October 2023

Monthly Market Commentary

Welcome to Fall! Here in Wisconsin, the mornings are brisk, and the leaves are starting to change color. For most, it is the season for pumpkin spiced lattes, fall weather attire, football, and maybe a hot cup of chili! We have a lot to look forward to over the next couple of months with Halloween, Thanksgiving, and Christmas! We wish you continued health and happiness in 2023!

Global assets saw weakness as both equity and fixed income markets corrected in the month of September, which is considered a seasonally weak period for equities. Much of the performance this year has been in a concentrated set of mega cap stocks while the average stock continues to remain under stress as valuations remain elevated relative to the current rates backdrop. Despite a pause in rate hikes by the FED at its latest policy meeting, yields continued to rise as the market now sees the FED falling behind once again to tame inflation with respect to their target. This means the FED will be forced to maintain higher rates for longer as the economy remains resilient relative to expectations and inflation is still elevated relative to the FED's target. Further, with deficits rising at a rapid pace when the economy is still growing, it has market participants fearful of the sustainability of continued government spending with rates at these levels, when almost 1/3 of government debt must be refinanced over the next year. With gridlock and a temporary extension of the debt ceiling without a long-term solution, it creates another layer of uncertainty which keeps volatility elevated and does not bode well for risk assets.

With the current economic backdrop, earnings remain under pressure as companies continue to find balance between weakening demand which puts downward pressure on their pricing power while costs remain high leading to compression in margins that were quite elevated relative to the pre-pandemic. Without the tailwind of excess stimulus, accelerated government spending, and the resumption of student loan payments, the economy is poised to see a meaningful slowdown over the coming few quarters as consumption slows. Markets have somewhat started to reflect the impact of slowing economic growth and sticky inflation which should present ample opportunities to re-allocate to risk assets along the way. For now, we believe it's prudent to stay disciplined and patient as the cycle plays out and a trough is in sight.