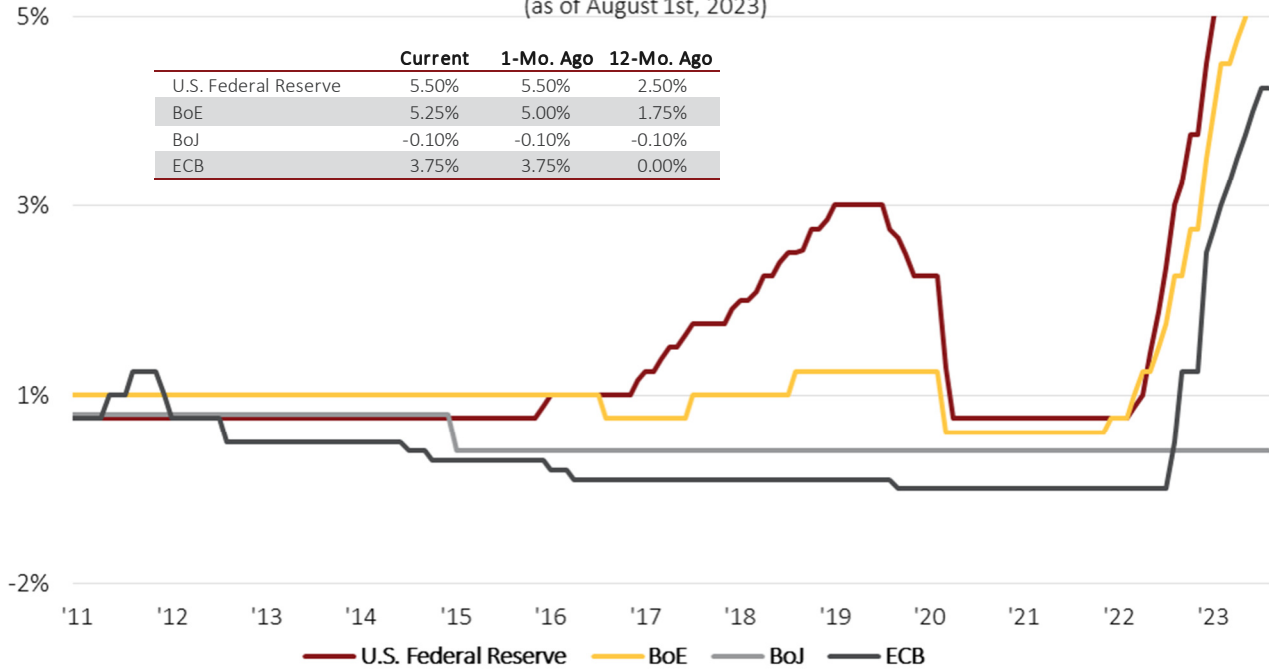
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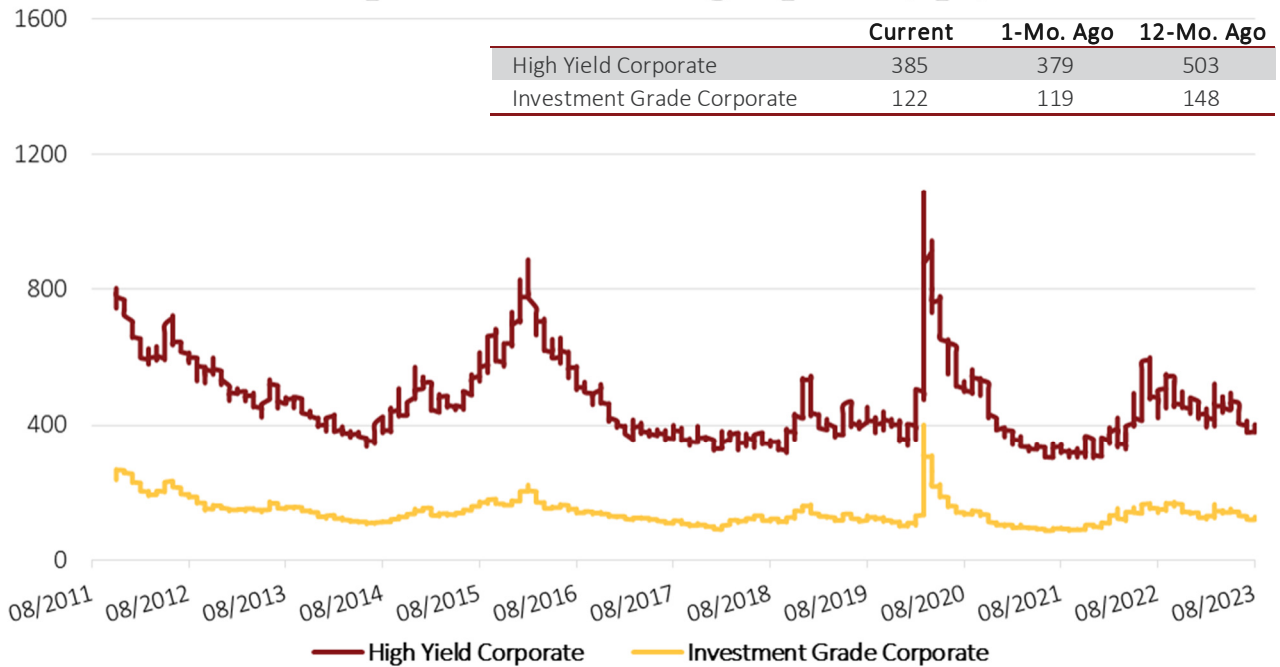
Central Bank Policy Rates

(as of August 1st, 2023)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank