ROBERTSON STEPHENS®

September 11, 2023 – Investment Commentary

Markets

Last week, stocks and bonds closed lower over the holiday-shortened week as some positive economic signals drove an increase in interest rates. MSCI Emerging Markets outperformed the S&P 500, and MSCI EAFE non-US developed market index. The best-performing sector in the S&P 500 was energy. Growth stocks fared better than value shares, and large-caps outperformed small-caps by a wider margin. A decline in Apple, the most heavily weighted stock in the S&P 500 Index, drove part of the declines after news that Chinese government employees would no longer be able to use iPhones.

As for fixed income, the 10 yr. treasury yield rose seven bps on the week to 4.26%, and the 2-year – 10-year treasury yield spread was roughly flat at -71 bps. High yield bond spreads were up on the week to 372 bps, still well below their 20-year average of approximately 500 bps. The strength of the U.S. economic data relative to the rest of the world kept treasury yields relatively elevated, combined with increasing China geopolitical uncertainty helped keep the U.S. dollar strong relative to other currencies.

What We Are Monitoring: Macro Matters

ECB Decision 9/14. European Central Bank (ECB) is generally expected to keep rates on hold 9/14. The commentary trying to balance hiking rates to fight the war against inflation while Germany's growth is in recessionary territory will be critical to markets and Dollar/Euro strength.

U.S. Inflation - Consumer 9/13. The Consumer Price Index (CPI) and Core CPI (excluding food and energy) is anticipated to increase year on year and month on month. If the readings exceed expectations, then the market is likely to anticipate a higher probability of further rate hikes, which may compress valuation multiples.

U.S. Inflation - Producer Prices 9/14. PPI and Core PPI are expected to rise year on year and month on month.

Brent Crude Above $90/barrel. Last Tuesday, for the first time since last November 2022, the price closed above $90 after key OPEC+ members extended production curbs. Absent a notable economic slowdown (demand decreases), oil prices could remain high.

Company Profit Margin Fundamentals. Global slowdown, rates on hold or rising, tighter credit availability, and tight labor market may challenge profit margins and growth where Wall Street consensus estimates are for double digit earnings growth 2024 vs. 2022.

Portfolio Considerations

Markets are susceptible to near term narrative flipping, creating the perceived potential for market-timing opportunities. We believe it's important to "stay invested" in quality equities and credit with below benchmark duration[1]. The shorter duration rationale is that rates and prices move in opposite directions. When interest rates rise, prices fall, and vice versa.

[1] *Duration is measured in years*. Generally, the higher the duration of a bond or a bond fund (meaning the longer you need to wait for the payment of interest and return of principal).

Disclosures