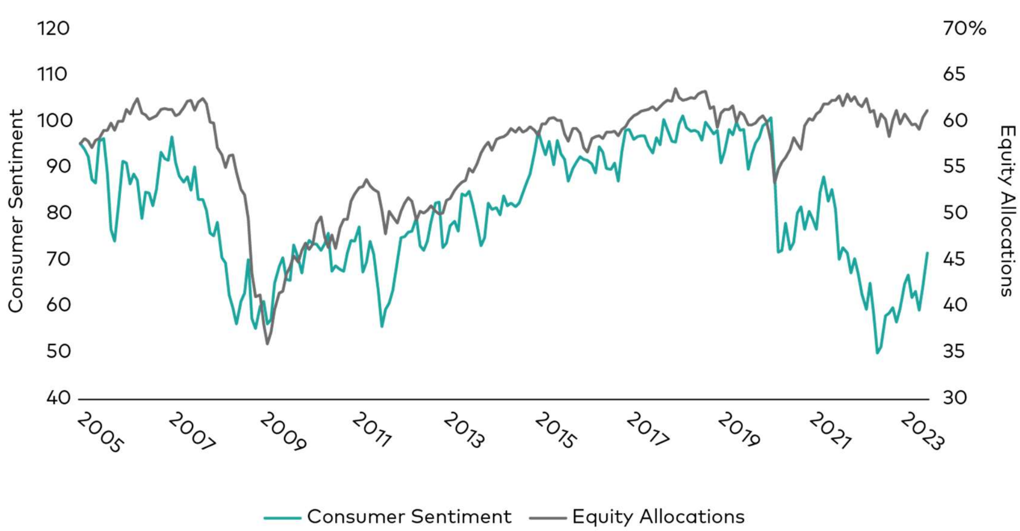
Monthly Commentary 2nd of October 2023

September fulfilled its reputation as an ugly month for stocks. Almost all major stock indices had big drops for the month with the S&P500 leading the pack, down 4.87% (worst month in 2023). Europe (MSER Index) and Japan (NKY Index) were also meaningfully down. Against the pack, the UK stock market (UKX Index) ended the month on a positive note up 2.27% thanks mostly to good news on inflation and an end to the Bank of England's cycle of interest rate hikes. The same however cannot be said for the US and Europe. In the US, uncertainty about the Federal Reserve's policy path remains as further rate hikes may be needed to curb "stubbornly high" inflation. This has pushed Treasury Yields higher and therefore bond prices lower. The 10-year Treasury Yield climbed above 4.5%, a level last seen in 2007. Germany's 10-year yield also rose to a new 12-year high, after a business survey showed sentiment there weakened less than expected in September. In the commodity space oil was a major winner up 8.56% while gold was down 4.72%. The dollar continued its positive trend, up 2.47%. Bitcoin also finished the month higher, gaining 4.32%.

Last year on September 30, 2022, year-to-date returns for stocks (S&P500 Index), bonds (iBoxx US Treasuries), and a 60/40 portfolio delivered negative returns of –24.9%, –14.6%, and –20.7% respectively. One year later, September 30, 2023, the year-to-date returns for stocks, bonds, and a 60/40 portfolio are +11.7%, –1.53%, and +6.4%, respectively. Markets always confound expectations.

Consumer sentiment and equity allocations

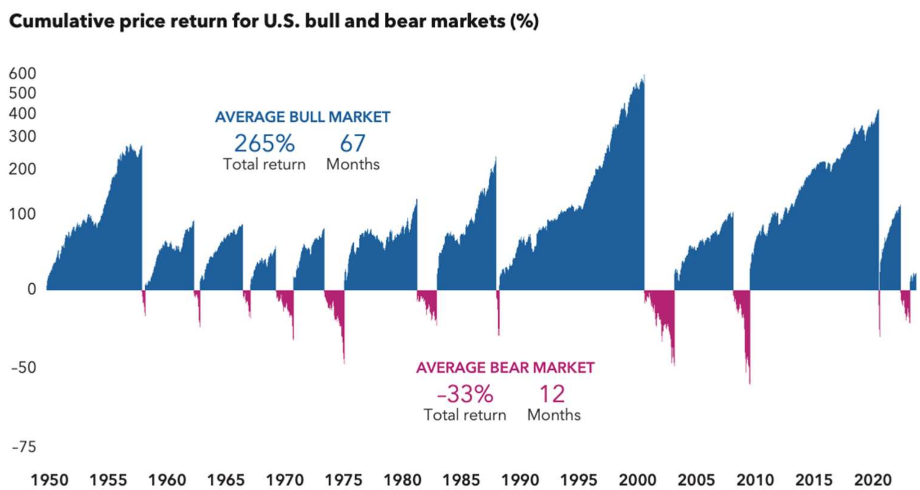


Source: Vanguard Investment Advisory Research Center

Despite these traditionally strong emotional and behavioral headwinds, equity allocations continued to stay the course as seen in the above chart.

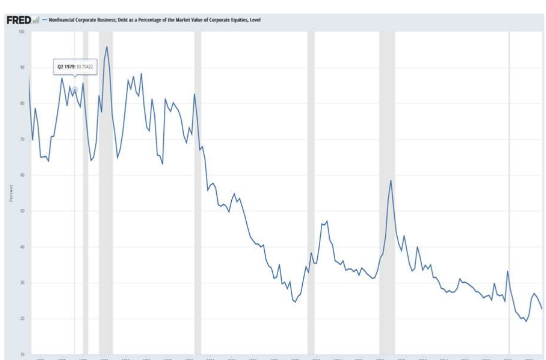
According to Vanguard Investment Advisory Research Center, this “stay the course” behavior can be at least partially attributable to advisors successfully helping their clients to tune out the noise, acting as “emotional circuit breakers” and influential behavioral coaches.

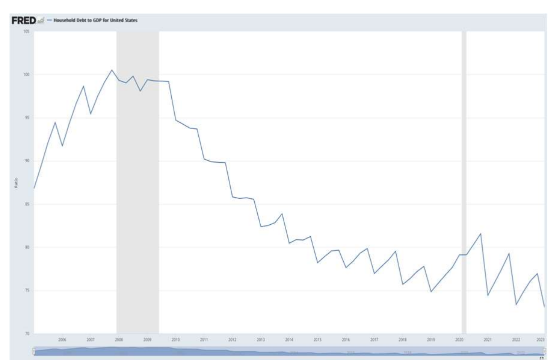
Staying invested despite the turbulence in the markets is critical for achieving your long-term investment objectives. The below chart shows the average return and duration of bull and bear markets since 1950. The risk/reward for staying invested in the long term is in favour of investors.



Source: Capital Group

Despite the negativity in the market both US Corporations and consumers are in good shape with strong balance sheets. This makes a bullish case for the long-term state of the markets.





Source: International Monetary Fund

We may sound like a broken tape but when it comes to stock picking, quality is what we look for. It does not mean that such companies will not drop when the market drops. But they tend to be the first to rise and are expected to be market beaters in the longer term. When we talk about quality, healthy balance sheets are one of our major criteria. A recent post by Genuine Impact showed the top 10 companies in the S&P500 by credit rating.

7 out of these 10 are included in our Best Ideas portfolios. As interest rates rise and remain elevated, companies with the best balance sheets are best positioned versus their competitors.

S&P 500 by Credit Rating

Top 10 S&P 500 companies by credit rating

Created by genuine impact

Company	Credit Rating	Sector
Johnson & Johnson	AAA	Health Care
Microsoft	AAA	Information Technology
Alphabet	AA+	Communication Services
Apple	AA+	Information Technology
Amazon	AA	Consumer Discretionary
Berkshire Hathaway	AA	Financials
Walmart	AA	Consumer Staples
Abbott Laboratories	AA-	Health Care
Accenture	AA-	Information Technology
Automatic Data Processing	AA-	Industrials

More charts: genuineimpact.substack.com

Source: S&P Global Market Intelligence

Source: @genuine_impact

Source: Genuine Impact/S&P Global Market Intelligence

The Elgin Analysts Team

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