XPYRIA INVESTMENT ADVISORS

Markets at a Glance

Third Quarter 2023

Equities

- Global equity markets, as measured by the MSCI World Index, fell -3.46% for the quarter with much of the loss coming in September due to headlines regarding higher-for-longer interest rates, renewed recession concerns, and a potential U.S. government shutdown. Emerging market equities outperformed their U.S. and international developed peers. The U.S. dollar appreciated 2.84% versus a basket of EAFE currencies and appreciated 0.81% versus a basket of emerging market currencies during the quarter.

- Large-cap stocks, as measured by the S&P 500 Index, fell -3.27%. Energy and Communication Services were the best and only positive performing sectors, up 12.22% and 3.07%, respectively. Real Estate and Utilities were the worst performing sectors, down -8.90% and -9.25%, respectively. The eight largest stocks in the S&P 500 Index have been responsible for 86.2% of the index's gain so far this year. Despite weak demand conditions leading to stagnant business activity data, U.S. Services Purchasing Managers Index (PMI) remained in expansionary territory.

- Small-cap stocks, as measured by the Russell 2000 Index, fell -5.13%. Energy and Financials were the best and only positive performing sectors, up 15.50% and 0.93%, respectively. Communication Services and Health Care were the worst performing sectors, down -14.13% and -14.88%, respectively. The Russell 2000 Index slipped back into bear market territory, as it's now down -24.91% from its last peak in November 2021.

- International equities, as measured by the MSCI EAFE Index, fell -4.11% amid concerns regarding the negative impact of rising interest rates on economic growth. U.K. equities rose during the quarter due to improved consumer confidence and strong economic growth. In Japan, stock prices continued to benefit from the Tokyo Stock Exchange's announcement earlier this year that called for structural change whereby listed companies should focus on achieving sustainable growth and enhancing corporate value via higher return on equity. Eurozone unemployment remained near an all-time low of 6.40% in August.

- Emerging market (EM) equities, as measured by the MSCI EM Index, fell -2.93%. India, which recently overtook China to become the world's most populous nation (1.43 billion people), contributed the most to the index's return during the quarter due to robust economic growth and a growing category of urban middle-class consumers. China, which is a 30% weight in the MSCI EM Index, underperformed due to weak private and foreign investment, weakness in property prices and property development companies, continuing tensions with Western nations, and the lack of a government stimulus package to support consumer spending. Emerging Market Manufacturing and Services PMI both slowed but remained in expansionary territory.

- Global Real Estate, as measured by the EPRA/NAREIT Developed Index, fell -5.59%. U.S. REITS experienced relative underperformance as they fell -8.07%. As a result of 30-year mortgage rates remaining elevated at 7.76%, the supply of existing homes in the U.S. remained tight at 3.3 months. Home supply remains tight as there are fewer sellers given the opportunity cost of moving from no or a low-rate mortgage to a mortgage rate of 7.76%. Nontraditional real estate, such as cell towers and self-storage, underperformed vs. more traditional areas, such as office, retail, and residential REITs.

Fixed Income Markets

- Core bonds, as measured by the Bloomberg Aggregate Bond Index fell -3.23%, while Bank Loans (3.43%) and High-Yield Bonds (0.53%) outperformed. U.S. Treasuries (-3.06%) outperformed U.S. Corporate Bonds (-3.09%) and Agency Mortgage-Backed Securities (-4.05%).

- Despite the Federal Reserve (Fed) pausing its interest rate hikes in September, Chairman Jerome Powell noted that "we intend to keep policy restrictive until we're confident inflation is coming down sustainably to our 2% target." The long-end of the Treasury yield curve steepened due to increased expectations that rates will remain higher for longer. The ten-year Treasury yield rose from 3.81% to 4.59%, while the two-year Treasury yield rose from 4.87% to 5.03%. The yield differential between a ten and two-year Treasury remained inverted at -0.44%.

- The Fed raised the fed funds rate by 0.25% in July, bringing its target rate to a range of 5.25% to 5.50%. As previously mentioned, the Fed did not raise interest rates at its September meeting in order to allow the committee to assess additional information and its implications for monetary policy amid tightening credit standards for consumers and businesses. The Fed continued its balance sheet reduction program, which involves allowing $60 billion of U.S. Treasuries and $35 billion of Agency Mortgage-Backed Securities to mature or be sold each month. Employment data (unemployment at 3.80%) remained strong, while inflation (Core PCE at 3.90%) declined but remains well above the Fed's long-term average target of 2.00%.

- The European Central Bank (ECB) raised its main deposit rate by 0.25% in both July and September, bringing the main deposit rate to 4.50%. ECB President Christine Lagarde noted that interest rates will stay high enough to restrict business activity for "as long as necessary" to reduce inflation. The central bank is determined to return inflation back to its 2.0% medium-term target "in a timely manner," as Eurozone inflation remained elevated at 5.3% in August.

Market Performance
As of 09/30/2023

Asset Class	Index	3rd Qtr.	YTD
EQUITIES			
Domestic			
Large-Cap	S&P 500	-3.27%	13.07%
Large-Growth	R1000 Growth	-3.13%	24.98%
Large-Value	R1000 Value	-3.16%	1.79%
Small-Cap	Russell 2000	-5.13%	2.54%
Small-Growth	R2000 Growth	-7.32%	5.24%
Small-Value	R2000 Value	-2.96%	-0.53%
International			
Developed Mkts.	MSCI EAFE	-4.11%	7.08%
Emerging Mkts.	MSCI EM	-2.93%	1.82%
Global			
Developed Mkts.	MSCI World	-3.46%	11.10%
Real Estate Investments			
U.S. REITs	NAREIT	-8.07%	-5.17%
Global REITs	EPRA/NAREIT Developed	-5.59%	-4.10%
FIXED INCOME			
High-Yield	ICE BofA US HY	0.53%	5.97%
Interm.-Term	Bloomberg Agg	-3.23%	-1.21%
Short-Term	Blmbrg G/C 1-3	0.78%	1.94%