Q3 2023

LADENBURG
AN OSAIC COMPANY

MARKET VIEW QUARTERLY

Philip Blancato | PRESIDENT AND CEO OF LADENBURG ASSET MANAGEMENT AND CHIEF MARKET STRATEGIST, OSAIC

Despite initial 2023 forecasts expecting a recession, the U.S. economy has held up well so far this year. The third quarter proved difficult with losses in both stocks and bonds with higher interest rates, tighter lending standards, and elevated energy prices that continue to support stubborn inflation. The US Consumer has now spent the excess savings and government assistance from the pandemic. Additionally, while the labor market remains solid, fewer job openings and a lower quits rate suggest the higher cost of capital has employers closely examining expenses and bargaining power may be shifting away from workers.[1] US Consumer spending makes up 70% of Gross Domestic Product (GDP) or economic activity, and although declining, the most recent numbers for spending and jobs suggest that there is still considerable momentum for economic growth.[2] As an example, the US is expected to spend $12.2 billion on Halloween alone this year, an all-time high. History is on our side as both the stock and bond markets perform well after the Fed stops hiking rates.

DOMESTIC EQUITIES

Despite a rough third quarter, stocks still claim a healthy return for 2023 YTD. The S&P 500 was down -3.27% for the third quarter but is up 13.07%[3] for the year through the end of September. A silver lining is the broadening market performance with an expansion of the sectors and stocks driving index-level returns instead of just the magnificent seven large tech companies driving the market. After handily outperforming through the first seven months of the year, technology stocks delivered the worst performance of any industry in the third quarter. While, sectors that had lagged in previous quarters, such as energy and financials, were positive over the last three months, returning 13.12%[3] and -0.58%[3], respectively. As the breadth of the market has grown, the spread between large-cap growth and value stocks, while still wide, has narrowed. The Russell 1000 Value index returned -3.16%[3] for the third quarter versus just -3.13%[3] for the Russell 1000 Growth index. From a market-cap perspective, although lagging large-cap equities YTD, both mid-and small-cap stocks were positive for the quarter. Small caps returned -5.13%[4] while mid-caps returned -4.68%[4], both trailing large caps, however, which returned -3.15%[4] over the last three months. After a hot start to the year, stocks fell in both August and September. Historically, the average return for the S&P 500 Index in the month of September is (-0.73%) which is the worst average of any month covering data back to 1945.[4] As such, another ugly September can reasonably be chalked up to 'seasonal trend.' Another silver lining is when the S&P 500 is up year-to-date between 10-20% at the end of September, the fourth quarter has been higher 84% of the time. Don't give up on a fourth-quarter rally just yet.[2]

INTERNATIONAL EQUITIES

International developed and emerging market (EM) equities returned -4.11%[3] and 2.93%[3] for the third quarter, respectively, lagging the S&P 500. Primarily driving the underperformance of international developed market stocks relative to US equities are downturns in the manufacturing and services sectors within the Eurozone, as well as continued disruptions — of both economic and geopolitical natures — stemming from Russia's war in Ukraine. The Eurozone Manufacturing Output Index is at a 33-month low while the services sector index is at its lowest level since November 2020 (near the height of pandemic-era lockdowns). The underperformance of EM equities relative to US stocks can be largely attributed to China. Down about -7% in 2023, the MSCI China Index is staring at a third straight year of losses, which will mark the longest losing streak in over two decades. This is notable as China accounts for roughly 40% of the MSCI EM Index.[2] These concerns have helped make the "Avoid China" theme one of the biggest convictions among investors in Bank of America's latest survey. Large oil exporters, such as Latin America and the Middle East, may see an increase in commodity export revenues; however, this could well be offset by the trajectory of the US dollar which has just hit a 10-month high.

FIXED INCOME

Bonds suffered a difficult quarter, which saw yields on both the 2- and 10-year Treasuries rise to levels not seen since 2007, just preceding the global financial crisis. The two-year yield rose xx basis points in the second quarter, and the ten-year yield rose xx basis points. The Bloomberg Barclays US Aggregate Bond Index fell -3.23% on the back of rising yields in that same time frame and remains down on the year -1.21%.3 Price and yield are inversely related: as the price of a bond goes down, its yield goes up, and vice versa. In July, the Federal Reserve (Fed) met and raised rates to a target range of 5.25% – 5.50%. No meeting was held in August, and then no changes were implemented at their most recent meeting in September. As the year enters its final quarter, interest rate projections are for the Federal Funds Rate at 5.625% by the end of 2023, implying one more 25-basis point hike before the year is done. This will ultimately depend on price pressures. The past two inflation readings showed an upward move in the headline Consumer Price Index (CPI), which rose to 3.7% in August from just 3.0% in June. Conversely, core CPI, which excludes food and energy prices, moved down to 4.3% in August from 4.8% in June. Both the market and the Fed are now sold on the idea of "higher for longer" when it comes to the Federal Funds Rate, with few in either camp anticipating rate cuts until midway through 2024. Although this will likely put pressure on the economy, it offers strong total return opportunities for those invested in fixed-income, or money market funds, both offering significant yields compared to the last decade or more. Additionally, the end of a rate hiking cycle by the Federal Reserve has traditionally been a catalyst for outsized fixed-income returns, coming from both generous income generation and capital market appreciation as yields begin to fall to less restrictive levels.

ALTERNATIVES AND REAL ESTATE

The extension of voluntary production cuts from OPEC+ power players Saudi Arabia and Russia initiated a sharp reversal in energy prices seen at the end of the summer. That, in conjunction with softer-than-expected domestic inventories and improving domestic demand, drove WTI crude futures above $90 a barrel. Even though U.S. inventories look light, the U.S. Energy Information Administration (EIA) is expecting U.S. crude oil production to surpass 12.9 million barrels per day for the first time in late 2023 and then exceed 13 million barrels per day in early 2024. Unfortunately for average Americans, that means more pain at the pump with gasoline prices reaching national averages of $3.815/gallon.[3]

Affordability, or lack thereof, continues to be the biggest theme for residential real estate. The average 30-year fixed mortgage reached a 2023 high of 7.23% in August.[2] Current mortgage rates stand in stark contrast to the sub-3%, fixed mortgage rates available just two years ago, and that dramatic increase has made existing homeowners reluctant to sell their homes, which would force them to abandon the lower rates they currently enjoy. Consistently strong demand and historically low inventory have limited home sales and pushed up the cost of ownership. The S&P CoreLogic Case-Shiller US National Home Price Index registered a sixth consecutive month of increases in home prices this July — the longest streak on record, further hindering affordability.

CONCLUSION

At the start of the year, most forecasts predicted a difficult year for markets. Inflation dominated the headlines and there was widespread consensus among economists that a recession was imminent. As we move into the fourth quarter, both the economy and the stock market have thus far avoided this expected downturn, but 2023 hasn't been without its speed bumps and market anomalies. The Fed continued to raise rates more than expected, we saw several of the largest bank failures in U.S. history [certainly since the Great Financial Crisis (GFC)], mortgage rates hit 20-year highs, and a government shutdown looms while national debt levels swell to record levels. The question now is where do we go from here? In our view, the economy is going to slow down, and this long-awaited, widely anticipated recession will eventually come to fruition (but likely not before the end of the year). Inflation will fall along with growth, prompting the Fed to ease monetary policy by cutting interest rates. Barring a major shock, stocks and bonds have the potential to rally in the short term.

Economic Definitions

Initial Jobless Claims: Initial unemployment claims track the number of people who have filed jobless claims for the first time during the specified period with the appropriate government labor office. This number represents an inflow of people receiving unemployment benefits.

Job Openings – JOLTS: This concept tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

S&P CoreLogic Case-Shiller US National Home Price Index: The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, is an economic indicator that measures the change in value of U.S. single-family homes on a monthly basis.

Mortgage Rate: A mortgage rate, or mortgage interest rate or interest rate, is part of what it costs to borrow money from a lender. Instead of paying your mortgage lender a lump sum, the interest is paid as part of your monthly payment for your home loan.

The Federal Reserve System: The central bank of the United States. It performs several general functions to promote the effective operation of the U.S. economy and, more generally, the public interest.

West Texas Intermediate (WTI): West Texas Intermediate (WTI) is crude stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams and which is traded in the domestic spot market at Cushing, Oklahoma.

Fed Funds Rate: The effective federal funds rate (EFFR) is calculated as a volume-weighted median of overnight federal funds transactions reported in the FR 2420 Report of Selected Money Market Rates. The New York Fed publishes the EFFR for the prior business day on the New York Fed's website at approximately 9:00 a.m.

OPEC: The Organization of the Petroleum Exporting Countries is an organization enabling the co-operation of leading oil-producing countries in order to collectively influence the global oil market and maximize profit. It was founded on 14 September 1960 in Baghdad by the first five members.

US Dollar: The U.S. Dollar Index is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" when compared to other currencies.

Labor Force Participation Rate: The labor force participation rates is calculated as the labor force divided by the total working-age population. The working age population refers to people aged 15 to 64. This indicator is broken down by age group and it is measured as a percentage of each age group

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

DISCLOSURES

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect again loss. In general, the bond market is volatile; bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed-income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Vehicles that invest in lower-rated debt securities (commonly referred to as junk bonds or high-yield bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets.

The statements provided herein are based solely on the opinions of the Ladenburg Thalmann Asset Management (Ladenburg) Research Team and are being provided for general information purposes only. Neither the information nor any opinion expressed constitutes an offer or a solicitation to buy or sell any securities or other financial instruments. Any opinions provided herein should not be relied upon for investment decisions.

Certain information may be based on information received from sources the Ladenburg Research Team considers reliable; however, the accuracy and completeness of such information cannot be guaranteed. Certain statements contained herein may constitute "projections," "forecasts" and other "forward-looking statements" which do not reflect actual results and are based primarily upon applying retroactively a hypothetical set of assumptions to certain historical financial information. Any opinions, projections, forecasts and forward-looking statements presented herein reflect the judgment of the Ladenburg Research Team only as of the date of this document and are subject to change without notice. Ladenburg has no obligation to provide updates or changes to these opinions, projections, forecasts and forward-looking statements. Ladenburg is not soliciting or recommending any action based on any information in this document.

1 https://www.edwardjones.com/us-en/market-news-insights/stock-market-news/stock-market-weekly-update

2 Data Obtained from Bloomberg as of 9/30/2023

3 Data Obtained from Morningstar as of 9/30/2023

4 CME FedWatch Tool - CME Group

5 Consumer Price Index Summary - 2023 M08 Results (bls.gov)

6 https://www.eia.gov/pressroom/releases