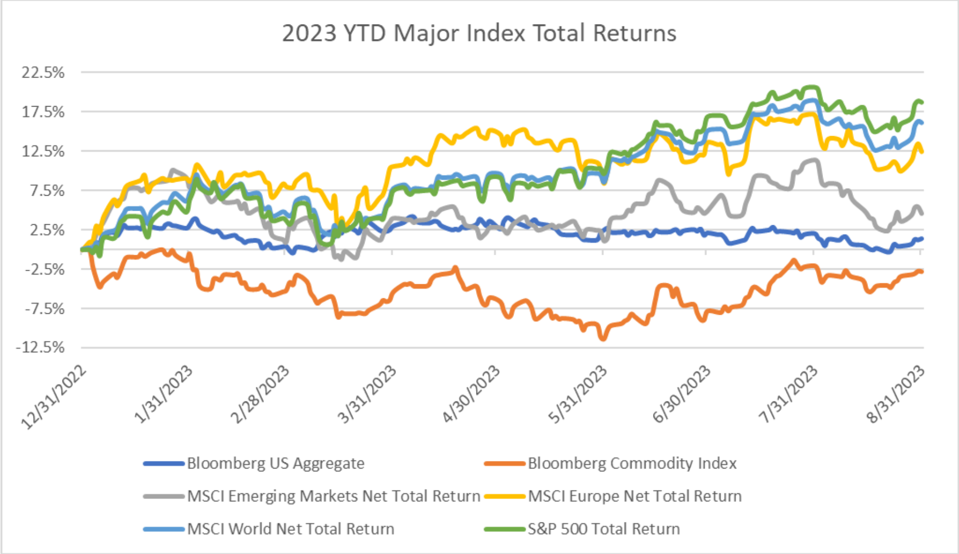
ENCORE INVESTMENT ADVISORS

AUGUST 2023 MARKET REVIEW

Market Recap: The global economic landscape looks wildly different today relative to this time last year. Over the past year, central banks have tightened massively with base rates increasing 3% in the US, 3.5% in the UK, and 3.75% in Europe. Central banks have been successful thus far in their fight against inflation, with consumer price inflation in the US falling from 8.2% in August 2022, to 3.2% today. Lower rates of inflation are a welcome sight for consumers around the world, although the monetary tightening needed to reduce inflation has come with some discomfort. Mortgage rates in the US are now at 20-year highs while interest rates on consumer and auto loans are also significantly higher than in recent years. In the employment market, the number of openings in the US has fallen by over 1.3M jobs over the past year. And although the level of job openings is still elevated and the unemployment rate is historically low, data suggests that the employment market is cooling at a rapid pace.

Despite higher interest rates and an evolving employment market, global equities have rallied in a big way since August 2022, returning approximately 16%. Stocks have continued to exhibit resiliency as inflation trends towards target, and the US economy has remained in expansionary territory, despite widespread expectations of a downturn. The mantra for markets in 2022 was that central banks needed to engineer a recession to reverse the spike in inflation, which sent equities lower. However, as time went on, many top economists began to discuss a scenario in which inflation returns to target, while the global economy avoids a recession – this is the "soft landing" we have discussed in prior bulletins, and this scenario would lead to an ideal outcome for most investors. As the "soft landing" scenario morphed from a possibility into the base case in late 2022, stocks shot higher and peaked more recently at the end of July. This July peak coincided with renewed fears of economic pain, beginning with a deterioration in China, which could ultimately spread to Europe and the US. Just as stocks seemingly dismantled the "wall of worry" that plagued the market for much of 2022, the reemerging concerns around global growth and the difficult fight against the last mile of inflation made for a volatile August.

How does this impact our perspective? August saw a 2.4% pullback in global equity indices; however, global stocks remain near levels that they have not been at since early 2022. The equity market rally that we have experienced has been almost entirely driven by multiple expansion (higher valuations), as S&P 500 earnings are expected to grow by only 1% in 2023. The dichotomy between valuations and earnings has led to the US equity market appearing expensive both relative to its own history, and relative to other regions. The driving force behind the US equity rally has been the emergence of Artificial Intelligence, which has left international markets lagging due to the small number of large technology companies that operate outside of the US. Although, more recently, blockbuster results from chipmaker Nvidia were met with only a lukewarm response from investors – a sign that future gains may be harder to come by from the market's highflyers. While international markets may not have the technological firepower that the US does, valuations are much more attractive and a rotation away from the US may be in the cards.



Data Source: Y Charts

Encore Investment Advisors, LLC is a Registered Investment Advisor