Market Update

MARKET UPDATE

The Federal Reserve **paused** in September, following a 25 basis points rate hike in July. The major theme coming from the meeting was the potential and willingness of the Fed to remain higher-for-longer in an effort to combat inflation and bring it to its 2% target. The resulting move in interest rates resulted in short-term pain in both fixed income and equity markets, but we may be at or near the end of the rate hiking cycle. Markets have typically fared well following the last rate hike and high-quality fixed income has historically outpaced cash in such an environment.

Inflation continues to moderate from its 2022 highs, with U.S. CPI coming in at 3.7% in August. It was slightly higher than the month prior, highlighting our belief that the road from here to 2% will likely not be as straight as it was from 9% to 3%. The lagged effect of monetary policy is starting to come into view and some housing data suggests we may start to see some softening in the shelter component of the inflation measure.

The U.S. economy remains resilient and the recession that the market expected to occur in 2023 has yet to emerge. Despite tightening financial conditions, the economy grew 2.1% in the second quarter and the labor market continues to be strong, although the unemployment rate has moved modestly higher from post pandemic lows. However, there are indications the consumer, which is the heart of the U.S. economy, may be facing headwinds as excess savings from covid stimulus are being depleted, debt levels are rising, cost of financing has materially increased, and student loan payments have resumed.

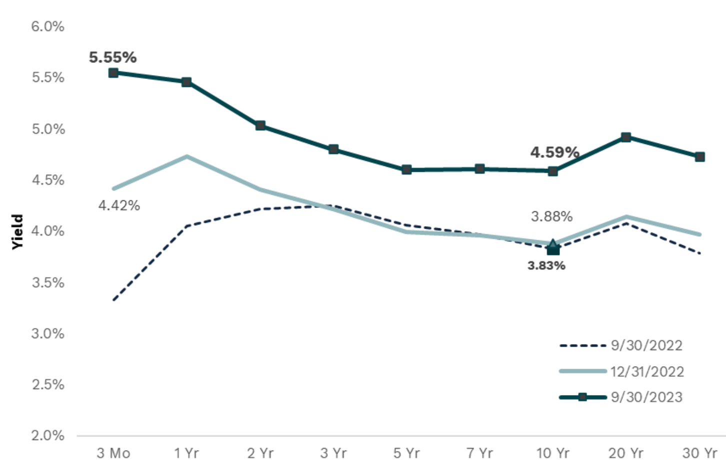
EQUITY

Equity markets sold off during the third quarter. Within the U.S., the S&P 500 Index declined 3.3% and outperformed the Russell 2000 Index (small cap stocks) which fell 5.1%. Higher interest rates were a main factor in the re-pricing this quarter. Softening earnings also contributed to some of the move lower.

Abroad, both non-U.S. markets (MSCI EAFE Index) and emerging markets (MSCI EM Index) posted negative returns, falling 4.1% and 2.9%, respectively. The economic backdrop in Europe continues to struggle with key economies, such as Germany, seeing negative growth. Developing regions were mixed as India experienced a nice tailwind from a large government stimulus package, while the economic recovery in China continues to disappoint and the real estate market continues to struggle with increased debt burdens.

FIXED INCOME

Interest rates saw a significant jump higher in the third quarter, driving bond prices lower. The Bloomberg U.S. Aggregate Bond Index fell 3.2% and is now negative on a year-to-date basis. The Fed took a pause in September, keeping its target rate unchanged, but yields on the long end of the curve moved higher as the market digested the potential for a higher-for-longer environment, the repricing of recession risk, increased Treasury issuance, and reduced foreign demand.



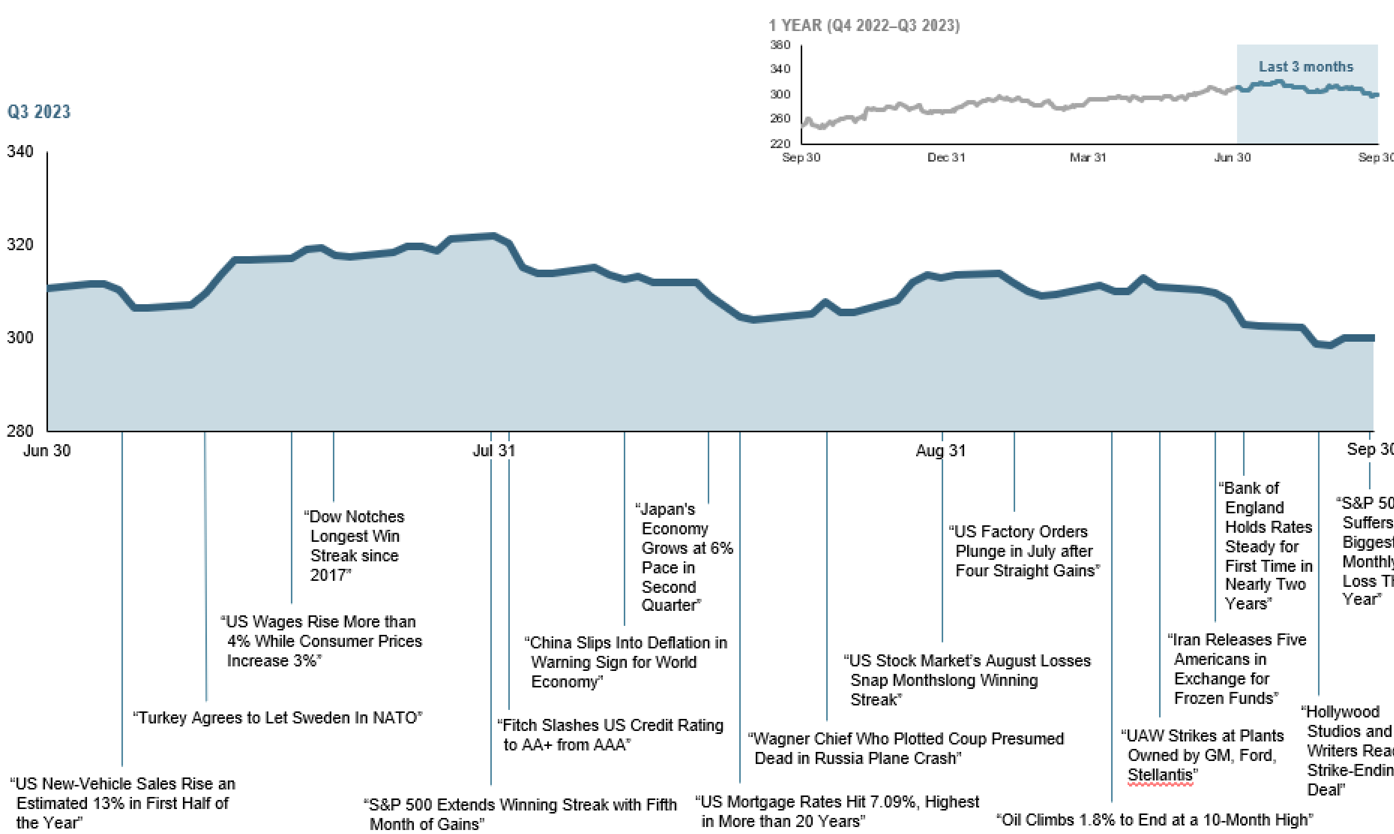
The corporate credit market remains resilient and riskier segments have fared well given their lower sensitivity to interest rates. The Bloomberg U.S. Corporate High Yield Index climbed a modest 0.5% during the quarter. Fundamentals remain favorable and spread volatility has remain subdued. However, credit spreads are not priced for a slowdown and there is a growing risk of the consumer running out of steam.

PERFORMANCE SNAPSHOT

	US Stock Market	International Developed Stocks	Emerging Market Stocks	Global Real Estate	US Bond Market	Global Bond Market ex-US
Q3 2023	-3.25%	-4.10%	-2.93%	-6.49%	-3.23%	-0.78%
YTD	12.39%	6.73%	1.82%	-4.54%	-1.21%	-3.20%
1 Year	20.46%	24.00%	11.70%	2.03%	0.64%	2.99%
5 Year	9.14%	3.44%	0.55%	0.01%	0.10%	0.83%
10 Year	11.28%	3.84%	2.07%	3.12%	1.13%	2.30%

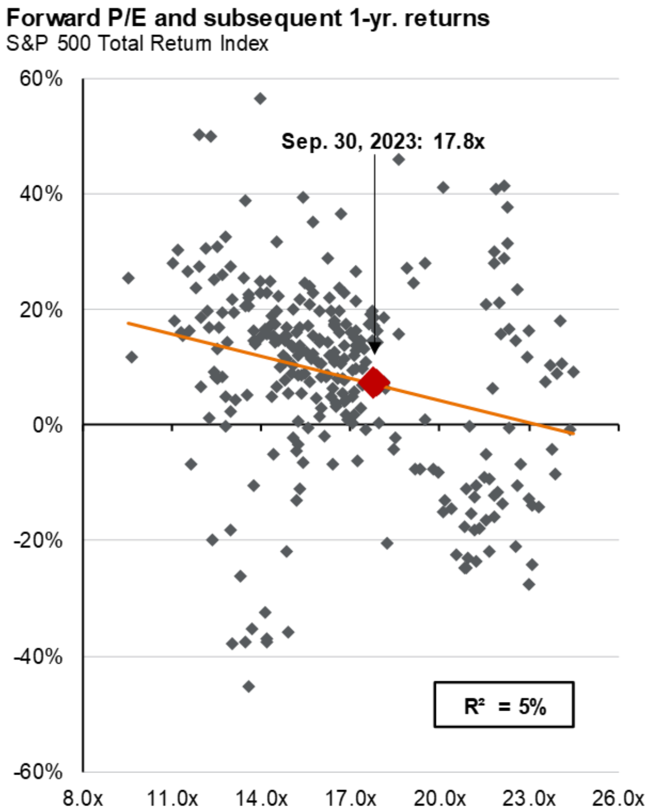
Index performance is provided as a benchmark. It is not illustrative of any particular investment. An investment cannot be made in an index. Past performance is not an indication of future results. Russell 3000 Index, MSCI World ex USA Index, MSCI Emerging Markets Index, S&P Global REIT Index, Bloomberg Aggregate Bond Index and Bloomberg Global Aggregate Bond Index ex-US. Returns as of 9/30/2023

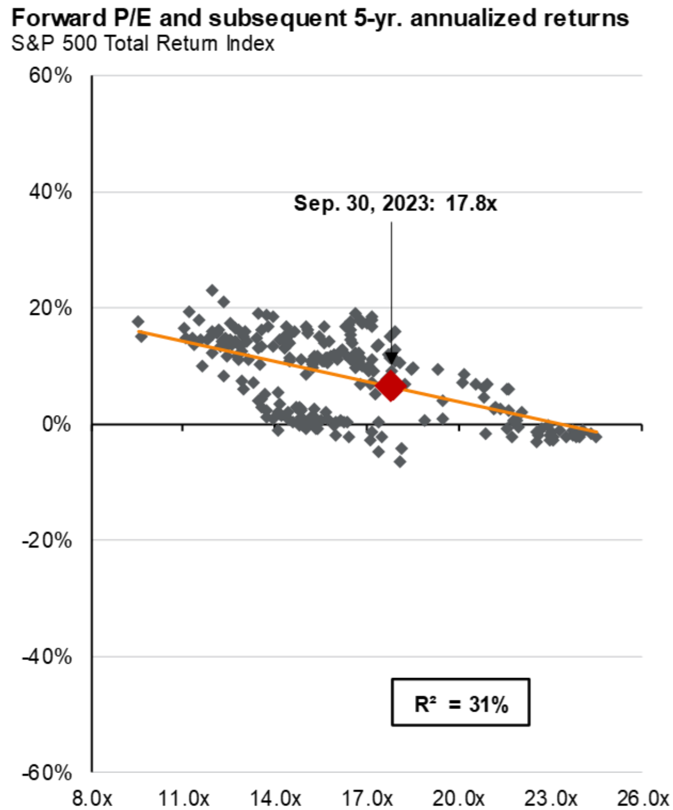
WORLD STOCK MARKET PERFORMANCE – Selected headlines from the past 3 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

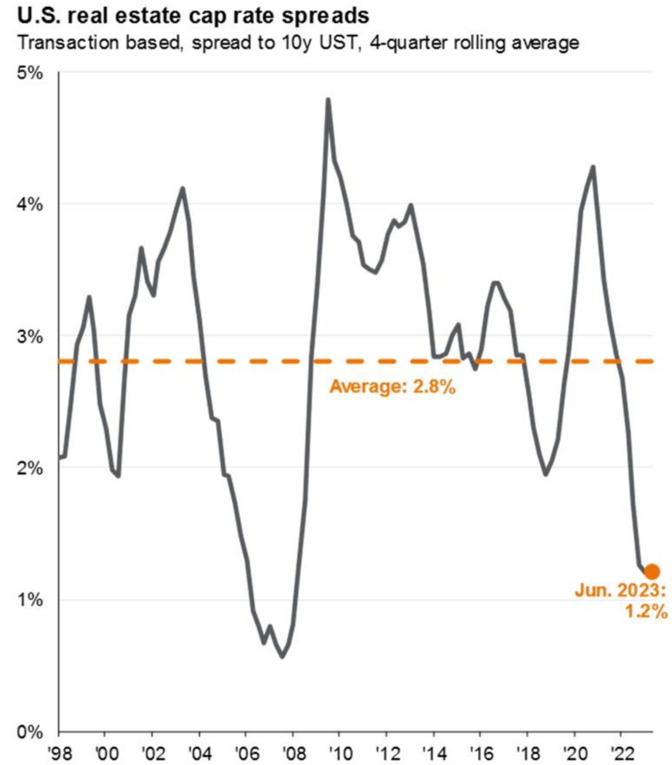
VALUATIONS MATTER – Short-term and longer-term outlook encouraging. At current valuations, the typical go-forward result is positive, especially over longer time periods.

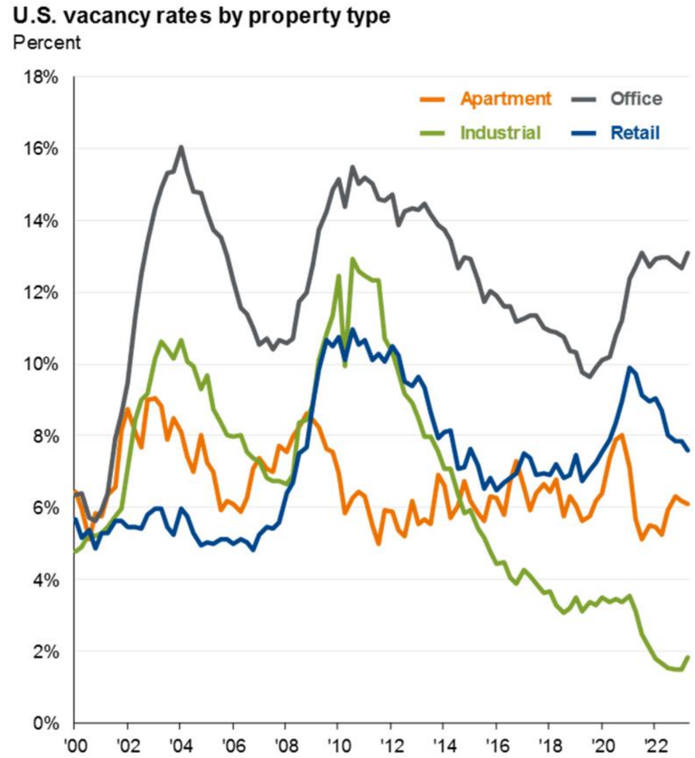




Source: FactSet, Refinitiv Datastream, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Returns are 12–month and 60-month annualized total returns, measured monthly, beginning 2/28/98. R² represents the percent of total variation in total returns that can be explained by forward price-to-earnings ratios. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since January 1997 and by FactSet since January 2022. Guide to the Markets – U.S. Data are as of September 30th, 2023

SCENARIO – Now what? With interest rates moving higher the real estate market has come under immense pressure. But not all real estate is the same. The chart on the left shows U.S. real estate cap rate spreads, essentially the rate of return on a real estate investment property over the U.S. 10-year Treasury, on average over four quarters. While spreads climbed at the onset of the pandemic, they have since come down below their long-run average, due to higher rates. The chart on the right shows vacancy rates by property type, and highlights divergence among sectors. Industrial and retail vacancy rates continue to trend lower, while apartment vacancy rates have improved since 2022 but remain above the lows from the global reopening. Office vacancy rates remain elevated as firms struggle to fully exit remote working.





Source: NAREIT, NCREIF, Statista, J.P. Morgan Asset Management. The Cap Rate, which is computed as the net operating income over sales price, is the rate of return on a real estate investment property. Guide to the Markets – U.S. Data are as of September 30th, 2023

SCENARIO – Feeling gloomy about the go-forward? You are not alone. Fortunately, that general sentiment doesn't stay at these lower levels for very long. Moreover, the market returns subsequent to a trough in sentiment have been remarkably strong.

Consumer Sentiment Index and subsequent 12-month S&P 500 returns