Mesirow

2Q 2023 Market Summary

Financial markets proved resilient during the second quarter of 2023 as investors continue to seek balance between long-term growth prospects and warning signs of a potential economic slowdown. While we continue to find attractively valued investment opportunities across equities and fixed income, investors should be cognizant of potential risk signals. For example, stretched equity valuations in certain markets and a steeply inverted yield curve suggest the current robust market environment may face challenges at some point in the future.

This economic uncertainty reinforces the importance of building a financial plan that focuses on your specific goals with an appropriate asset allocation using high-quality, battle-tested investments.

Equities

Equity markets generated strong returns during the quarter, as banking sector concerns faded and enthusiasm for artificial intelligence led to sizable gains for mega cap technology companies. The S&P 500 Index returned 8.7%, driven by a 17.2% return for the information technology sector. The Russell Mid Cap and Russell 2000 small capitalization indexes returned 4.8% and 5.2%, respectively.

Non-US stocks underperformed their US peers. International developed stocks had positive returns for the quarter with the MSCI EAFE Index retuning 3.0%. The MSCI Emerging Markets Index had a volatile quarter, but ended relatively flat.

The S&P 500 is a “market capitalization-weighted” index, meaning that larger companies can have an outsized impact on the index’s returns. The returns of an equal-weighted version of the index show the contribution mega cap technology companies have made so far this year. For the first six months of 2023, the S&P 500 returned 16.7% while the equal-weighted version of the index returned just 8.4%.

The rebound in large cap technology companies has led to historic concentration in the market. The top 10 companies now represent almost 32% of the index’s total value, a relatively high level compared to the index’s history. Elevated valuations among these top names have also pulled the index’s overall valuation figures upward, with the index now trading at 19 times forward earnings, compared to 16.5 at the beginning of the year.

Small capitalization and international stocks appear more attractively valued relative to domestic large cap stocks, but economic sensitivity and currency fluctuations may add volatility to these asset classes.

Fixed Income

Interest rates increased across the yield curve during the quarter, as bond investors moved past concerns around the banking sector and refocused on growth and inflation. The yield curve remains steeply inverted, with one-year Treasury yields ending the quarter at 5.4%, while the 10-year Treasury bond yields 3.8%. While the inverted yield curve implies that investors are expecting a decline in interest rates, the Federal Reserve has indicated an ongoing willingness to raise rates later this year should inflation persist. The silver lining of these conflicting messages is that investors can earn relatively attractive yields in short-term bonds without taking on significant interest rate risk.

Given the rising interest rate backdrop, most bond prices saw modest declines during the quarter. The Bloomberg US Aggregate Bond Index fell -0.8%. Lower-rated high-yield corporate bonds and bank loans bucked the trend and returned 1.8% and 3.2%, respectively, during the quarter as investors regained confidence in company fundamentals. The Bloomberg Municipal Bond Index was essentially flat for the quarter.

Commodities

The Bloomberg Commodity Index fell 2.6% during the quarter, while gold prices dropped 3.5%. Oil prices fell from $77.50 to $70 for a barrel of West Texas Intermediate oil.

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Important Information:

The Bloomberg Commodity Index is a broadly diversified commodity price index distributed by Bloomberg Index Services Limited.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The Bloomberg US Government/Credit 1-3 Year Index is an unmanaged index considered representative of performance of short-term US corporate bonds and US government bonds with maturities from one to three years.

The Bloomberg US High Yield Corporate Bond Index is a rules-based, market-value-weighted index engineered to measure publicly issued non-investment grade USD fixed-rate, taxable and corporate bonds.

The LBMA Gold Price Index is the global benchmark for unallocated gold and silver delivered in London.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

The MSCI Emerging Markets Index is an index designed to measure equity market performance in global emerging markets.

The Russell 1000 Growth Index is a broadly diversified index predominantly made up of growth stocks of large US companies.

The Russell 1000 Value Index is a broadly diversified index predominantly made up of value stocks of large US companies.

The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.

The Russell Midcap Index is a market capitalization-weighted index comprised of 800 publicly traded U.S. companies with market caps of between $2 and $10 billion.

The Standard & Poor’s 500 Index, often abbreviated as S&P 500, is an American stock exchange market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.

The S&P 500 Energy comprises those companies included in the S&P 500 that are classified as members of the GICS energy sector.

The S&P/LSTA US Leveraged Loan 100 Index is designed to reflect the performance of the largest facilities in the leveraged loan market.

The West Texas Intermediate (WTI) oil, also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.

Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements.

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