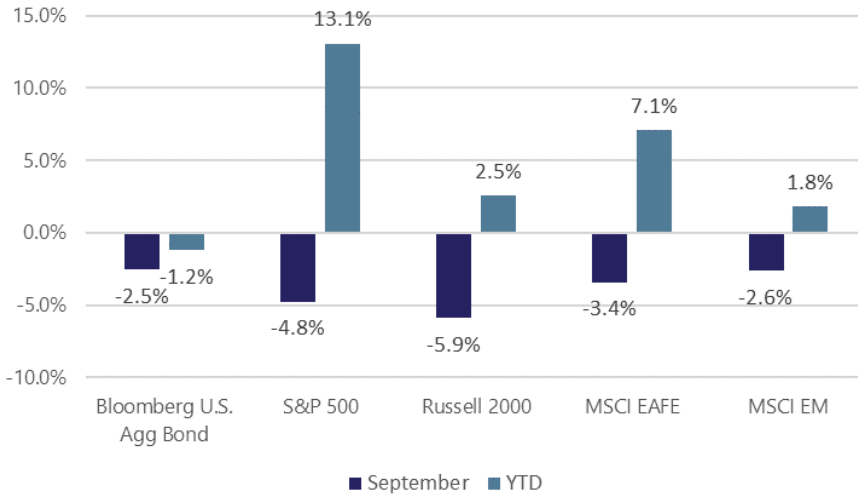
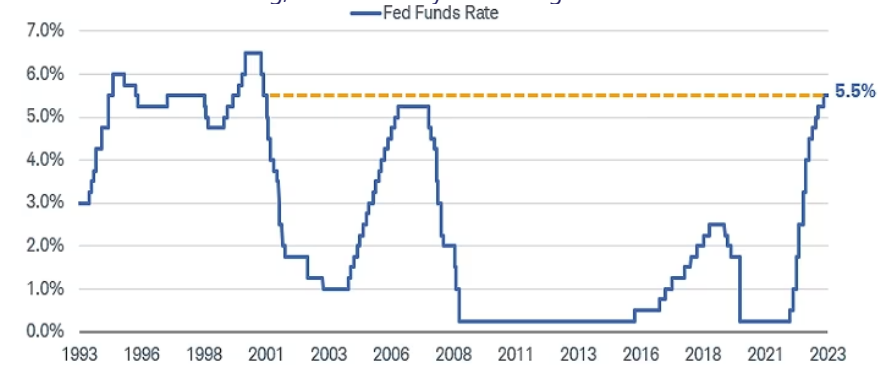


Performance



Higher for Longer¹

The Fed continues to surprise markets, indicating this past month that they will keep their benchmark Fed Funds Rate higher than many investors expected. With the jobs market continuing to be strong, the Fed is left to focus on inflation, which has been declining, but not nearly fast enough for the Fed.

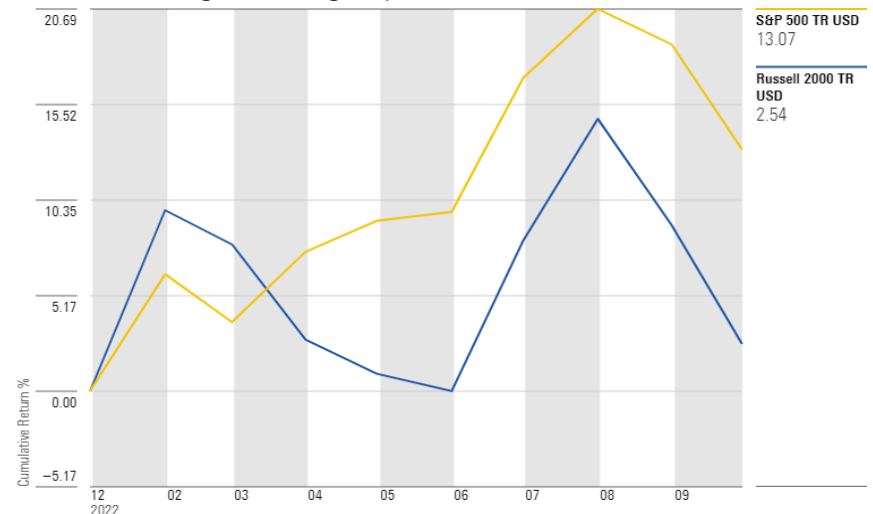


Market Review

- September was very similar to August in terms of risk asset performance – mostly everything was negative. Fixed income sank due to rapidly rising interest rates while stocks sank over slowdown fears and rising borrowing costs.
- The U.S. Government narrowly avoided a shutdown on the last day of September as a temporary funding bill moved through Congress to the White House in a single day. This bill will fund the government through mid-November as more extensive funding bills are debated further.
- Oil prices are making headlines. Output restrictions from Saudi Arabia and Russia, low supplies at the U.S.'s Strategic Reserve, and rising demand are causing prices to spike to levels not seen since the summer of 2022. Higher energy prices mean that inflation may be sticky for longer than expected.
- Foreign equities are in much the same situation as domestic. Many of these markets are dealing with still-high inflation, causing central banks to keep interest rates elevated. This, along with high energy prices, are causing investors to be concerned with the same slowdown fears as here in the U.S.
- The other source of strife in foreign equity is the U.S. Dollar. It continues to climb against other major currencies due to interest rate differentials and demand for the Greenback.

Small Caps Can't Catch a Break

After starting off 2023 strong, domestic small caps have underperformed large caps by wide margins. First, it was the AI boom in the spring that launched large caps higher. Now, it's the fear of a slowdown that has really hurt small. Increased borrowing costs are not helping either, as small cap companies tend to be more leveraged than large caps.



¹ Graphic courtesy of <https://www.schwab.com/learn/story/fomc-meeting>.

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