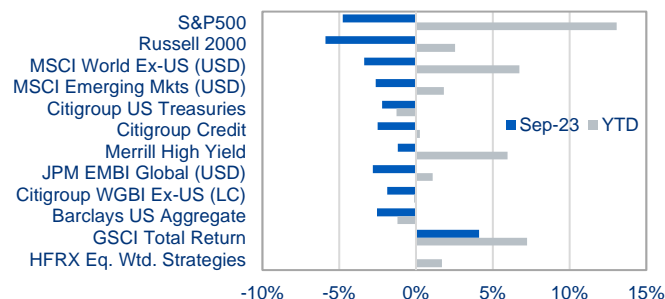


Global Market Review

Global equity markets fell in September but, with the notable exception of the Chinese market, are still solidly positive in the first nine months of the year. Chinese equities remain weighed down by a sluggish post-Covid recovery, depressed consumer demand, and continued distress in the property market and financial sector. Global bond markets also sold off in September, as long-term yields rose. The inversion of the U.S. Treasury yield curve moderated as 10-year yields rose to levels not seen since before the Great Financial Crisis. Real yields drove this increase, suggesting that expectations for stronger economic growth, rather than higher inflation, were the main catalyst for rising U.S. Treasury yields. U.S. corporate bond prices across the credit spectrum also declined in September, although spreads were little changed. Oil prices jumped in September in the wake of OPEC+ production cuts and lower U.S. stockpiles. The U.S. dollar rose against most major currencies.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



Global bonds and equities fell in September.

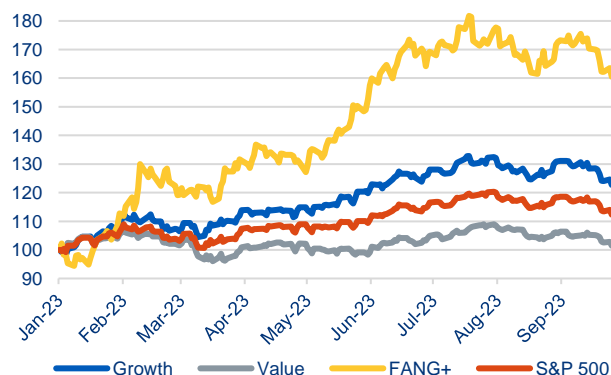
U.S. Equity Market Gives Up Some Gains

The S&P 500 plunged 4.8% in September but remains up 13.1% so far this year. The U.S. equity market's September sell-off coincided with a spike in 10-year U.S. Treasury yields, leading to speculation that both markets were adjusting to the possibility that the U.S. will avoid a recession and yields will therefore remain higher for longer than previously thought. However, there are conflicting and contradictory crosscurrents in the U.S. economy casting doubt on this positive outlook for U.S. growth. The Conference Board's index of leading economic indicators, for example, continues to point to slowing output and possibly a mild contraction in the face of weak new orders, deteriorating business sentiment, and tight credit conditions. Housing, a sector that is especially sensitive to interest rate movements, is also pointing to an economic slowdown. With 30-year mortgage rates at 7.5%, the highest rate since 2000, existing home sales have plummeted, and the pace of new home sales is slowing.

Despite these crosscurrents, investors have pushed stock prices and earnings multiples higher in 2023. Moreover, market movements, both up and down, have been narrowly based and largely driven by a small set of mega-cap growth stocks in the tech sector. The FANG+ index comprising these market leaders fell 6.3% in September but remains up over 60% so far this year (Exhibit 1). At its peak in July, the index was up more than 80%. The concentration of the U.S. market on a small set of stocks subject to large price swings driven by common factors has increased overall market vulnerability.

Exhibit 1. U.S. Equity Market Moves Narrowly Based

Source: Bloomberg. Index January 1, 2023 = 100.



Reflecting the dominance of FANG+ equities, growth continues to perform better than value so far this year, gaining 23.8% versus 1.7% for value. For similar reasons, large cap stocks have outpaced small by a wide margin. The dominance of FANG+ is also evident across sectors, with the telecom and tech sectors leading all others. In contrast, utility stocks, which are highly susceptible to rising yields, have lagged.

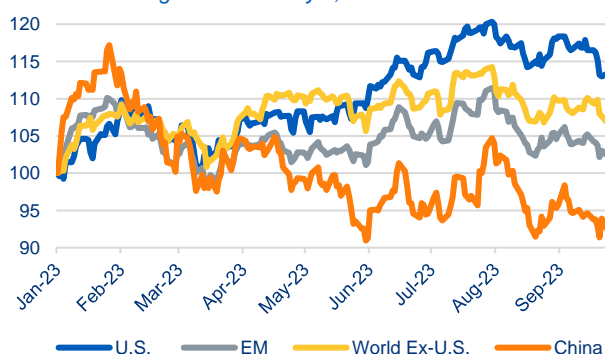
Global Equity Markets Also Decline

After declining 3.9% in August, the MSCI World ex-U.S. index of advanced equity markets fell a further 3.4% in September. The appreciation of the U.S. dollar compounded the local currency decline. Despite the losses of the past two months, the index remains up 6.7% so far in 2023 (Exhibit 2). European bourses fell about 4% in September after having lost a similar amount in August. Coincident indicators of European economic activity continue to paint a grim picture. The manufacturing sector has been especially hard hit by waning demand and rising input costs, including wages. In addition to poor economic prospects, equity markets were further weighed down by the ECB's decision to raise rates by a further 25 basis points in September, its 10th consecutive increase, bringing its policy rate to a new eurozone record of 4%.

Emerging market equities continued to be weighed down by the poor performance of the Chinese market which represents about one third of the market capitalization of the index. After having fallen 8.96% in August, the Chinese market fell a further 2.75% in September, bringing its loss for the year to 7.3% (Exhibit 2). Markets in Latin America and EMEA also lost ground in September, although Latin American bourses remain up 12.9% for the year.

Exhibit 2. Non-U.S. Equities Lag the U.S. Market

Source: Bloomberg. Index January 1, 2023 = 100.



Nominal and Real 10-Year U.S. Treasury Yields Rise

The September FOMC meeting left the Fed funds rate target range unchanged at 5¼ - 5½%, a 22-year high. While this action appeared dovish, markets interpreted the FOMC's words as hawkish. In the wake of the decision, the yield on 10-year U.S. Treasuries jumped. September's 41-basis point spike in 10-year yields brought the yield increase for the year to 80 basis points. Virtually all of this increase has been driven by rising real yields on TIPS, with implied inflation expectations remaining little changed (Exhibit 3). With September's

increase, the deep inversion of the yield curve moderated. Reflecting these yield movements, the broad U.S. Treasury index lost 2.2% in September, while bonds with maturities of 10+ years fell 7.1%. For the year as a whole, these indicators are down 1.3% and 8.3%, respectively.

Exhibit 3. Real Yields Push U.S. Treasury Yields Higher

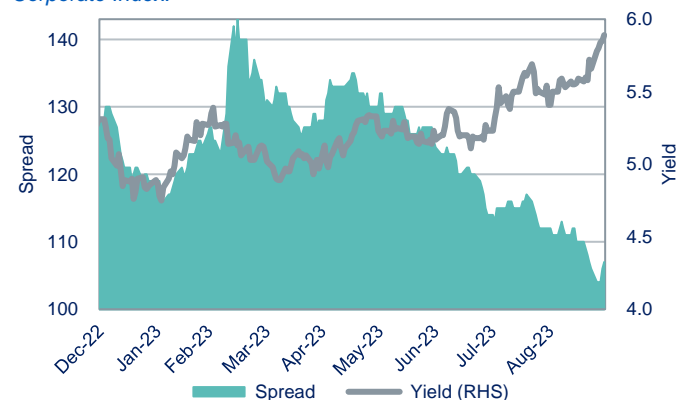
Source: Bloomberg. Yield on 10-year U.S. Treasury and TIPS.



With the broader increase in yields, both investment grade and high yield bonds lost ground in September. However, narrowing credit spreads have cushioned the impact of rising rates on corporate bond prices (Exhibit 4). So far in 2023, the investment grade sector is down 1.1% while the high yield sector has gained 6.2%. Both have outperformed U.S. Treasuries given their shorter duration and the impact of spread tightening. The difference in performance between investment grade credit with maturities of 10+ years and their Treasury counterparts is particularly striking with the former down 2.3% so far this year versus the latter's 8.3% decline.

Exhibit 4. Spread Tightening Blunts Rising Yield Impact

Source: Bloomberg. Yield and spread on 10+ year AAA-A U.S. Corporate Index.



Performance of Major Market Indices through 9-30-2023

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	-4.8%	-3.3%	13.1%	21.6%	10.2%	9.9%
Russell 2000	-5.9%	-5.1%	2.5%	8.9%	7.2%	2.4%
MSCI World Ex-US (USD)	-3.4%	-4.1%	6.7%	24.0%	6.1%	3.4%
MSCI Emerging Mkts (USD)	-2.6%	-2.9%	1.8%	11.7%	-1.7%	0.6%
Citigroup US Treasuries	-2.2%	-3.0%	-1.3%	-0.8%	-5.8%	-0.1%
Citigroup Credit	-2.5%	-2.8%	0.3%	3.7%	-4.9%	0.9%
Merrill High Yield	-1.2%	0.5%	6.0%	10.2%	1.8%	2.8%
JPM EMBI Global (USD)	-2.8%	-2.6%	1.1%	8.6%	-4.3%	-0.1%
Citigroup WGBI Ex-US (LC)	-1.9%	-2.5%	-0.1%	-1.7%	-5.9%	-1.6%
Barclays US Aggregate	-2.5%	-3.2%	-1.2%	0.6%	-5.2%	0.1%
GSCI Total Return	4.1%	16.0%	7.2%	10.9%	29.5%	5.6%
HFRX Eq. Wtd. Strategies	0.1%	0.8%	1.7%	2.5%	1.7%	1.5%