August 2023 Market Recap

By Dan Frost

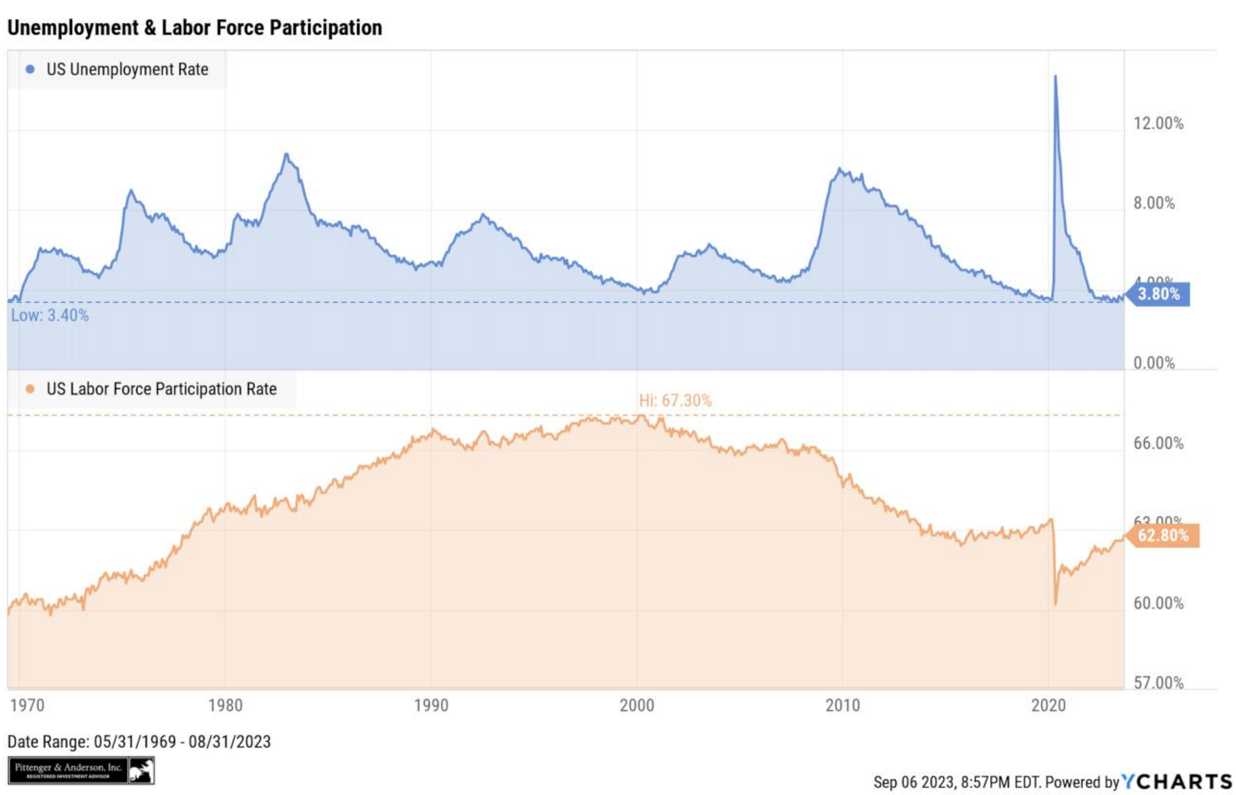
Highlights

- Unemployment and inflation both ticked up slightly.
- Stocks took a breather in August.
- Longer term interest rates have begun to creep upward once again.
- Stocks appear to be following a typical late-summer/early-fall pattern.

Economic Update

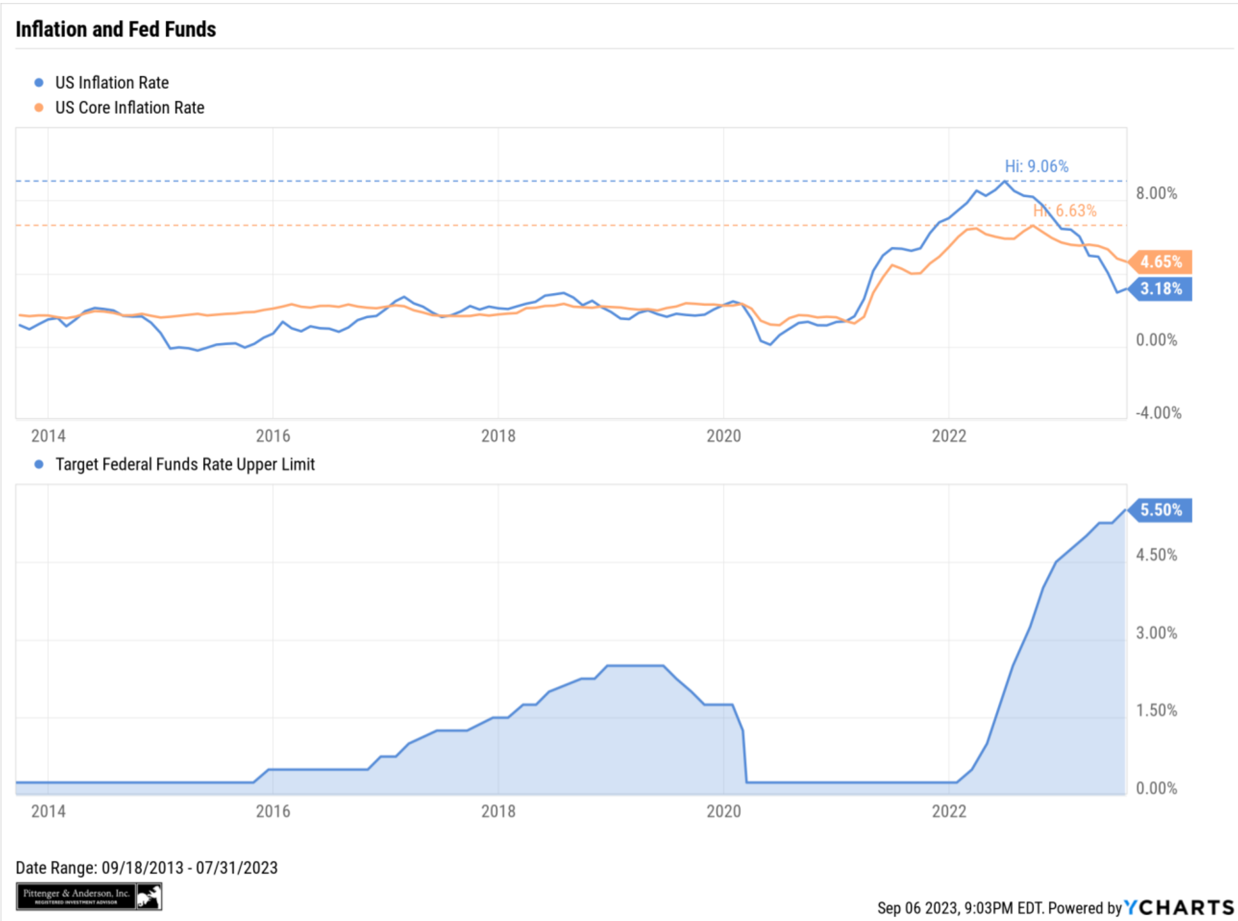
Employment

August's unemployment rate rose to 3.8%, three-tenths higher than July's figure of 3.5%. However, the labor force participation rate grew by two-tenths to 62.8%. 187,000 jobs were added in August, surpassing nonfarm payrolls expectations of 170,000.



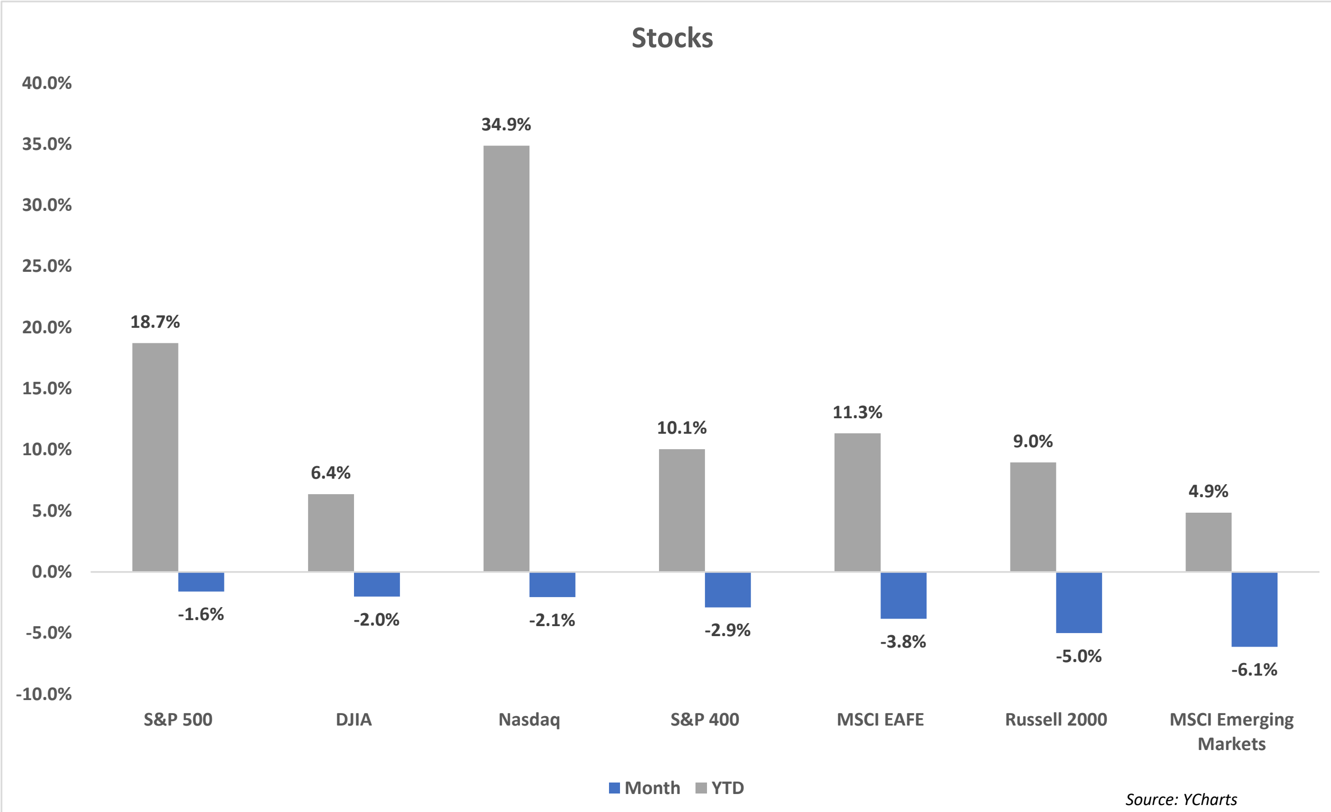
Consumers and Inflation

After dipping below 3% for the first time in over two years, Inflation inched higher in July to 3.18%, up from 2.97% in June. Core Inflation did fall in July to 4.65%. The last action taken by the Federal Reserve was raising the benchmark Target Federal Funds Rate by 25 basis points to 5.50% at its July 26th meeting. This was the 11th rate hike in the Fed's last 12 meetings.

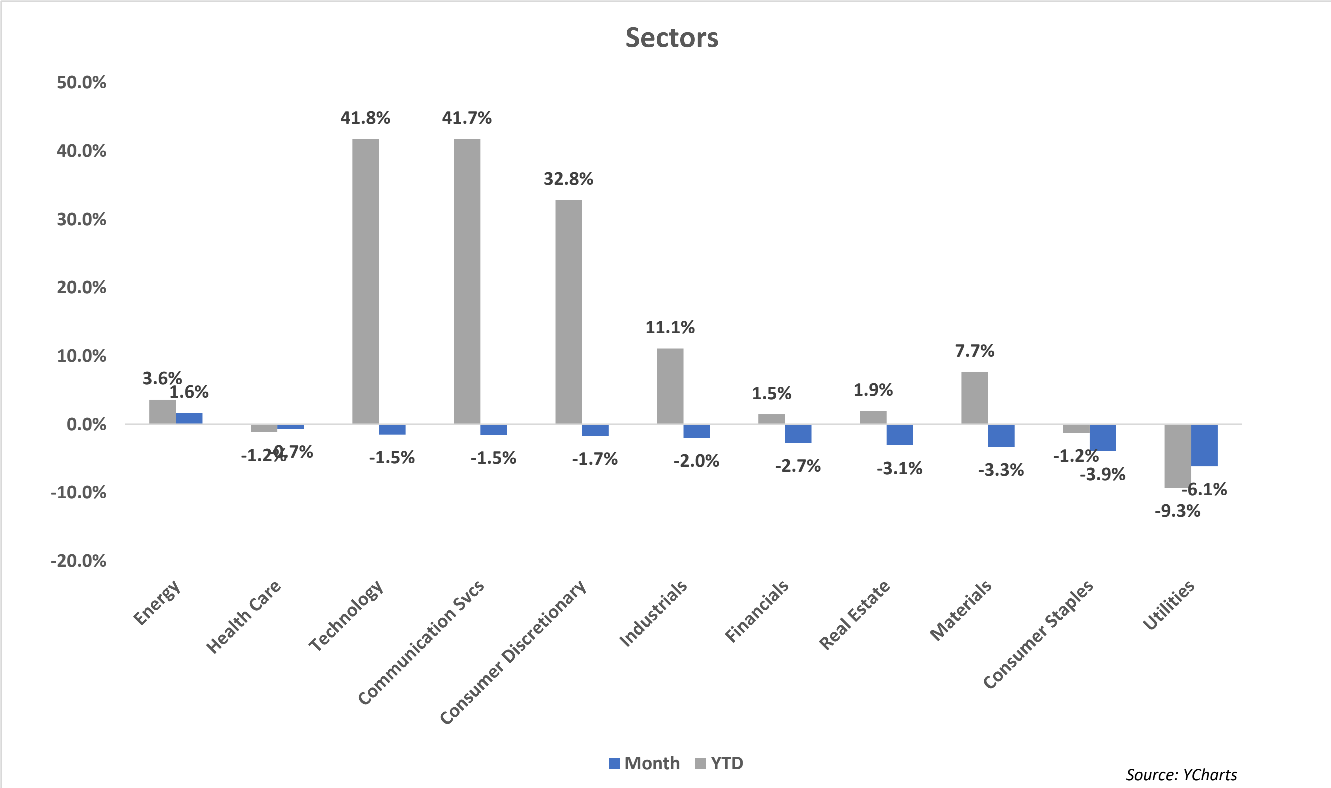


Stocks and Bonds

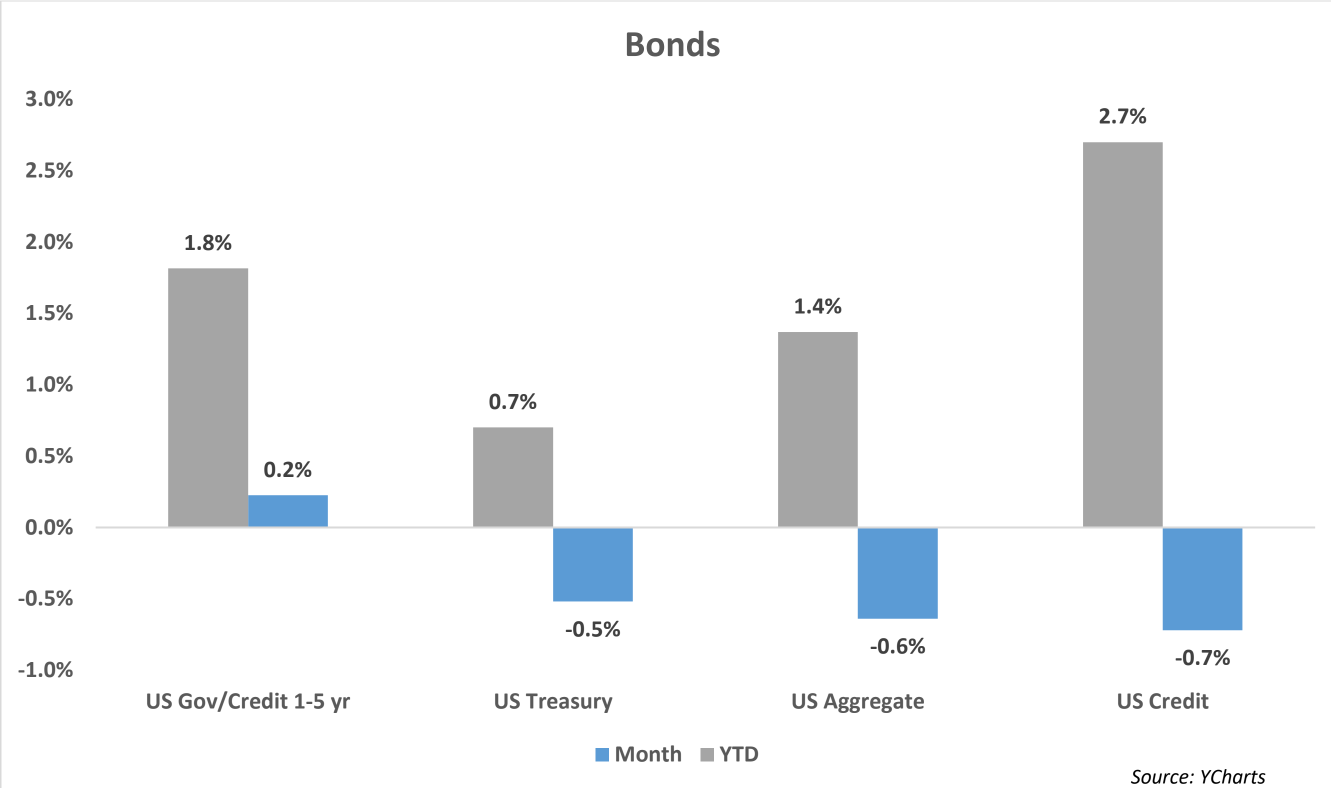
Stocks took a breather in August as the S&P 500 fell 1.6%, the Dow Jones Industrial Average slipped 2.0%, and the NASDAQ ended 2.1% lower. It was a disappointing month globally–EAFE sank 3.8% in August and Emerging Markets tumbled 6.1%. Nonetheless, August didn't subtract too much from the upbeat year-to-date performance of major US indices. The NASDAQ is still up 34.9% in 2023, the S&P 500 is 18.7% higher, and the Dow 6.4%. Mid and small-cap stocks were also down for the month (-2.9% and -5.0%, respectively), but also remain in positive territory year-to-date.



Energy was the only US stock sector that posted a positive return in August, up 1.6%. Generally thought of as a yield-oriented investment, Utilities were down 6.1% in August, placing them in last place for the month and for the year so far as investors have shifted more dollars towards fixed income. Technology, Communications Services, and Consumer Discretionary continue to pull most of the weight, with all three sectors up 30% to 40%+ year-to-date. The only other sector with a double-digit YTD return is Industrials, but they are “only” up 11.1%.



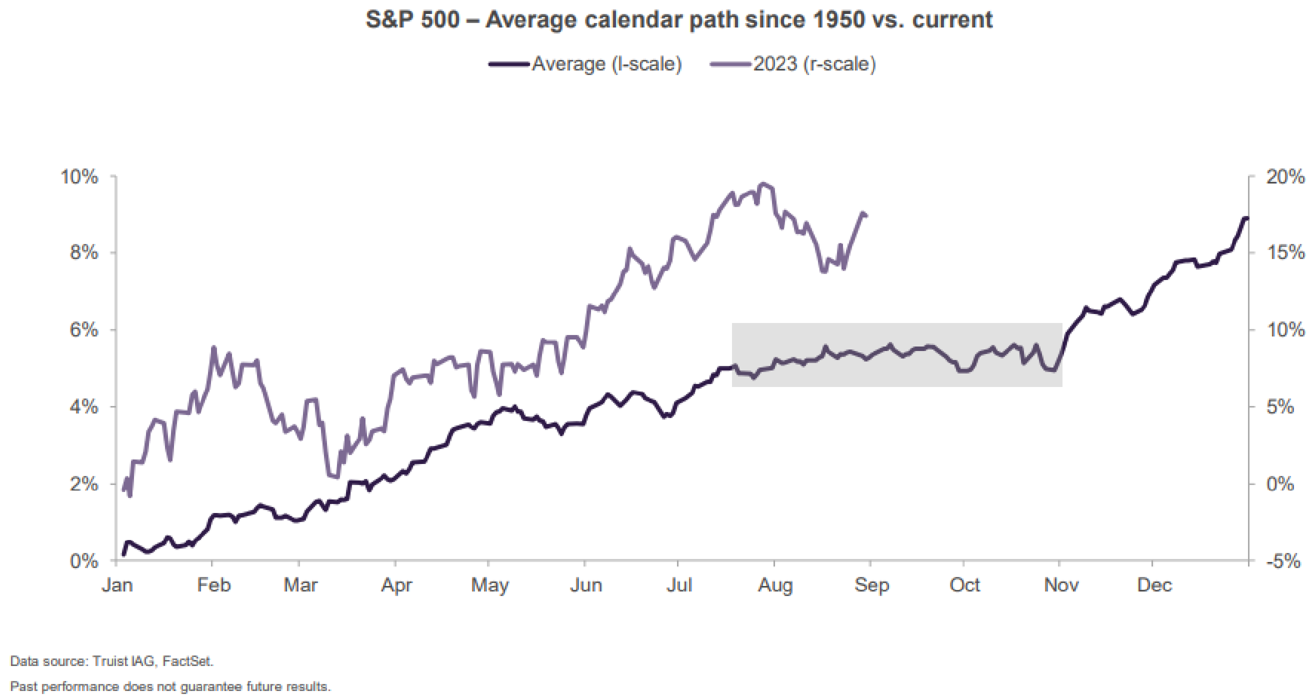
Bond returns remain stuck in neutral. Shorter-term fixed income benchmarks were up slightly during the month as near-term rates remained roughly flat during the month. Longer-term interest rates rose for the first few weeks of August, with the yield on the 10-year US Treasury rising from 3.97% at the end of July to 4.34% on August 21st before settling to end to month at 4.09%.



Seasonality

August proved to be a more challenging month for equity investors. Following five straight months of positive returns in the stock market, the bar had probably been set a little too high for a continuation of positive surprises. As we discussed in last month's update, the market was anticipating the likelihood of the Fed sticking the landing, so to speak, when it comes to the economy and orchestrating a soft-landing. However, at the Fed's annual economic policy conference in Jackson Hole, WY, Chairman Jerome Powell sounded a rather hawkish tone around future Fed interest rate policy, stating that inflation "remains too high" and reiterated the Federal Reserve's commitment to raise rates further if appropriate and hold it at a restrictive level until they are confident that inflation is moving sustainable down toward their 2% target.

The chart below, courtesy of Truist Securities, shows that the market has been following a rather typical pattern thus far in 2023. Outside of a minor setback early in the year the S&P 500 has remained on an upward trajectory. It is not unusual for markets to take a pause during the late-summer and early-fall. This year appears to be following a similar pattern.



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