Fed gives investors pause.

The economy

- U.S. equities lost ground during the week ending September 22, as investors absorbed the potential for a higher-for-longer interest-rate environment following a U.S. Federal Reserve (Fed) meeting. The central bank paused its rate-hiking cycle for the second time in three months, but signaled that interest rates could remain elevated for longer than the Federal Open Market Committee (FOMC) had initially suggested. Benchmark Treasury yields rose in response to the news, dragging down all three major U.S. stock indices—the Dow Jones Industrial Average, the broad-market S&P 500 Index, and the tech-heavy Nasdaq Composite Index. Higher interest rates erode the present value of companies' future earnings, driving down share prices.
- As widely expected, the Fed maintained the federal-funds rate in a range of 5.25% to 5.50% following its meeting this week. In a statement announcing the pause, the FOMC reiterated its commitment to bringing inflation down to its 2% target rate and cautioned that "[T]ighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain." The central bank also commented that it "would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals."
- During a news conference following the release of the FOMC statement, Fed Chair Jerome Powell cited continued strength in consumer spending and the labor market, noting that the Committee members "decided to maintain the policy and await further data. We've seen progress and we welcome that, but we want to see more progress." The Fed marginally reduced its estimate for personal-consumption-expenditures (PCE) price inflation by 0.1% to an annual rate of 3.2% as of the end of this year. The PCE price index is the Fed's preferred gauge of inflation, as it tracks the change in prices paid by or on behalf of consumers for a more comprehensive set of goods and services than that of the consumer-price index (CPI).
- The Fed's so-called dot plot of economic projections indicated a median federal-funds rate of 5.6% at the end of 2023, unchanged from its previous estimate issued in June, implying that the central bank could opt for an additional 25-basis point (0.25%) increase at one of its two remaining policy meetings this year. In an interview with Yahoo Finance, Jim Smigiel, SEI's chief investment officer, predicted that, "there is, at the least, one more hike baked in."
- The Fed also projected a reduction in the federal-funds rate to 5.1% by the end of 2024—down from its current range of 5.25% to 5.50%, but higher than the central bank's previous estimate of 4.6%. This revision to the Fed's economic projections drove Treasury yields to multi-year highs as investors digested the prospects of a higher-for-longer rate environment. The benchmark 10-year Treasury yield climbed to its highest level in 16 years, while 2-year Treasurys reached yields not seen since 2006. Bond prices fall as yields rise.
- According to the Department of Labor, initial unemployment insurance claims—a barometer of the health of the labor market—unexpectedly fell to their lowest level since January during the week ending September 16. However, the total represented a notable upturn from the same period in 2022. The four-week moving average of initial claims dropped week-over-week, but was up from the four-week average for the same period a year earlier. A strong labor market puts upward pressure on wages, which can result in higher inflation.
- Oil prices hit a fresh year-to-date high over the week, boosted by supply cuts from Saudi Arabia and Russia. On Monday, Brent-crude futures prices hit levels not seen since late 2022. While they have since retreated from their peak, this development has led some investors to speculate that Brent prices could reach $100 a barrel by the end of the year. Higher oil prices increase costs for businesses and consumers, contributing to rising inflation.

Stocks

- Global equities closed down for the week. Developed markets fared better than emerging markets.
- U.S. equities lost ground during the week. Utilities and health care outperformed other sectors, while consumer discretionary and materials lagged. Value stocks led growth, while large caps outperformed small caps.

Bonds

- The 10-year U.S. Treasury note yield increased to 4.44% during the week.
- Global bond markets retreated for the week.
- Government bonds led the markets, followed by corporate bonds and high-yield bonds.

The Numbers as of September 22, 2023	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	-2.6%	9.7%	14.5%	663.8
MSCI EAFE ($)	-1.8%	6.5%	19.4%	2070.9
MSCI Emerging Mkts ($)	-2.9%	0.0%	3.6%	956.3
US & Canadian Equities				
Dow Jones Industrials ($)	-1.9%	2.5%	12.9%	33963.8
S&P 500 ($)	-2.9%	12.5%	15.0%	4320.1
NASDAQ ($)	-3.6%	26.2%	19.4%	13211.8
S&P/ TSX Composite (C$)	-4.1%	2.0%	4.1%	19780.0
UK & European Equities				
FTSE All-Share (£)	-0.4%	2.4%	6.3%	4172.4
MSCI Europe ex UK (€)	-1.6%	8.2%	17.0%	1602.1
Asian Equities				
Topix (¥)	-2.1%	25.6%	24.0%	2376.3
Hong Kong Hang Seng ($)	-0.7%	-8.7%	-0.5%	18057.5
MSCI Asia Pac. Ex-Japan ($)	-3.3%	-2.6%	2.9%	492.4
Latin American Equities				
MSCI EMF Latin America ($)	-2.0%	10.1%	6.8%	2343.9
Mexican Bolsa (peso)	0.6%	6.6%	11.5%	51650.5
Brazilian Bovespa (real)	-2.3%	5.7%	1.7%	115984.9
Commodities ($)				
West Texas Intermediate Spot	0.4%	13.5%	8.6%	91.1
Gold Spot Price	0.0%	5.6%	15.0%	1925.4
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	-0.6%	-1.4%	1.5%	439.6
JPMorgan Emerging Mkt Bond	-0.9%	2.3%	5.9%	785.7
10-Year Yield Change (basis points*)				
US Treasury	10	56	72	4.44%
UK Gilt	-11	58	75	4.24%
German Bund	6	17	78	2.74%
Japan Govt Bond	3	32	51	0.75%
Canada Govt Bond	17	61	79	3.91%
Currency Returns**				
US$ per euro	-0.1%	-0.6%	8.2%	1.064
Yen per US$	0.4%	13.2%	4.2%	148.41
US$ per £	-1.2%	1.3%	8.7%	1.224
C$ per US$	-0.3%	-0.6%	-0.1%	1.348

Source: Bloomberg. Equity-index returns are price only, others are total returns.

*100 basis points = 1 percentage point.

**Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

Important information

Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

This material is provided by SEI Investments Management Corporation (SIMC) for educational purposes only and is not meant to be investment advice. The reader should consult with his/her financial advisor for more information. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. There are risks involved with investing, including possible loss of principal. SIMC is a wholly-owned subsidiary of SEI Investments Company.