Monthly Commentary & Economic Outlook

Members Trust Company

September 1, 2023

Equity markets pulled back in August, as the S&P 500 was down -1.59**%**, US small caps -4.14%, US mid-caps -2.89%, international developed -3.76%, and emerging markets -5.50%[1]. The US Aggregate Bond Index declined -0.64% in August[1].

We proactively took action to reduce losses by reducing equity exposures for most clients near the 2023 equity market highs on 8/2/23, and putting the proceeds into fixed income. The S&P 500 had risen +29.67% from 10/12/22-8/1/23, so our view was that any significant negative catalyst could trigger a short-term decline[1]. Short-term negative catalysts in August included Moody's downgrading certain small and mid-sized banks and warning of potential downgrades for some larger banks, and Fitch downgrading the US federal government credit rating (to a still-strong "AA+" rating) and warning of possible downgrades of banks of various sizes[2]. We believe that changes to credit ratings have often been backward-looking historically, and that the US federal government and our nation's largest banks remain on firm financial footing. If the equity markets were to decline significantly further from here, we would likely trim fixed income exposures in order to add to equity exposures. We believe the trend of inflation decelerating, or getting "less bad," since June 2022 will ultimately be supportive of equity markets.

The 10-year Treasury yield rose in August from 3.97% to 4.09%, causing Treasury bond prices to decline[1]. It seems to us that in the short term, interest rates have been influenced by the US Federal Reserve ("Fed") allowing up to \$60bn of Treasuries and \$35bn of mortgage-backed securities to roll off its balance sheet each month[3]. We anticipate that the Fed will stop allowing its balance sheet to shrink once inflation gets closer to its 2% target, which should cause interest rates to stabilize, given the prevailing trend of the inflation rate slowing down.

Indicator	Outlook
Gross Domestic Product (GDP)	🟡
Unemployment	🟢
Consumer Price Index (CPI)	🟡
Fed Policy	🔴
Interest Rates	🟡
Dollar Strength	🟡
Market Valuations	🟢

🟢 = Positive Indicator, 🟡 = Neutral Indicator, 🔴 = Negative Indicator

External sources: Refinitiv data[1], CNBC.com[2], Richmond Fed[3].

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