



Stocks & Bonds Trade Lower as Interest Rates Rise

Monthly Market Summary

- The S&P 500 Index declined -2.2% in October but outperformed the Russell 2000 Index's -6.9% decline. The Utility sector was the top-performing S&P 500 sector, while Energy and Consumer Discretionary led to the downside.
- Corporate investment-grade bonds produced a -2.4% total return in October, underperforming corporate high-yield bonds' -1.0% total return.
- International stocks underperformed U.S. stocks. The MSCI EAFE Index of developed market stocks declined -2.9% and slightly outperformed the MSCI Emerging Market Index's -3.3% return.

Stocks Decline for a Third Month as Rates Reach Highest Levels Since 2007

The S&P 500 gained more than 20% through the end of July but has since declined 8.3% over the past 3 months, bringing its year-to-date gain to 10.6%. A significant factor behind the recent equity market sell-off has been the sharp rise in interest rates, with the 10-year U.S. Treasury yield climbing +1.25% from mid-July through mid-October and rising above 5% for the first time since 2007. This surge in Treasury yields continues to weigh on both stocks and bonds as valuations adjust to a world of higher interest rates. Small-cap stocks underperformed large-cap stocks by over -4.5% in October, and defensive sectors outperformed cyclical sectors.

In the credit market, bonds posted another month of negative returns. The following paragraphs discuss why stocks and bonds tend to experience pressure during rising rate periods.

Why Rising Interest Rates Cause Bonds & Stocks to Trade Lower

Rising interest rates can cause stocks and bonds to trade lower, as we have experienced over the past two years. Bond prices fall as interest rates rise because new bonds coming to the market are more attractive than old bonds issued at lower rates. Prices on old bonds fall as a result. In addition, higher interest rates weigh on stocks by increasing borrowing costs, which can reduce corporate profits.

Stocks and bonds have both faced a headwind since the Federal Reserve started raising interest rates in March 2022. If rates remain at current levels, or even move lower, the headwind that has been hurting stocks and bonds could become a tailwind giving them both a boost.

What needs to happen for interest rates to retreat? We need to see inflation cool off and unemployment rise. Yes, you read that correctly. Higher unemployment could actually help stocks because it would help the Federal Reserve justify pausing their interest rate hikes for an extended period. In a counter-intuitive way, soft economic data would likely be well-received in November and December. On the bond side, prices would rise if rates fall.

THIS MONTH IN NUMBERS

FIGURE 1

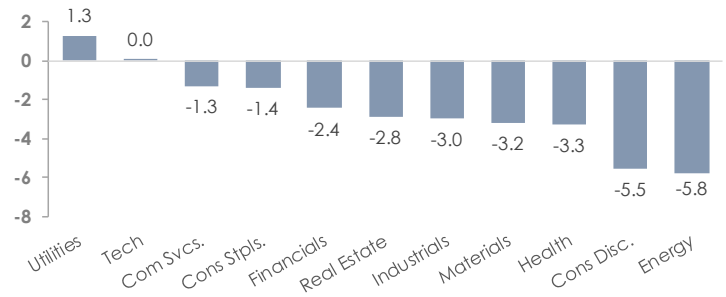
U.S. Style Returns (October in %)

	Value	Blend	Growth
Large	-3.6	-2.2	-1.5
Mid	-5.0	-5.0	-5.1
Small	-6.0	-6.9	-7.7

Data Reflects Most Recently Available As of 10/31/2023

FIGURE 2

U.S. Sector Returns (October in %)



Data Reflects Most Recently Available As of 10/31/2023

FIGURE 3

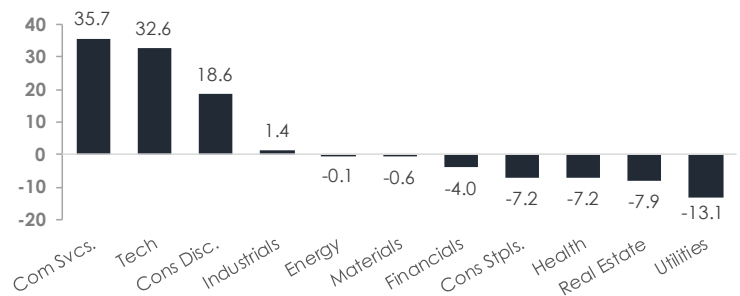
U.S. Style Returns (YTD in %)

	Value	Blend	Growth
Large	-1.9	10.6	23.0
Mid	-4.5	-1.3	4.2
Small	-6.5	-4.5	-2.9

Data Reflects Most Recently Available As of 10/31/2023

FIGURE 4

U.S. Sector Returns (YTD in %)



Data Reflects Most Recently Available As of 10/31/2023

FIGURE 5

Market Data Center

Stocks	1 month	3 months	6 months	YTD	1 year	3 years
S&P 500	-2.2%	-8.3%	1.3%	10.6%	10.0%	33.7%
Dow Jones	-1.3%	-6.6%	-2.1%	1.3%	3.0%	31.7%
Russell 2000	-6.9%	-16.8%	-5.3%	-4.5%	-8.7%	12.2%
Russell 1000 Growth	-1.5%	-7.7%	6.6%	23.0%	18.7%	27.6%
Russell 1000 Value	-3.6%	-9.8%	-4.3%	-1.9%	0.0%	33.1%
MSCI EAFE	-2.9%	-10.1%	-7.3%	3.9%	15.5%	19.4%
MSCI EM	-3.3%	-12.5%	-5.4%	-2.3%	10.0%	-11.8%
NASDAQ 100	-2.1%	-8.4%	9.1%	32.3%	27.0%	32.4%

	Dividend Yield	NTM P/E	P/B
S&P 500	1.56%	17.2x	3.8x
Dow Jones	2.03%	15.8x	4.1x
Russell 2000	1.70%	17.8x	1.6x
Russell 1000 Growth	0.76%	23.7x	9.9x
Russell 1000 Value	2.29%	13.2x	2.1x
MSCI EAFE	2.36%	12.1x	1.6x
MSCI EM	2.44%	11.3x	1.5x
NASDAQ 100	0.62%	22.3x	6.2x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years
U.S. Aggregate	5.65%	-1.6%	-4.7%	-2.5%	0.4%	-15.1%
U.S. Corporates	6.40%	-2.4%	-7.0%	-2.8%	2.0%	-17.9%
Municipal Bonds	4.72%	-1.2%	-4.5%	-2.3%	2.2%	-6.2%
High Yield Bonds	9.50%	-1.0%	-2.4%	3.1%	4.7%	0.6%

Commodities	Level	1 month	YTD
Oil (WTI)	81.02	-10.8%	0.9%
Gasoline	2.32	-12.1%	-10.0%
Natural Gas	3.81	30.2%	-7.1%
Propane	0.66	-9.0%	-14.6%
Ethanol	2.05	-10.1%	-7.0%
Gold	1,994	6.9%	9.2%
Silver	22.95	2.2%	-4.5%
Copper	3.64	-2.3%	-4.3%
Steel	871	23.7%	17.1%
Corn	4.79	0.4%	-29.4%
Soybeans	12.80	0.9%	-14.5%

Key Rates	10/31/2023	9/30/2023	7/31/2023	4/30/2023	10/31/2022	10/31/2020
2 yr Treasury	5.06%	5.04%	4.86%	4.06%	4.49%	0.15%
10 yr Treasury	4.90%	4.57%	3.95%	3.45%	4.07%	0.85%
30 yr Treasury	5.06%	4.70%	4.02%	3.67%	4.20%	1.64%
30 yr Mortgage	8.06%	7.74%	7.26%	6.85%	7.22%	3.06%
Prime Rate	8.50%	8.50%	8.50%	8.00%	6.25%	3.25%

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