Oxford Harriman Market Commentary

September 11, 2023

The S&P 500 traded lower during the first half of August, at one point erasing all of July's 3.3% gain. The sell-off occurred as investors worried about the potential for further interest rate hikes and increased bond issuance by the Treasury to fund government spending.

Interest rates rose to levels last seen in 2007, with the 10-year Treasury yield climbing to 4.35%. This increase in rates caught investors by surprise, leading to compressed stock market valuations. However, interest rates reversed a portion of their rise in late August, with the 10-year Treasury declining to 4.09%.

The S&P 500 found its footing as yields declined and recovered somewhat to finish the month with a 1.6% decline, its first monthly loss since February of this year.

As we closed August, two pieces of data contributed to the decline in rates and the corresponding rebound in equity prices. First, the number of U.S. job openings fell below 9 million for the first time since March 2021, in addition to fewer employees voluntarily quitting their jobs. The declines in job openings and quits may suggest the tight labor market is improving and may help ease wage inflation. Second, consumer sentiment weakened to a 3-month low in August due to higher borrowing costs and concerns about lingering inflation.

Investors interpreted the labor market data and weak consumer sentiment as an indication that the Federal Reserve is making progress in its battle against inflation and may not need to raise interest rates further. Recall that over the past 12 months, the inflation rate has declined from over 8% to 3.2% in July 2023. We maintain a cautious view of this decline, especially as we see the price of oil up over 20% in the past 2 months.

Indeed, investors remain fixated on the Federal Reserve's next move, including how high the Fed may raise interest rates and whether it will cut interest rates in 2024. Those decisions will significantly impact the economy and stock market, and lead to swings in both interest rates and equity prices. Each economic data point and Fed speech are analyzed for hints about interest rate policy. As we experienced in August, stocks and interest rates can change direction suddenly as new information becomes available.

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With the end of the Labor Day holiday weekend, we enter September which has typically been a negative month for equities. The Dow Jones Industrial Average (DJIA) has averaged a decline of approximately 1% during this month for the last 100 years. However, the fourth quarter has typically been the best performing three months of the year.

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The market outlook has changed multiple times this year due to investors' short-term focus on Fed policy, but this dynamic may be ready to shift as the Fed concludes its rate hike cycle. We will continue to monitor corporate earnings and global macroeconomic conditions as the long-term catalyst for the stock market while recognizing the near-term narrative is likely to remain volatile.

Have a good week,

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Sources:

www.cnbc.com

www.reuters.com

http://bloomberg.com