Quarterly Investment Report

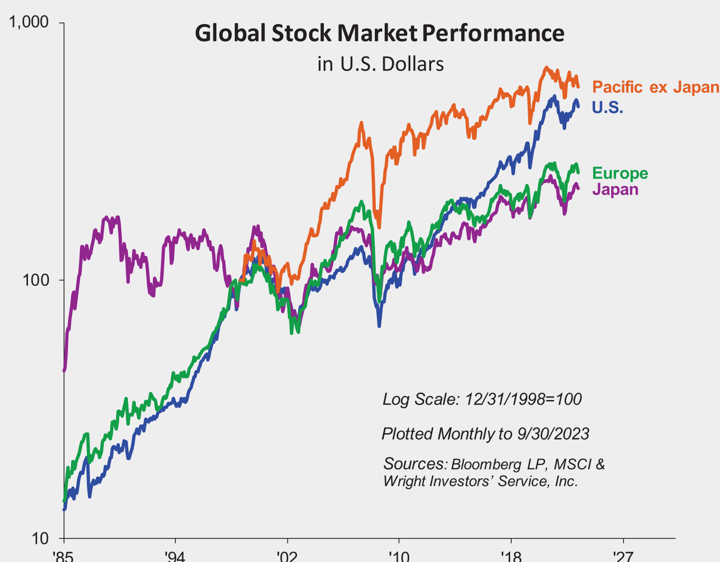
October 2023

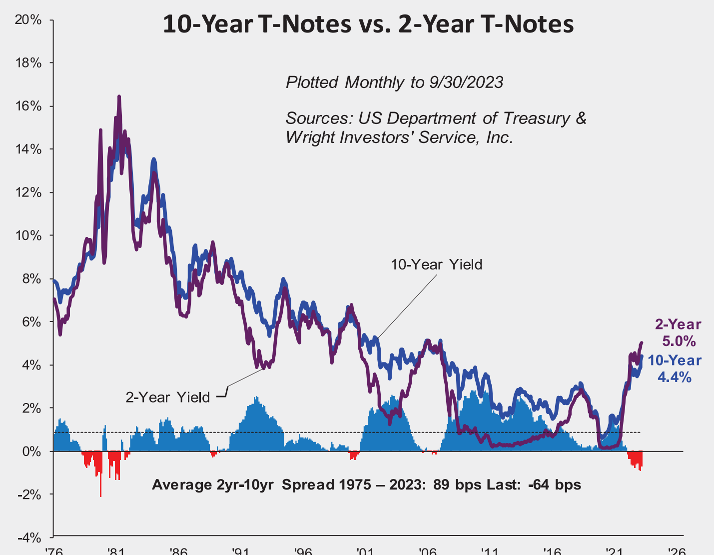
Higher interest rates, a stronger Dollar, and rising oil prices have taken a toll on both U.S. equities and bonds. In the last quarter, the S&P 500 Index fell -3.3% after declining -4.8% in September alone. Global equities registered losses and the Bloomberg U.S. Aggregate Index also fell -3.2% during the quarter. Notably, the U.S. Dollar strengthened against major currencies and commodities, especially crude oil, finishing the quarter on a robust note. The government averted a shutdown at the last moment by passing a stopgap spending bill on September 30. Business activity remains stagnant, and the US PMI Composite Index hit a 7-month low of 50.1 in September. The adverse impacts of higher interest rates and inflation are being felt across both manufacturing and service sectors. The unemployment rate rose to 3.8% and the labor force participation rate rose slightly to 62.8%. The Fed's preferred inflation measure, the core PCE price index, rose 3.9% year-over-year in August, moderating from 4.3% in July. The headline PCE inflation including volatile food and energy prices rose 3.7% and remains higher than the Fed's target of 2.0%. The 30-year mortgage rates stood at 7.3% – the highest since 2000 – at the end of the quarter. Higher rates and home prices are having a noticeable impact on the affordability of homes for potential buyers.

Stock Market

During the third quarter, finding a safe haven in the stock market proved challenging. The S&P 500 Index fell -3.3% for the quarter and -4.8% in September. The Dow Jones Industrial Average and Nasdaq Composite also experienced negative returns, with -2.1% and -3.9% declines, respectively. Large-cap stocks outperformed their small-cap and mid-cap counterparts during this period, and growth stocks outperformed value stocks across various market capitalizations. Equities across most sectors fell. Notably, the Utilities and Real Estate sectors faced significant headwinds, with declines of -9.2% and -8.7%, respectively. In contrast, Energy stocks performed exceptionally well, rising 12.2% for the quarter. Telecoms was the sole sector apart from Energy that managed to stay in the green with a 3.1% return for the quarter. September saw stocks across all the sectors, except Energy, recording losses. However, despite the quarterly decline, the S&P 500 Index has managed to maintain a positive year-to-date gain of 13.1%. Information Technology, Telecoms, and Consumer Discretionary have been the top-performing sectors thus far this year.

Internationally, U.S. equities outperformed developed markets but underperformed emerging markets, although most major global equity markets fell for the quarter. The MSCI Developed World ex-U.S. Index and the MSCI Emerging Markets Index posted returns of -4.1% and -2.9%, respectively. European stocks, as represented by MSCI Europe ex UK,





experienced a decline of -5.9% in U.S. dollar terms. In contrast, UK equities, as represented by the MSCI-UK, showed a more modest decline of -1.5% for the quarter. Similarly, the MSCI-Japan fell -1.6% while the MSCI-China Index dipped by -1.8% over the same period. Meanwhile, the U.S. Dollar appreciated against all major currencies.

Bond Market

The Bloomberg U.S. Aggregate, a comprehensive index of investment-grade, taxable, dollar-denominated bonds, declined -3.2% during the quarter and -1.2% year-to-date. It underperformed the Bloomberg U.S. High Yield Bond index, which rose 0.5% for the quarter and 5.9% year-to-date. Non-U.S. Dollar bonds, as represented by the Bloomberg Global Aggregate ex US Index, dropped by -4.0%. The bond market saw a notable shift higher in the yield curve during the quarter, with U.S. Treasurys continuing their decline. This decline was driven by a combination of interest rate hikes and the increased issuance of new bonds as the federal government addressed mounting deficits, ultimately pushing bond prices lower. As a result, the 10-year yield surged 73 basis points since the previous quarter, reaching a high of 4.57%, a level not seen since 2007. The 30-year yield also increased by 84 basis points to 4.70%, a level last observed in February 2011. Notably, longer-term Treasury yields experienced more pronounced increases than shorter-term bonds. Treasury Inflation Protected Securities' yields rose less than Treasury yields resulting in a rise in breakeven inflation expectations.

Alternatives

Commodities displayed a stronger performance than equities and bonds during the quarter. The S&P GSCI, a widely recognized benchmark for gauging commodity performance, closed the quarter 12.8% higher. Energy prices saw a noteworthy surge, with crude oil, natural gas, and heating oil prices rising by 28.5%, 4.7%, and 37.3%, respectively. In contrast, metal prices, including those of gold and copper, experienced declines of -4.2% and -0.1% respectively, over the course of the quarter. Additionally, the agricultural sector witnessed notable declines, with corn and wheat prices in U.S. Dollar terms falling by -14.0% and -14.9%, respectively. The S&P United States REIT Index, reflecting the turbulence caused by higher interest rates, declined -7.0% during the same period.

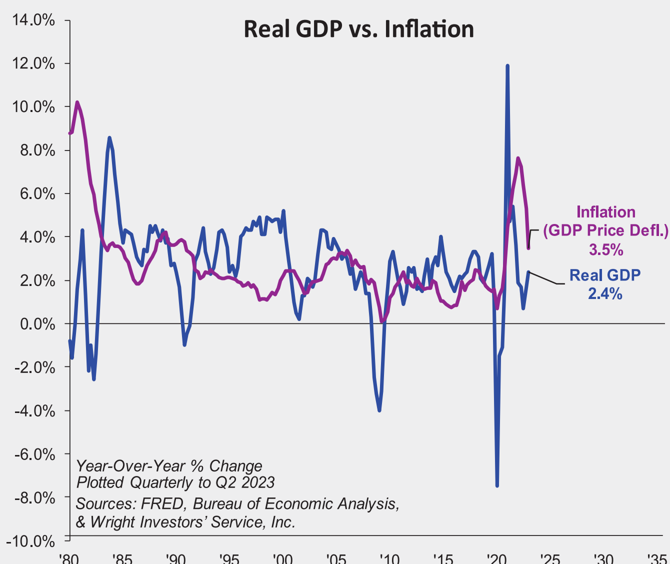
Economy

As the quarter came to a close, the U.S. faced the looming threat of a government shutdown. Fortunately, the U.S. Congress took timely action to avert this crisis by passing a stopgap funding bill, ensuring uninterrupted functioning of the federal government for an additional 45 days. Turning to the state of the economy, demand conditions remained lackluster for both manufacturers and service providers, reflected in the US PMI Composite Index, which hit a seven-month low at 50.2 in September. While the index managed to stay slightly above the critical 50-point threshold during the quarter, it did so only marginally, signaling a general stagnation in overall business activity for the second consecutive month. The Services Business Activity Index also painted a challenging picture, hitting an eight-month low of 50.1. The service sector faced additional pressure as new orders declined at a faster rate, leading to a more pronounced decline in business activity. The strain on consumer spending power, driven by rising inflation and interest rate increases, played a significant role in this decline in new business for service sector companies. Furthermore, overall foreign client demand decreased, reflecting a fresh decline in new export orders for the service sector. Similarly, manufacturing activities experienced contractions in both output and new orders, as evidenced by the S&P Global U.S. Manufacturing PMI which reached a two-month low of 48.8 in September, down from 48.9 in August. These indicators suggest

Global Investment Returns In U.S. Dollars

	Q3 2023		Trailing 12 Months	
	Stocks	Bonds	Stocks	Bonds
U.S.	**-3.2%**	**-3.2%**	**21.0%**	**0.6%**
Canada	-4.0%	-5.5%	11.5%	-0.7%
Mexico	-6.5%	-3.8%	33.6%	8.8%
Japan	**-1.6%**	**-6.2%**	**25.9%**	**-5.3%**
Pacific ex Japan	-4.8%	-1.0%	10.6%	2.2%
Australia	-3.3%	-3.9%	15.2%	0.8%
China	-1.9%	0.1%	5.2%	0.5%
Hong Kong	-11.1%	-0.9%	-2.6%	2.8%
Europe	**-5.0%**	**-4.5%**	**28.8%**	**7.4%**
France	-7.0%	-5.9%	34.5%	8.5%
Germany	-7.7%	-5.3%	35.5%	4.0%
Italy	-2.0%	-6.5%	53.7%	14.4%
Netherlands	-13.6%	-5.9%	27.0%	3.7%
Spain	-3.9%	-4.4%	44.3%	7.3%
Switzerland	-5.4%	-2.2%	16.0%	10.8%
U.K.	-1.5%	-3.9%	24.9%	9.0%
World	**-3.5%**	**-3.6%**	**22.0%**	**2.2%**
World ex U.S.	-4.1%	-4.0%	24.0%	3.4%

Sources: MSCI Stock & Bloomberg Barclays Bond Indexes as of 3/31/2023



ongoing challenges and softening economic conditions for both the manufacturing and service sectors during the quarter.

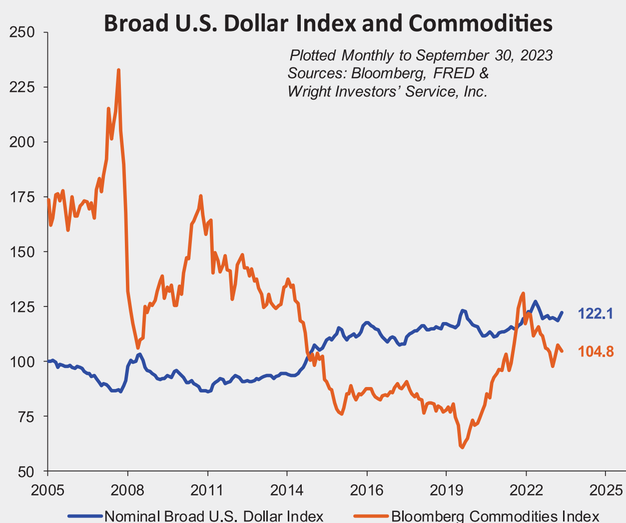
In August, the unemployment rate rose markedly to 3.8%, up from 3.5% a month earlier, and the highest since February 2022. This shift resulted in an increase of 514,000 unemployed individuals, bringing the total to 6.4 million. On the positive side, non-farm payroll expanded by 187,000 for the month, 19% higher compared to the revised figure from the previous month. Key sectors that experienced job growth included health care, leisure and hospitality, social assistance, and construction. Among these, the health care sector saw the most significant increase, adding 71,000 jobs. Conversely, the transportation and warehousing sector experienced losses, losing 34,000 jobs largely due to business closures. Job losses in the information sector, totaling -15,000, were primarily driven by motion picture and sound recording industries where employment decreased by -17,000, largely attributed to strike activity. The labor force participation rate showed a marginal increase, reaching 62.8%, after remaining steady since March. However, the employment-population ratio was unchanged at 60.4 for the month.

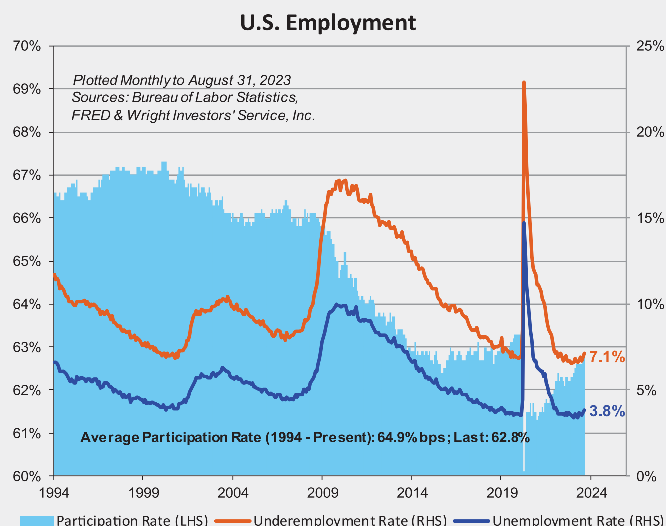
Headline inflation rose, although the Fed's preferred measure, the core PCE index, which excludes volatile food and energy prices, moderated. In the 12 months leading up to August, the PCE price index increased 3.5% following a 3.4% rise in July. Energy prices accelerated during August, increasing 6.1%. When excluding the volatile food and energy components, the PCE price index showed a modest monthly gain of 0.1%, down from the 0.2% increase in the prior month. The year-over-year core PCE price index exhibited an increase of 3.9% in August, down from 4.3% in July. US consumer spending increased 0.4% in August.

The 30-year mortgage rate increased during the quarter and ended at 7.31%, the highest since 2000. Despite the challenges posed by rising mortgage rates, the housing sector displayed mixed dynamics. Building permits rose by 6.9% to a seasonally adjusted annual rate of 1,543K in August 2023, marking the highest level since October 2022. This increase suggested that new construction activities remained robust, largely due to low inventory of existing homes. Sales of new single-family houses in the U.S. slumped by -8.7% to a seasonally adjusted annualized rate of 675K in August 2023. This decline, the most significant in 11 months, missed market estimates of 700K sales and was attributed to soaring mortgage rates, indicating that the Federal Reserve's aggressive interest rate hikes had a notable effect in the third quarter of the year. Despite the recent trends, data suggests that there remains a housing shortage of about 3 million homes. Hence, we believe that housing will be supported positively, albeit the rate of sales growth may be impacted by changes in interest rates.

Investment Outlook

Recent economic data and statements from the Federal Reserve have led to significant shifts in market expectations. The prospect of rate cuts later this year has been largely discounted by the markets, causing bond yields to rise. However, the consensus still anticipates a pause in rate hikes going forward. In contrast, the Fed's position, as communicated in its September meeting, suggests the possibility of one more interest rate hike in the near future. Should the Fed decide against this additional hike, it could bring about some stability in the markets, potentially offering relief to equity investors. Meanwhile, the housing market is under noticeable pressure due to the sustained increase in mortgage rates. This trend has the potential to negatively impact sectors connected to housing and may also have repercussions on consumer spending patterns. Additionally, there are concerns about the broader economic landscape. Higher yields, a stronger U.S. dollar, and elevated oil prices are factors that may pose challenges to corporate earnings. Lower-than-expected quarterly earnings reports could further weigh on





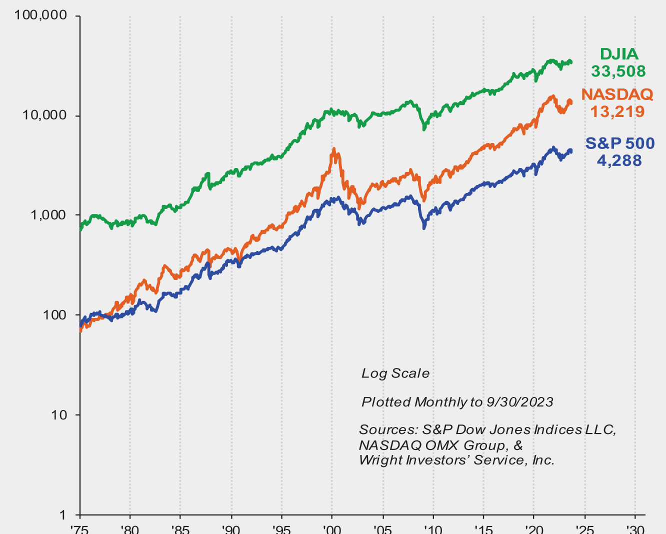
equity markets. On a more positive note, the rise in building permits signals ongoing construction activity, which can have a favorable impact on various sectors of the economy, particularly those related to construction. Despite some signs of moderation in core inflation, it remains elevated and exceeds the Fed's long-term target of 2%. In times of uncertainty like the present, it is of paramount importance for investors to maintain well-diversified, high-quality portfolios with a long-term perspective to better navigate these uncertain economic conditions.

The U.S. Economy 2021–2024

			% Change In		End of Period Rates	
		Real GDP*	PCE Core Deflator*	Profits from Operations#	90-Day T-Bills	10-Year T-Notes
2021	Q1	**5.2%**	**3.6%**	**-12.9%**	**0.0%**	**1.7%**
	Q2	6.2%	6.0%	0.0%	0.0%	1.5%
	Q3	3.3%	4.8%	25.9%	0.0%	1.5%
	Q4	7.0%	5.2%	38.9%	0.0%	1.5%
2022	Q1	**-2.0%**	**6.0%**	**46.8%**	**0.5%**	**2.3%**
	Q2	-0.6%	4.7%	35.9%	1.6%	3.0%
	Q3	2.7%	5.0%	20.0%	3.2%	3.8%
	Q4	2.6%	4.7%	11.9%	4.3%	3.9%
2023	Q1	**2.2%**	**5.0%**	**5.2%**	**4.7%**	**3.5%**
	Q2	2.1%	3.7%	2.4%	5.3%	3.8%
	Q3 e	3.0%	3.9%	-0.9%	5.4%	4.6%
	Q4 e	0.5%	3.5%	-1.8%	4.4%	4.1%
2024	Q1 e	**0.1%**	**3.0%**	**-0.2%**	**5.2%**	**3.9%**
	Q2 e	0.6%	2.8%	1.6%	5.0%	3.7%
	Q3 e	1.4%	2.6%	5.3%	4.7%	3.6%
	Q4 e	1.8%	2.5%	8.3%	4.3%	3.6%

e: Bloomberg Consensus Estimates; *: Annual Rates; #: Year-Over-Year Change in S&P500 EPS
Sources: Bloomberg LP, Wright Investors' Service, Inc.

U.S. Stock Market



Source: Bloomberg Index Services Limited. "Bloomberg®", "Bloomberg Commodity Index" and the Bloomberg Bond Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by Wright Investors' Service, Inc. Bloomberg is not affiliated with Wright Investors' Service, Inc. and Bloomberg does not approve, endorse, review, or recommend Wright Products. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to Wright Products.

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