ECONOMIC COMMENTARY | Q3 | 2023

After a strong first half of the year, there were not many places to hide in the third quarter. As the Green Day song goes, many investors wanted to tell their investment advisers to “wake me up when September ends”. There was a lot to dislike last month as investors had to contend with a “hawkish” pause by the Federal Reserve (Fed), a looming government shutdown, a jump in bond yields and rising oil prices.

Despite these somber headlines, economists are turning optimistic on the U.S. economy. They now think it will skirt a recession, the Fed is done raising interest rates and inflation will continue to ease. In the latest quarterly survey by the Wall Street Journal, business and academic economists lowered the probability of a recession within the next year from 54% to 48%, marking the first time they have put the probability below 50% since the middle of last year. An overwhelming 82% of economists said the Fed’s current interest rate target range of 5.25% to 5.5% is restrictive enough to bring inflation back to the Fed’s 2% goal over the next two or three years.

Here's a look at how equity markets fared over the past three months. Most equity indexes saw negative returns in the third quarter. Growth stocks outperformed value stocks; midcaps slightly outperformed small caps; emerging market stocks outpaced developed international. Surprisingly, even in the face of higher interest rates, large cap growth stocks (S&P 500 Growth) continued to be the best asset class among equities, though down 2.6% for the quarter. The worst asset classes were real estate (MSCI World Real Estate) and natural resources (S&P GSSI NA Natural Resources), losing 7.1% and 8.1% respectively.

Bonds had a historically terrible year in 2022. Those who bet 2023 would be better have been wrong thus far. Government bond yields, which move inversely to price, started climbing again in July when a flurry of stronger-then-expected data persuaded investors that the Fed would have to keep rates elevated to cool the economy. The yield on the 10-year US Treasury climbed from 3.88% to 4.59%, its highest level since 2007. Although Fed Chairman Jerome Powell left rates alone again in mid-September, he also indicated that they may need to remain elevated for a longer time. We believe bonds as a whole look very attractive for income-seeking investors. Still, fixed income assets saw mostly negative returns in the third quarter, with the Barclays US Aggregate Bond Index down 3.2%

Our team is committed to monitoring the markets closely and providing you with timely insights to support your investment decisions. For example, we believe the high valuations of large cap US stocks makes it imprudent to add exposure to this category. Thank you for the continued opportunity to serve you.

Miller Wealth Advisors

Planning for life. Preparing for a lifetime.

Sources:
1. Barron’s: Sept is Over, Oct will be Better, 10.2.23
2. Valmark: TOPS Quarterly Update Q3 2023, 10.11.23
3. Wall Street Journal: Chance of Recession Ticks Below 50%, 10.16.23