COMMENTARY

Q3 2023

As of the end of the third quarter, the major story of 2023 has been the rebound in the technology sector following a major correction in 2022. The S&P 500, which has a significant weighting to the largest technology companies has followed suit. While some of these gains are a natural rebound, there has also been much enthusiasm created by the momentum within of Artificial Intelligence, as well as continuing developments in quantum computing and blockchain technologies. The ramifications for this transformational technology are tantamount to the Industrial Revolution in its future impact. The internet, thank you Ray Tomlinson, will look quaint (think phone booths) compared to what comes next.

China is another major area of focus currently. A slowing economy has left over 20% of 2023 graduates unable to find a job, the banking system is in crisis caused by unsustainable lending practices, and population growth has stalled, a long term consequence of the one-child policy. Concurrently, overregulation and heavy handed government involvement in the private sector is causing U.S. and other foreign companies to leave in droves. Elsewhere during the quarter, the ECB raised interest rates to 4% (a record high) as European GDP forecasts have been lowered but inflation forecasts have increased. The BOJ left rates unchanged at -0.1% and BOE kept rates at 5.25% amid softer inflation numbers and a looser labor market.

Back in the U.S., employment numbers continue to be strong, the unemployment rate remains below 4%, and 3.1 million new jobs have been created over the past 12 months. The Fed increased rates to a 22 year high, and while price levels remain elevated, inflation – a measure of the rate of change in prices – has slowed dramatically. Unions are receiving more popular support than they have in some time, with Hollywood writers and actors striking as well as United Auto Workers, looking for a return to the higher relative wages of past decades. Finally, the U.S. has a debt and deficit problem for which neither political party is currently willing to seek logical and sustainable solutions. The creditworthiness of the U.S. was downgraded, resulting in higher interest rates – 0.6% to 1.2% -- across all bond maturities This not only lowers bond prices but also negatively impacts stock prices as future corporate earnings are discounted at a higher rate. Although the equity markets have pulled back 5-7% since July, valuations remain at historical averages.

We believe that when optimism turns into skepticism, investors sell stocks and create buying opportunities unless financial fundamentals have changed – smart investors buy on pessimism and sell on euphoria.