

September 2023

# Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 9/30/2023

## Global Overview

Most asset classes fell during the month of September, aided by concerns with government stability, ongoing inflation, and higher interest rates. Adding to this, the 10-year U.S. Treasury yield hit its highest level in 16 years. The rise in yields exerted downward pressure on bond and equity returns. Similar returns were seen internationally, as the ECB hiked rates another 25 basis points, in contrast to the U.S. Fed which kept rates at 5.5%. Overall, the negative sentiment followed by U.S. government shutdown concerns sent ripples across markets, and contributed to the MSCI World Index losing 4.3% last month.

## U.S. Markets & Economy

Domestic equities fell for the second month in a row, falling most sharply towards the close of September. This decline can be attributed to the uncertainty surrounding a potential government shutdown. While Congress successfully passed a bill to avert a shutdown, chatter around the event was still enough to be a drag on returns. Unsurprisingly, this had a cascading effect on consumer confidence, which declined for the second consecutive month to 68.1. Regarding the Fed, interest rates were maintained at 5.5% during the September meeting, but Fed Chair Powell is not ruling out future hikes and emphasized a soft landing is the primary objective for the Fed. The market currently anticipates a 50% probability of another hike and is pricing smaller cuts at the beginning of 2024. Despite higher interest rates, headline inflation accelerated for the second month in a row reaching 3.7% in August. This trend aligns with month-over-month retail sales, which aided by gasoline and durable goods advanced 0.6% in August, surpassing expectations. The Manufacturing PMI also showed improvement, inching up to 49.8, driven by optimism about future demand in manufacturing, as evidenced by a surge in Manufacturing New Orders Index to 49.2, the highest the Index has been in a year. Despite increases in manufacturing data, broad-based indices closed in the red, with the S&P 500 Index falling 4.8% last month. Small-cap indices continued to underperform their larger counterparts in September, as mega-caps and continued momentum from the technology sector helped to limit the Russell 1000 Index's decline to just 4.7%, while the Russell 2000 Index fell 5.9%. Large technology companies remain the driver of returns in 2023, as evidenced by the S&P 500 Ex-Information Technology Index that returned an anemic 4.5% year-to-date while the broad S&P 500 Index returned 13.1%.

As mentioned, U.S. 10-year Treasury yields surged in September to above 4.5%, the highest level since 2007. Consequently, long-term Treasury returns fell, as the Bloomberg U.S. Govt/Credit Long lost 6.2% last month, a larger loss than most equity indices, and erased all year-to-date gains of the index, leaving it down 5.4% for the year. This significant increase in yields is tied to U.S. debt concerns, substantial Treasury issuance, and inflation worries. Moreover, it reflects the prevailing "higher for longer" interest rate mindset of the Fed, which has exerted downward pressure on bond prices. The jump in yields put a spotlight on the uncertainty and risks associated with longer-term bonds and is consistent with the hawkish stance from the Fed. Despite a challenging month for government bonds in September, a safe haven was found in ultra-short bonds and leveraged loans, which benefited from market momentum and were one of the few indices that managed to post gains during the month.

## International Markets & Economy

The Euro Area has been grappling with ongoing economic challenges, and the month of September was no different. The negative news began when the Euro Area Q2 GDP was revised lower to 0.1% (from 0.3%) and core inflation remained elevated at 4.5%. In fact, ECB President Christine Lagarde, shared that the overnight rate "will be set at sufficiently restrictive levels for as long as necessary." Her message was reinforced with a 25 basis point hike, and the markets are still pricing a 50% chance for a future hike. Additionally, Euro PMI has been below 50 (indicating a

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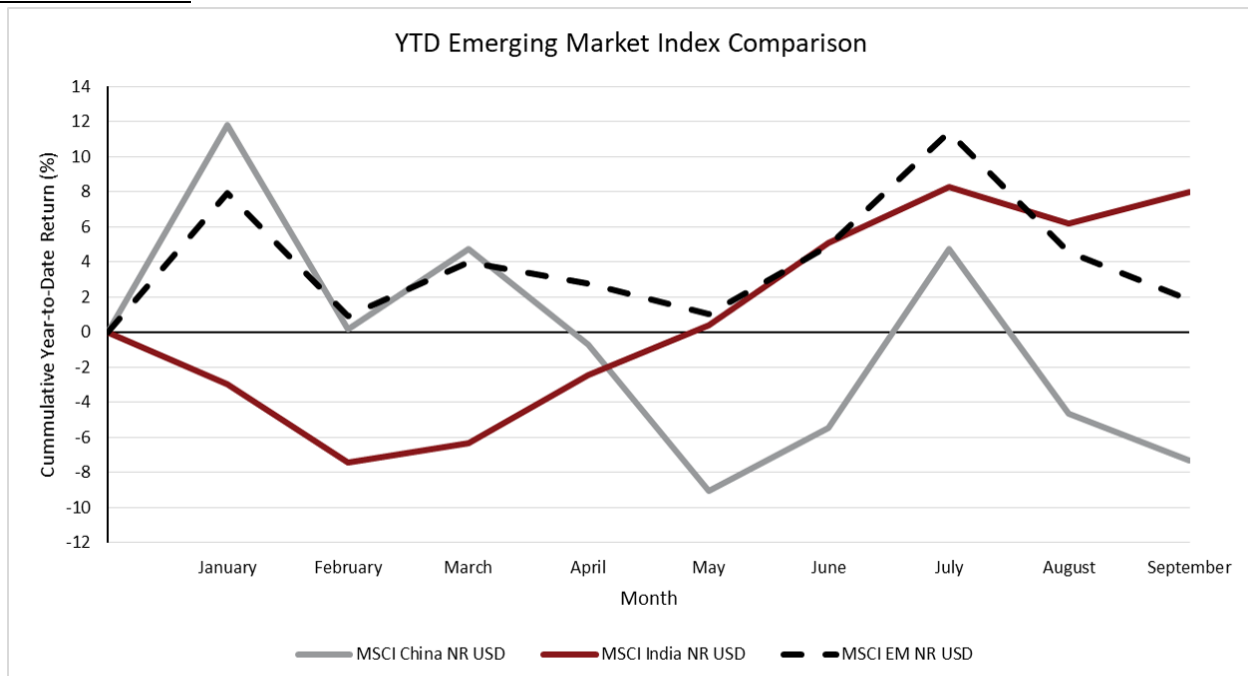
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contraction) for the past four months with Manufacturing PMI falling once more to 43.4 in September. This led to the MSCI Europe Index losing 4.0%. Japan also revised its Q2 GDP lower to 1.2% (from 1.4%). Nevertheless, the Japanese economy maintains low and stable unemployment rates and inflation, creating an attractive economic environment. On the emerging markets front, inflows into EM equities have outpaced EM debt inflows. Brazil cut rates again and Mexico continues to experience a gradual easing of inflation with low unemployment levels. Conversely, China's economic troubles have persisted, as evidenced by the Hang Seng Property Index hitting its lowest point since the great financial crisis. In an attempt to halt further market decline, Chinese regulators have banned the companies' largest shareholders from selling. Even so, the MSCI China declined 2.8% in September, which further weighed down the Emerging Market Index, which lost 2.6% last month.

## In the News

Contrary to expectations at the beginning of 2023, China's reopening has provided limited economic growth. However, this economic challenge has created an opportunity for other countries to demonstrate greater leadership in the emerging markets, and India has seized that opportunity. As demonstrated in the chart below, India has outperformed the emerging market space over the last six months, while China dragged down index returns. This outperformance is supported by India's leading indicators. First, both their Service and Manufacturing PMI have remained consistently above 50 since 2022, in contrast to other EM countries, who have struggled to stay in expansionary territory. Moreover, India's unemployment levels have remained stable, aligning with historical rates, and consumer confidence has exceeded pre-COVID levels. Furthermore, India's GDP Annual Growth Rate has outpaced China's, at 7.8% as of the second quarter, while China has reported a growth rate of 6.3%. This trend of India outperforming China is expected to continue into 2024 as the IMF (International Monetary Fund) predicts India's economy to grow 6.4% in 2024 and China to grow 4.5%. This GDP outperformance is likely to persist beyond 2024. Several factors contribute to this expectation, including structural shifts in population (with China having an aging population and India a more youthful one), China's growing isolation from the international community, and the expansion of state-owned enterprises at the expense of the private sector. While the Chinese economy retains some strengths, its long-term dominance in the global economy could be shrinking.

## Chart of the Month



Source: Morningstar

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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	(4.31)	(3.46)	11.10	21.95	8.08	7.26	8.26
	Bloomberg US Agg Bond TR USD	(2.54)	(3.23)	(1.21)	0.64	(5.21)	0.10	1.13
	Russell 3000 TR USD	(4.76)	(3.25)	12.39	20.46	9.38	9.14	11.28
	DJ Industrial Average TR USD	(3.42)	(2.10)	2.73	19.18	8.62	7.14	10.79
	NASDAQ Composite PR USD	(5.81)	(4.12)	26.30	25.00	5.78	10.44	13.36
	MSCI EAFE NR USD	(3.42)	(4.11)	7.08	25.65	5.75	3.24	3.82
	FTSE Treasury Bill 3 Mon USD	0.45	1.38	3.80	4.71	1.78	1.74	1.12
	Bloomberg Commodity TR USD	(0.69)	4.71	(3.44)	(1.30)	16.23	6.13	(0.75)
Domestic Equities	S&P 500 TR USD	(4.77)	(3.27)	13.07	21.62	10.15	9.92	11.91
	S&P MidCap 400 TR	(5.26)	(4.20)	4.27	15.51	12.05	6.06	8.94
	S&P SmallCap 600 TR USD	(6.00)	(4.93)	0.81	10.08	12.10	3.21	8.15
	Russell 1000 TR USD	(4.70)	(3.15)	13.01	21.19	9.53	9.63	11.63
	Russell 1000 Growth TR USD	(5.44)	(3.13)	24.98	27.72	7.97	12.42	14.48
	Russell 1000 Value TR USD	(3.86)	(3.16)	1.79	14.44	11.05	6.23	8.45
	Russell Mid Cap TR USD	(5.02)	(4.68)	3.91	13.45	8.09	6.38	8.98
	Russell Mid Cap Growth TR USD	(4.87)	(5.22)	9.88	17.47	2.61	6.97	9.94
	Russell Mid Cap Value TR USD	(5.09)	(4.46)	0.54	11.05	10.98	5.18	7.92
	Russell 2000 TR USD	(5.89)	(5.13)	2.54	8.93	7.16	2.40	6.65
	Russell 2000 Growth TR USD	(6.60)	(7.32)	5.24	9.59	1.09	1.55	6.72
Russell 2000 Value TR USD	(5.21)	(2.96)	(0.53)	7.84	13.32	2.59	6.19	
International Equities	MSCI ACWI Ex USA NR USD	(3.16)	(3.77)	5.34	20.39	3.74	2.58	3.35
	MSCI EAFE NR USD	(3.42)	(4.11)	7.08	25.65	5.75	3.24	3.82
	MSCI EAFE Growth NR USD	(5.99)	(8.64)	4.31	20.00	0.37	3.23	4.42
	MSCI EAFE Value NR USD	(0.85)	0.59	9.92	31.51	11.11	2.81	2.97
	MSCI Japan NR USD	(2.10)	(1.59)	11.21	25.92	2.81	2.06	4.38
	MSCI AC Asia Ex Japan NR USD	(2.68)	(3.34)	(0.42)	10.88	(3.31)	0.56	3.56
	MSCI Europe NR USD	(3.97)	(4.96)	7.96	28.85	7.23	3.96	3.83
	MSCI United Kingdom NR USD	(0.84)	(1.54)	6.77	24.90	12.08	2.85	2.54
	MSCI EAFE Small Cap NR USD	(4.42)	(3.51)	1.82	17.90	1.10	0.76	4.30
	MSCI EM NR USD	(2.62)	(2.93)	1.82	11.70	(1.73)	0.55	2.07
Fixed Income	Bloomberg US Govt/Credit TR USD	(2.34)	(3.00)	(0.85)	0.93	(5.32)	0.41	1.31
	Bloomberg US Govt/Credit Interm TR USD	(1.08)	(0.83)	0.65	2.20	(2.93)	1.02	1.27
	Bloomberg US Govt/Credit Long TR USD	(6.22)	(9.37)	(5.40)	(2.93)	(11.90)	(1.21)	1.94
	ICE BofA US High Yield TR USD	(1.16)	0.53	5.97	10.19	1.82	2.80	4.16
	Credit Suisse HY USD One Month Lag	(1.19)	0.46	6.33	10.34	2.12	2.82	4.09
	Morningstar LSTA US LL Index TR USD	0.96	3.46	10.16	13.05	6.08	4.46	4.30
	FTSE WGBI NonUS USD	(4.00)	(5.16)	(3.72)	2.55	(10.77)	(4.34)	(2.31)
	Bloomberg Gbl Agg Ex USD TR USD	(3.30)	(4.00)	(3.20)	3.39	(8.39)	(3.10)	(1.73)
REITs	FTSE Nareit All REITs TR	(6.89)	(8.04)	(5.17)	(0.89)	2.74	2.37	5.99
	Wilshire US REIT TR USD	(6.53)	(6.41)	(0.17)	3.94	5.74	2.87	6.01

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

Source: Morningstar

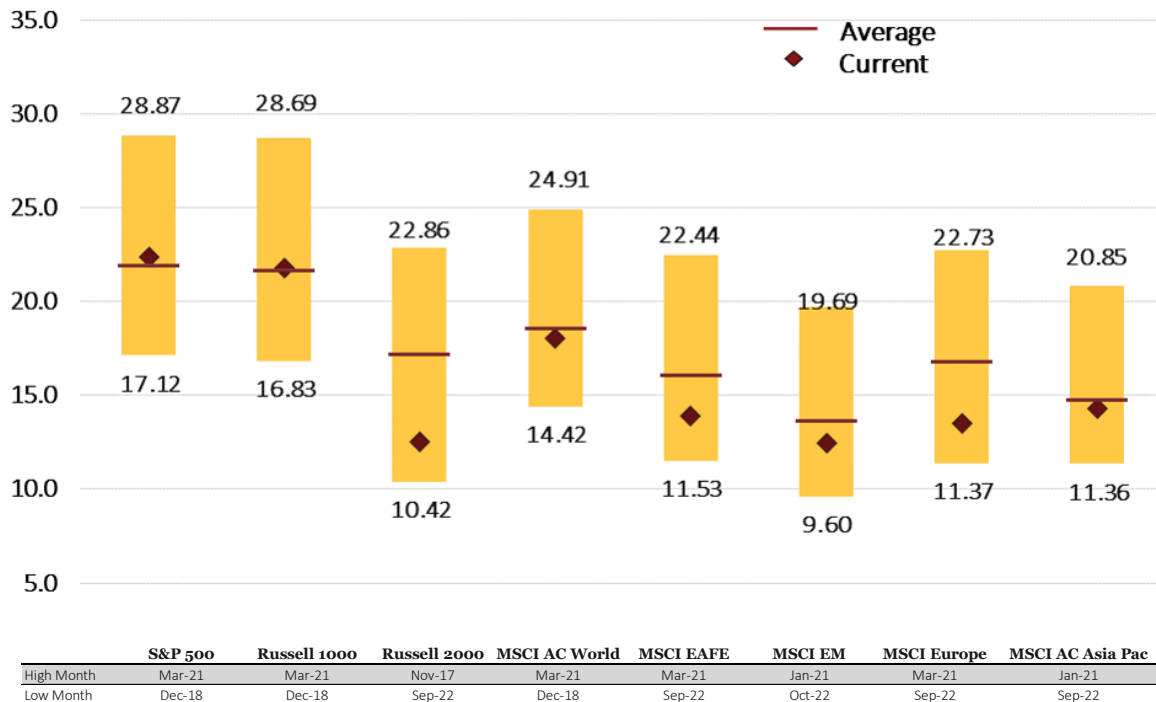
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## Current Trailing P/E vs. Trailing 5-Year High, Low, Average



	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, data as of August 31<sup>st</sup>

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates <sup>3</sup> per US \$		Inflation <sup>2</sup>
	Latest <sup>1</sup>	2023 <sup>1</sup>	2024 <sup>1</sup>	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
<b>United States</b>	2.10	2.20	1.30	3.80	4.57	-	-	4.30
<b>China</b>	0.80	5.10	4.60	5.20	2.71	7.30	7.12	0.80
<b>Japan</b>	1.20	1.80	1.00	2.70	0.77	149.43	144.45	3.10
<b>United Kingdom</b>	0.20	0.30	0.80	4.30	4.44	1.22	1.10	6.20
<b>Euro Area</b>	0.10	0.60	1.10	6.40	3.34	1.06	0.98	4.50
<b>Germany</b>	0.00	-0.20	0.90	5.70	2.84	1.10	0.98	4.60
<b>France</b>	0.50	1.00	1.20	7.20	3.42	0.92	0.98	4.60
<b>Italy</b>	-0.40	0.80	0.80	7.30	4.80	1.10	0.98	4.58
<b>Canada</b>	0.00	1.20	1.40	5.50	4.03	1.35	1.37	3.30
<b>India</b>	1.90	6.30	6.00	7.10	7.21	83.07	80.25	6.83
<b>Mexico</b>	0.80	3.30	2.50	3.00	9.92	17.41	20.15	6.08
<b>Brazil</b>	0.90	3.20	1.70	7.80	11.73	5.00	5.39	6.14

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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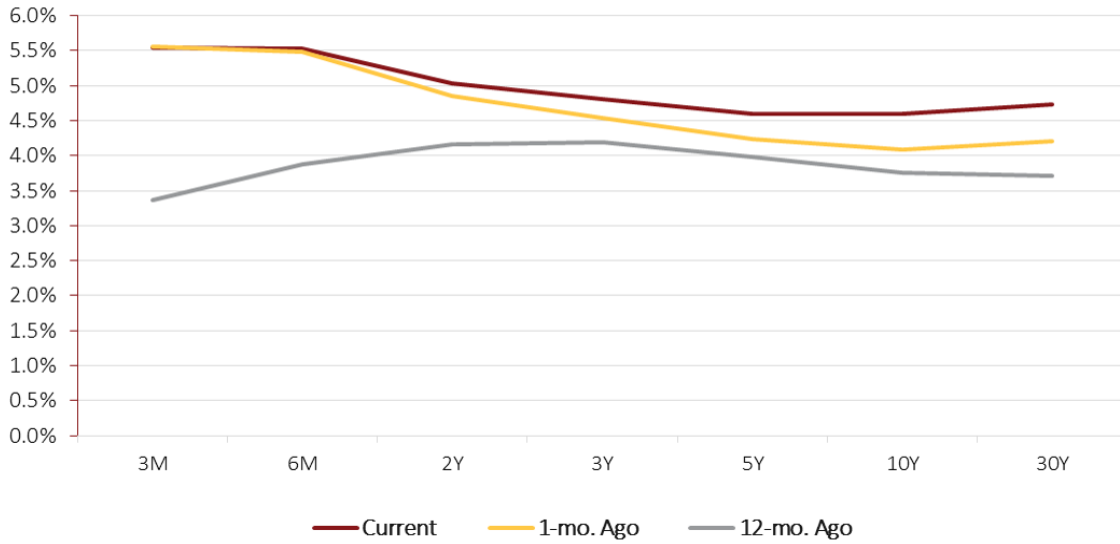
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## U.S. Treasury Yield Curves

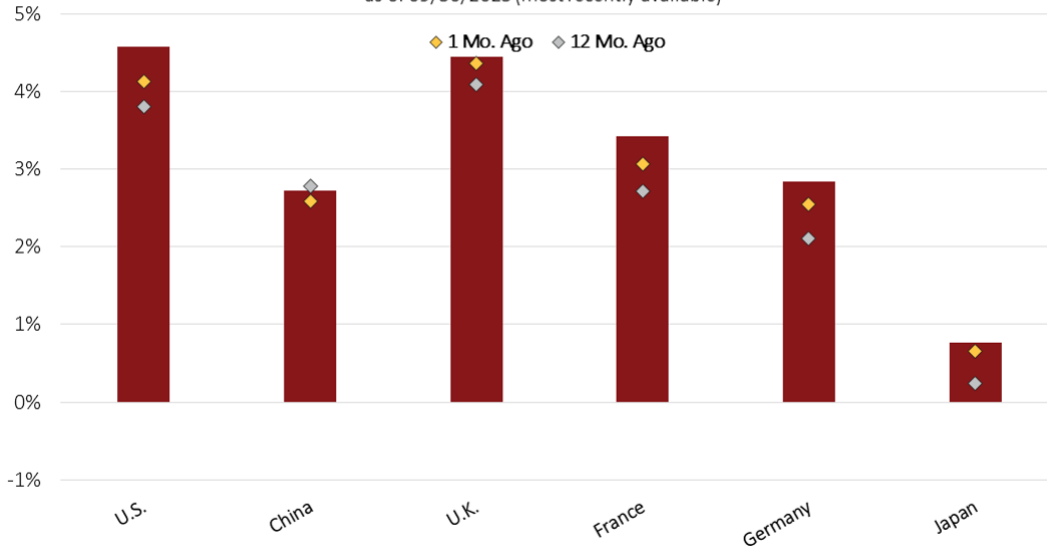
as of 09/30/2023



Source: Federal Reserve Bank

## 10-Year Sovereign Yields

as of 09/30/2023 (most recently available)



Source: Trading Economics

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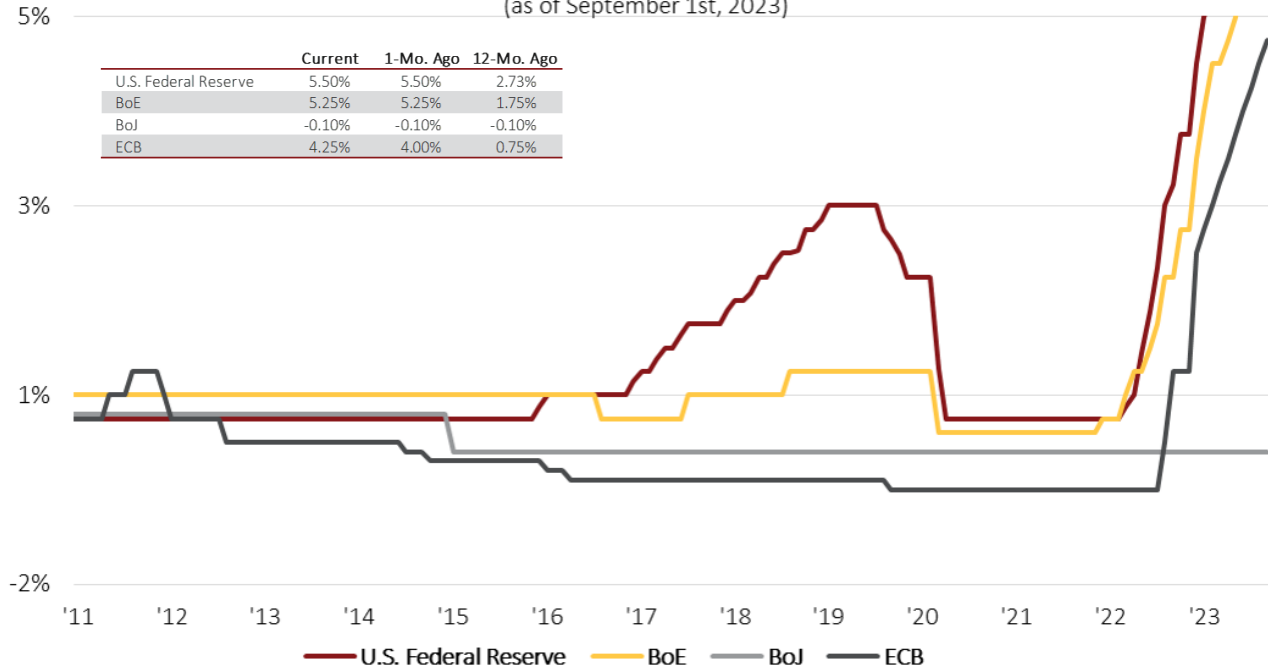
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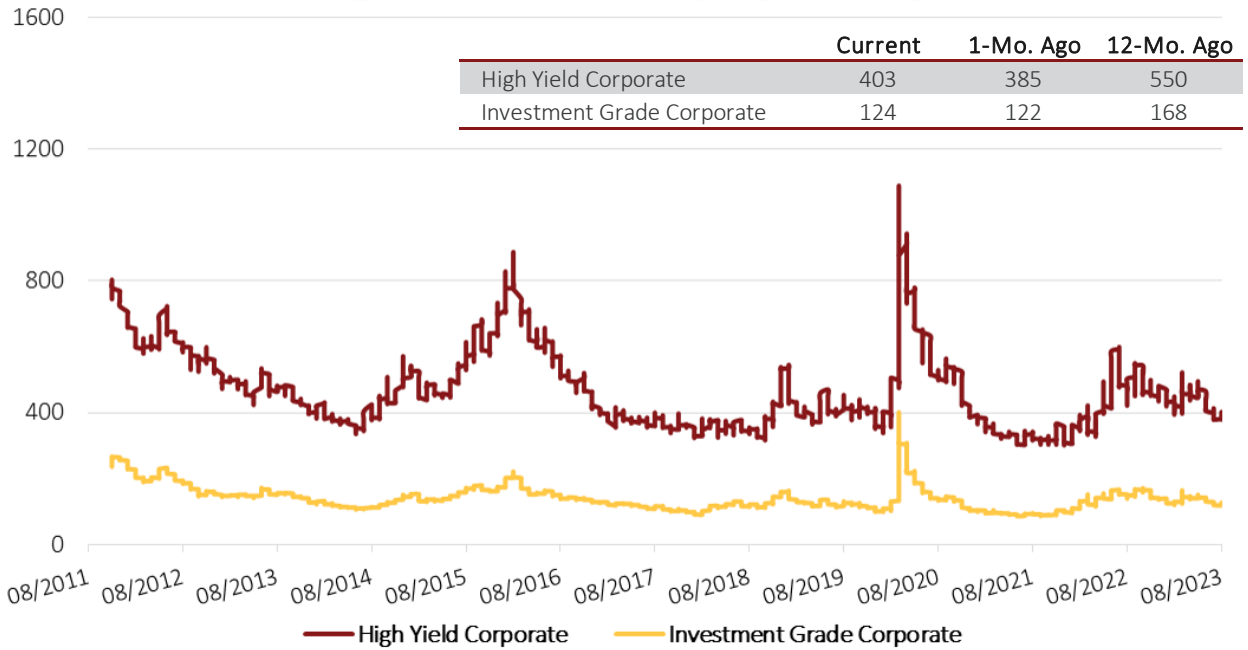
## Central Bank Policy Rates

(as of September 1st, 2023)



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

## Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank