SEPTEMBER 30, 2023
ECONOMIC UPDATE

LANDMARK WEALTH MANAGEMENT

FINANCIAL MARKET UPDATE

Overall, asset classes were challenged in the 3rd quarter. A US credit rating downgrade, political dysfunction, and a more hawkish Federal Reserve tone caused bond yields to increase, leading to both Equity and Fixed Income market volatility. Multisector Bonds and Emerging Markets performed best, while Real Estate and Infrastructure had the lowest returns for the quarter.

Within Fixed Income, the interest paid by the underlying bonds and decades-low valuation levels for bond prices make this an attractive asset class. Institutional forecasters have dialed back their calls for a recession from 80% over the next twelve months to 50%, but growth is still expected to slow into year-end and early 2024. Equity market performance will be driven by whether we maintain below-trend growth or slip into a recessionary environment.

Asset Class	Q3 2023
Multisector Bonds	-0.6%
Emerging Markets	-2.9%
US Core Bonds	-3.2%
US Large Cap	-3.3%
Equity Alternatives	-3.9%
Developed International	-4.1%
US Mid Cap	-4.2%
US Small Cap	-4.9%
Real Estate	-7.3%
Infrastructure	-7.5%

An index is a hypothetical portfolio of securities representing a particular market or a segment of it used as indicator of the change in the securities market. Indexes are unmanaged, do not incur fees and expenses and cannot be invested in directly

THE FED, INTEREST RATES, FIXED INCOME

The Federal Reserve raised rates by 0.25% at their July meeting and held steady again at their September meeting. The Fed is cautious with future policy moves but continues to broadcast its message that interest rates will stay higher for longer. The latter caused interest rates to move up sharply following their September meeting. The current range of the Federal Funds Rate is 5.25% to 5.50%. An additional 0.25% rate hike in November is possible, but the market's focus is now on how quickly rates will be cut in 2024 rather than the remaining increases.

Headline inflation increased to 3.7% in September from 3.0% in June. This was due to notoriously volatile energy prices. Components of inflation, such as rent (which matters more long-term), have continued their disinflationary trend, which the Fed wants to see.

After starting the year strongly, Fixed Income returns were challenged at the end of the 3rd quarter. Negative price impacts from higher yields outweighed the interest generated by underlying bonds. Although short-term moves are difficult to predict, many institutions forecast interest rates to decrease over the next 12 months, making this a compelling time to own bonds.

EMPLOYMENT

September's job gains exceeded expectations by a wide margin. That said, monthly job growth is still slowing relative to last year. More importantly, wage growth has slowed in recent months, which is a primary focus of the Federal Reserve.

US ECONOMY

Economic growth continues to be resilient. The Fed is looking to soften growth to bring down inflation, and the markets are in a 'good news = bad news' cycle as stronger growth projections raise the prospect of higher interest rates. Although the 3rd quarter is projected to grow above 3%, most early forecasts for the 4th quarter and early next year show growth slowing to below-average levels, particularly as consumer spending and strength slow. This would align with the Fed's goal of slowing growth and keeping inflation in check.

HEADING INTO 2024

Equity and Fixed Income markets will be influenced in the short term by (1) political gridlock and (2) Federal Reserve policy. Economic growth and inflation are slowing, in line with the Federal Reserve's goal. The next few months will determine whether we see below-average growth or a mild recessionary environment. While the near-term uncertainty remains elevated, history shows that markets can perform strongly after such periods.