DESPITE SEPTEMBER MARKET DROP, THE S&P 500 RISES 13% YEAR-TO-DATE

October 2023

In September, major equity indices fell for the second month in a row. The S&P 500, an index of the 500 largest companies in the U.S., lost nearly 5% and the technology-heavy Nasdaq Index decreased almost 6%. However, year-to-date returns continue to be strong, with the S&P 500 rising 13% and the Nasdaq climbing 27% through the end of September.

The Magnificent Seven companies—the seven mega-cap tech stocks that drove nearly all of the stock market's return earlier this year—have experienced weaker performance. In September, shares of Apple, Microsoft, Alphabet (the parent company of Google), Amazon.com, NVIDIA and Tesla all fell; only Meta (the parent company of Facebook) recorded a gain.

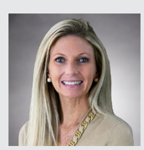
Bonds came under pressure as the Bloomberg US Aggregate Bond Index declined 2.5% in September, falling into negative territory for the year with a return of -1.2%. Bond prices and yields move opposite of one another, so investors saw the yield on the 10-year Treasury, a key benchmark for borrowing costs on mortgages and other loans, climb to 4.5%, a 16-year high, at the end of September. For shorter-term two-year Treasurys, yields rose over 5.1% in the last few days of the third quarter.[1]

What has driven the weak returns in stocks and bonds? Many factors have weighed on investor sentiment: the potential Federal government shutdown, strikes across the U.S., including the Writers Guild of America and the United Auto Workers union, and interest rates that will likely be higher for longer. Since March 2022 through July 2023, the Federal Reserve has raised rates 11 times, bringing the benchmark rate from around zero to close to 5.5%.[2] At its recent meeting in September, the Fed indicated that there may be one more interest rate increase in 2023 based on economic growth expectations.

Climbing interest rates mean higher mortgage rates for homebuyers. In fact, mortgage rates hit a 23-year high at the end of September, with the average 30-year fixed mortgage rising to 7.31%. These rates erode purchasing power with fewer homebuyers as many are reluctant to sell their homes and lose their current, often far lower, mortgage rate.

The latest inflation data points to why the Fed may keep rates elevated. In August 2023, the Consumer Price Index rose 3.7% over the past year, partly due to rising oil prices.[3] Even though inflation has been cooling over the past several months, it remains above the Fed's 2% target.

Regardless of how investors react to macroeconomic events, focus on making sure your investment portfolio aligns with your short-, mid- and long-term goals. While stocks have historically offered the best return over the long term compared to bonds and cash, higher yields in other investment options today may offer an opportunity to earn meaningful returns with potentially less risk—depending on your goals. A Jemma Financial Advisor can help you determine what makes sense for your investment portfolio.



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1 CNBC.com 2 Federal Reserve 3 U.S. Bureau of Labor Statistics

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