Monthly Market Recap – Sept. 2023

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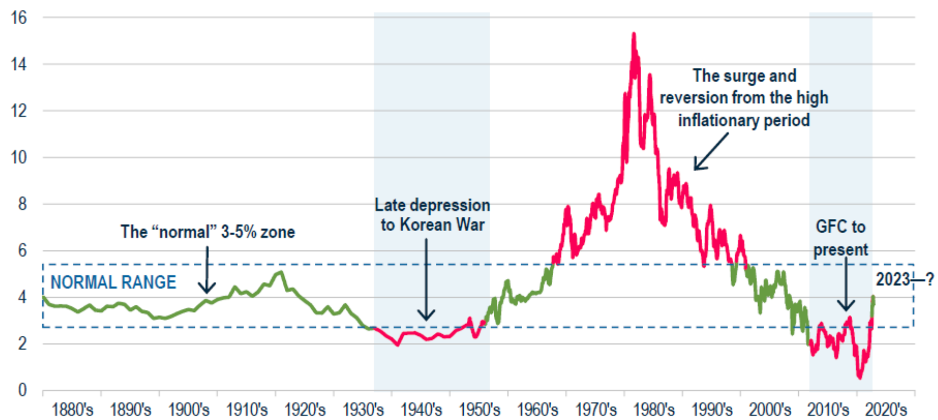
Month in Review

- Stocks had their worst month since December 2022 and bonds fell for the fourth straight month.
- Rising Treasury yields were the primary catalyst – the 10-year Treasury yield hit a 16-year high during September.
- Restrengthening inflation data and the prospect of additional interest rate hikes by the Federal Reserve are the main catalysts for the pressures.

Bond Yields Return to Average

Despite nearly a decade of low interest rates, the 10-year Treasury yield typically averages 3% to 5% yield, going back to the late 1800's. For the first time since 2007, the 10-year Treasury rose to 4.5%, comfortably returning to long-term averages. Recent inflation data was stronger than expected, contributing to the increase in yield, along with the prospect of additional rate hikes from the Federal Reserve. The increase in yields reduces the value of bond investments in the short-term, and higher yields present a more attractive alternative to stocks – two reasons stocks and bonds struggled in August and September.



Sources: PGIM Fixed Income; 1875-1961, Robert Shiller, Yale; 1962-Present, Bloomberg

What's on Deck for October?

- Outside of fundamentals, there are headwinds from the on-going autoworkers' strike, and a potential shutdown of the US government. Both events historically have not had lasting impacts on the economy and markets.
- The surprisingly strong labor market was the primary reason the predicted 2023 recession did not happen – investors will be watching job creation and unemployment claims data closely for any softening.
- An additional interest rate hike in November or December is very much up in the air. Inflation data had strengthened somewhat, along with energy prices increasing sharply since June. It is unclear if this is enough for the Federal Reserve to hike one more time.