

# Independence Asset Advisors

## MONTHLY MARKET REVIEW – October 2023

|                                                                | Oct 2023 | YTD    | 1-Year | 3-Years | 5-Years | 10-Years |
|----------------------------------------------------------------|----------|--------|--------|---------|---------|----------|
| U.S. Large Cap Equities<br>S&P 500                             | -2.10%   | 10.69% | 10.14% | 10.36%  | 11.01%  | 11.18%   |
| U.S. Small Cap Equities<br>Russell 2000                        | -6.82%   | -4.45% | -8.56% | 3.95%   | 3.31%   | 5.63%    |
| Energy Infrastructure Equities<br>Alerian U.S. Midstream       | 0.04%    | 13.90% | 11.22% | 38.68%  | 10.70%  | 5.39%    |
| Core Infrastructure<br>MSCI World Core Infrastructure          | -0.08%   | -4.84% | -1.05% | 4.18%   | 3.11%   | 2.99%    |
| U.S. Real Estate Equities<br>Dow Jones U.S. Select REIT        | -4.53%   | -6.49% | -6.25% | 5.41%   | 1.14%   | 4.38%    |
| Global Equities<br>MSCI All Country World Index                | -3.01%   | 6.75%  | 10.50% | 6.68%   | 7.47%   | 6.81%    |
| International Developed Equities<br>MSCI EAFE                  | -4.05%   | 2.74%  | 14.40% | 5.73%   | 4.10%   | 3.05%    |
| Emerging Market Equities<br>MSCI Emerging Markets              | -3.89%   | -2.14% | 10.80% | -3.67%  | 1.59%   | 1.19%    |
| U.S. Taxable Fixed Income<br>Bloomberg U.S. Aggregate          | -1.58%   | -2.77% | 0.36%  | -5.57%  | -0.06%  | 0.88%    |
| U.S. Tax-Exempt Fixed Income<br>Bloomberg Municipal Aggregate  | -0.85%   | -2.22% | 2.64%  | -2.48%  | 1.00%   | 2.12%    |
| High Yield Fixed Income<br>Bloomberg U.S. Corporate High Yield | -1.16%   | 4.63%  | 6.23%  | 1.19%   | 3.05%   | 3.86%    |
| Floating Rate Loans<br>Morningstar LSTA U.S. Leveraged Loan    | -0.02%   | 10.14% | 11.92% | 6.00%   | 4.46%   | 4.22%    |

## MARKET UPDATE

- Stock and bond indexes declined simultaneously in October amid heightened geopolitical tensions and sharply higher bond yields.
- In the U.S., “value” underperformed “growth” by 2.1% while trading at 55% relative discount (Forward P/E).
- At month-end, the S&P 500 Index needed to gain 14.4% to return to the January 2022 peak of 4,797.
- Stocks declined globally as the prospect for “higher for longer” interest rates hurt equity multiples.
- U.S. equities produced the best monthly result, down 2.1%, following the release of GDP and jobs results.
- Non-U.S. equities declined amid the outbreak of the Israel-Hamas conflict, which dampened risk appetite.
- International equities ended October trading at a 32% price-to-earnings discount to U.S. equities.
- Investment grade corporate bonds declined in October as yields increased to 5.7% and prices declined.
- The U.S. 10-year Treasury yield pushed above 5% for the first time since 2007.

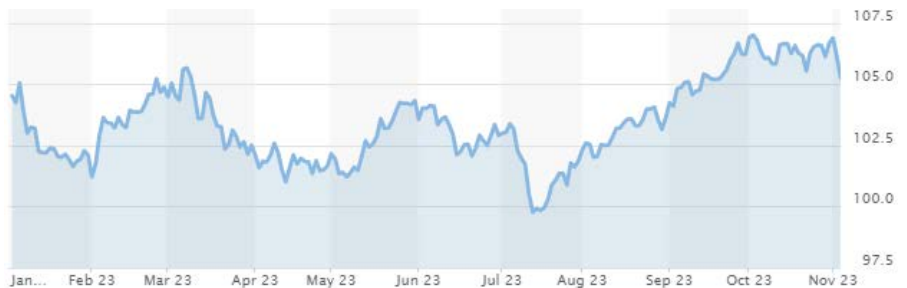
Sources: eVestment, JP Morgan, xe.com, Trading Economics, MacroTrends, New York Times, MarketWatch, StatisticsCanada, Bloomberg, Capital Economics, Reuters, Wall Street Journal, U.S. Dept of Labor/Bureau of Labor Statistics

## IAA's WATCH LIST:

| Category              | Comments                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Growth</b>         | <ul style="list-style-type: none"> <li>The U.S. economy grew at a 4.9% annualized pace in the third quarter.</li> <li>The unexpected rapid growth was attributable to higher consumer spending, increased inventories, exports and government spending.</li> </ul>                                                                                                               |
| <b>Profits</b>        | <ul style="list-style-type: none"> <li>With 59% of market cap having reported, the current estimate for operating earnings per share (EPS) is \$55.43.</li> <li>If realized, this would represent year-over-year earnings growth of 10.1%.</li> <li>The outlook from companies has been generally negative, suggesting a more challenging business environment ahead.</li> </ul> |
| <b>Jobs</b>           | <ul style="list-style-type: none"> <li>U.S. Jobs slowed more than expected in October and the unemployment rate rose slightly to 3.9%; wage growth rose to 4.1%.</li> </ul>                                                                                                                                                                                                      |
| <b>Inflation</b>      | <ul style="list-style-type: none"> <li>Headline and Core PCE (Personal Consumption Expenditure) inflation rose 3.4% and 3.7% in September, respectively (y/y), matching expectations.</li> </ul>                                                                                                                                                                                 |
| <b>Interest Rates</b> | <ul style="list-style-type: none"> <li>The Fed elected to leave the federal funds rate unchanged at 5.25% to 5.50% when it met at the end of October.</li> <li>The second consecutive pause, following eleven rate increases, was followed by comments suggesting no rate reductions were expected in the near-term.</li> </ul>                                                  |

## CANADA:

- The U.S. dollar index (DXY) increased 0.4% in October and 3.0% year-to-date (see chart to the right), while the U.S. dollar strengthened 2.2% against the Canadian dollar to end the month with an exchange rate of **1.38**.
- The Bank of Canada elected to hold its policy rate steady at its last two decision meetings (5.00%).
- Canada unemployment rate rose to 5.7% in October, with fewer than 20,000 new jobs added.
- Gross Domestic Product data showed the economy contracted in the second quarter, with preliminary data from Statistics Canada suggesting negative growth in the third quarter.
- The decision to hold interest rates steady in October was predicated by expectations for a wave of mortgage renewals. Canadians renewing mortgages amid higher current interest rates will be forced to reduce their discretionary spending on goods and services, which will further cool the economy.



## COMMODITIES:

### OIL:

- **The price of crude oil was \$81.02 per barrel (WTI).**
- Oil prices declined \$9.77 per barrel, or 10.8%, in October.
- The monthly price decline was attributable to a more uncertain global demand outlook and concerns that the conflict in the Middle East could disrupt supply.
- **Oil is forecasted to trade between \$87 and \$95 per barrel over the next 12 months.**

| Year | Ave. Price | High     | Low     | % Change |
|------|------------|----------|---------|----------|
| 2023 | \$78.18    | \$93.84  | \$66.74 | 1%       |
| 2022 | \$94.53    | \$123.70 | \$71.59 | 7%       |
| 2021 | \$68.17    | \$84.65  | \$47.62 | 55%      |
| 2020 | \$39.68    | \$63.27  | \$11.26 | -21%     |
| 2019 | \$56.99    | \$66.24  | \$46.31 | 35%      |
| 2018 | \$65.23    | \$77.41  | \$44.48 | -25%     |
| 2017 | \$50.80    | \$60.46  | \$42.48 | 12%      |
| 2016 | \$43.29    | \$54.01  | \$26.19 | 45%      |
| 2015 | \$48.66    | \$61.36  | \$34.55 | -31%     |
| 2014 | \$93.17    | \$107.95 | \$53.45 | -46%     |

### COPPER:

- **The price of copper was \$4.00 USD per pound.**
- Copper prices increased \$0.26 per pound, or 7.0%, in October.
- Copper prices increased sharply at month-end amid continued low supply. Notably, Beijing announced it would widen its budget for manufacturing investments by nearly \$140 billion USD for the year and amid rising buying activity for industrial inputs. Copper is a primary material needed to bolster its debt-ridden residential construction sector.

| Year | Ave. Price | High   | Low    | % Change |
|------|------------|--------|--------|----------|
| 2023 | \$3.88     | \$4.29 | \$3.57 | 5%       |
| 2022 | \$4.00     | \$4.94 | \$3.23 | -14%     |
| 2021 | \$4.24     | \$4.76 | \$3.52 | 27%      |
| 2020 | \$2.80     | \$3.63 | \$2.10 | 26%      |
| 2019 | \$2.72     | \$2.97 | \$2.53 | 6%       |
| 2018 | \$2.93     | \$3.30 | \$2.56 | -20%     |
| 2017 | \$2.81     | \$3.30 | \$2.49 | 32%      |
| 2016 | \$2.20     | \$2.69 | \$1.94 | 17%      |
| 2015 | \$2.49     | \$2.94 | \$2.02 | -25%     |
| 2014 | \$3.11     | \$3.38 | \$2.83 | -17%     |

- **Copper is forecasted to trade between \$3.70 per pound and \$3.91 over the next 12 months.**

### ALUMINUM:

- **The price of aluminum was \$2,251 USD per tonne.**
- Aluminum prices decreased \$95.50 per tonne, or 4.1%, in October.
- Aluminum prices recovered from a two-month low of \$2,176 (10/23). The recovery stemmed from reduced production capacity in China, the global top producer. The production cut was targeted to prevent oversupply.
- **Aluminum is forecasted to trade between \$2,270 USD/tonne and \$2,394 over the next 12 months.**

| Year | Ave. Price | High    | Low     | % Change |
|------|------------|---------|---------|----------|
| 2023 | \$2,300    | \$2,662 | \$2,122 | -5%      |
| 2022 | \$2,711    | \$3,966 | \$2,103 | -15%     |
| 2021 | \$2,486    | \$3,198 | \$1,954 | 42%      |
| 2020 | \$1,732    | \$2,068 | \$1,427 | 9%       |
| 2019 | \$1,811    | \$1,936 | \$1,706 | -2%      |
| 2018 | \$2,115    | \$2,556 | \$1,817 | -19%     |
| 2017 | \$1,979    | \$2,272 | \$1,686 | 34%      |
| 2016 | \$1,610    | \$1,784 | \$1,450 | 12%      |
| 2015 | \$1,679    | \$1,978 | \$1,436 | -18%     |
| 2014 | \$1,984    | \$2,107 | \$1,840 | 0%       |

## Disclosures:

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