MoneyMatters
Market Update

Q4
2023

Resilient Outlook

ROEHL & YI
INVESTMENT ADVISORS, LLC

Resilient Outlook

The third quarter of 2023 saw largely muted market returns with the S&P 500 slightly down. While the broad index has performed well for the year, mainly driven by the largest tech stocks, several asset classes have lagged behind such as core bonds, value, and dividend stocks.

The economy has remained resilient—surpassing analysts' expectations—and added 336,000 jobs in September (Source: *Bureau of Labor Statistics*), twice as many as some economists forecast. Leisure and hospitality led the way with 96,000 jobs followed by government (73,000), partly reflecting the return of teachers, and healthcare (41,000). The unemployment rate was unchanged at 3.8% for the second month in a row, above its pre-pandemic February 2020 rate of 3.5% (Source: *Morningstar*). This is an indication that the market is continuing to recover from the massive COVID-related job losses.

GDP estimates continued to increase over the last several months as economic data have generally come in stronger than anticipated. In the third quarter, US GDP grew at an annualized rate of 4.9% (Source: *US Department of Commerce*).

The three-month moving average shows job growth of 2.1% annualized in the past three months, an uptick compared to the 1.6% growth in the prior three months, though not a dramatic one (Source: *Morningstar*).

We believe that while bright spots certainly exist, there are signs of bubbling headwinds. The steady rise in oil prices and interest rates (the Federal Funds rate increased by 1% from 4.33% to 5.33% in 2023 and increased from 0% to over 5% from the start of 2022), coupled with sticky inflation has continued to squeeze consumers as largely evidenced by the three recent strikes by Kaiser, the Writers Guild of America, and United Auto Workers – where wage increases and the reinstatement of cost-of-living-adjustments were and are still being negotiated. Moreover, federal student loan payments will resume after a three-year reprieve for about 12% of the US population (over 43 million Americans) who hold a collective $1.7 trillion in debt (Source: *The Guardian*).

The economy is showing some resilience, and stocks continue to recover from their October 2022 lows. As the financial markets and consumers' pocketbooks find their equilibrium, we believe the likelihood of a recession in 2023 has dimmed, barring a significant world event.

Market Recap
Stock Market

For the quarter, the S&P 500 Index was down 3.27%, the Russell 2000 Small-Cap Index was down 5.13%, US 10-year treasury bonds were down 5.17%, and international stocks were down 4.11%.* However, for the year, both the S&P 500 and Russell 2000 were up 13.07% and 2.54% respectively, and September historically is a lower-performing month compared to other months of the year (Source: *Morningstar*).

**The MSCI EAFE Index is an equity index that captures large- and mid-cap representation across 21 Developed Markets and countries around the world, excluding the US and Canada.*

Q3 2023 Market Returns

	3Q 2023	YTD 2023 (9 mo)	FULL YEAR 2022	CURRENT YIELD	COMMENTS
EQUITIES					
US Large Stocks - S&P 500	-3.27	13.07	-18.11	1.61	*7 biggest stocks up more than 50% while roughly half of S&P 500 stocks are down.*
US Large Value - Russell 1000 Value	-3.16	1.79	-7.54	2.43	*Value and dividend stocks have lagged after a strong 2022.*
US Large Growth - Russell 1000 Growth	-3.13	24.98	-29.14	0.82	*Large US technology stocks lead the way by a mile.*
US Small Stocks - Russell 2000	-5.13	2.54	-20.44	1.59	*Small stocks only slightly positive for year.*
Int'l Developed Stocks - MSCI EAFE	-4.11	7.08	-14.45	3.19	*Foreign developed markets generally doing well.*
Emerging Markets Stocks - MSCI EM	-2.93	1.82	-20.09	2.97	*Emerging markets struggling to stay positive with China market weak.*
FIXED INCOME					
Cash - US 3-Month Treasury Bill	1.31	3.60	1.46	5.50	*Money market cash the safe winner as bond yields rise strongly.*
Core Bonds - Bloomberg US Aggregate	-3.23	-1.21	-13.01	5.61	*Interest rates up strongly this year, lowering bond prices.*
US 10-Year Treasury Bonds	-5.17	-2.98	-16.37	4.75	*Longer-duration bonds suffer most during rising interest rates.*
Bloomberg Muncipal Bonds	-3.95	-1.38	-8.53	4.21	*Municipal bonds have pulled back along with core bonds.*
Bloomberg US TIPS	-2.60	-0.78	-11.85	4.91	*TIPS bonds faring only slightly better due to inflation protection.*
Bloomberg US High Yield	0.46	5.86	-11.19	9.16	*Least credit-worthy company bonds hold fast while defaults remain low.*
Int'l Bonds - FTSE World Gov't Bond	-4.27	-2.68	-18.26	3.56	*Rising overseas interest rates + rising US dollar hurts foreign bonds.*
ALTERNATIVES/MISCELLANEOUS					
US Public Real Estate - DJ US Select REIT	-7.40	-2.05	-25.96	4.34	*Private real estate has held up much better than publicly listed REITs.*
Bloomberg Commodity	4.71	-3.44	16.09		*Commodities a mixed bag so far, despite recent rise in price of oil.*
Gold - LBMA Gold Price	-2.18	3.13	0.44		*Gold struggling to hold value this year amidst rising rates and dollar.*
Oil - West Texas Crude	28.46	13.24	6.41		*Oil prices rose sharply during the quarter with prices now over $90 per barrel.*
US Dollar, Change	2.40	1.12	5.30		*Dollar rising strongly by 7% since mid-July, helped by US interest rates.*
Consumer Price Index, 12 Mo Change		3.70	6.50		*CPI measured at 3.7% in August, down significantly from the 9% peak.*

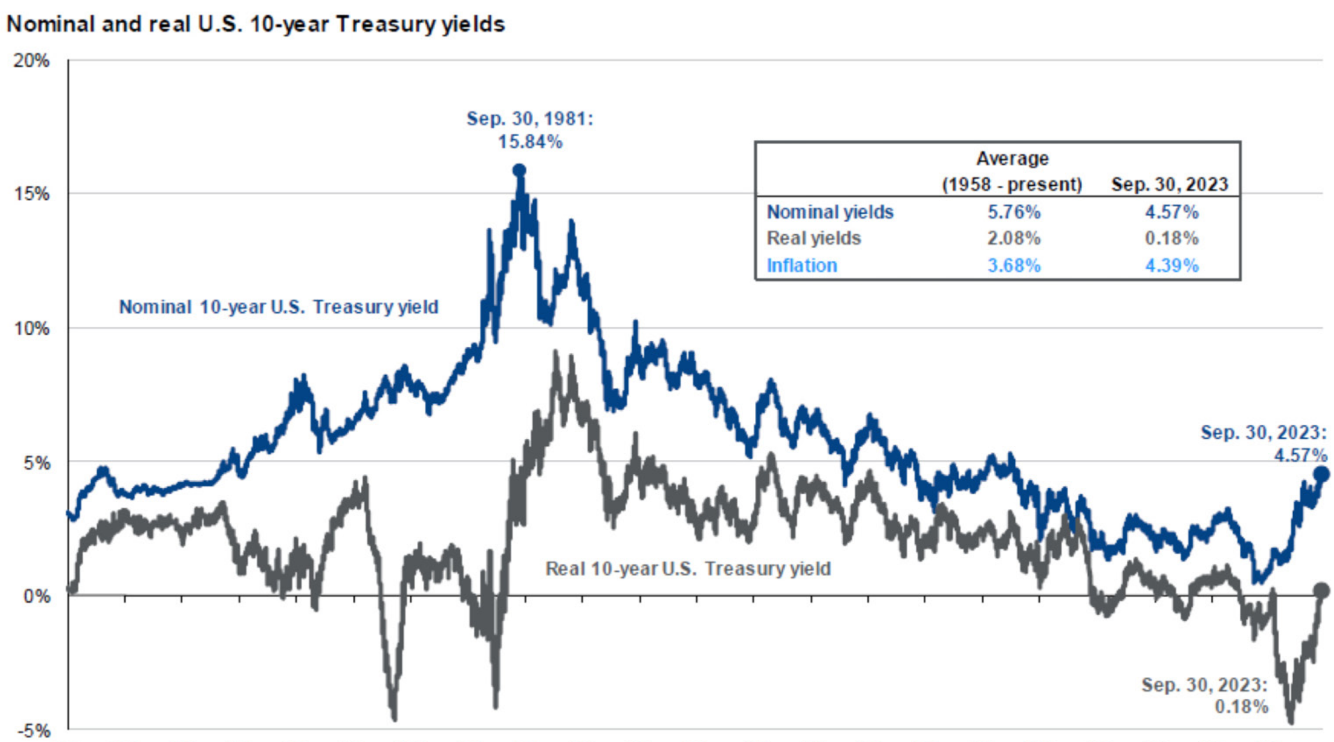
Sources: Morningstar, S&P Global, FTSE Russell, MSCI, Bloomberg. Past performance is no guarantee of future returns.
Current yields are based on forward dividend yields for equities and yield to maturity for bonds.
Data as of 09/30/2023

The Economy
Interest Rates Moving Higher

Interest rates, as measured by the US 10-year treasury notes, peaked at 15.84% in 1981 and steadily declined for a multi-decade period to nearly 0% in 2020. This was a tailwind for fixed-income investors during the period as falling rates increased bond prices. The Federal Reserve, in its continuing effort to help bring down inflation, has quickly increased interest rates leading to the 10-year yields reaching 4.57% at the end of the third quarter. This rapid rise has had the opposite effect on fixed-income investors with bond prices falling for 2021, 2022, and so far in 2023.

The good news is that investors are now being compensated with much higher coupon payments from their bond investments. Money market accounts, certificates of deposit (CDs), treasury bills, and other short-term bond investments have also performed well on a comparative basis with positive returns for the year (Source: *JPMorgan*).

Interest Rates Reversing Higher After Long-Term Decline



Sources: JPMorgan Asset Management, FactSet, BLS, Federal Reserve
Data as of September 30, 2023

Oil Prices Trending Upward

Oil prices have surged back higher, ending September at over $90 per barrel, causing gas prices to move higher across the country (Source: *JPMorgan*). Higher oil prices typically lead to higher manufacturing and transportation costs, and increased inflation, which may encourage the Federal Reserve to keep interest rates higher for a longer period. The US economy, though, has shown resilience to significantly higher oil prices in prior periods while continuing positive economic growth.

Oil Prices Moving Back Higher

Sources: JPMorgan Asset Management, FactSet
Data as of September 30, 2023

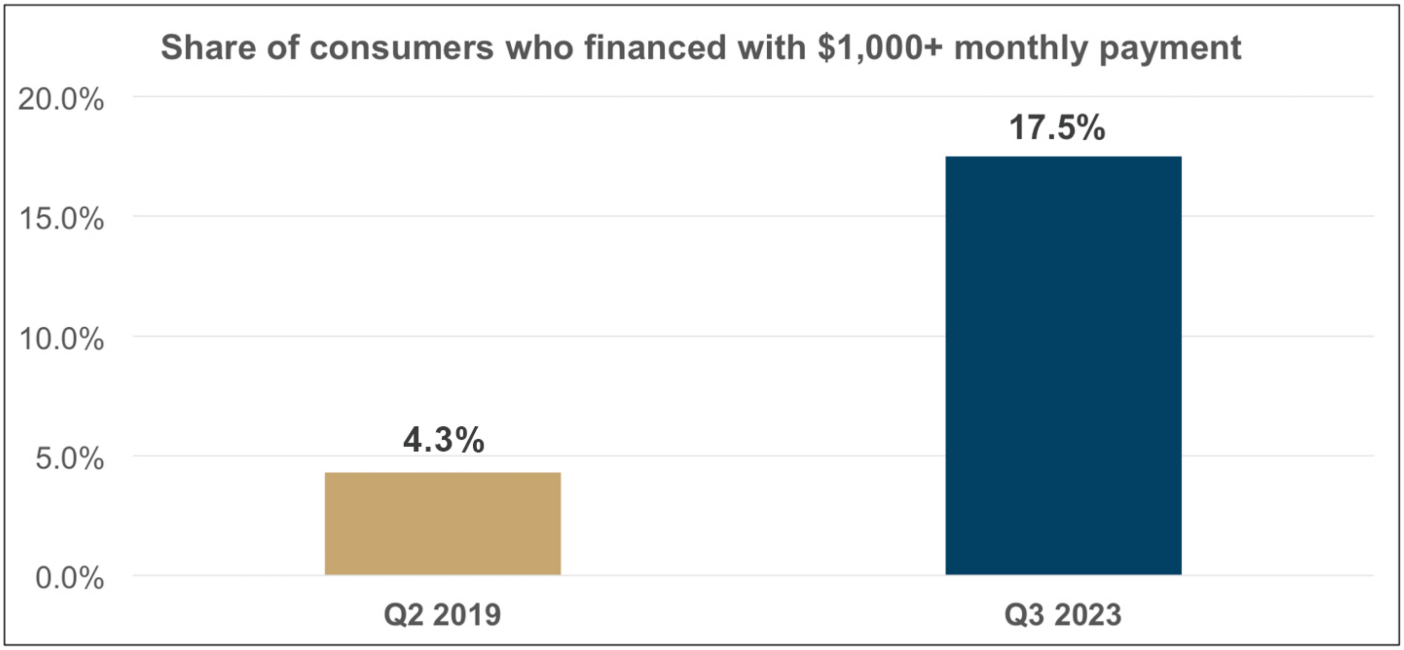
Did You Know?

The US is currently the world's largest oil producer (followed by Saudi Arabia) and a net exporter.

Number of Consumers Paying Four Figures For Car Payments Triples

The percentage of consumers with a monthly car payment of $1,000 or more has increased from 4.3% in the second quarter of 2019 to 17.5% in the third quarter of 2023. Further, the average amount financed has increased from $32,824 to $40,149 with the typical consumer paying $736 per month with a 7.4% loan APR (Source: *Edmunds*). This trend is consistent with consumers continuing to take on more debt.

New Vehicle Purchases with $1,000+ Payment



New Vehicle Transaction Data	Q2 2019	Q3 2023
Share of consumers who financed with $1,000+ monthly payment	4.3%	17.5%
Average monthly car payments	$562	$736
Average loan APR	6.0%	7.4%
Average amount financed	$32,824	$40,149

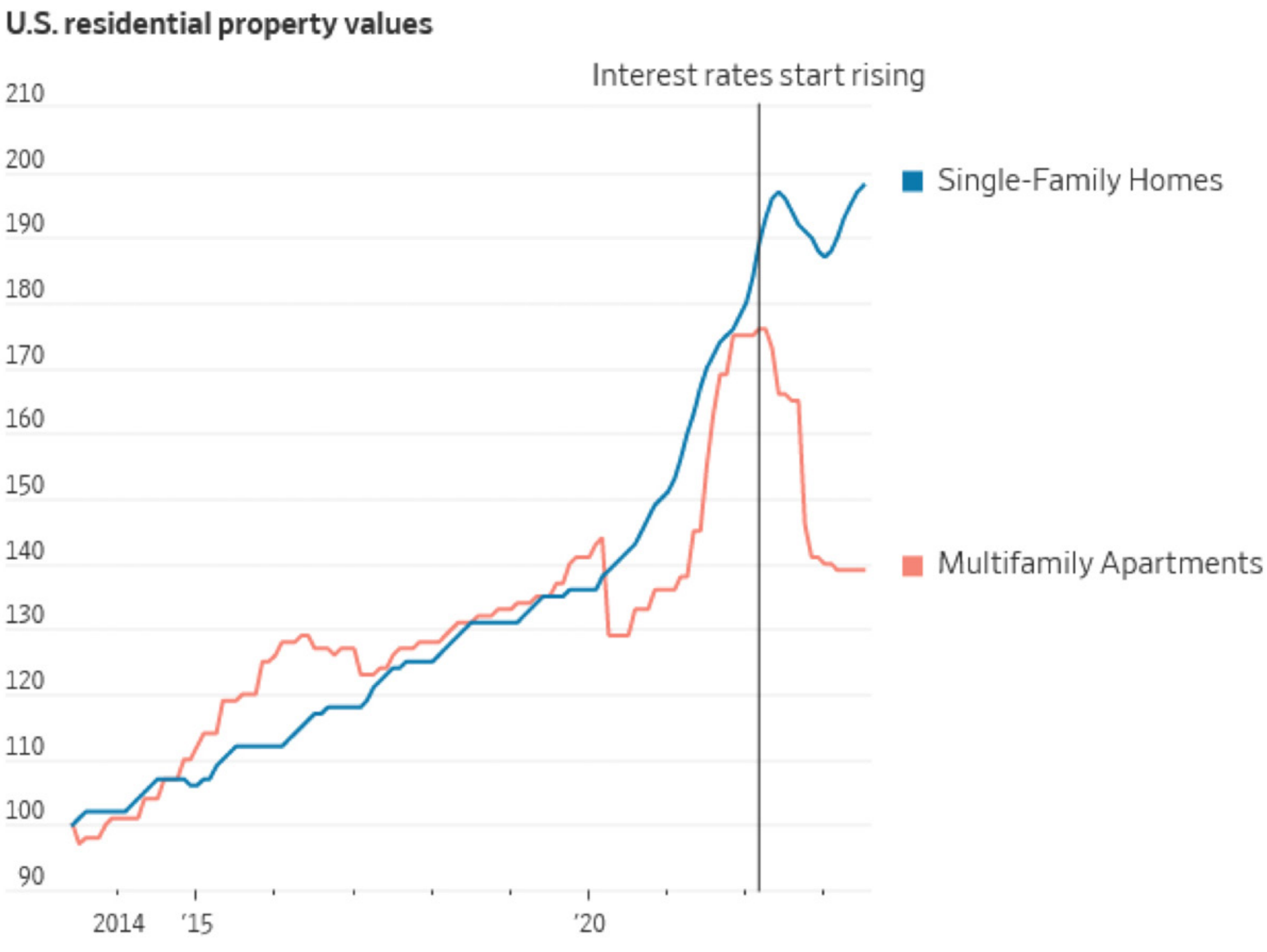
Source: Edmunds, data as of September 30, 2023

Single-Family Homes: Potential For Overvaluation

US single-family properties have managed to increase in value while multi-family property values have significantly declined since interest rates began to rise in March 2022. This hint of overvaluation is something to watch as many home buyers' budgets are stretched. The monthly cost of a new mortgage is now 42% of the US median household income, 10% higher than on the eve of the 2008 housing crash (Source: *Wall Street Journal*).

While a housing bubble is seemingly not imminent, housing prices may stabilize or pull back over the coming months. However, the lack of housing supply is a structural issue that will, ideally, keep prices from dipping too low.

Divergence in Home Prices

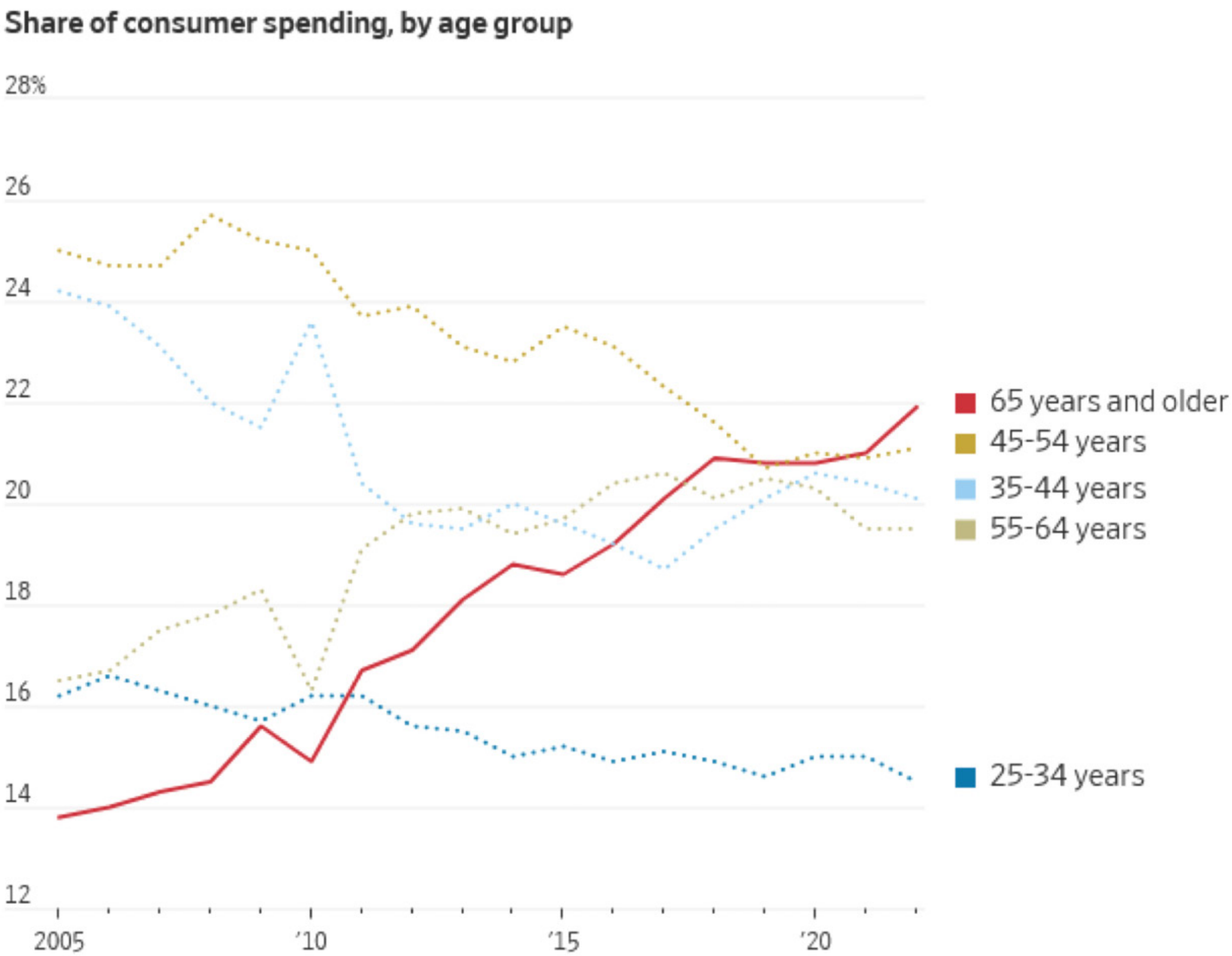


Note: 2013 = 100
Sources: Wall Street Journal, Green Street, S&P CoreLogic Case-Shiller U.S. Home National Home Price Index
Data as of September 30, 2023

Seniors, The Us Economy's Secret Weapon

Seniors are a major reason consumer spending has proven so resilient as the Federal Reserve has sharply raised interest rates. In August, 17.7% of the population was 65 or older and accounted for 22% of spending last year. This is the highest share since records began in 1972 and is up from 15% in 2010 (Source: *Wall Street Journal*). Less susceptible to debt accumulation, older consumers will provide a consumption base when job growth slows, interest rates rise, and student-debt loan repayments begin.

Consumer Spending



Sources: Wall Street Journal, Labor Department
Data as of September 2023

Roehl & Yi's Final Thoughts

The economy has continued to defy market expectations, yet there are clear signs the consumer is experiencing a heavier burden financially. We believe it is possible that we will experience more market turbulence in the coming months, and therefore it is important to always proceed with caution and make decisions with emotional restraint.

Consider these four suggestions:

1. Invest with a long-term view.
2. Stay diversified and ensure your asset allocation can withstand a market correction.
3. Avoid high-interest-rate debt and unnecessary risk.
4. Review your personal goals and tune out the short-term market noise.

The Roehl & Yi Promise

Roehl & Yi is committed to delivering more value through enhanced client engagement, new educational videos, resource-filled emails, and more.

As always, we are grateful for your continued trust in Roehl & Yi, and we ask that your first phone call be to us if you have any questions or concerns about your investments. May you and your family experience happiness and good health.

ROEHL & YI
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For A Personal Wealth of Reasons

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