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summaries

SIGMA INVESTMENT COUNSELORS

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MARKET COMMENTARY

After a promising start to the year, the markets hit a bump in the third quarter. We started the quarter with high hopes, thinking that the Federal Reserve's series of interest rate hikes was coming to an end and that they had successfully steered the economy towards a soft landing. But, as August and September rolled by, that excitement began to fade as the idea of enduring higher interest rates settled in.

Throughout the quarter, a few sectors did well, with energy stocks standing out as strong performers. On the flip side, most of the "Magnificent Seven" companies, which include Apple, Microsoft, Alphabet, Amazon, Tesla, Nvidia, and Meta, took a breather from their recent domination, causing the overall market to decline. Notably, the information technology sector, as well as smaller sectors like real estate and utilities, faced their fair share of challenges during this time.

On the economic front, we have a mixed bag of goodies. On the positive side, low unemployment and a robust housing market provided some comfort. However, declining consumer confidence is raising eyebrows, even though consumer spending remains strong partially due to increased consumer debt. The Purchasing Managers Index showed a bit of a slowdown in US factory activity, plus labor strikes are making headlines potentially disrupting production and company profits.

We've been getting a lot of questions about what is making the U.S. economy, stock market, and inflation hold up amidst rising interest rates. It's important to remember domestic fiscal policy is a bit like tug of war. The Federal Reserve has been tightening monetary policy to cool down the economy, while government spending and a growing national debt are keeping the party going. Throw in the ongoing shenanigans in Congress, and it's quite a balancing act.

International markets continued to face challenges. China's growth was disappointing, and its real estate market remains in trouble. Europe is dealing with persistent inflation and the ongoing situation in Ukraine. Meanwhile, the shocking attack on Israel by Hamas, and Israel's response risks a wider destabilization of the middle east.

Bond prices experienced declines as yields continued to rise. One significant development was the 10-year Treasury yield, which climbed above 4.5% for the first time since 2007, signifying a substantial shift. Furthermore, the yield curve exhibited a less pronounced inversion as longer-term rates saw increases.

Looking ahead, we remain cautiously optimistic. The U.S. economy is doing surprisingly well, and it seems like the Federal Reserve is almost done with its interest rate hikes. We also know that trying to predict short-term interest rates is just as tricky as guessing short term stock market outcomes. It's a bit like trying to predict the weather a week from now – often a shot in the dark.

Inflation is still high in some places, but overall, it's getting better. As for consumers, remember the shopping spree we all went on post-pandemic? Well, it looks like it's winding down. Student loan payments are coming back, which should have an impact on overall spending. But despite those headwinds overall consumer financial health is in good shape. Most existing consumer debt was locked in at super low rates, notably mortgages. So, while consumers might not be splurging as much, they don't appear to be struggling.

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Looking out longer term, artificial intelligence (AI) is set to deliver positive momentum to both the economy and the stock market. Generative AI is helping businesses improve productivity, increase sales, and innovate in various sectors like real estate and healthcare. We might not know all its effects yet, but it's got the potential to make some waves.

While stocks remain our asset of choice for long term investments, fixed income markets offer some great opportunities right now. Fixed income investments like corporate bonds, treasuries, and municipals offer diversification and stability, and they are looking attractive. Our strategy has been to extend maturities of our bond ladders to lock in rates we haven't seen in twenty years. If you have significant cash or short-term investments that you don't anticipate needing in the near term, moving it into higher earning fixed income can be a great way to pick up extra return.

In closing, the U.S. Government is in an unprecedented time. As I am writing this letter, we are without a Speaker of the House. The disfunction in Congress has reached a boiling point. But here's the silver lining, our democracy has weathered storms before. Compromises will be made, new alliances will emerge, and at the end of the day democracy will triumph. It might not be a pretty sight, but politics has never been known for its glamour, so keep the faith.

Thank you for your continued confidence in Sigma. We truly appreciate each and every one of our clients and friends.

Marisa A. Bradbury, CFA, CFP®.

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