



Glen Eagle

Faith Family Firm®

October 2023 Investment Commentary

With less than 100 days left in 2023, an outside spectator might reasonably assume that it has been a positive year for the stock market, with the S&P 500 up nearly 12%. However, with a closer look, the story becomes more complicated. Almost the entirety of the stock market's growth has come from just seven stocks (Microsoft, Nvidia, Apple, Meta, Tesla, Google, and Amazon) that have benefited from the excitement over artificial intelligence. The remaining 493 stocks in the S&P 500 have done very little, with the median stock in the index only growing 0.4% this year.⁽¹⁾

The magnitude of this overconcentration of performance in so few stocks has resulted in the American stock market becoming less diversified. In fact, the ten largest stocks alone now represent 32% of the entire market's value. To put this in context, the combined value of every publicly traded utility company in the S&P 500 only accounts for around one-third of the entire market value of Apple, which is now worth over \$2.7 trillion.⁽¹⁾

Interestingly, when our Investment Committee members sat down to discuss the markets, it was not this overconcentration that drove most of the discussion. Instead, it was the rapid drop in investor optimism that has occurred since July, when 46.4% of all individuals reported that they were optimistic about the stock market's future.⁽²⁾ As you may recall, in our last quarterly commentary, we mentioned that "the risks to the economy have not fundamentally changed since the start of the year. The Federal Reserve is still maintaining interest rates at their highest level in over a decade, and the impact of the policy is only now starting to be felt."

The question becomes why sentiment has dropped so quickly and whether the current levels of fear are validated in the data. To help answer this inquiry, we found it helpful to identify the greatest headwinds we face:

- **Interest Rates:** To combat the rampant inflation that sprang up after the pandemic, the Federal Reserve raised interest rates over the past two years at the fastest pace in history. Two years ago, the yield on a two-year treasury was 0.28%. Today, it is 5.05%!⁽¹⁾ Investors responded to this rapid change by moving over \$5 trillion dollars into money market funds that could provide them with both safety and an attractive return.
 - *Implications:* Any excess cash that is needed for an "emergency fund" or short-term goals in the next 1-3 years can be moved into money market funds or short-term treasuries. Large sums of cash sitting in savings accounts at large banks are often providing a yield of less than 1%. Longer-term investors, however, should not fall into the trap of moving money out of the stock market. The last two times there was a record peak in the amount of money placed in money market funds (2003 and 2009), the stock market went on to have an average annual return over the next three years of 16.4% and 19.2%, respectively, while the average money market fund return over the same period was a mere 1.4% and 0.1% (failing to beat even inflation).⁽³⁾
- **Shrinking Savings:** A recent Federal Reserve study revealed that the bottom 80% of Americans now have less cash in their bank deposits and other liquid assets than they did prior to the pandemic.⁽⁴⁾ This indicates that consumers are likely to start restricting their spending over the next year. Interestingly, 60.8% of consumers reported that it is harder to attain a loan than in the past, and those who are successful at getting credit find that they are paying higher interest rates than they have over the past two decades.⁽⁵⁾
 - *Implication:* If the economy continues to slow down, the likelihood of a recession and/or short-term market correction increases. Looking back at the last ten market declines, certain stock sectors outperformed others. For example, the last ten most recent declines showed that the utilities, consumer staples, and healthcare stock sectors have outperformed the S&P 500 90% of the time. This performance is in stark

4422C Route 27, Kingston, NJ 08528

Business: (609)-631-8231 Fax: (609)-631-8237

Securities offered through Glen Eagle Wealth, LLC, member of FINRA, SIPC and MSRB.

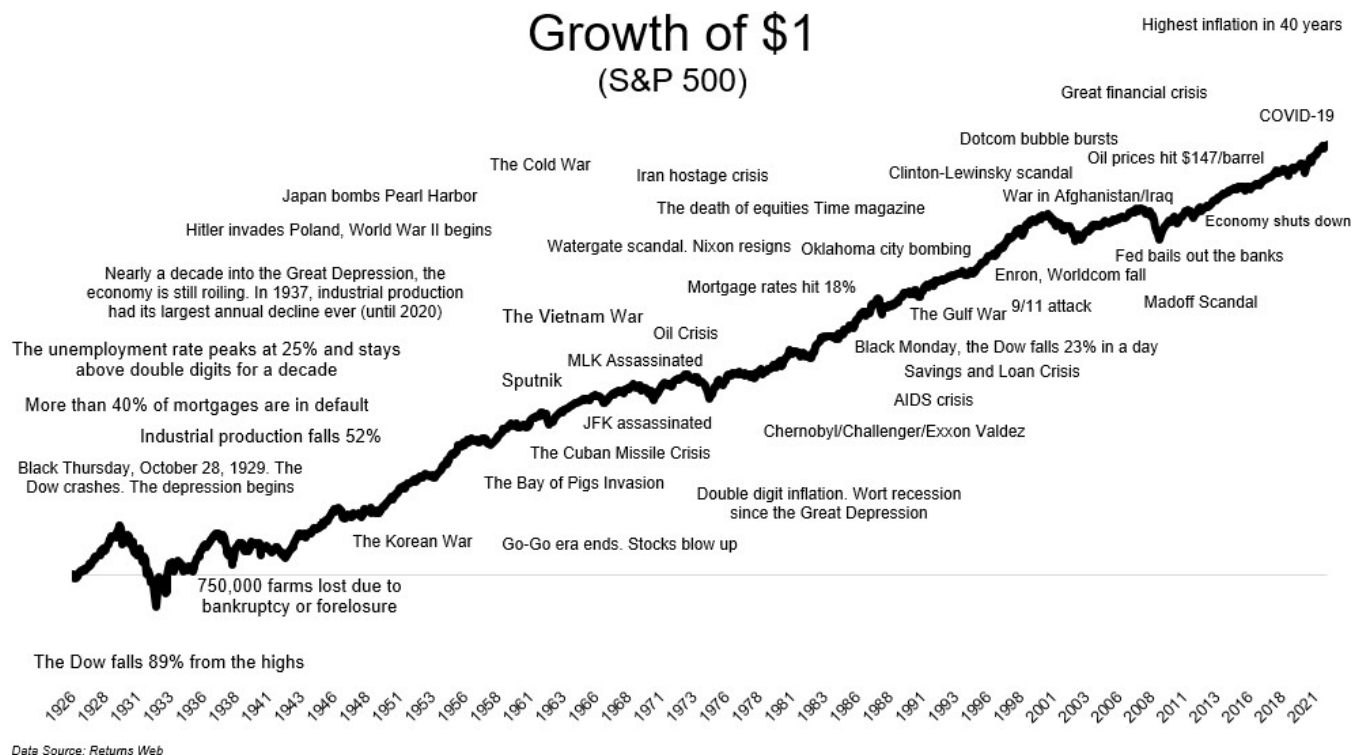
Advisory Services offered through Glen Eagle Advisors, LLC

www.gleneagleadv.com

contrast to other sectors, such as industrials and financials, that underperformed the overall stock market.⁽⁶⁾

- **Israel Conflict:** The surprise attack against Israel earlier this month by the Palestinian terrorist group Hamas marks the latest fighting in a seven-decade struggle.⁽⁷⁾ While the conflict has not drawn military responses from other countries yet, there is fear that the geopolitical risk could rise rapidly should the surrounding Muslim-majority Middle Eastern nations choose to become more involved militarily or economically.
 - *Implication:* Many commentators believe this conflict will be reminiscent of 1973, when the Arab nations imposed an oil embargo sending oil prices skyrocketing up to \$150 per barrel. This is unlikely, however, because back in 1973, we were the world's largest petroleum importer, whereas today, we are a net exporter due to the shale fracking revolution.

While it is important to acknowledge and plan for the headwinds we face, such as those summarized above, it is also important to remember the benefit of staying invested over the long run. Below is a historical chart of the S&P 500 that shows the power of staying invested even during turbulent times.⁽⁸⁾



During this season of thankfulness, we wish each of you and your families a safe and blessed holiday.

The Michel Team

Susan, Rob & Carol Ann

Disclosure: This commentary is furnished for the use of Glen Eagle Advisors, LLC, an SEC Registered Investment Advisor; Glen Eagle Wealth, LLC, Member FINRA & SIPC. The information presented is believed to be factual and up to date, but we do not guarantee its accuracy and is subject to change without notice. Commentary is for informational purposes only and is not meant to be investment advice or a recommendation of securities to any individual. It is not prepared with respect to the specific objectives, financial situation, or particular needs of any specific person. Investors reading this commentary should consult with their Glen Eagle representative regarding the appropriateness of investing in any securities or adapting any investment strategies discussed in this commentary.

1. AMG Bespoke Report – Equity Market Pros and Cons 2. American Association of Individual Investors Sentiment Survey 3. BlackRock Student of the Market May 2023 “Money market assets reach a historic peak” 4. Bloomberg - “Only Richest 20% of Americans Still Have Excess Pandemic Savings” 5. Bespoke Daily – “Friday the 13th” 6. Capital Group: Guide to Recessions 2023 Edition 7. Reuters – “What’s the Israel-Palestinian conflict about and how did it start?” 8. The Irrelevant Investor – A Reminder of What’s Important

4422C Route 27, Kingston, NJ 08528

Business: (609)-631-8231 Fax: (609)-631-8237

Securities offered through Glen Eagle Wealth, LLC, member of FINRA, SIPC and MSRB.

Advisory Services offered through Glen Eagle Advisors, LLC

www.gleneagleadv.com