

QUARTERLY UPDATE

LETTER FROM OUR CIO

OCTOBER 3, 2023

HIGHER FOR LONGER

Q3 2023 was defined by a mix of optimism and challenges in the U.S. economy and stock market. The economy continues to recover from the unprecedented cycle that began during COVID. Inflation is moving in the right direction but remains stubbornly high and unemployment remains stubbornly lower than the fed would like it to be. This has created the expectation that we will be in for these higher interest rates for a longer period. Markets are taking this in stride, giving back some of the yearly gains this quarter, but remain up for the year still. Typical market cycles last approximately 3-5 years. It's important to stay the course as history has taught us about the US economy and markets resiliency.

Economy: You may have heard the phrase "Goldilocks Economy". That is one that is 'not too hot, not too cool'. The U.S. economy displayed resilience, with GDP growth maintaining a steady upward trajectory throughout the 3rd quarter. A resurgence in consumer spending and improved business confidence contributed to continued economic growth. This has eased the concerns over a 'hard landing'. But the Fed is still on alert. As a reminder, the Fed has a dual mandate, price stability and full employment.

- Price Stability: Inflation remained a key concern throughout the quarter. Rising energy prices and increased demand for goods contributed to elevated inflation levels. The Fed closely monitored these developments, attempting to balance inflation concerns with supporting economic growth.
- Full Employment: The labor market continued to recover, although challenges remained. Unemployment rates steadily declined, and businesses faced a tight labor market, leading to increased wage pressures in certain industries.

Markets: Global stock markets experienced a period of volatility during the third quarter. Major indices reached new highs early in the quarter but faced setbacks due to concerns about inflation and interest rates remaining higher for longer. The ongoing shift toward digitalization, cloud computing, and remote work continued to drive technology stocks. The US bond market was weaker as well. The Fed carefully communicated its intentions regarding interest rates, leading to fluctuations in the bond market.

Q3 2023 showcased the U.S. economy's resilience as it continued the path to recovery. While economic growth remains robust, concerns about inflation and interest rates introduced a level of uncertainty. Portfolio positioning at LE was slightly underweight equities through the downdraft in August and September but moving portfolios inline due to some drift. We are still constructive on sectors such as semiconductors and software to take advantage of trends such as AI, cybersecurity, industrials, healthcare innovation and the buildout of the electrical grid. We closed the underweight gap of International vs. US in the 3rd quarter but continue to remain overweight the US. We continue to monitor the political and economic risks and stand ready to act quickly if need be.



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