1911 TRUST

Third Quarter Market Watch

The 2023 stock market rally took a pause recently, as the third quarter ended on a down note. The S&P 500 finished September down 4.8% and lower for the quarter by 3.3%. The Dow Jones Industrial Average fell 2.1% for the quarter, and the tech-heavy Nasdaq Composite retreated 5.8% in September, and was down 3.9% for the quarter, on track for its weakest performance since the second quarter of 2022.

Despite the Fed's rate increases, the US economy continues to expand, which pushed the yield on the benchmark 10-year US Treasury note to 5% in October; its highest levels since the Great Financial Crisis. A prolonged period of elevated rates could upend the investment strategies that worked during years of near-zero interest rates, when investors had few alternatives outside the stock markets.

Higher rates are troublesome for growth stocks such as technology and internet companies. Many such stocks command lofty valuations and have their earnings and cash flows tied to the distant future. Higher interest rates pressure the valuation of that anticipated growth.

The latest reading of the personal consumption expenditures price index, which is the Federal Reserve's preferred inflation metric, showed inflation may be easing. The so-called core PCE, which strips out volatile food and energy prices, rose 0.1% in August and 3.9% annually. Economists polled by Dow Jones expected that the core PCE would advance 0.2% for the month and 3.9% year over year.

Investors saw another reason for optimism as they expected that the Fed would cut interest rates. At the end of July, the S&P 500 closed at its 2023 high, as traders expected an 87% chance the Fed could cut its benchmark rate in 2024. This view has since changed. Currently, the futures market assigns a 50% chance to rate cut in 2024.

The energy sector was a bright spot in the third quarter. Energy stocks rode a rally in oil prices. Brent crude, the global benchmark, surged 27% since June to $95.38, which drove the S&P 500 energy sector up 14%, with shares of Exxon Mobil closing at a record at the end of Q3. At the heart of the energy price rally are a series of voluntary cuts from the Organization of the Petroleum Exporting Countries and its allies, known as OPEC+. The rapid increase of crude oil prices to near $100 per barrel is fueling some concerns about a potential demand destruction. That being said, demand for refined products remains strong. As the hurricane season looms, there could be temporary disruption of crude oil and refining production, resulting in supply shortages.

US household spending, which is the primary driver of the nation's economic growth, remains robust. Americans spent 5.8% more in August than a year earlier, well

	Date	YTD		1 Year Ago	
	9/30/2023	12/31/2022	% chg	9/30/22	% chg
DJIA	33,507.50	33,147.25	2.7%	28,725.51	19.2%
S&P 500	4,288.05	3,839.50	13.1%	3,585.62	21.6%
NASDAQ Composite	13,219.32	10,466.48	27.1%	10,575.62	26.1%
Russell 2000	4,436.43	4,377.14	2.5%	4,137.24	8.9%

	Date	YTD		1 Year Ago	
	9/30/2023	12/31/2022	% chg	9/30/2022	% chg
Japan Nikkei 225	31,857.62	26,094.50	7.9%	25,937.21	-14.6%
MSCI EM (Emerging Markets)	952.78	956.38	2.2%	875.79	12.2%
MSCI EAFE	2,031.26	1,943.93	7.6%	1,661.48	26.3%
MSCI AC World	656.82	605.38	10.5%	553.37	21.4%
FTSE 100	8,078.48	7,657.48	7.0%	7,045.57	-0.5%
SSE Composite Index	3,110.48	3,089.26	-4.2%	3,024.39	-25.4%

US Equity Sector

	Q3	YTD
Consumer Discretionary	-4.8%	26.7%
Consumer Staples	-6.0%	-4.8%
Energy	12.2%	6.0%
Financials	-1.1%	-1.6%
Health Care	-2.7%	-4.1%
Industrials	-5.2%	4.5%
Information Tech	-5.6%	34.7%
Materials	-4.8%	2.6%
Communication Services	3.1%	40.4%
Utilities	-9.2%	-14.4%

US Equity Style

	Q3	YTD
RUSSELL 1000 VALUE	-3.2%	1.8%
RUSSELL 1000 GROWTH	-3.1%	25.0%
RUSSELL 2000 VALUE	-3.0%	-0.5%
RUSSELL 2000 GROWTH	-7.3%	5.2%

Commodity Prices

	Sep 2023	Dec 2022	Sep 2022
Gold	1,851.20	1,826.20	1,672.00
Crude Oil	91.34	80.26	79.49
UD Dollar Index	106.21	103.27	112.08
Commodit y Index	104.84	112.81	111.49

outstripping the 4% inflation. Consumer spending on experiences boomed this summer, with Delta Air Lines reporting a record revenue in its latest quarter. Ticketmaster sold over 295 million event tickets in the first half of 2023, up 18% year-over-year.

Home prices rose again in the latest month as low supply continued to frustrate buyers. The S&P CoreLogic Case-Shiller Home Price Index gained 1% from a year earlier. Rising mortgage rates have pushed home affordability near its lowest level in decades, reducing demand. But higher rates have also spooked potential home sellers who would need to give up their low mortgage rates and buy another home at a higher rate. The supply of homes for sale has remained unusually low, supporting home prices.

History suggests the market could have more gains ahead even if the economy experiences turbulence. As a reminder, in July 2022, the US inflation rate hit a four-decade high of 9.1%, yet the S&P 500 has risen 15% since then. According to Goldman Sachs, since 1945, the S&P 500 has increased 21% on average in the two years after a peak in Consumer Price Inflation. When episodes of recession are excluded, the S&P 500's average gain was 28%.

House GOP leaders failed to pass a short-term spending bill, bolstering fears that federal lawmakers wouldn't reach an agreement on time. The market will also need to deal with a possible government shutdown. How long it lasts and how it affects short-term economic data, consumer confidence and interest rates will be among key topics for investors.

After September lived up to its reputation as the worst month of the year, bulls are hopeful that the third quarter earnings will support the stock market. Early signs are positive as a handful of S&P 500 companies have reported good third-quarter earnings. They are a good indicator for the consumer and information technology sectors including FedEx, Oracle, Lennar, AutoZone, Darden, and Costco. Most of these companies reported better-than-expected revenues and earnings. Moreover, a record number of companies in the S&P 500 have issued earnings guidance for the fourth quarter, indicating better visibility. Valuations have come down but remain elevated. The forward multiple for the S&P 500 is 18x, far lower than the 20x in July, when the S&P touched 4,600.

Interest Rates

	Sep '23	Dec '22	1 Yr. Ago
USD Prime Rate (TPI)	8.50	7.50	6.25
USD Federal Funds (TPI)	5.33	4.34	3.09
US 2Y T-Note Yield (TPI)	5.04	4.42	4.20
US 10Y T-Note Yield (TPI)	4.57	3.88	3.80
30YR FIXED MORTGAGE	7.31	6.42	6.70

Exchange Rates

	Sep 2023	Dec 2022	Sep 2022
Euro per U.S. Dollar	0.945	0.937	1.021
British Pounds per U.S. Dollar	0.819	0.831	0.896
China Renminbi per U.S. Dollar	7.304	6.952	7.091
Indian Rupee per U.S. Dollar	83.041	82.730	81.351
Japanese Yen per U.S. Dollar	149.225	131.945	144.745

US Bond Performance

	Q3	YTD	1-Year Return
BAR CAP Govt. Interm. TR	-0.8%	0.3%	1.2%

Economic Sentiment

	Sep 2023	Dec 2022	Sep 2022
Unemployment Rate	3.80	3.50	3.50

Entering the fourth quarter, the S&P 500 is hanging on to a 13% advance for the year, but much of the enthusiasm that characterized markets in the first half has largely disappeared. Investors are worried that the US Federal Reserve will keep interest rates higher for longer, as well as the lagging impact of a hawkish monetary policy on the economy. Both are adding pressures to risky assets. The US Treasury market is the bedrock of the US financial market, and, over the past 20 years, it has been a major contributor to stock returns.

The US stock market rally has been unusually concentrated this year. The "Magnificent Seven", the mega cap stocks that are so dominant in the index (Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla and Meta) were responsible for 69% of the US stock market's advance year to date. Excitement surrounding the emergence of artificial intelligence, specifically, natural language processing tools such as ChatGPT, drove stocks significantly higher for companies that may benefit from the future implementation of the technology. That trade is losing its shine, as investors look with renewed skepticism at the lofty valuations commanded by some companies in the magnificent seven. Looking ahead, some of the market leadership will change.

We close the third quarter on a somber note, as October witnesses the most serious attack on Israel in 50 years. The Palestinian militant group Hamas launched a devastating assault on Israel on October 8th, thrusting the nationalist movement firmly into the global spotlight. Our hearts go out to all of the innocent victims of war and senseless killings. While market moves were initially muted, there should be a concern that the war could escalate.

Here at 1911 Trust, we are mindful of the effects of geopolitical turmoil, higher interest rates on the US economy, as well as on asset valuation and company fundamentals. In uncertain times, we remain disciplined in assets allocation, portfolio rebalancing and vigilant in security selection and long term patience.

Kevin Kavanaugh
Chief Investment Officer

Lei Qin, CFA, CFP®, FRM, CAIA
Director of Equity Research and Portfolio Management