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Perspective on Third Quarter 2023 Economic & Market Events

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Last year, there was widespread anticipation of an impending recession, which the media had heavily covered. However, contrary to expectations, we find ourselves in the midst of an ongoing economic expansion. Prominent economists, including those in the Federal Reserve and Treasury, now assert that a recession is no longer on the horizon. This is encouraging news, especially considering that previous recessions often coincided with stock market declines.

The Federal Reserve initiated a series of interest rate hikes, totaling eleven, beginning in early 2022 to combat inflation. While we approach the end of this rate-hiking cycle, the Fed still foresees one more hike before year-end. Inflation, though still above the 2% target, has been gradually decreasing from the higher levels of the past two years.

The third quarter started positively for the S&P 500, continuing the momentum from the second quarter, with gains driven by robust economic data. This data reflects solid economic growth without necessitating further rate hikes by the Federal Reserve, leading to increased confidence among investors and a reduction in near-term recession concerns—a true "Goldilocks" moment for the markets.

Market volatility resurfaced following the September Fed decision, where a "hawkish" stance was maintained without an immediate interest rate increase. The majority of Fed members anticipate an additional rate hike by year-end and have revised down the projected rate cuts for 2024.

Traditionally, the fourth quarter has been a strong period for U.S. markets, with a historical track record of positive returns. However, this year brings unique challenges, including monetary policy uncertainty, global unrest, and the presidential election's impact on markets. Achieving a "soft landing" and averting a recession remains a primary objective for the Fed.

It is essential to note that a soft landing may still entail slow economic growth. If a recession is avoided, the Fed is unlikely to reduce short-term rates, which could potentially affect stocks negatively. Especially concerning is the tech sector, which has significantly contributed to market performance and may face challenges sustaining its high Price/Earnings ratio.

As the fourth quarter begins, market sentiment is more cautious than at the start of the third quarter. However, underlying economic fundamentals remain robust. Economic indicators such as employment, consumer spending, and business investment have demonstrated resilience.

While concerns exist regarding a potential economic slowdown, there is currently limited actual data pointing to an imminent downturn. Additionally, core inflation, which central banks typically focus on, continues to decrease, despite the rally in oil prices during the third quarter.

Regarding monetary policy, the Federal Reserve's extensive rate hike campaign is approaching its conclusion. Higher interest rates alone do not necessarily lead to an economic slowdown, and they have returned to pre-financial crisis levels.

In summary, as we enter the final months of the year, familiar risks to the markets and the economy persist, but they are not new challenges. Despite these risks, both the economy and markets have demonstrated remarkable resilience throughout 2023.

We remain firm believers that a well-prepared, long-term-focused, and diversified financial plan can withstand virtually any market surprise and related bout of volatility, including “higher for longer” interest rates, stubbornly high inflation, geopolitical tensions and recession risks.

As we transition from summer to autumn and autumn to winter, it is a time for reflection and prioritizing quality moments with family and friends. Just as the seasons change and we adjust to colder-weather attire, we recognize that the investment landscape continues to change and we must adjust accordingly. We appreciate the opportunity to help guide our clients through various financial seasons, whether they are hot, cold or just right.