



Stocks retreat on higher-for-longer interest-rate fears.

Quarterly snapshot

- Global equity markets experienced a downturn during the third quarter of 2023. There were numerous periods of volatility amid investors' uncertainty regarding the implications of a higher-for-longer interest-rate environment, as well as worries about China's weakening economy. These offset a market rally in July prompted by optimism that the U.S. Federal Reserve (Fed) might be able to curb inflation while piloting the economy to a "soft landing."
- Most global fixed-income assets lost ground over the quarter. U.S. Treasury yields moved higher across all segments of the yield curve, particularly one- and two-month bills (bond prices move inversely to yields).
- While predictions of a downturn in business activity during 2023 have been widely held since the end of last year, the U.S. economy has mostly surprised to the upside. Recession calls are now in the minority, with the latest plane analogy going from "hard landing" to "soft landing," and even to "no landing"

Global equity markets experienced a downturn during the third quarter of 2023. There were numerous periods of volatility amid investors' uncertainty regarding the implications of a higher-for-longer interest-rate environment, as well as worries about China's weakening economy. These offset a market rally in July prompted by optimism that the Fed might be able to curb inflation while piloting the economy to a soft landing. Emerging markets modestly outperformed their developed-market counterparts for the period. The Nordic countries recorded comparatively smaller losses and were the top performers among developed markets for the quarter, benefiting mainly from strength in Norway and Denmark. Europe was the weakest-performing developed market over the period attributable largely to notable losses in the Netherlands and Portugal. In contrast, within the emerging markets, Europe garnered a positive return and was the top performer during the month, bolstered mainly by a double-digit gain in Turkey. Conversely, the Eastern Europe ex. Russia region was the primary laggard among emerging markets due to weak performance in Poland.¹

As widely expected, the Fed increased the federal-funds rate by 25 basis points (0.25%) to a range of 5.25%-5.50% at its meeting in late July, and subsequently left its benchmark interest rate in a range unchanged following its meeting in September. In a statement announcing the pause in September, the Federal Open Market Committee (FOMC) reiterated its commitment to bringing inflation down to its 2% target rate and cautioned that "tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain." The central bank also commented that it "would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals."

China, the world's second-largest economy, recently has experienced relatively weak credit growth, a downturn in exports, and a year-over-year decline in consumer prices. Lower demand for goods and services from Chinese consumers could have a negative impact on other countries' exports of iron ore, crude oil, factory equipment, and luxury goods into the country. U.S.-based manufacturers of chemicals and heavy machinery have cautioned that they may experience a slowdown of sales in China. Additionally, a large property developer filed for protection under Chapter 15 of the U.S. bankruptcy code, which safeguards non-U.S. companies that are undergoing debt restructurings from creditors seeking to sue the firms or to freeze their assets in the U.S.

¹ All equity market performance statements are based on the MSCI All-Country World Index (ACWI).

Key measures: September 2023

Equity

Dow Jones Industrial Average	-2.10%	↓
S&P 500 Index	-3.27%	↓
NASDAQ Composite Index	-3.94%	↓
MSCI ACWI Index (Net)	-3.40%	↓

Bond

Bloomberg Global Aggregate Index	-3.59%	↓
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Volatility

Chicago Board Options Exchange Volatility Index	17.52	↑
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PRIOR QUARTERLY: 13.59

Oil

WTI Cushing crude oil prices	\$90.79	↑
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PRIOR QUARTERLY: \$70.64

Currencies

Sterling vs. U.S. dollar	\$1.22	↓
Euro vs. U.S. dollar	\$1.06	↓
U.S. dollar vs. yen	¥149.23	↑

Sources: Bloomberg, FactSet, Lipper

Most global fixed-income asset classes lost ground in the third quarter. However, U.S. high-yield bonds registered positive returns and were the top performers within the U.S. market for the period.² U.S. corporate bonds, U.S. Treasuries, and mortgage-backed securities (MBS) declined.³ Treasury yields moved higher across all segments of the yield curve, particularly one- and two-month bills (bond prices move inversely to yields). The yields on the 2-, 3-, 5- and 10-year Treasury notes rose 0.16%, 0.31%, and 0.47%, respectively, over the quarter. The spread between 10- and 2-year notes moved from -1.06% to -0.62% during the period, and the yield curve remained inverted.

Global commodity prices generally moved higher during the quarter. The West Texas Intermediate (WTI) crude-oil spot price and the Brent crude oil price climbed 28.5% and 23.7%, respectively, in U.S. dollar terms, on expectations that production output cuts from the Organization of the Petroleum Exporting Countries (OPEC) and Russia would continue through the end of 2023. The New York Mercantile Exchange (NYMEX) natural gas price rose 5.6% over the period, benefiting from strong demand due to record-high temperatures in the U.S., particularly in the southwestern region of the country. Conversely, the 3.3% decline in the gold spot price for the quarter was attributable to strength in the U.S. dollar. Wheat prices fell 16.8% over the period, hampered by Russia's shipments of large quantities of cheaply priced grain.⁴

Economic data

U.S.

- The Department of Labor reported that the U.S. consumer-price index (CPI) rose 0.6% in August, following a monthly increase of 0.2% in July. The CPI advanced 3.7% year-over-year—up from the 3.2% annual rise in July. However, the 4.3% annual increase in core inflation, as measured by the CPI for all items less food and energy, represented a 0.4- percentage point decline from the 4.7% year-over-year upturn in July. Core inflation rose 0.3% month-over-month in August, following a 0.2-percentage point uptick in July. The government noted that more than half of the month-over-month increase in the overall CPI was attributable to higher gasoline prices, which climbed 10.6% in August. Housing costs also contributed to the upturn in inflation for the month. Food prices rose 0.2% in August, matching the previous month's increase.
- According to the third estimate from the Department of Commerce, U.S. gross domestic product (GDP) grew at annualized rate of 2.1% in the second quarter of 2023, unchanged from the government's second estimate released in August, and down 0.1 percentage point from the 2.2% rise in the first three months of the year. The largest increases for the second quarter were in nonresidential fixed investment (purchases of both nonresidential structures and equipment and software), consumer spending, and state and local government spending. These gains offset reductions in exports and residential fixed investment (purchases of private residential structures and residential equipment that property owners use for rentals). The marginal decline in the GDP growth rate for the second quarter compared to the first three months of the year was due to slowdowns in consumer and federal government spending, as well as a decrease in exports.

² According to the ICE BofA U.S. High Yield Constrained Index.

³ According to the ICE BofA U.S. Corporate, ICE BofA U.S. Treasury, and Bloomberg US Mortgage Backed Securities indexes.

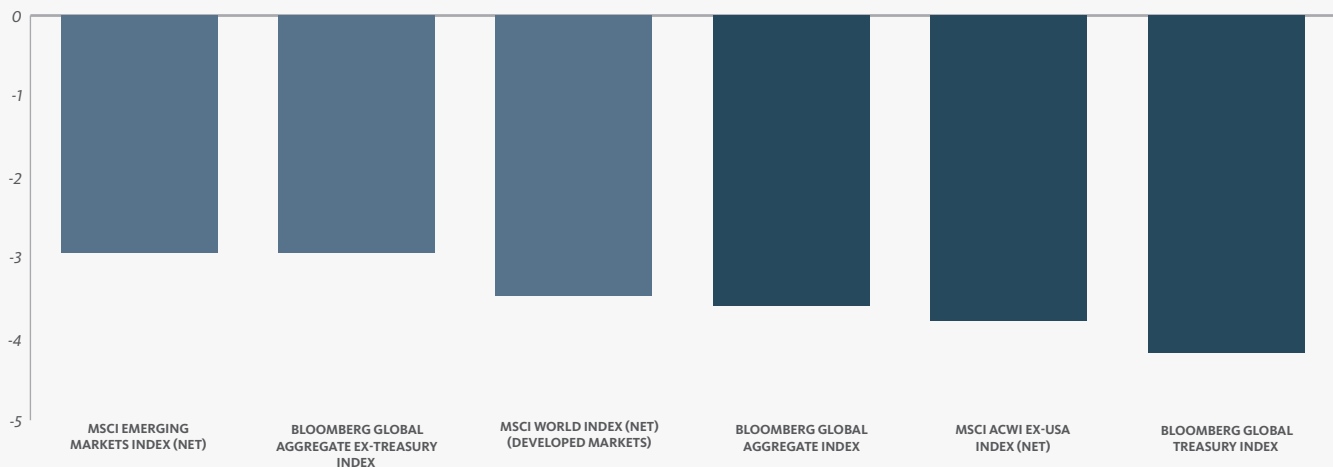
⁴ According to market data from The Wall Street Journal.

U.K.

- According to the Office for National Statistics (ONS), consumer prices in the U.K. rose 0.4% month-over-month in August—up sharply from the 0.3% decrease in July. Inflation advanced 6.3% over the previous 12-month period, down marginally from the 6.4% annual upturn in July. Prices for alcohol and tobacco, along with clothing and footwear, were the largest contributors to the rise in inflation in August, while food and alcoholic beverages, and alcohol and tobacco posted the most notable price increases over the previous 12-month period. Core inflation, which excludes volatile food prices, rose at an annual rate of 5.9% in August, down from the 6.4% rise in July.
- The ONS also reported that U.K. GDP dipped 0.5% in July (the most recent reporting period), after rising 0.5% in June, and increased 0.2% over the previous three-month period. Production output decreased 0.7% month-over-month in July, compared to the 1.8% growth rate in June. The services and construction sectors each fell 0.5% in July, versus upturns of 0.2% and 1.6%, respectively, during the previous month.

Major Index Performance in September 2023 (Percent Return)

● Fixed Income ● Equities



Sources: FactSet, Lipper

Eurozone

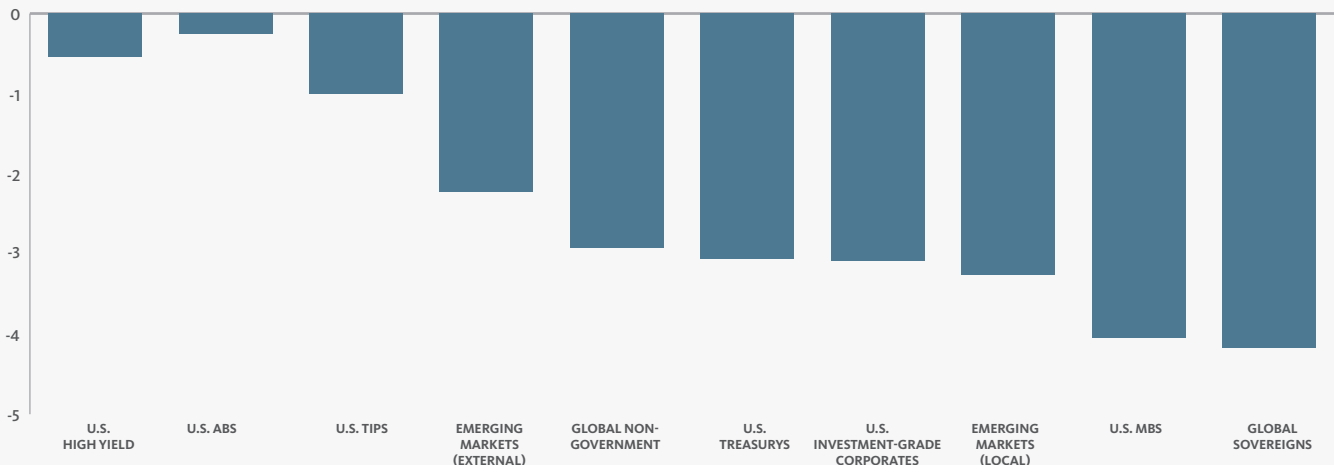
- Eurostat pegged the inflation rate for the eurozone at 4.3% for the 12-month period ending in September, down 0.9 percentage point from the 5.2% annual increase in August. Prices for food, alcohol and tobacco rose 8.8% in September, but the pace of acceleration slowed from the 9.7% annual rate for the previous month. Energy prices fell 4.7% year-over-year, following a 3.3% decline in August. Core inflation, which excludes volatile energy and food prices, rose at an annual rate of 4.5% in September, down 0.8 percentage point from August.⁵
- According to Eurostat’s third estimate, eurozone GDP grew 0.1% in the second quarter of 2023, marginal improvement from the flat growth rate in the first quarter, and increased 0.5% year-over-year. The economies of Lithuania and Iceland were the strongest performers for the second quarter, expanding 2.9% and 2.2%, respectively, while Poland’s economy contracted 2.2% during the period.

Central banks

- As previously noted, the Fed maintained the federal-funds rate in a range of 5.25% to 5.50% following its meeting in September. The Fed’s so-called dot plot of economic projections indicated a median federal-funds rate of 5.6% at the end of 2023, unchanged from its previous estimate issued in June, implying that the central bank could opt for an additional 25-basis point (0.25%) increase at one of its two remaining policy meetings this year. The Fed also projected a reduction in the federal-funds rate to 5.1% by the end of 2024—down from its current range of 5.25% to 5.50%, but higher than the central bank’s previous estimate of 4.6%.

⁵ According to Eurostat. September 29, 2023.

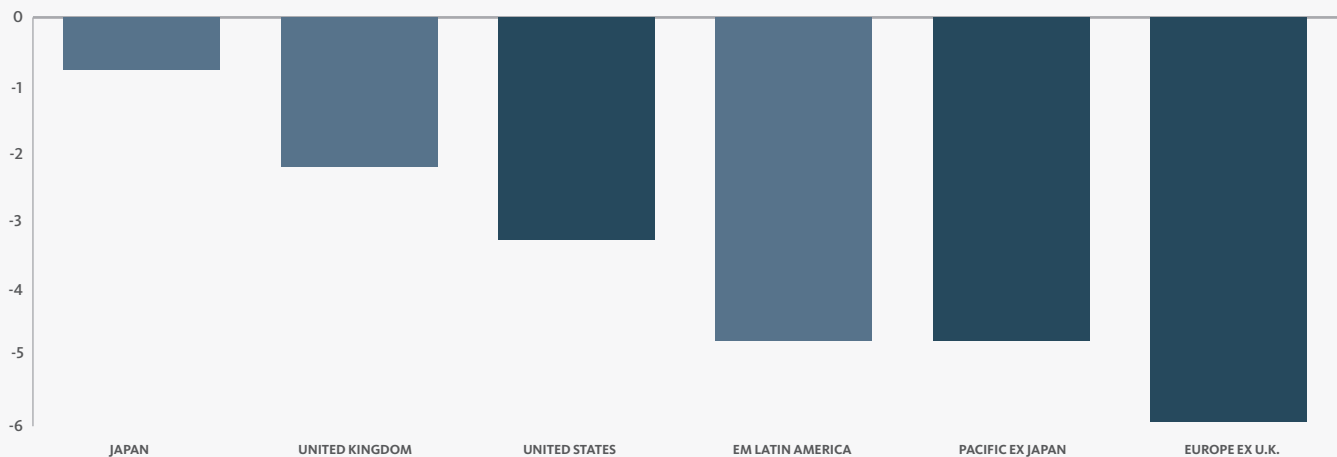
Fixed-Income Performance in September 2023 (Percent Return)



Sources: FactSet, Lipper. See “Corresponding Indexes for Fixed-Income Performance Exhibit” in the Index descriptions section for more information.

Regional Equity Performance in September 2023 (Percent Return)

● Countries ● Regions



Sources: FactSet, Lipper. See “Corresponding Indexes for Regional Equity Performance Exhibit” in the Index descriptions section for more information.

- In a split 5-4 vote at its meeting on September 21, the Bank of England (BOE) left the Bank Rate unchanged at a 15-year high of 5.25%. Four BOE Monetary Policy Committee members supported a 25-basis point increase. In its announcement of the pause in its rate-hiking cycle, the BOE noted that “inflation is expected to fall significantly further in the near term, reflecting lower annual energy inflation, despite the renewed upward pressure from oil prices, and further declines in food and core goods price inflation. Services price inflation, however, is projected to remain elevated in the near term, with some potential month-to-month volatility.” The European Central Bank (ECB) increased its benchmark interest rate by 0.25% to 4.25% following its meeting in mid-September. In a statement announcing the rate hike, the ECB’s Governing Council noted, “Inflation continues to decline but is still expected to remain too high for too long...[We] will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction. In particular, the Governing Council’s interest rate decisions will be based on its assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission.” Additionally, the ECB lowered its economic projections, and currently forecasts that the eurozone economy will expand by 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025.
- The Bank of Japan (BOJ) left its benchmark interest rate unchanged at -0.1% following its meeting on September 21-22. In a statement announcing the rate decision, the central bank commented, “Japan’s economy has recovered moderately. The pace of recovery in overseas economies has slowed. Although exports and industrial production have been affected by the developments in overseas economies, they have been more or less flat, supported by a waning of the effects of supply-side constraints.” During its previous meeting in late July, the central bank set a rigid upper yield limit of 1.0% for the 10-year Japanese government bond (JGB). The 10-year JGB yield rose 37 basis points to 0.77% over the quarter.

SEI's view

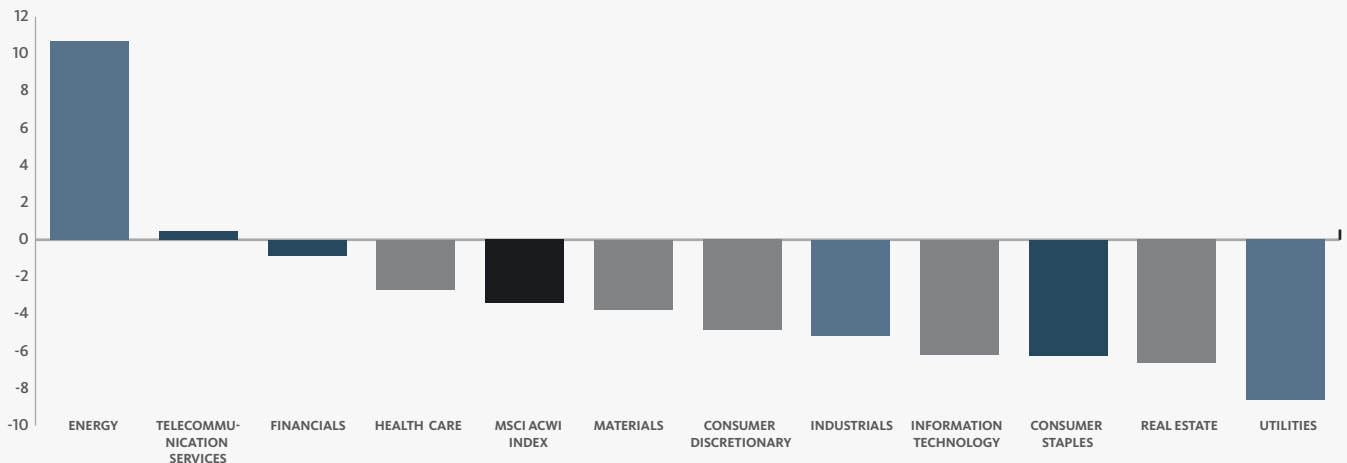
While predictions of a downturn in business activity during 2023 have been widely held since the end of last year, the U.S. economy has mostly surprised to the upside. Recession calls are now in the minority, with the latest plane analogy going from “hard landing” to “soft landing” and even to “no landing.” Strong July results for retail sales, services consumption, industrial production, and housing starts resulted in the inflation-adjusted gross domestic product reaching an annualized 5.9% rate of gain in August. We do not believe this trend is sustainable. Although the consensus has swung away from this view, there is a reasonable probability of a recession in 2024.

Other major economies outside the U.S. are showing signs of weakness, despite advances during the first half of this year. Germany is already in recession and the U.K. may not be far behind. In these developed economies, businesses and consumers alike are feeling pressure from rising interest rates and persistent core inflation.

Hopes that China, the world’s second-largest economy after the U.S., would offset slowing growth elsewhere have proven to be elusive. Although Chinese domestic travel and services consumption experienced a post-COVID-19 bounce, the economic data have been mostly disappointing. Consumer sentiment remains extremely depressed, with the latest quarterly reading showing a partial reversal of the early 2023 post-lockdown bounce. Chinese consumers and financial market participants appear largely unimpressed with the government’s efforts, both fiscal and monetary, to turn the economy around.

Global Equity Sector Performance in September 2023 (Percent Return)

● Defensives ● Blends ● Cyclical



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

Inflation continues to fall as COVID-19-era supply-chain disruptions abate. However, it is SEI's strong conviction that there has been a regime change when it comes to long-run inflation, and that it will run sustainably higher in the U.S. than the Federal Reserve's (Fed) 2% target. Structurally tight labor markets, the shifting of global supply chains away from China, higher financing costs, the disruptions caused by the transition to a carbon-neutral regime, and a likely boost in corporate tax rates in the years ahead suggest to us that an inflation rate over 3% is more likely than one under 2%.

The Fed's rate-hiking cycle is nearing an end, but this does not mean that the federal-funds rate will be moving lower anytime soon. We believe there could be one more interest-rate increase from the Fed, but as labor-market pressures ease, even this appears increasingly unlikely. The latest Federal Open Market Committee projections indicate an intention to keep the federal-funds rate higher for longer. In our view, it is unlikely the central bank will begin cutting rates before the second half of 2024.

Other major central banks are in similar positions. Given Europe's stubborn inflation and lower policy-rate stance, the European Central Bank may raise its key interest rate once or twice more this cycle. The U.K. is closest to a wage-price spiral, which may force the Bank of England to implement a monetary policy that is tighter than it would prefer. Meanwhile, the Bank of Japan is under increasing pressure to start raising its policy interest rate in order to firm up the yen. Bond yields have risen despite lower inflation rates. We believe markets are responding to the increase in government debt issuance at a time when central banks are adding to supply pressures via quantitative tightening (i.e., selling bonds out of their portfolios).

SEI expects bond yields to remain elevated as investors adjust their expectations regarding the probability of higher-for-longer central bank interest-rate policy. We also believe that the term premium (the excess yield required to offset the additional risk in longer-dated bonds) will turn positive as investors demand compensation for taking on a greater level of uncertainty around future interest-rate risk.

Equity markets have entered a corrective phase. U.S. large-capitalization stocks are expected to trade in a broad range, with the S&P 500 Index currently closer to the upper end of this range. Growth companies with high price-to-earnings ratios are vulnerable to rising bond yields, and more cyclical and economically sensitive names within this cohort could face pressure from declining profit margins.

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Glossary of Financial Terms

A **soft landing** occurs when a country's economic growth slows, but does not enter recession.

A **hard landing** occurs when a country's economy rapidly shifts from growth to slow growth to flat as it approaches a recession, usually resulting from a government's attempts to slow inflation.

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

Mortgage-backed securities (MBS) are pools of mortgage loans packaged together and sold to the public. They are usually structured in tranches (a slice or portion of a structured security) that vary by risk and expected return.

Yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (are (which is used to assess the risk of default of companies or countries). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates that short- and long-term yields are closer together.

An **inverted yield curve** occurs when short-term yields exceed long-term yields. While an inverted yield curve historically has predicted economic recessions, it is an indicator—not a forecast.

The **federal-funds rate** is the interest rate charged to lending institutions on unsecured overnight loans. It is set by the U.S. Federal Reserve's Federal Open Market Committee. The rate is increased when the Federal Reserve wants to discourage borrowing and slow the economy and decreased when the Federal Reserve wants to spur economic growth.

Economic output comprises a quantity of goods or services produced in a specific time period.

Monetary policy refers to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.

A **recession** is a significant and prolonged downturn in economic activity.

The **personal-consumption-expenditures (PCE) price index** measures the prices that consumers pay for goods and services to reveal underlying inflation trends. The core PCE price index, the primary inflation monitor used by the Federal Reserve, excludes volatile food and energy prices.

Input price inflation measures changes in the prices of materials and fuels purchased by manufacturers for processing.

Price/earnings (P/E) ratio is calculated by dividing the current market price of a stock by the earnings per share. Price/earnings multiples often are used to compare companies in the same industry, or to assess the historical performance of an individual company.

Index Descriptions

All indexes are quoted in gross performance unless otherwise indicated.

The **MSCI All Country World Index (ACWI)** is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **ICE BofA U.S. High Yield Constrained Index** is a market capitalization-weighted index which tracks the performance of U.S. dollar-denominated below-investment-grade (rated BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody's Investors Service) corporate debt publicly issued in the U.S. domestic market.

The **ICE BofA U.S. Corporate Index** includes publicly issued, fixed-rate, nonconvertible investment-grade (rated BBB- or higher by S&P Global Ratings and Fitch Ratings or Baa3 or higher by Moody's Investors Service) dollar-denominated, U.S. Securities and Exchange (SEC)-registered corporate debt having at least one year to maturity.

The **ICE BofA U.S. Treasury Index** tracks the performance of fixed-rate, nominal debt issued by the U.S. Treasury.

The **Bloomberg U.S. Mortgage Backed Securities Index** tracks the performance of fixed-rate agency mortgage-backed securities (MBS) guaranteed by the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Freddie Mac (FHLMC).

The **Bloomberg Commodity Total Return Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

Consumer-price indexes measure changes in the price level of a weighted-average market basket of consumer goods and services purchased by households. A consumer price index is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

Producer-price indexes (PPI) measure the average change over time in selling prices received by domestic producers of goods and services.

The **S&P 500 Index** is a market-weighted index that tracks the performance of the 500 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

Corresponding Indexes for Fixed-Income Performance Exhibit

U.S. High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Global Treasury Index
Global Non-Government	Bloomberg Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg US Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg US Asset Backed Securities Index
U.S. Treasurys	Bloomberg US Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg 1-10 Year US TIPS Index
U.S. Investment-Grade Corporates	Bloomberg US Corporate Bond Index

Corresponding Indexes for Regional Equity Performance Exhibit

United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex U.K.	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

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There are risks involved with investing, including loss of principal. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Narrowly focused investments and smaller companies typically exhibit higher volatility. Bonds and bond funds will decrease in value as interest rates rise. High-yield bonds involve greater risks of default or downgrade and are more volatile than investment-grade securities, due to the speculative nature of their investments.

Diversification may not protect against market risk. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.

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