



QUARTERLY MARKET REVIEW • RETROSPECTIVE

Third Quarter 2023

Rising interest rates and higher oil prices cooled a strong first half, as the 10-year Treasury yield climbed to its highest level since 2007.

Data as of September 30, 2023 | Retrospective review prepared October 2026
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THE QUARTER AT A GLANCE

Rising rates cooled a strong first half

-3.6%**S&P 500**

Price return for the quarter, its first quarterly loss of 2023

4.59%**10-YEAR TREASURY YIELD**

Sept. 29 close, up from 3.81% at the end of June

5.25%–5.50%**FED FUNDS TARGET**

After the July increase, the highest level since 2001

\$95**BRENT CRUDE**

Sept. 29 close, up from about \$75 at the end of June

01**Higher for longer.**

Investors came to expect interest rates to stay high for an extended period, pushing bond yields up and stock prices down.

02**Oil climbed again.**

Production cuts by Saudi Arabia and Russia sent Brent crude up about 27% for the quarter.

03**A U.S. credit downgrade.**

Fitch Ratings lowered the U.S. government's credit rating one notch in August, citing rising debt and repeated debt-limit standoffs.

U.S. STOCKS

Stocks pulled back as interest rates climbed

The S&P; 500 fell 3.6% in the third quarter, its first quarterly loss of 2023. The Nasdaq fell 4.1% and the Dow Jones Industrial Average fell 2.6%. Stocks rose in July, then declined in August and September as interest rates rose.

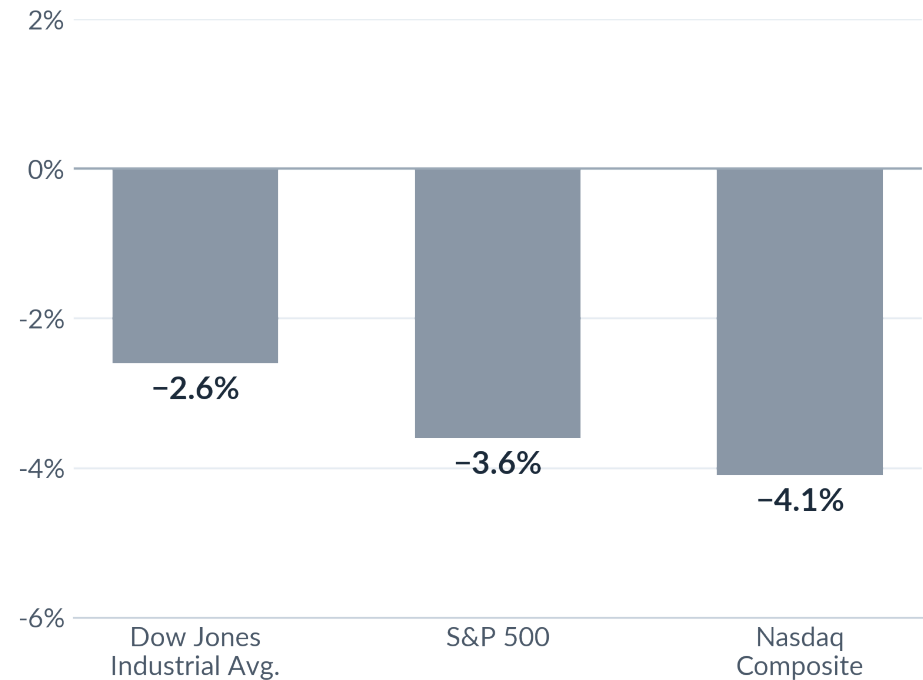
Higher rates weigh on stock prices in two ways. They raise borrowing costs for companies, and they make safer investments such as bonds and cash more attractive by comparison.

Even after the pullback, the S&P; 500 was up about 12% for the year through September.

WHY IT MATTERS

Pullbacks of a few percent are common, even in strong years. They are a normal part of investing and are rarely a reason to change a long-term plan.

Third-quarter price returns, major U.S. indexes



Source: S&P Dow Jones Indices; Nasdaq. Price returns, June 30 to September 29, 2023. Indexes are unmanaged and cannot be invested in directly. Past performance is not a guarantee of future results.

INTEREST RATES AND THE FED

Long-term interest rates reached their highest level since 2007

The Federal Reserve raised its benchmark rate by a quarter point in July, to 5.25% to 5.50%, its highest level since 2001. It held steady in September but signaled rates would likely stay high well into 2024.

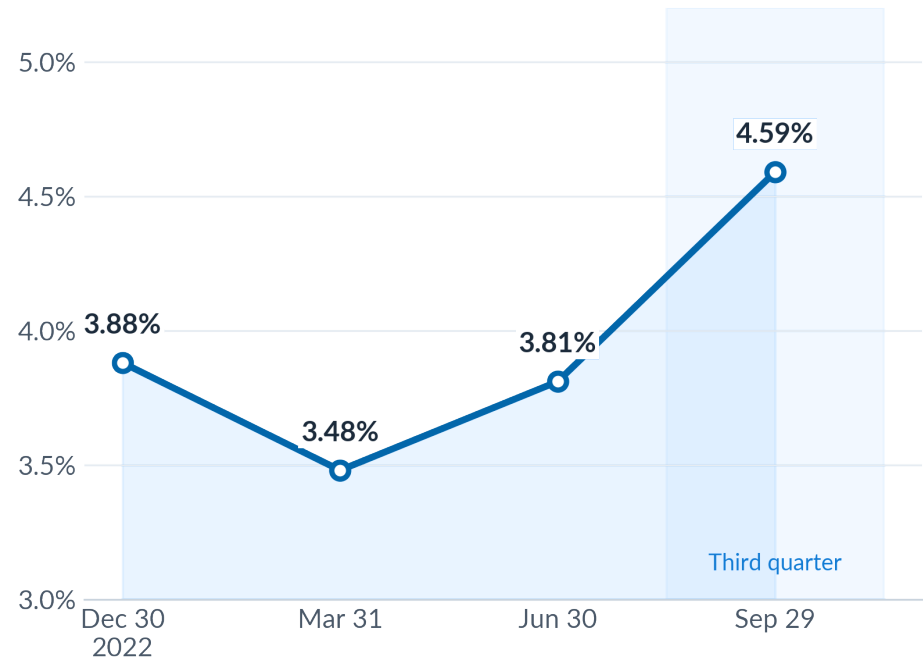
Longer-term rates rose sharply. The 10-year Treasury yield climbed from 3.81% at the end of June to 4.59% at the end of September, its highest level since 2007. Heavy government borrowing and a stronger-than-expected economy added to the pressure.

Rising yields pushed bond prices down, and the broad bond market turned negative for the year.

WHY IT MATTERS

Higher yields mean bonds and cash now pay meaningfully more income than they did two years earlier. Over time, that income can help offset short-term price declines.

10-year U.S. Treasury yield, quarter-end closes



Source: Board of Governors of the Federal Reserve System, H.15 Selected Interest Rates; U.S. Department of the Treasury. Constant-maturity yields at each quarter-end.

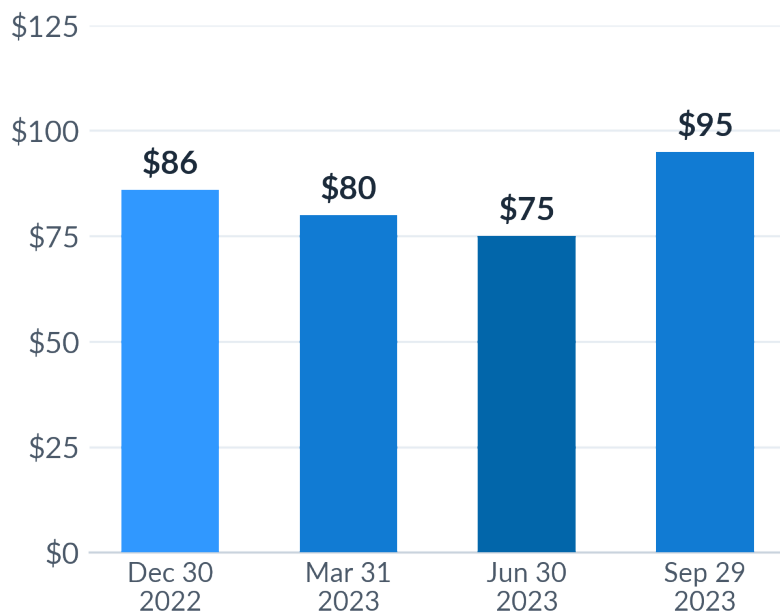
OIL AND INFLATION

Higher oil prices slowed progress on inflation

Oil prices climbed through the quarter after Saudi Arabia and Russia extended cuts to their oil production. Brent crude ended September near \$95 a barrel, up from about \$75 at the end of June.

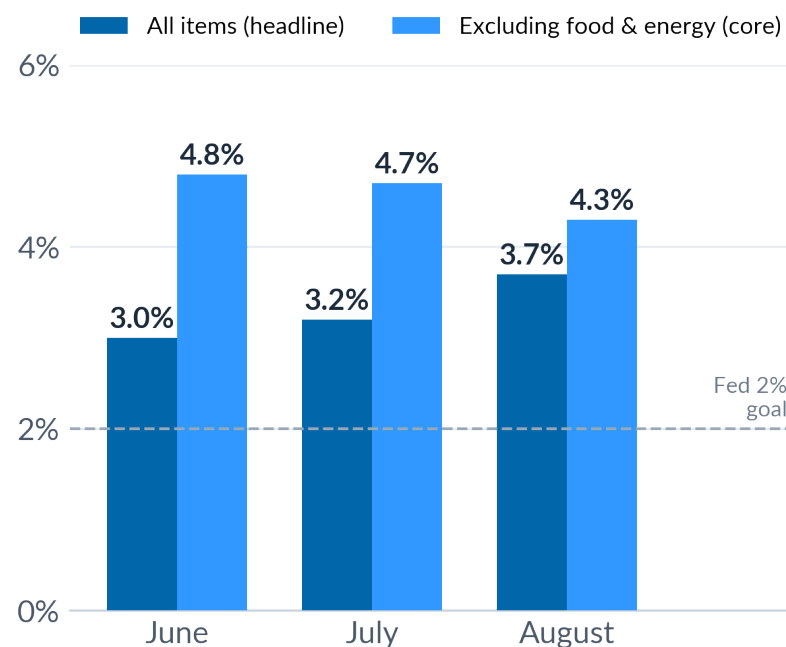
Higher gasoline prices nudged overall inflation back up, from 3.0% in June to 3.7% in August. Core inflation, which leaves out food and energy, kept improving, falling to 4.3%, its slowest pace since 2021.

Brent crude oil futures, dollars per barrel



Source: ICE Futures Europe, Brent front-month settlement prices at each quarter-end.

Consumer price inflation, year over year



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers.

LOOKING BACK

What came next

Yields peaked in October

The 10-year Treasury yield briefly topped 5% in October 2023, then fell back sharply by year-end.

A powerful year-end rally

The S&P; 500 gained about 11% in the fourth quarter as investors began expecting rate cuts.

The Fed held steady

The Fed made no further increases after July 2023 and began cutting rates in September 2024.

Oil eased

Brent crude fell back below \$80 a barrel by the end of 2023.

KEEPING PERSPECTIVE

September 2023 felt uncertain: rates were rising and stocks were falling. Within three months, both had reversed. Short-term moves are very hard to predict, which is why we focus on the long term. Past performance is not a guarantee of future results.

IMPORTANT INFORMATION

Definitions, sources, and disclosures

Definitions. The S&P 500 tracks 500 large U.S. companies. The Nasdaq Composite includes more than 3,000 stocks listed on the Nasdaq exchange and is weighted toward technology. The Dow Jones Industrial Average tracks 30 large U.S. companies. The 10-year Treasury yield is the annual return on a 10-year U.S. government bond held to maturity. The Consumer Price Index (CPI) measures changes in prices paid by urban consumers; core CPI excludes food and energy. Brent crude is the main global benchmark for oil prices. The federal funds rate is the Federal Reserve's benchmark short-term interest rate.

Sources. S&P Dow Jones Indices; Nasdaq; Board of Governors of the Federal Reserve System (FOMC statements; H.15 Selected Interest Rates); U.S. Department of the Treasury; ICE Futures Europe; U.S. Bureau of Labor Statistics; Fitch Ratings. Data as of September 30, 2023, unless otherwise noted. The "Looking back" page reflects data through December 2024.

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