

Market Review

Snapshot

The U.S. stock market rally slowed in the third quarter while the Fed remained hawkish and Treasury yields soared to multiyear highs. Non-U.S. stocks also retreated. Meanwhile, rising Treasury yields weighed on U.S. bond returns.

- Stocks saw a second-consecutive monthly decline in September as investors grappled with ongoing inflation news, rising interest rates and the potential for a “higher-for-longer” rate environment. These losses more than offset July’s gain, resulting in a -3.27% third-quarter return for the S&P 500 Index. However, stocks maintained a year-to-date gain.
- Energy was the only S&P 500 sector to advance in September. For the quarter, all sectors declined except energy and communication services.
- Non-U.S. developed markets stocks declined in September and for the quarter. Emerging markets stocks declined for the month and quarter but not as sharply as their developed markets peers.
- After hiking in July, the Fed paused again in September. The European Central Bank lifted rates to a 22-year high, while the Bank of England paused for the first time in nearly two years.
- The annual rate of U.S. headline inflation rose to 3.7% in August, its second straight monthly gain. Inflation moderated in Europe and the U.K. but remained well above central bank targets.
- In the U.S., all size and style indices declined for the month and the quarter. Large-cap stocks outperformed small-caps, while style indices were mixed. Outside the U.S., large-cap stocks outperformed in September but underperformed for the quarter. Value outperformed growth for both periods.
- U.S. Treasury yields rose for the month and quarter, and the broad bond market declined.

Returns (%)

INDEX	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	10 YR
U.S. Large-Cap Equity							
S&P 500	-4.77	-3.27	13.07	21.62	10.15	9.91	11.91
U.S. Small-Cap Equity							
Russell 2000	-5.89	-5.13	2.54	8.93	7.16	2.39	6.64
Intl. Developed Markets Equity							
MSCI World ex USA	-3.37	-4.10	6.73	24.00	6.07	3.44	3.84
Emerging Markets Equity							
MSCI Emerging Markets	-2.62	-2.93	1.82	11.70	-1.73	0.55	2.07
Global Real Estate Equity							
S&P Global REIT	-6.61	-6.49	-4.54	2.03	2.21	0.01	3.12
U.S. Fixed Income							
Bloomberg U.S. Aggregate	-2.54	-3.23	-1.21	0.64	-5.21	0.10	1.13
Global Fixed Income							
Bloomberg Global Aggregate Bond	-2.92	-3.59	-2.21	2.24	-6.93	-1.62	-0.44
U.S. Cash							
Bloomberg U.S. 1-3 Month Treasury Bill	0.44	1.34	3.71	4.63	1.75	1.71	1.09

Data as of 9/30/2023. Performance in USD. Periods greater than one year have been annualized. Past performance is no guarantee of future results. Source: FactSet.

Equity Returns | Size and Style

		U.S.			
		QTD (%)		YTD (%)	
		Value	Growth	Value	Growth
Size	Large	-3.16	-3.13	1.79	24.98
	Small	-2.96	-7.32	-0.53	5.24

		Non-U.S. Developed Markets			
		QTD (%)		YTD (%)	
		Value	Growth	Value	Growth
Size	Large	0.19	-8.88	9.70	4.29
	Small	-1.01	-5.93	4.23	-0.55

		Emerging Markets			
		QTD (%)		YTD (%)	
		Value	Growth	Value	Growth
Size	Large	-0.89	-5.56	5.71	-2.91
	Small	3.83	2.05	12.63	14.89

- U.S. stocks broadly declined for the quarter but held onto year-to-date gains.
- For the quarter, large-cap stocks fared better than their small-cap peers, which declined 5%. Large-caps sharply outperformed year to date, gaining 13% versus 2.5% for small-caps.
- Large-cap growth and value stocks performed similarly for the quarter, while small-cap value outperformed small-cap growth. Year to date, growth stocks significantly outperformed, with large-cap growth stocks up 25%.

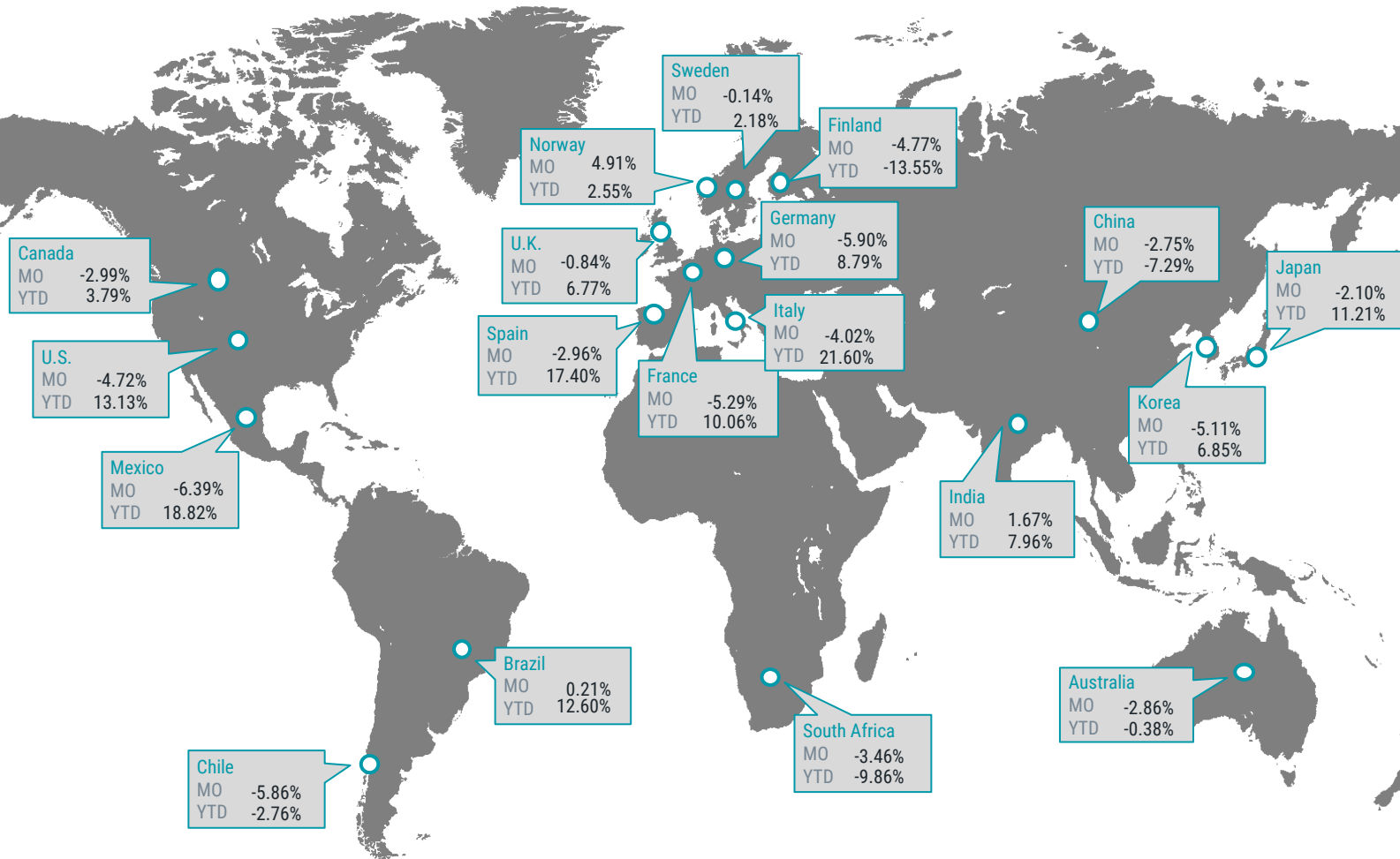
- International developed markets stocks generally declined in the quarter but maintained year-to-date gains.
- Large-cap stocks lagged their small-cap peers in the quarter but significantly outperformed year to date. Large-caps returned 7% year to date, while small-caps gained 2%.
- Large- and small-cap value stocks fared much better than their growth peers for the quarter. Year to date, value stocks maintained a notable performance advantage over their growth counterparts.

- The broad emerging markets stock index declined in the third quarter but outperformed its developed markets peers. Emerging markets stocks maintained a year-to-date gain.
- Small-cap stocks advanced and outperformed large-caps in the quarter. Year to date, small-caps advanced nearly 14% versus 1% for large-caps.
- Value stocks fared better than growth stocks across the board in the quarter. Year to date, value outperformed among large-caps and underperformed in the small-cap universe.

Data as of 9/30/2023. Performance in USD. Past performance is no guarantee of future results. Source: FactSet.

U.S. Equity, International Developed Markets and Emerging Markets Equity style boxes are represented by Russell, MSCI World ex USA and MSCI Emerging Markets indices, respectively.

Equity Returns | Country



Data as of 9/30/2023. Performance in USD. Past performance is no guarantee of future results. Source: FactSet. Countries are represented by MSCI country indices.

Fixed-Income Returns

U.S. economic resilience and Fed hawkishness contributed to Treasury yields moving higher. The broad bond benchmark declined in September and the third quarter, leaving its year-to-date return negative.

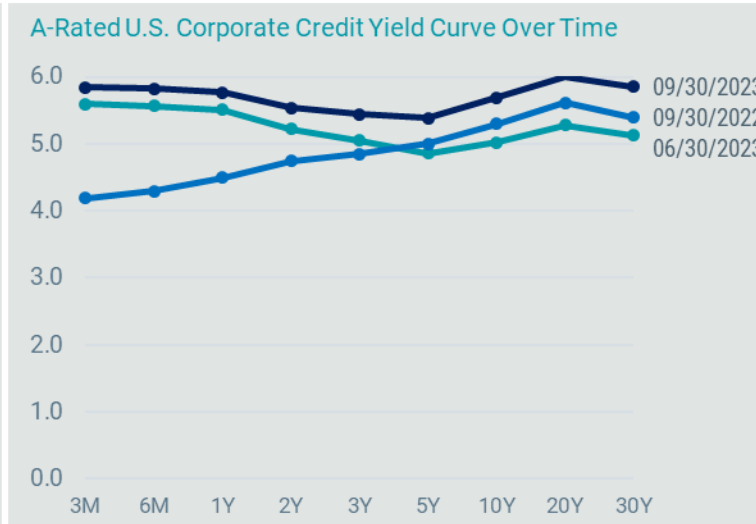
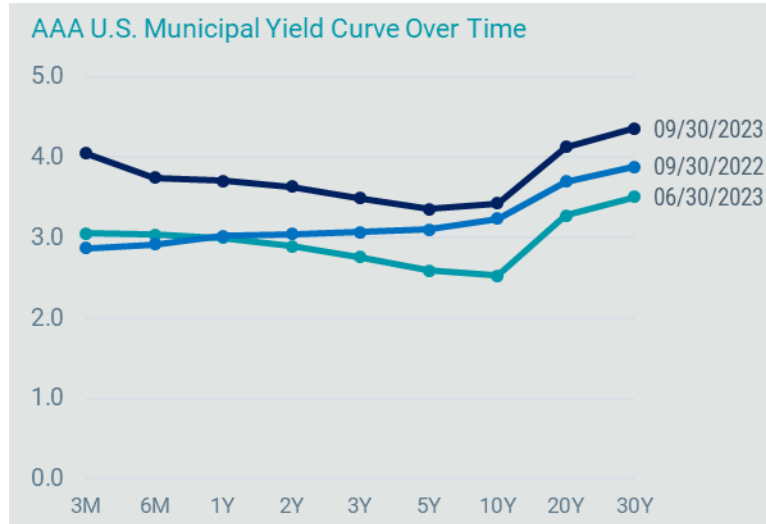
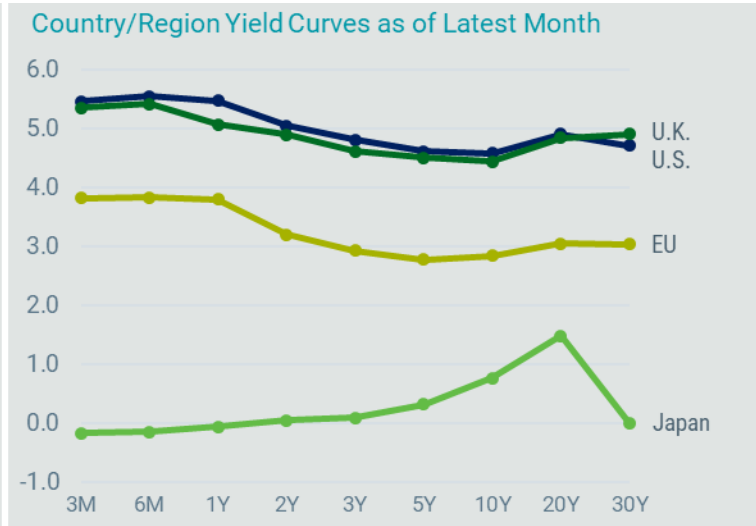
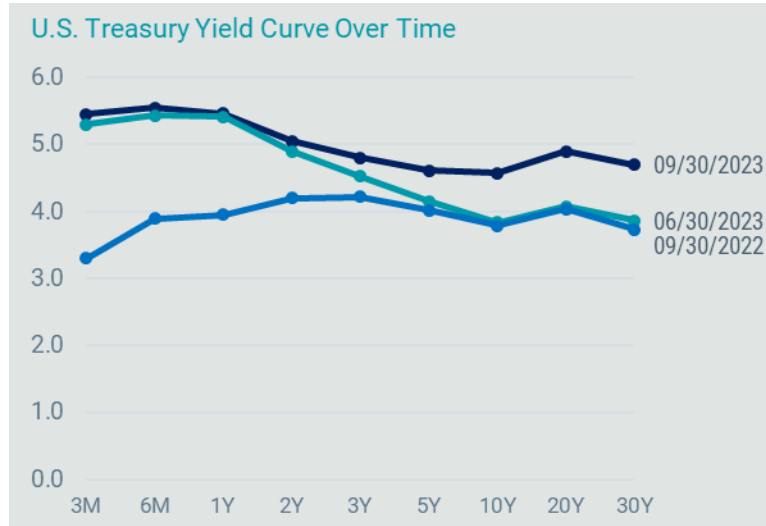
- The Bloomberg U.S. Aggregate Bond Index returned -2.54% in September and -3.23% for the third quarter. The two-year Treasury yield jumped 15 bps to 5.05% at quarter-end, while the 10-year yield climbed 74 bps to 4.58%.
- Credit spreads widened for the month and modestly tightened for the quarter, and corporate bonds underperformed Treasuries. MBS underperformed corporate bonds and Treasuries. High-yield corporates outperformed investment-grade corporates for both periods.
- The Fed lifted rates to a 22-year-high range of 5.25% to 5.5% in July then held rates steady in September. However, policymakers hinted another rate hike may be necessary before year-end to tame still-high inflation.
- After steadily dropping to 3% in June (from 9.1% in June 2022), annual headline CPI rose in July and increased to 3.7% by August. Base effects and a 4.3% jump in food prices contributed to the increase. Core inflation slowed to a 4.3% annualized gain in August. The shelter index, up 7.3%, accounted for more than 70% of the increase in core CPI.
- Municipal bond (muni) yields spiked, leading to negative muni performance for the month and the quarter. Muni returns lagged Treasury returns for both periods.
- Inflation breakeven rates rose slightly for the quarter, and TIPS modestly outperformed nominal Treasuries.

Returns (%)

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Global Fixed Income							
Bloomberg Global Aggregate Bond	-2.92	-3.59	-2.21	2.24	-6.93	-1.62	-0.44
U.S. Fixed Income							
Bloomberg U.S. Aggregate	-2.54	-3.23	-1.21	0.64	-5.21	0.10	1.13
U.S. High-Yield Corporate							
Bloomberg U.S. Corporate High Yield Bond	-1.18	0.46	5.86	10.28	1.76	2.96	4.24
U.S. Investment Grade							
Bloomberg U.S. Corporate Bond	-2.67	-3.09	0.02	3.65	-4.93	0.93	2.23
Municipals							
Bloomberg Municipal Bond	-2.93	-3.95	-1.38	2.66	-2.30	1.05	2.29
U.S. TIPS							
Bloomberg U.S. TIPS	-1.85	-2.60	-0.78	1.25	-1.98	2.12	1.74
U.S. Treasuries							
Bloomberg U.S. Treasury Bond	-2.21	-3.06	-1.52	-0.81	-5.83	-0.07	0.63
U.S. Cash							
Bloomberg U.S. 1-3 Month Treasury Bill	0.44	1.34	3.71	4.63	1.75	1.71	1.09

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Global Yield Curves



Data as at 9/30/2023 Source: Bloomberg.

Yield is a rate of return for bonds and other fixed-income securities. A yield curve is a line graph that shows yields of fixed-income securities from a single sector (e.g., Treasuries) over various maturities (e.g., five and 10 years) at a single point in time (e.g., 12/31/2020).