Levy WEALTH MANAGEMENT GROUP

October 4, 2023

Dear Friends and Clients,

The S&P 500 lost 3.3% in the third quarter after sliding nearly 5% in September. Putting this into perspective, nothing really qualifies as out of the ordinary. Since 1950, the S&P 500 has historically declined in September 55% of the time, posting an average decline of 3.8%. September has certainly lived up to its reputation as being a weak seasonal period for stocks. The main culprits were rising interest rates and government shutdown fears.

Whether your goal is growth, value, or probably some combination of the two, there wasn't a difference in performance between the two (on the Russell 1000 indexes). Stocks in both investing styles generated nearly identical total returns during the quarter. Growth, however, still maintains its more than 11 percentage point year-to-date gain over value.

Energy was by far and away the top performing sector last quarter and the only sector up on the month. The sector has benefited from higher oil prices and increasingly more shareholder-friendly producers. At the other end of the spectrum, real estate and utilities struggled with 9.7% and 10.1% quarterly declines, respectively, as rising interest rates challenged income-oriented sectors. The U.S. slightly outperformed the developed international markets while emerging markets held up slightly better despite the strong U.S. dollar.

Moving onto the economy, we're feeling the ripple effects as higher short-term interest rates flow into our daily lives—in business and consumer interest rates. For example, would-be homebuyers saw the average 30-year fixed rate reach a 23-year high at the end of last month. Remember, the Federal Reserve (Fed) raised short-term interest rates in an effort to slow the economy and halt inflation, which we are starting to see.

Given the economic backdrop, we wouldn't be surprised if the markets remain a bit choppy this month. In addition to that, October can be bumpy anyway and of course, the prospect of a government shutdown looms in another six weeks. But overall, we suggest staying the course, and there are plenty of reasons to be cautiously optimistic about where we're headed:

- The labor market shows signs of moving in the right direction, with more balance between the supply and demand for workers.
- Inflation is coming down. The Fed is most likely done with its aggressive rate-hiking campaign, which is good news for investors and policymakers alike.
- The fourth quarter is historically the best quarter for the S&P 500, with average gains around 4.2%.

Underscoring these reasons for staying invested is how difficult it is to time the market, despite some of the risks at hand. Plus, opportunities in high-quality fixed income (e.g. U.S. bonds, corporate bonds) are as attractive as they've been in decades. All in all, October can be volatile, but there's probably no need to get spooked by bouts of higher volatility.

Please reach out to me if you have any questions.

Best regards,

Victor

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All data is provided as of October 3, 2023.

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All index data from FactSet.

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