September 2023 Market Recap
By Dan Frost

Highlights

- Mortgage rates rose in September while prices remain high, and sales contracted.
- Crude oil rose, pushing the average price of gasoline above $4.
- Stocks fell for the second consecutive month following five straight months of gains.
- Interest rates continue to rise, particularly at the long end of the curve.

Economic Update

Housing

US New Single-Family Home Sales contracted 8.7% in August, following a July in which new home sales grew by 8.0%. US Existing Home Sales sank for the third consecutive month, down 0.7%, and 17th out of the last nineteen. The Median Sales Price of Existing Homes inched 0.3% higher to $407,100, staying above $400,000 for the third straight month. Mortgage rates pushed higher in September; 15-year and 30-year Mortgage Rates ended the month at 6.72% and 7.31%, respectively.
Oil

West Texas Intermediate (WTI) crude oil briefly reached $90 per barrel in September, ending the month at $89.68, an increase of 7.3%. Brent rose 7.7% in September to $94.01 per barrel. As a result, the average price of regular gas also eclipsed $4.00 per gallon in mid-September, settling at $3.96 as of September 25th. While both crude oil and gasoline are near their highest levels over the past 12 months, they remain below the recent highs in early-/mid-2022 following the onset of the war in Ukraine.

Stocks and Bonds

Stocks continued to decline in September as the Dow Jones Industrial Average fell 3.4%, the S&P 500 slipped 4.8%, and the NASDAQ ended 5.8% lower. Around the world, Emerging Markets were down 2.6%, and EAFE sank 3.4%. September’s declines dragged equities into the red for Q3. The Dow posted a 2.1% decline in Q3, the S&P 500 ended the quarter down 3.3%, and the NASDAQ 3.9% finished lower. However, year-to-date all the major equity markets remained in positive territory.
For the second straight month, Energy was the only US stock sector to post a positive return. Every other sector declined for the month with Real Estate and Technology stocks falling the most. For the YTD period five of the eleven sectors remain in positive territory: Communication Services, Technology, Consumer Discretionary, Industrials and Materials.
Yields on longer-term treasuries increased in September as T-Bills ended the month broadly unchanged. At the longer end of the yield curve the 10-year increased by 0.50% and ended the month at a 16 year high. Fixed income returns were negative across the board for the month and are flat to down YTD with the exception of very short-term instruments that do not have as much sensitivity to changes in interest rates.

![Chart showing bond yields](chart.png)

**Predictions**

The quote, “It’s tough to make predictions, especially about the future” has been attributed to both Mark Twain and Yogi Berra. Regardless of who originally said it, the point remains the same. Predicting the future is challenging and requires a great deal of humility. Throughout history there have been several notable predictions that turned out to be incredibly wrong, if not just silly, in hindsight:

- **The Y2K Bug**: Leading up to the year 2000, there were widespread fears that the computer systems representing years with only two digits would lead to widespread computer failures and chaos when the clock struck midnight. While there were a few glitches, the doomsday scenarios did not materialize on the scale that many had predicted.

- **Thomas Watson’s Prediction**: Thomas Watson was the chairman of IBM. (He is also the namesake for IBM’s AI supercomputer.) In 1943 he allegedly predicted that there was a “world market for maybe five computers.” He obviously underestimated by a significant margin.

- **Decca Records Rejecting the Beatles**: In 1962, Decca Records rejected the Beatles, stating, “We don’t like their sound, and guitar music is on the way out.” The Beatles went on to sell an estimated 600 million albums worldwide, making them one of the best-selling and most influential bands in history.

- **End of the World Predictions**: Throughout history there have been numerous predictions about the end of the world: *The Mayan Apocalypse* predicted the world would end on December 21, 2012; William Miller, a Baptist preacher, predicted that the world would end in 1844; and another radio
broadcaster predicted the end would be on May 21, 2011. When that day came and went, he revised his prediction to October 21, 2011, yet here we sit over two decades later.

How does any of this relate to a monthly update of the markets and the economy? At the Federal Reserve’s September meeting they held rates unchanged, but signaled that further work needs to be done to accomplish the mission of reducing inflation. As is typical, they also released their projections for interest rates at the end of 2024 and 2025, both of which are higher than what they were projecting at the end of the last meeting in June.

One may ask how well the Fed has been at predicting where the economy and interest rates are headed. As it turns out their projections haven’t been terribly accurate. If we rewind the clock by two years to the September 2021 FOMC meeting, we see that the Fed was predicting short-term rates would end 2023 at 1.0% and 2024 at 1.8%.

The Federal Reserve Board employs “just over 400 Ph.D. economists,” according to their website. They have access to the latest economic information and the most sophisticated forecasting models. Yet, even with all that brainpower they were unable to predict that inflation would peak at nearly 10% and interest rates would still be north of 5%, not at 1%.

Today the Fed wants to keep rates high to bring inflation down to their stated goal of 2%, but if the economy stumbles, which it is eventually likely to do, or if there is an external shock, the most likely outcome will be a change in the Fed’s forecasts. To quote Warren Buffett, “Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future.”

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