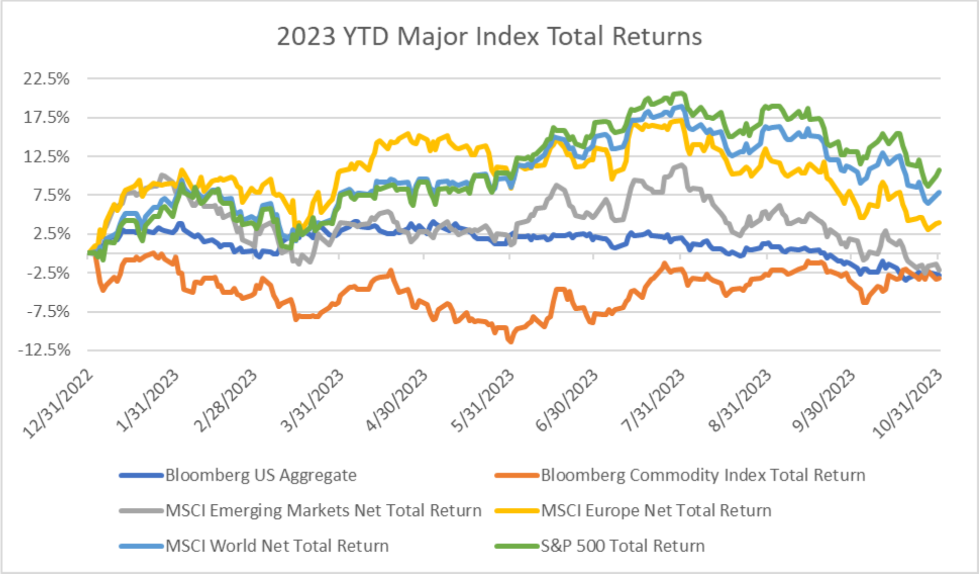
ENCORE INVESTMENT ADVISORS

OCTOBER 2023 MARKET REVIEW

Market Recap: Portfolio values fell in the month of October; registering as the third consecutive month of negative returns. Global stock indices corrected more than 10% from the beginning of August through October 27th. Surprisingly, market corrections (like we have experienced these past three months) actually occur quite regularly; typically every 12 to 18 months, and take significantly less time to recover. What makes this episode of volatility difficult, is that there has been nowhere to hide. As we have discussed in prior editions, our opinion is that the primary source of angst has been the massive spike in interest rates, while heightened geopolitical (and political) events over recent months have also spooked investors. Increasing interest rates have contributed to losses in bonds as well as equities, thus reducing the benefits of a diversified portfolio. The good news is that even despite a 10% drawdown in equity markets this Fall, global equities have returned 7.9% so far in 2023, right in line with long term averages. Our client portfolios have been underweight in bonds over the past several years as we have instead favored cash. US bonds have fallen -2.8% so far in 2023, while cash (short term T-bills) has returned over 4%, benefiting client portfolios. More recently though, we have begun to selectively add to bond positions in client portfolios as the current level of interest rates is attractive on a medium-term basis.

The remainder of this month's review will focus on the recent rise in the use of weight-loss drugs, and the resulting impact of these drugs on the economy. You will likely have seen recent media coverage detailing the growth in GLP-1 weight-loss drugs from pharmaceutical companies Novo Nordisk and Eli Lilly. Recent trial results have shown positive health benefits of drugs like Ozempic, including increased weight loss, and a reduction in stroke and heart attack risk. These results come at a time when obesity rates in the US exceed most developed nations, which provides a massive opportunity for Novo Nordisk and Eli Lilly, driving a sharp rise in shares of these two companies. There remain questions around the long-term efficacy of these drugs and sustainability of the large costs associated with producing them, however, it is clear that following the promising trial results, the demand for GLP-1 drugs is on the rise, such that the drugmakers cannot produce them fast enough. One of the most important questions specifically related to these drugs, is how health insurers will handle the almost $1,000 per month cost that patients are currently paying. Despite that cost, use is projected to skyrocket from current levels, which has the potential to alter consumer behavior across the board.

How does this impact our perspective? The speculation around the impact of these weight-loss drugs on other industries has been swift. Companies that have long profited on American obesity as well as medical device manufacturers have seen their stocks get hit quite hard over the past several months, driven by expectations that healthier consumption habits are in the future, and will ultimately reduce the need for medical procedures, such as hip and knee surgeries. In recent weeks, GLP-1 drugs have been a hot topic in corporate earnings calls across the obvious healthcare industry, but also within many non-healthcare industries. Analysts covering the airline industry, for example, are speculating that major carriers will potentially save millions in fuel costs, if passenger weight decreases. The success of these drugs shows the level of innovation potential the health care sector possesses, however, the expectation that other industries will be devastated by this progress, has gone too far and has created opportunities for client portfolios. We are thinking about these drugs similar to how we view advances in AI; the impact can be widespread, negatively impacting the outlook for certain industries, while improving the outlook of others, but it is far too early to price in the downfall of companies whose results rely on producing sugary snacks or selling glucose monitoring devices.



Data Source: Y Charts

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