CLEVELAND HAUSWIRTH INVESTMENT MANAGEMENT

INVESTMENT UPDATE

2023 --- 3rd Quarter

Values Pull Back a Bit in the 3rd Quarter

July helped get the third quarter of 2023 off to a strong start. However, the continued rise in interest rates proved to be too much for the stock market to overcome, leaving both stock and bond returns down. For the quarter, the S&P 500 Index was down -3.27%, but remained positive for the year as a whole, +13%. The U.S. bond market was down -3.23% (Bloomberg U.S. Aggregate Bond Index) and is close to flat for the year. Personal investment returns for the year so far are now in a range from approximately 7% to 12%, depending on the mix of stocks and bonds.

Investors went into the third quarter increasingly confident that a recession was unlikely this year, thanks in large part to a continued healthy job market and consumer spending. The economy continued to be resilient and strong.

There were expectations that the Federal Reserve would soon be pivoting to start lowering interest rates. Instead, "higher for longer" has become the newest catchphrase on Wall Street. The anticipated aggressive interest rate cuts for 2024 are now looking unlikely, even though signs continue to point to inflation pressures improving in the coming months.

The higher for longer thinking caused the "Magnificent Seven", the largest companies in the S&P 500 Index who have been driving the bulk of the investment performance this year, to lose some of their market value. In a continuing teeter-totter between growth and value strategies, value stocks outperformed, including dividend payers. The best performers of the quarter were energy stocks thanks to a rise in oil prices.

What's next for inflation and interest rates? Are we there yet? No one can say for sure. The Federal Reserve hit pause on interest rate hikes in September but left the door open for at least one additional hike in 2023. The most important question for investors now is not how high will rates go but rather how long will high interest rates last? The answer will depend on the data. The most important indicator will be inflation, which is falling. Also, labor data is cooling off, with job openings and wage growth slowing.

The Fed has moved their interest rate projections slightly higher for next year looking at possibly two small hikes, as opposed to the previous forecast of reducing rates. But the timing is yet to be determined and of course depends on the data.

Many investors thought the economy would have weakened by now, and it hasn't. However, the actions the Fed is taking work with a lag. We might have to be patient for a while to see the desired results of higher interest rates.

With the market volatility we are experiencing right now, and the markets currently reversing their prior nine months of strong positive returns just a bit, it does make a case for "staying the course". Feel secure in your investment "team" approach. The end results are much better to do so!

Feel free to call Nan or Ann at 414-431-6491 with your questions or concerns.

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