Market Review Commentary

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Investment Management

STOCKS FALL IN AUGUST REVERSING SUMMER RALLY

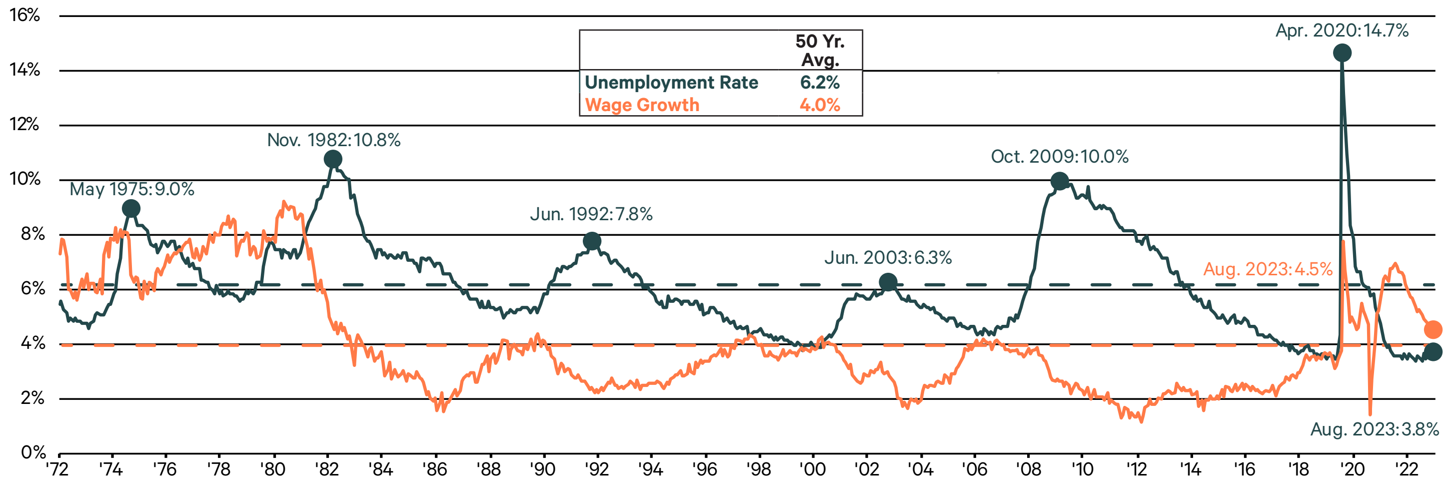
Stocks reversed course from the positive momentum of prior months and declined across the board in August despite trying to stage a late-month rally. The S&P 500 Index declined 1.59%, while small-capitalization stocks, as measured by the Russell 2000 Index, fell 5.00%. Growth stocks declined less than value stocks, with the Russell 1000 Growth Index falling 0.90% versus the 2.70% decline for the Russell 1000 Value Index. The 10-Year U.S. Treasury yield began the month at 4.04% and bounced higher mid-month, ending almost where it started at 4.09% after the payrolls report at the end of the month signaled some cooling in the employment numbers.

CONSUMER SPENDING AND LABOR MARKET PROVE STRONG

Despite the Federal Reserve raising interest rates to a 22-year high, the economy continues to grow. While the unemployment rate rose slightly to 3.8% from 3.5% in July, robust consumer spending and a steady economy remain resilient despite one of the most aggressive interest rate campaigns in nearly 40 years.

FIGURE 1: CIVILIAN UNEMPLOYMENT RATE AND YEAR-OVER-YEAR WAGE GROWTH

Private Production and Non-Supervisory Workers, Seasonally Adjusted, Percent

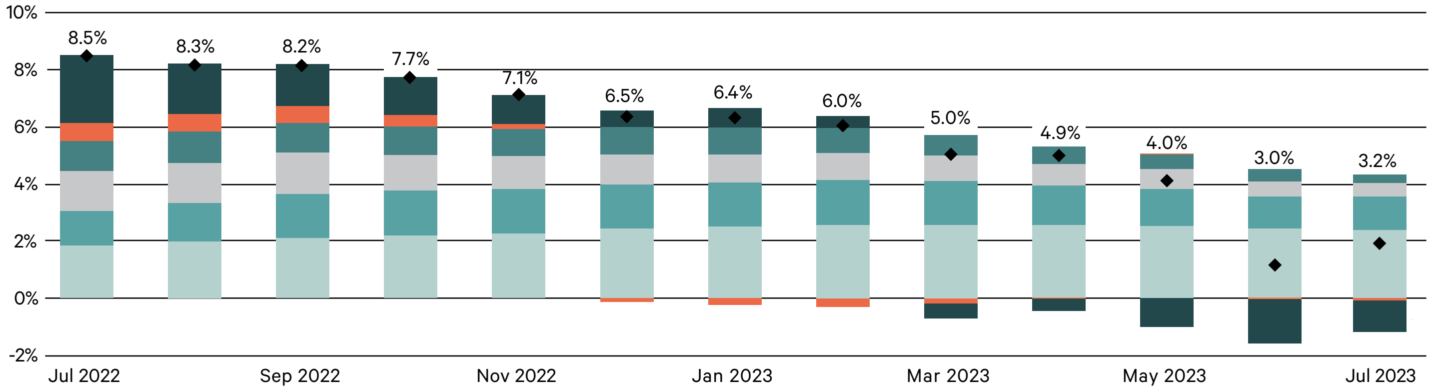


Data presented is as of September 1, 2023 and is obtained from BLS, FactSet and J.P. Morgan Asset Management and is assumed to be reliable. Private production and non-supervisory workers represent 80% of the nonfarm workforce. ***Past performance is no guarantee of future results.***

There is evidence of inflation retreating, but not to the 2% level desired by the Federal Reserve. Signs of a stronger-than-expected economy may keep the Federal Reserve focused on interest rate increases. The market widely expects the Fed to hold rates steady at its September meeting, while possibly considering one more increase for 2023 at its November or December meeting. Federal Reserve Chairman Jerome Powell keeps reminding the market that policy makers will need to be confident that inflation "is moving down sustainably." As has been the case all along, the Fed will follow the data.

FIGURE 2: CONTRIBUTORS TO HEADLINE CPI INFLATION
Contribution to Y/Y % Change in CPI, Non-Seasonally Adjusted

Energy | New & Used Vehicles | Other | Food at Home | Restaurants, Hotels & Transportation | Shelter



Data presented is as of September 1, 2023 and is obtained from BLS, FactSet and J.P. Morgan Asset Management and is assumed to be reliable. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners' equivalent rent and rent of primary residence; "Other" primarily reflects household furnishings, apparel, education and communication services, medical care services and other personal services. ***Past performance is no guarantee of future results.***

NO IMMINENT RECESSION BUT RATE DEBATE CONTINUES

With the economy and consumer spending holding up better than expected, the discussion of a recession has been replaced with discussion of a soft landing. Many market participants believe the Fed may be able to bring inflation down without triggering a downturn. Considering the lag time in how rate increases influence inflation, the thinking is that inflation may be getting closer to the Fed's 2% target, helping the soft-landing consensus gain traction. However, there are other market observers that believe if the economy gets too hot, the Fed may need to resume rate increases, which would be a negative for the stock market.

We believe this stage of the economic cycle is tricky for the Federal Reserve. While the Fed wants the economy to continue to expand, Fed policy makers do not want it to expand at a pace that will reignite higher inflation. The market continues to be consumed with the Federal Reserve's next moves, and the Fed has not said it is done raising interest rates. Instead, it has left the door open for the possibility of more increases, if warranted. We believe it is too early to conclude the inflation battle is over, but it does appear the higher for longer narrative has been accepted. The market is no longer "fighting the Fed."

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Douglas S. Foreman, CFA is Chief Investment Officer, Portfolio Manager, and a member of the Executive Management Committee. He has approximately 37 years of investment experience.

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