WEEKLY MARKET RECAP: October 02 – October 06, 2023

Happy Friday, traders.

Welcome to our weekly market wrap, where we look back at these last five trading days with a focus on the market news, economic data and headlines that had the most impact on the financial market – and may continue to into the future for the US Dollar and other key correlated assets.

Resilient economic activity during the third quarter helped spur excitement for a “soft-landing” of the U.S. economy. However, the quarter was less exciting for financial markets, which struggled as investors re-positioned for higher rates for longer. In fact, of the nine asset classes shown in the chart of the week, only two saw positive gains.

Commodities had a strong quarter, finishing up 4.7%. This gain can be attributed to higher energy prices, which jumped as supply cuts from Russia and Saudi Arabia raised concerns of an imbalance in the oil market. The U.S. fixed income market struggled as yields climbed (10-yr yields +73bps QTD) to their highest levels since 2007 due to continued hawkishness from the Fed on the back of strong economic data and hefty supply coming to market. However, resilient earnings and a slight moderation in default rates helped spare global high yield from the broader market sell-off. Within the U.S. equity market, large and small caps were down, as the AI driven rally earlier in the quarter left valuations stretched and proved to be unsustainable. Additionally, while earnings came in stronger than expected, corporate guidance was pessimistic. In international markets, a stronger U.S. dollar and weakening growth in Europe and China weighed on returns, with DM and EM equities down by 4.0% and 2.8%, respectively. However, India and Japan were bright spots, with both countries outperforming their respective indices.

Moving forward, as economic tailwinds fade and headwinds build along with tighter monetary policy, investors should continue to diversify. Moreover, some asset classes still look expensive despite this quarter’s sell-off, and investors should use active management to lean into underappreciated asset markets.

Thanks for reading! Have a great weekend.

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