Market Review Commentary

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Investment Management

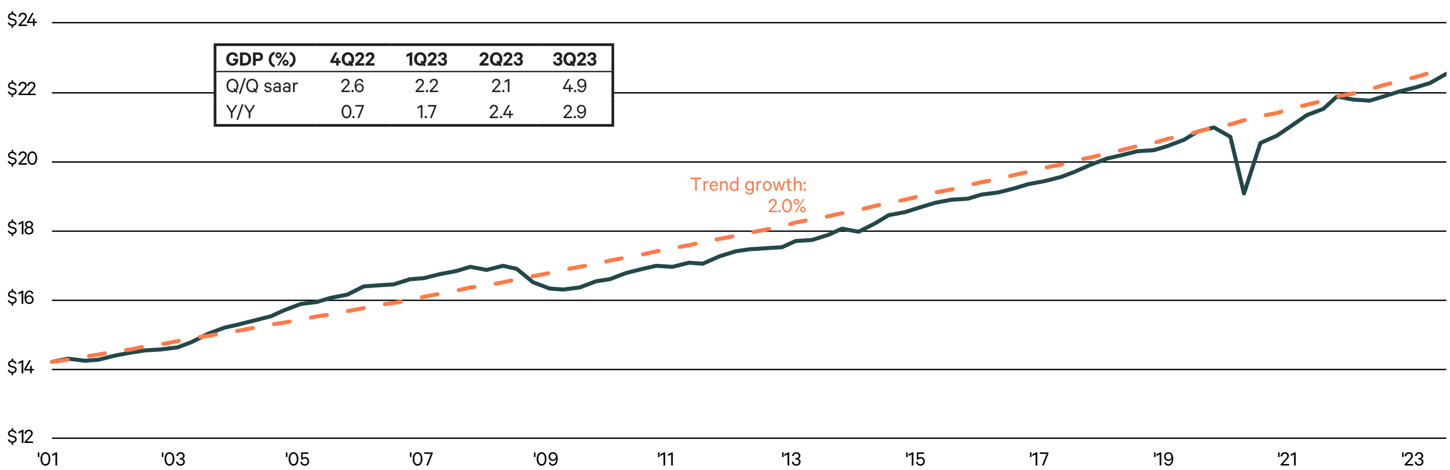
Stocks declined in October and flirted with a correction from July highs at the end of the month. Performance ticked up the last couple trading days of the month but not enough to reverse the month's bumpy and negative momentum. The S&P 500 Index declined 2.10%, while small capitalization stocks, as measured by the Russell 2000 Index, fell 6.82%. Growth stocks declined less than value stocks, with the Russell 1000 Growth Index falling 1.42% versus the 3.53% decline for the Russell 1000 Value Index. The 10-Year U.S. Treasury yield moved higher during the month, starting at 4.68% and closing at 4.90%.

WHAT WILL THE FED DO NEXT?

The market has not lost its obsession with the interest rate policy decisions of the Federal Reserve which has been on its largest interest rate hike campaign since the 1980s. At the start of November, the Fed held rates steady within a range of 5.25% and 5.50%, which was widely expected by the market. The Fed's last rate hike was in July. The Fed appears to be willing to take a wait-and-see approach to see how its dramatic interest rate tightening cycle over the past 18 months will affect the financial system. The economy continues to be resilient despite the massive surge in rates and, while the labor market has softened, it is still considered strong by any measure.

FIGURE 1: REAL GDP

Trillions of Chained (2017) Dollars, Seasonally Adjusted at Annual Rates



GDP (%)	4Q22	1Q23	2Q23	3Q23
Q/Q saar	2.6	2.2	2.1	4.9
Y/Y	0.7	1.7	2.4	2.9

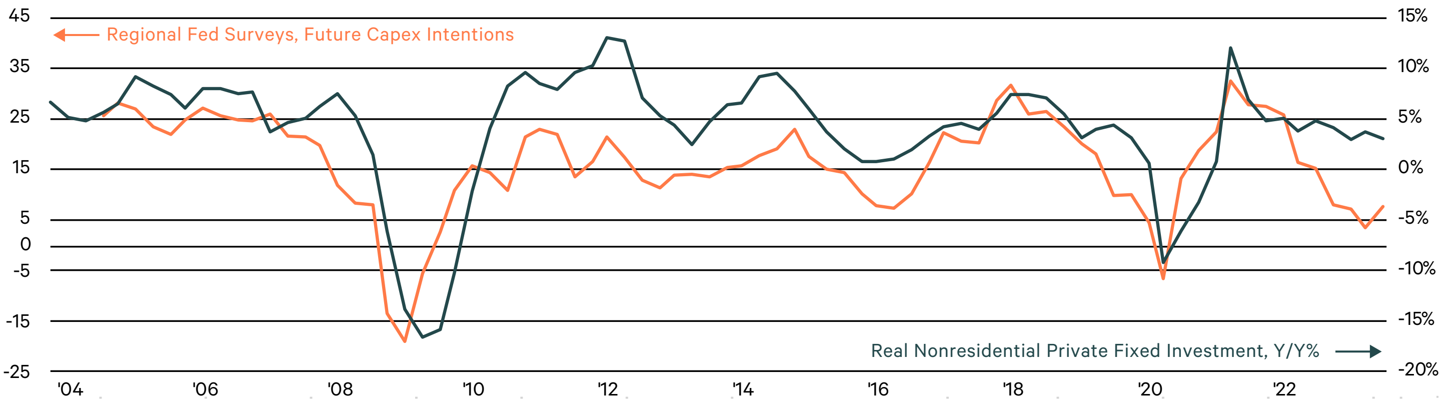
Data as of November 1, 2023. Data is obtained from BEA, FactSet and J.P. Morgan Asset Management and is assumed to be reliable. Trend growth is measured as the average annual growth rate from business cycle peak 1Q01 to business cycle peak 4Q19. ***Past performance is no guarantee of future results.***

There has been progress toward the Fed's 2% inflation goal, but the higher for longer narrative is the new normal for the market as the Fed continues to work toward inflation reduction. The discussion has now pivoted to how much higher and for how much longer. Betting against the Fed has wrong-footed many economic prognosticators, and the Fed has said it will continue to maintain a hawkish stance. While the Fed's actions are always data dependent, another interest rate increase is not out of the question by year-end or thereafter.

HIGHER FOR LONGER MAY HELP THE FED

Should longer-term rates settle around 5%, we would expect yields at this level to begin to negatively influence consumer spending and business development due to higher interest on debt payments, reduced housing affordability, and costlier financing for individuals and businesses. Our view is that higher long-term rates may help the Fed slow the economy without the need for further rate increases and we could be near a point of rate stabilization.

FIGURE 2: CAPITAL SPENDING INTENTIONS OVER THE NEXT 6 MONTHS
Average of Regional Fed Surveys*, Diffusion Index, Quarterly, SA



*Data presented is as of November 1, 2023 and is obtained from BEA, FactSet, Federal Reserve, Standard & Poor's and J.P. Morgan Asset Management and is assumed to be reliable. *Average includes the Chicago Fed, Philly Fed, Richmond Fed, Dallas Fed, Kansas City Fed and NY Fed manufacturing surveys of future capital expenditures.*
Past performance is no guarantee of future results.

GEOPOLITICAL RISKS ON THE HORIZON?

Other events to keep an eye on include the size and cost of government debt, which is at unprecedented levels, with interest costs quickly accelerating due to inflation. With the continued war in Ukraine and a new war between Hamas and Israel, geopolitical risks are likely to remain elevated, which could create volatility across markets as events unfold.

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