OCTOBER 2023

GASAWAY
INVESTMENT ADVISORS

MARKET NEWSLETTER

The latest news from Gasaway Investment Advisors

"Helping you navigate your financial course."

What's New

A WORD FROM JIM GASAWAY

If you follow the news, which I wouldn't always recommend, you have probably heard of the many potential doomsday events affecting markets this year. First, there was the banking 'crisis', which led to the failure of a few banks and many spooked depositors pulling money out. Then, we had the debt ceiling 'crisis', with many pundits theorizing the multiple ways that the US and the average consumer would be harmed should a deal not pass. Then the most recent, Hamas attacking Israel.

The result of these catastrophes? Through the end of July, the stock market has risen dramatically this year. Then, August and September have followed historic patterns of being down with large US company stocks holding up the best and smaller company stocks, Consumer Staples and Asia doing the worst. Then, Hamas attacked Israel… What happened to the markets? They dropped quite a bit the following Monday morning, but then rebounded and ended the day up quite a bit. Since that time, the markets have pretty much just bounced around with no clear direction. (In fact, we're almost two weeks later and the S&P 500 closed October 18th ever so slightly higher than the day before the attack.)

What can we learn from all of this? First, that the stock market is not the economy, and the two will not always

perform similarly. Secondly, that there will ALWAYS be reasons not to invest in the market and the American economy. However, in the long term, the market has historically always recovered and been a good place to invest.

WHAT HAVE WE BEEN DOING IN THE PAST QUARTER?

- After shifting money from Value stocks to Growth and Technology stocks through much of the first half of the year, we have remained overweight in Large Growth and Tech. Thanks to the hype around artificial intelligence (AI) and the lessening likelihood of a recession, these investments have performed very well this year.

- After stepping back into International investments late last year and early this year, we have been taking profits and switching back to overweight domestic equities late in the 2nd Quarter and the beginning of the 3rd Quarter. China's reopening has been significantly worse than expected, and their economy and labor market are not rebounding as hoped. Additionally, the Eurozone has entered a technical recession while its largest economy, Germany, continues to decline.

- As we've written before, we have moved a lot of your 'safe money' from short-term high quality bond funds to

CDs when it's made sense. Because interest rates have continued up after we bought most of the CD's, your statements may show a temporary loss on them. However, the great thing about CD's is that you will get the entire principal back at the maturity date and a guaranteed rate of interest. So, we expect to be seeing improvement there. We've talked with people who have money at other places where the other advisors didn't have the safe-money as short-term and as high a quality and the people have been amazed at how much their "safe-money" has gone down in value over the last year and a half. I feel fortunate to have had my Dad preaching to me for years on what to do when rates began to increase.

After a tough 2022 which saw the market down quite a bit and inflation stay elevated for far longer than expected, the first seven months of 2023 have been a breath of fresh air. Though August and September have been down, we are more optimistic about the 4th quarter. Fears of a recession are subsiding as the labor market has remained strong, inflation has moved steadily lower, and the Federal Reserve likely has at most one more rate increase in store.

We appreciate the trust that you have placed in us. We are diligently watching your investments and have made and will continue to make the moves that we feel need to be done. If you have any questions, please reach out to us.

MARKET HIGHLIGHTS

After a volatile and ultimately deeply negative 2022, 2023 has been a breath of fresh air for the stock market. While the third quarter did not provide as impressive returns as the first and second quarters of the year, the market still closed up over 10% at the end of the quarter. These gains have been mostly thanks to the Artificial Intelligence revolution, as well as strong GDP, adequate corporate earnings, and quick resolution of the debt ceiling and banking crises. While some recession fears remain, a resilient labor market and strong GDP continue to point to a relatively strong economy, both now and in the near future.

- The stock market, measured by the S&P 500 index, fell 3.5% in the third quarter.

- Inflation remains an issue for consumers and the economy. Prices, measured by the Consumer Price Index (CPI), were up 3.7% on the September reading. This is a nice decline from the 9.1% reading in June of 2022, but still significantly above the Federal Reserve's target of 2%.

- To fight inflation, the Federal Reserve has been raising interest rates since March of 2022. These rising rates are beginning to weigh on the consumer and the economy just as inflation continues to. The latest hike in July brought it up to a level of 5.25%-5.50% on the federal funds rate. These elevated rates are beginning to affect the economy, most notably in a spike in mortgage rates (and all other forms of financing).

- Higher rates have led to fixed income investments being an attractive investment opportunity. Currently, we can get investors a 5.60% return for CDs that mature in 6 months and a 5.50% return for CDs that mature in 1 year (these rates are subject to change).

- Another notable story from this quarter is Fitch's downgrade of the US's credit rating. While this did come as a shock which rattled the stock market a little, nothing new was presented and little lasting impact was left on the market. Additionally, this rating downgrade does not necessarily signal that the US is now more likely to default on its debt or that treasuries are now a less safe investment. Still, the United States' growing debt (and debt-to-GDP ratio) and increasing polarization in government are not positive trends.

MARKET ANALYSIS

by: Ethan Thies, Financial Analyst

After all that happened in 2022, 2023 has been a breath of fresh air for the stock market. While the third quarter did not provide as impressive returns as the first and second quarters of the year, the market still closed up over 10% at the end of the quarter. These gains have been mostly thanks to the Artificial Intelligence revolution, as well as strong GDP, adequate corporate earnings, and quick resolution of the debt ceiling and banking crises. While some recession fears remain, a resilient labor market and strong GDP continue to point to a relatively strong economy, both now and in the near future.

MONTHLY HIGHLIGHTS FOR Q3

July:

The stock market, measured by the S&P 500 index, rose 3.11% in July (1). The economy added around 157,000 jobs, and unemployment dropped to 3.5% (2). Inflation rose 3.2% from last July (3). On July 26, the Federal Reserve delivered an expected 25-basis-point rate hike, raising the federal funds rate to 5.25%-5.50%, the current and highest level in 15 years (4).

August:

In August, the market fell 1.77% (1). The economy once again added more jobs than expected (187,000) as the unemployment rate rose to 3.8%. This is the highest rate since March of 2022 but still historically low (2). Inflation rose 3.7% from last August as energy prices spiked (3).

Although the market fell in the third quarter and fears of recession remain, the S&P 500 finished the quarter up over 10% for the year.

September:

Historically the weakest month for stocks, the market fell 4.87% in September, ending the quarter down just over 3.5% (1).The Federal Reserve held interest rates steady at 5.25%-5.50% at their September 20th meeting (4). Once again, more jobs were added this month than expected, while unemployment stayed at 3.8% (2). Inflation also stayed at a year-over-year increase of 3.7% (3).

Inflation

Inflation, as measured by the Consumer Price Index (CPI), has been higher for longer than anyone originally predicted. However, with this quarter's readings of under 4%, we are much closer to the Federal Reserve's 2% target than we were at 9.1% last June (3). These numbers are year-over-year, meaning that prices are 3% higher now than they were a year ago. Note that since we are now over a year past when prices started to decline substantially, these year-over-year numbers will not drop as much as they did earlier this year as they look back at relatively lower prices (see the uptick in figure 1). Throughout the third quarter, energy and transportation prices remained volatile while other categories like shelter, the largest contributor to CPI, finally began to decline. Even with the decrease in inflation since last June, it remains a major issue for the consumer, and the Fed is focused on bringing it down at all costs.

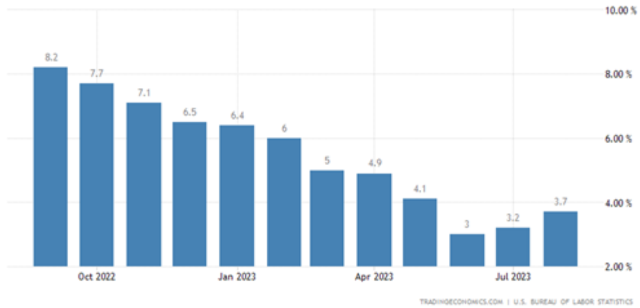

Figure 1. https://tradingeconomics.com/united-states/inflation-cpi

Interest Rates

In order to combat inflation, the Federal Reserve, in March of 2022, began raising interest rates from 0% to slow spending and economic growth and encourage saving. Currently, the federal funds rate sits at a range of 5.25%-5.50%, a historic rise in a year and a half (figure 2) (4). This has been most noticeable by the average consumer in mortgage rates, with the 30-year fixed rate climbing from under 3% in late 2021 to close to 8% today (5). Consumers will also likely notice these rate hikes in auto loans and every other form of financing.

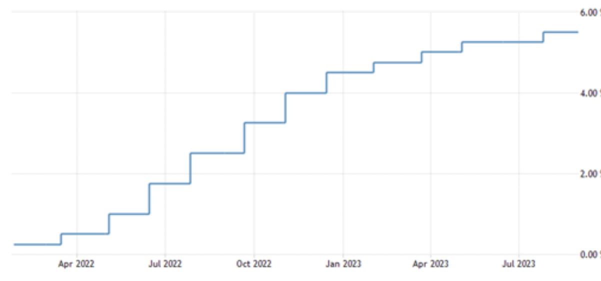

Figure 2. https://tradingeconomics.com/united-states/interest-rate

What has made the market uncertain this quarter?

Another result of these rate hikes is that fixed income investments such as Certificate of Deposits (CDs) and Treasury securities have looked increasingly attractive during this past year. Currently, through Raymond James, we can provide investors with a 5.60% return for CDs that mature in 6 months and a 5.50% return for CDs that mature in 1 year (these rates are subject to change). These, and the yields on treasuries, are the highest since 2007. (6)

US CREDIT RATING DOWNGRADE & THE MAGNIFICENT 7

US Credit Downgrade:

In August, Fitch, a ratings agency, downgraded the US government's credit rating from AAA to AA+. They cited an 'erosion of governance' and worries about future government shutdowns and the growing national debt. The Treasury Department and the White House, as expected, disagreed with the decision, calling it arbitrary and based on old data (7). While this did come as a shock which rattled the stock market a little, nothing new was presented and little lasting impact was left on the market. Additionally, this rating downgrade does not necessarily signal that the US is now more likely to default on its debt or that treasuries are now a less safe investment (8). Still, the United States' growing debt (as well as the debt-to-GDP ratio) and increasing polarization in government are trends we will continue to watch.

The Magnificent 7:
An interesting phenomena that many investors have been tracking this year is the significant outperformance of the seven largest stocks in the S&P 500: Apple, Microsoft, Amazon, Nvidia, Alphabet (Google), Tesla, and Meta (Facebook). Now called the 'Magnificent 7', these stocks have contributed to the lion's share of the indices' gains this year. In fact, this S&P 7 has risen over 50% since January 1, while the S&P 493 is only up around 5% (figure 3) (9). Additionally, the normal, cap-weighted S&P 500 is up around 12% this year, while the equal-weighted S&P 500 is even on the year (as of the end of Q3). This lack of broader market participation has many worried that this year's gains point more towards a bear market rally than the start of a bull market, but time will tell. Ultimately, without broader participation from stocks within the S&P 500 and other classes like small caps, which tend to outperform after stocks bottom (10), one should be cautious in declaring this a new bull market.

Conclusion and Outlook

According to Chairman Powell and the Federal Reserve, we should expect one more hike and that rates will remain higher for longer. Markets think that the hikes are done; however, markets tend to overpredict where rates will go in the future, which has proven true in this cycle as well (figure 4) (11). If the Fed is raising rates, markets predict they will stop raising sooner than they historically have, and if the Fed is cutting rates, markets predict they will stop cutting sooner than they historically have. Therefore, it's very possible that the market is wrong again, and another hike, or hikes, are in store.

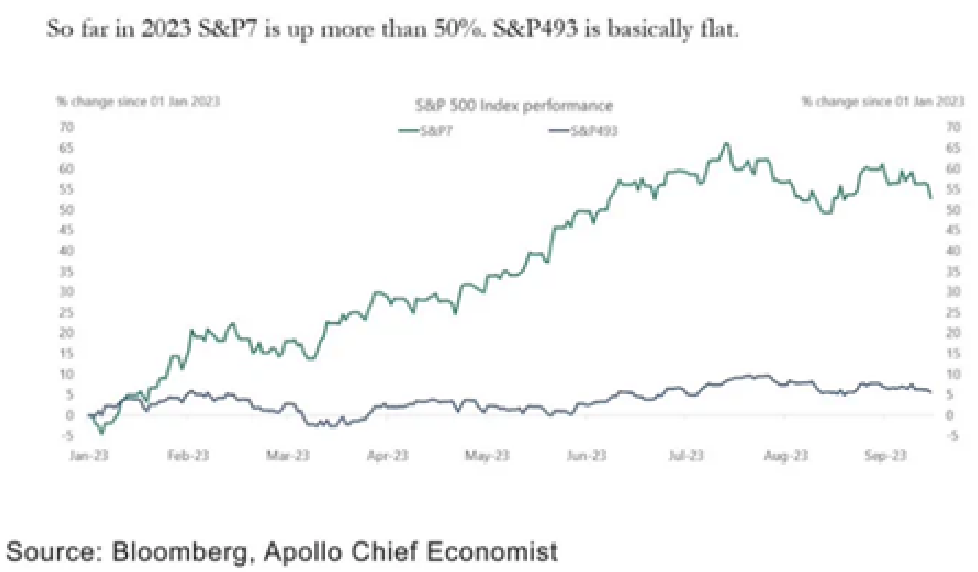

Figure 3. https://africa.businessinsider.com/markets/chart-of-the-day-the-sandp-500s-top-7-stocks-have-soared-more-than-50-in-2023-while/jdl36m7.amp

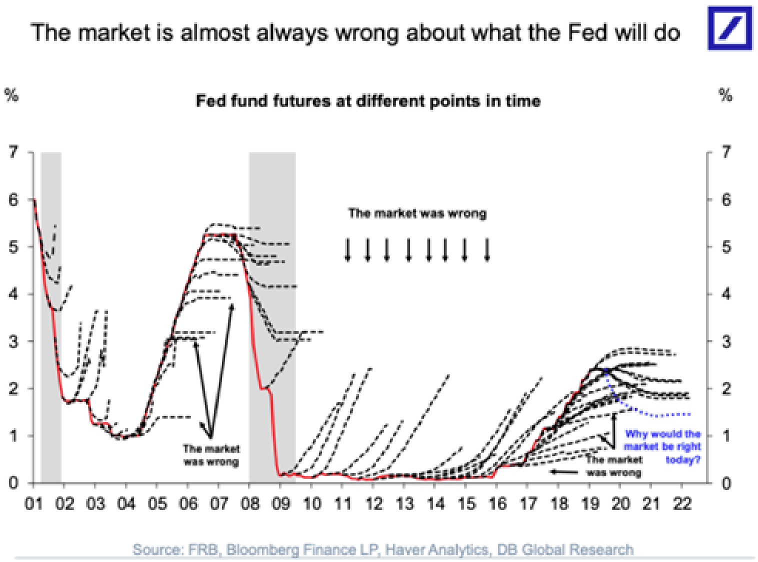

Figure 4.
https://finance.yahoo.com/news/why-the-feds-economic-forecasts-arent-always-forecasts-for-the-fed-100018160.html

Because of this, recession remains in the back of many investors' minds. Even though inflation is down significantly, it is still well above the Fed's 2% target, and with the labor market showing cracks and interest rates remaining high and quelling demand, the case for a recession remains (12). One historical precursor to recessions, an inverted yield curve (which has preceded all 10 recessions since 1955), has been inverted since July of 2022 (13). However, the stock market is not the economy, and stocks are usually on their way up already before the recession even begins. Additionally, this 'inevitable recession' has been predicted since mid-2022, and still has not happened, thanks to elevated consumer spending and a resilient labor market.

WHAT IS THE OUTLOOK FOR THE FUTURE?

- As we've written before, investors have known about the Federal Reserve's rate-hiking plans for a while now, so much of that negative impact is priced into the market. Once interest rates stop rising, sentiment towards the economy and equity markets could grow even more positive.

- Should we enter a recession, history tells us that stocks usually bottom around 5-10 months before the recession. The forward-looking stock market does not wait for the economic turnaround, but instead sees the trends and invests accordingly (as can be seen now with the effects of high interest rates priced into the stock market before really affecting the economy) (14).

- Finally, with the market (measured by the S&P 500) down 10% from its peak, and other sectors like small caps still down over 20%, this is still a buying opportunity, especially for those with a longer time frame. The length of this downturn also has, and continues to provide, a great opportunity to dollar cost average and lower the cost basis in your positions (15).

We will continue to watch the stock and bond markets, global factors, corporate earnings, inflation, interest rates, and the overall economy in order to manage and invest your money prudently. As always, feel free to reach out to us with any questions, comments, or concerns about your investments or the markets in general.

References:

1. Monthly Market Returns
2. Jobs reports
3. CPI
4. Fed Funds Rate
5. Mortgage Rates
6. Treasury Yields
7. Fitch Rating
8. Fitch Reaction
9. Magnificent 7
10. Off the Bottom Performance
11. Fed Economic Forecasts
12. Jobs Report
13. Recession and the Yield Curve
14. Recession History
15. Market Returns from High

MEET OUR FINANCIAL ANALYST, ETHAN

Ethan strives to bring value to clients by providing detailed market and economic analysis to help them understand the movements in their accounts that affect their hard-earned money. We at Gasaway know that financial markets, and the economy, can be extremely confusing and people become overwhelmed by the amount of information and opinions. Therefore, we believe that our consistent and transparent communication can help to simplify these subjects, assure clients that we are diligently watching the markets, and act accordingly in their accounts. If you would like to know more about your investments or have any other inquiries about the market and economy, please feel free to reach out!

EVENTS WE HAD THIS YEAR



We host a Book Club every third Monday of the month from 5:30-6:30 pm. Join us as we meet to discuss our favorite passages, quotes and more! The best part is you get to vote on the next book!



We hosted six Financial Wellness sessions in our new classroom space for the month of September. Thank you to everyone who attended!

UPCOMING EVENTS

BOOK CLUB

NOVEMBER 20 & DECEMBER 18
5:30 - 6:30 PM

Please join us as we dive into a new book each month and gather to discuss it. We explore the written word together and enjoy light refreshments. Each month you attend you will be entered into a drawing to win an e-reader at the end of the year!

BE ON THE LOOK OUT AS WE ANNOUNCE EVENTS FOR 2024!

OCTOBER 2023

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Helping you navigate your Financial Course!

About Gasaway Investment Advisors:

Gasaway Investment Advisors is a financial planning and investment advisory firm serving individuals and businesses since 1990. Over the last 30+ years, it has been our mission to educate the community and hold ourselves to a higher fiduciary standard in which we put our clients' interests first.

Our Mission:
To provide quality services to our customers. To treat our customers and coworkers in a kind and friendly manner. To be a positive influence in the community.

Our Vision:
To help the everyday individual make sound financial decisions while eliminating stress caused by financial burdens. Together, we will navigate your financial course to create a happier and fulfilling journey.

CHECK US OUT ON SOCIAL MEDIA!

CHECK OUT OUR BLOG FOR INFORMATIONAL ARTICLES!