

MARKET REVIEW

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MARKET COMMENTARY

While geopolitical tensions are grabbing most of the headlines these days, it's interest rates that are top of mind for investors. Since May, the U.S. 10-year yield has increased 150 bps to just under 5%. Rates have ticked up recently on a combination of: (1) investors starting to believe the Fed when they say they aren't cutting anytime soon, (2) continued strong economic data in the U.S., and (3) to a lesser extent, higher U.S. government spending requiring increased debt issuances. We just finished a 40-year downward trend in interest rates, so the current rate environment is uncharted territory for many investors. Higher rates have pressured equity valuations, especially income stocks that may have previously been viewed as bond proxies.

In terms of fundamentals, U.S. consumers continue to show strength, with last week's Q3 GDP report surprising to the upside. That said, the savings rate is dropping significantly, down to 3.8% from 5.2% in Q2. Pre-pandemic, the rate was consistently above 5%, so current levels look unsustainable. Half of the companies in the S&P 500 have reported Q3 earnings so far, and – encouragingly – 56% of them have beat earnings expectations. Anecdotally, management teams are largely constructive about how their businesses are performing, but they are keeping an eye on a possible economic slowdown. While it is near-impossible to forecast whether a recession is imminent, we are comfortable holding the securities in our portfolios through a full economic cycle.

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