ANCHOR
Investment Management, LLC

Q3 COMMENTARY 2023

October 16, 2023

Market/Index	2020 Close	2021 Close	2022 Close	2022 Change	As of 09/30/23	2023 Change
DJIA	30,606.48	36,338.30	33,147.25	-8.78%	33,507.50	1.09%
NASDAQ	12,888.28	15,644.97	10,466.48	-33.10%	13,219.32	26.30%
S&P 500	3,756.07	4,766.18	3,839.50	-19.44%	4,288.05	11.68%
Prime Rate	3.25%	3.25%	7.50%	4.25%	8.50%	1.00%
10-year Treasury	0.93%	1.52%	3.88%	2.36%	4.59%	0.71%

September has certainly lived up to its reputation as a challenging month for financial markets. As we end the third quarter of 2023, we find ourselves navigating a landscape filled with uncertainties; but we believe that with the right perspective and strategy, we can continue to grow and protect your wealth effectively.

Government Concerns

A year ago we wrote about the British Prime Minister Liz Truss's efforts to enact one sided tax cuts that almost caused a global panic in financial markets. Liz Truss stepped down after being in office only 50 days and will be remembered as being the shortest serving Prime Minister in British history. We chuckled about it at the time because the issue happened so fast and was repaired so quickly that most people didn't know there was a problem until it was over.

American politics is now like watching a train wreck in slow motion. As of today, we have a former President who is currently on trial for one of four current indictments that total 91 felony charges. The sitting President is currently under an impeachment inquiry by the U.S. House of Representatives for allegedly using his political office to enrich his family in business deals with foreign entities. The U.S. House of Representatives couldn't agree on a budget and nearly caused a government shutdown that spooked markets for weeks until a last-minute deal by the Speaker of the House with the opposing party. That same Speaker of the House was then voted out of office by 8 members of his own party for the first time in history. The two Presidents under indictment and impeachment inquiries, both of whom are over 77 years old, appear to be the most likely candidates for President in the next election because neither party can groom a candidate that the public thinks is better qualified. We used to laugh at political theatre, but it's not funny any longer.

Political stability is a cornerstone of Democracy, and it gives capitalism a safe place to thrive. Markets perform better when we know what to expect, so let's hope for some sense of normalcy in the near future.

Higher Interest Rates

As we expected, the Federal Reserve stopped raising interest rates after 11 consecutive rate hikes going back to March 2022, but policymakers have also indicated their intent to keep policy rates "higher for longer" to combat inflation. This stance has led to a surge in bond yields, causing discomfort for bond investors. The lag, or catch-up effect, of rising rates is now being felt. Our economic strength was high enough to absorb the early rate increases, but interest rates have not been at current levels for the last 15 years. It will take the market some time to digest the ripple effects. On a good note, Anchor bond purchases typically have maturities of three years or less. Your bond portfolio has performed well in this environment.

From an investment perspective, the recent market correction has brought stock valuations to more reasonable levels. The S&P 500 is currently trading just above its long-term average price-to-earnings ratio. When we exclude the mega-cap companies that have led the market rally, the valuation picture looks even more attractive.

Lingering Inflation

Rising energy prices have been a source of concern, with WTI crude oil reaching as high as $95 per barrel. This surge has pushed up gasoline prices, impacting consumers' wallets. Additionally, labor market tensions and strikes for better pay have raised concerns about wage pressures and their impact on prices.

However, we believe these dynamics won't undo the Federal Reserve's progress on inflation control. Several factors suggest that inflation could cool down over the next year, albeit with some bumps along the way. The decline in rent prices for new leases indicates softer shelter inflation. Moreover, recent negotiations between labor unions and companies have shown that compromise is possible, minimizing the broader economic impact of work stoppages.

Consumer Challenges

The consumer landscape presents its own set of challenges. Excess savings accumulated during the pandemic have largely been depleted, and higher energy prices have added to the burden. Additionally, 30-year fixed mortgage rates have risen significantly, exceeding 7% for the first time in over 20 years, which could impact the housing market. Credit card delinquencies are increasing, albeit from a low base, and the end of the student debt moratorium may affect millennials' financial stability.

While these challenges are noteworthy, they don't appear sufficient to break the resilience of the broader consumer base. Most individuals who want employment have found it in the strong labor market, with 1.4 job openings available for every unemployed person.

Overall, household finances remain robust, with U.S. consumer balance sheets at an all-time high and household debt service levels looking manageable.

Investment Considerations: Navigating Uncertainty

In conclusion, while the current market environment is filled with uncertainties and potential risks, it's essential to maintain a long-term perspective. History has shown that markets will always climb the proverbial "wall of worry," even if it takes some time.

We acknowledge that there may be more market volatility and occasional downturns along the way, but the potential for higher markets over the next year remains.

Your financial well-being remains our top priority, and our team is here to help you navigate these market dynamics and make informed investment decisions. If you have any questions or concerns, please do not hesitate to reach out to us.

We appreciate your trust and confidence and look forward to seeing you at our Annual Party on Tuesday, November 7, 2023.

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