



CAPSTONE  
FINANCIAL ADVISORS

## Quarterly Market Review



Q3 2023



# Quarterly Market Review

THIRD QUARTER 2023

- ❑ This report features Capstone market commentary, world capital market performance data, and a timeline of events for the past quarter.
- ❑ It starts with our commentary about what's been happening lately in the markets.
- ❑ It contains returns data for major public market asset classes including equities (stocks), fixed income (bonds), real estate (REITs), and commodities.
- ❑ It concludes with our updated market outlook.

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# Market Review

## CAPSTONE COMMENTARY



### STOCK MARKETS REVERSED COURSE IN THE THIRD QUARTER AS BULLISH SENTIMENT FADED

- Global stock markets declined in the third quarter, reversing their prior nine months of strong positive return trends.
- Better-than-expected second-quarter earnings releases and declining inflation helped push stock markets higher in July. However, forward-looking corporate guidance was generally pessimistic based on a weakening economic outlook.
- Bullish investor sentiment eventually faded as the continued rise in longer-term interest rates—which started in August and sharply accelerated in September—proved too much for the stock markets to overcome.

### BOND MARKETS DECLINED IN THE THIRD QUARTER AMID SHIFTING EXPECTATIONS ABOUT FED POLICY







- Global bond markets declined in the third quarter as interest rates increased across most developed markets, particularly in the U.S., amid persistent economic growth and above-average inflation.
- Throughout the quarter, it became more apparent that the U.S. Federal Reserve (the Fed) will keep interest rates at or near current levels for longer than markets previously expected.
- Based on strong economic data, the Fed signaled in September that most of its members expect one more 0.25% rate hike this year (versus prior market expectations of no more hikes), and potentially only two 0.25% rate cuts in 2024 (versus prior market expectations of up to five cuts).

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# Market Returns Summary (Q3)

## INDEX RETURNS

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q3 2023	STOCKS				BONDS	
	-3.25%	-4.10%	-2.93%	-6.49%	-3.23%	-0.78%
						
Since Jan. 2001						
Average Quarterly Return	2.2%	1.5%	2.4%	2.1%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	<b>2020 Q2</b>	<b>2009 Q2</b>	<b>2009 Q2</b>	<b>2009 Q3</b>	<b>2001 Q3</b>	<b>2008 Q4</b>
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	<b>2008 Q4</b>	<b>2020 Q1</b>	<b>2008 Q4</b>	<b>2008 Q4</b>	<b>2022 Q1</b>	<b>2022 Q1</b>

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2023, all rights reserved. Bloomberg data provided by Bloomberg.



# Market Returns Summary (Long-Term)

INDEX RETURNS AS OF SEPTEMBER 30, 2023

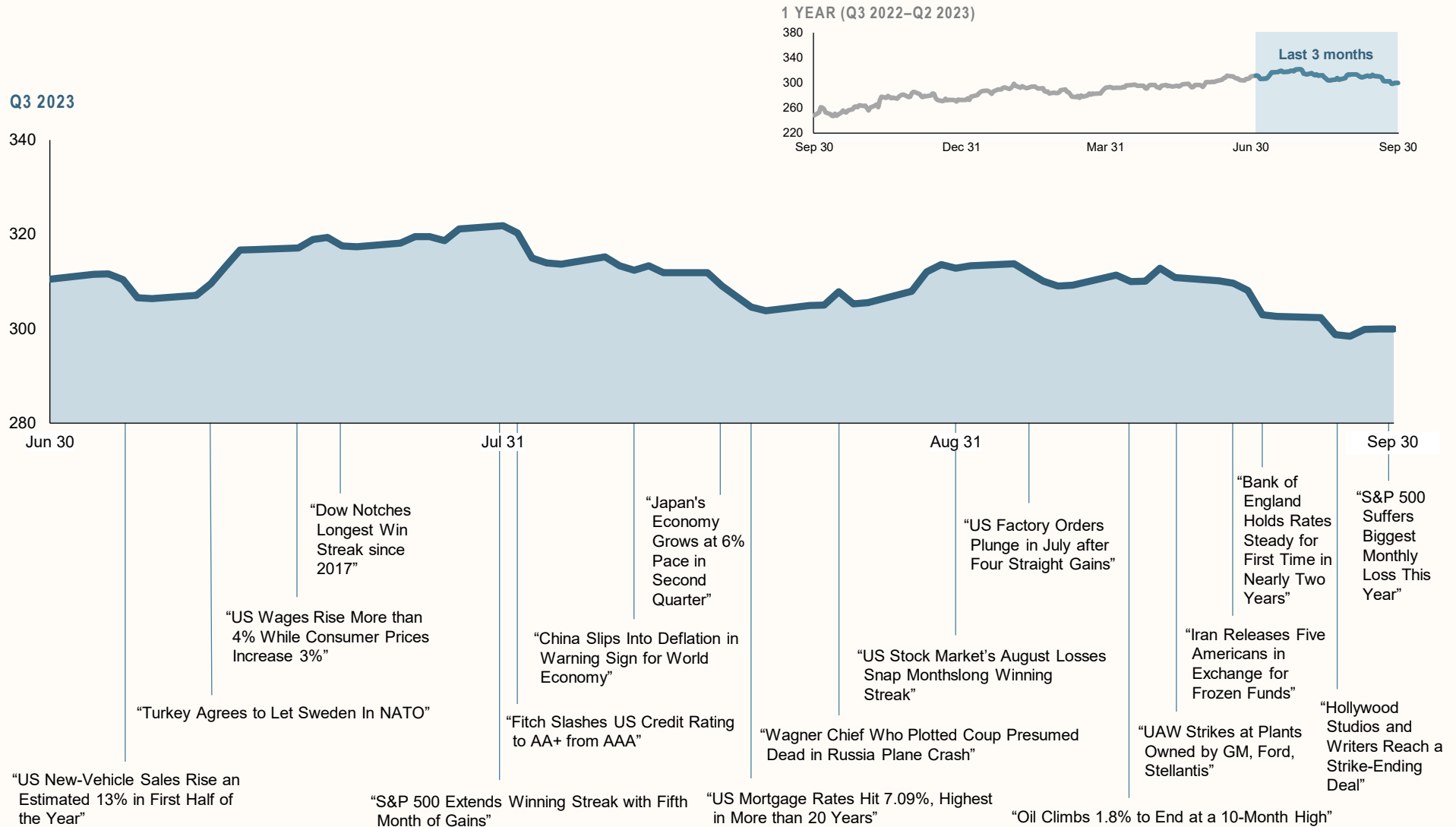
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	20.46%	24.00%	11.70%	2.03%	0.64%	2.99%
	↑	↑	↑	↑	↑	↑
5 Years						
	9.14%	3.44%	0.55%	0.01%	0.10%	0.83%
	↑	↑	↑	↑	↑	↑
10 Years						
	11.28%	3.84%	2.07%	3.12%	1.13%	2.30%
	↑	↑	↑	↑	↑	↑

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# World Stock Market Performance

## MSCI ALL COUNTRY WORLD INDEX WITH SELECTED HEADLINES FROM Q3 2023



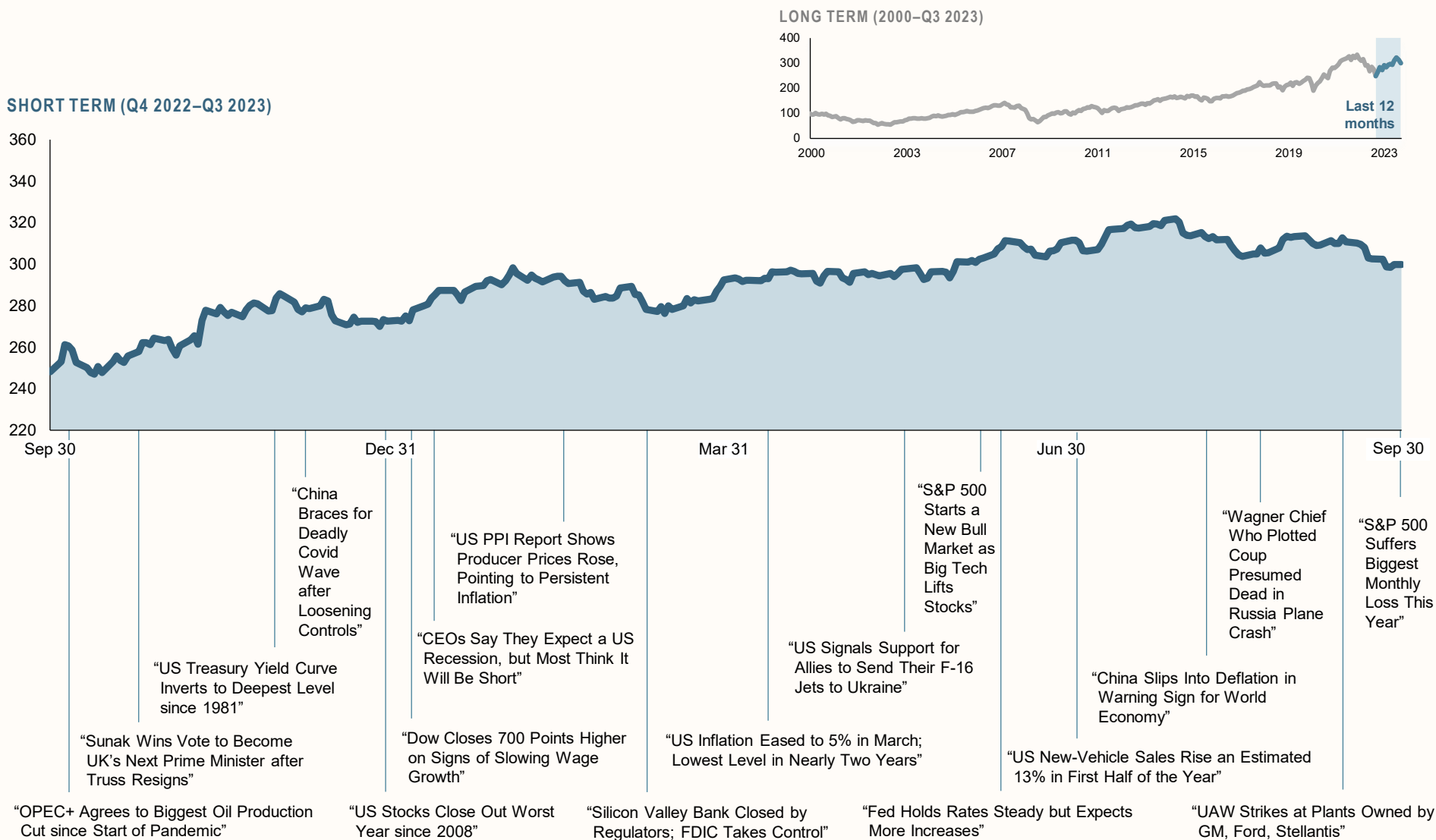
*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2000. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.



# World Stock Market Performance

MSCI ALL COUNTRY WORLD INDEX WITH SELECTED HEADLINES FROM PAST 12 MONTHS



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2000. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

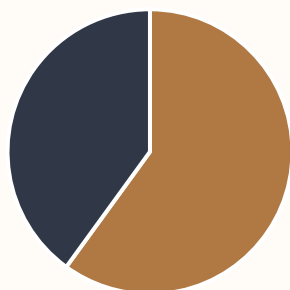


# US Stocks

## THIRD QUARTER 2023 INDEX RETURNS

- The US equity market posted negative returns for the quarter and outperformed non-US developed markets, but underperformed emerging markets.
- Value stocks underperformed growth stocks within large caps, and outperformed within small caps.
- Small cap stocks underperformed large cap stocks.

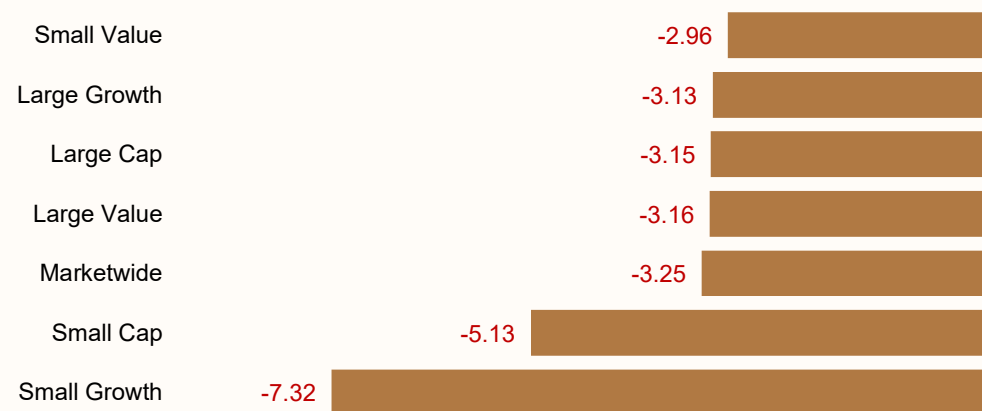
### WORLD MARKET CAPITALIZATION—US



61%

US Market  
\$41.8 trillion

### Q3 RANKED RETURNS (%)



### PERIOD RETURNS (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Small Value	-2.96	-0.53	7.84	13.32	2.59	6.19
Large Growth	-3.13	24.98	27.72	7.97	12.42	14.48
Large Cap	-3.15	13.01	21.19	9.53	9.63	11.63
Large Value	-3.16	1.79	14.44	11.05	6.23	8.45
Marketwide	-3.25	12.39	20.46	9.38	9.14	11.28
Small Cap	-5.13	2.54	8.93	7.16	2.40	6.65
Small Growth	-7.32	5.24	9.59	1.09	1.55	6.72

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Value (Russell 1000 Value Index), Large Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Value (Russell 2000 Value Index), and Small Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. MSCI data © MSCI 2023, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.





# International Developed Stocks

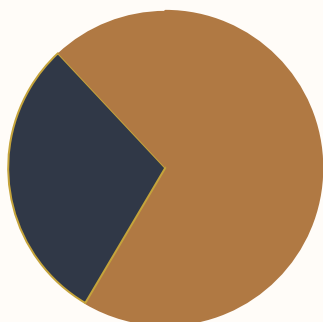
## THIRD QUARTER 2023 INDEX RETURNS

- International developed markets posted negative returns for the quarter and underperformed both US and emerging markets.
- Value stocks outperformed growth stocks.
- Small cap stocks outperformed large cap stocks.
- Foreign currency depreciation (relative to the US dollar) detracted from international developed market returns.

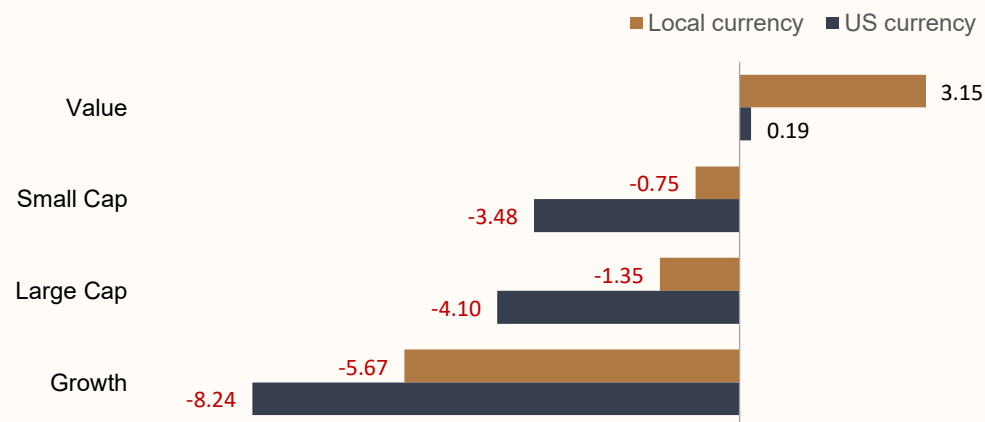
### WORLD MARKET CAPITALIZATION—INTERNATIONAL DEVELOPED

28%

International Developed Market  
\$19.1 trillion



### Q3 RANKED RETURNS (%)



### PERIOD RETURNS (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Value	0.19	9.13	28.89	11.64	3.05	3.05
Small Cap	-3.48	1.83	17.32	1.85	1.28	4.13
Large Cap	-4.10	6.73	24.00	6.07	3.44	3.84
Growth	-8.24	4.38	19.27	0.47	3.37	4.36

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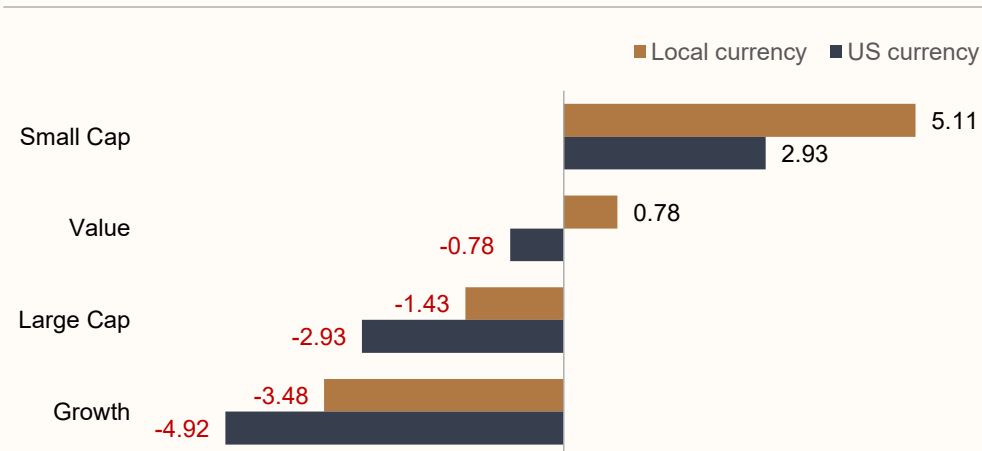


# Emerging Markets Stocks

## THIRD QUARTER 2023 INDEX RETURNS

- Emerging markets posted negative returns for the quarter and outperformed both US and non-US developed markets.
- Value stocks outperformed growth stocks.
- Small cap stocks outperformed large cap stocks.
- Foreign currency depreciation (relative to the US dollar) detracted from emerging market returns.

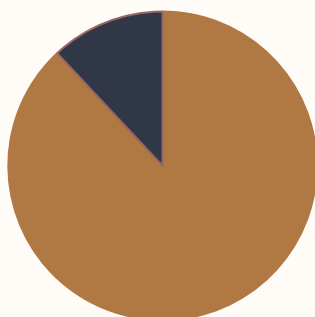
### Q3 RANKED RETURNS (%)



### WORLD MARKET CAPITALIZATION—EMERGING MARKETS

11%

Emerging Markets  
\$7.6 trillion



### PERIOD RETURNS (%)

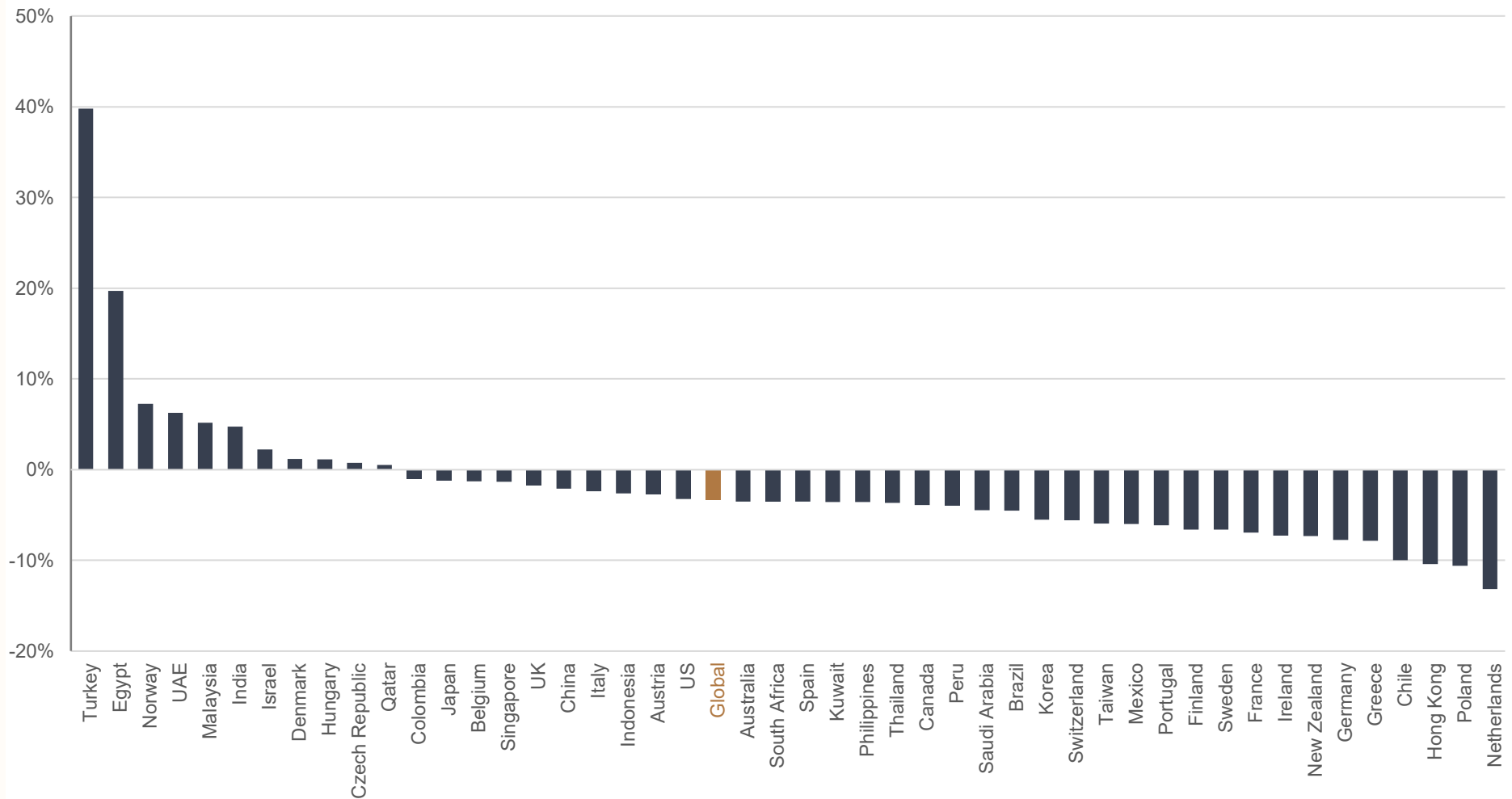
Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Small Cap	2.93	13.74	23.06	10.61	6.45	4.57
Value	-0.78	5.70	16.03	4.40	0.38	1.21
Large Cap	-2.93	1.82	11.70	-1.73	0.55	2.07
Growth	-4.92	-1.76	7.71	-7.19	0.63	2.83

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# Country Returns

## THIRD QUARTER 2023 INDEX RETURNS



**Past performance is no guarantee of future results.** Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. MSCI data © MSCI 2023, all rights reserved.

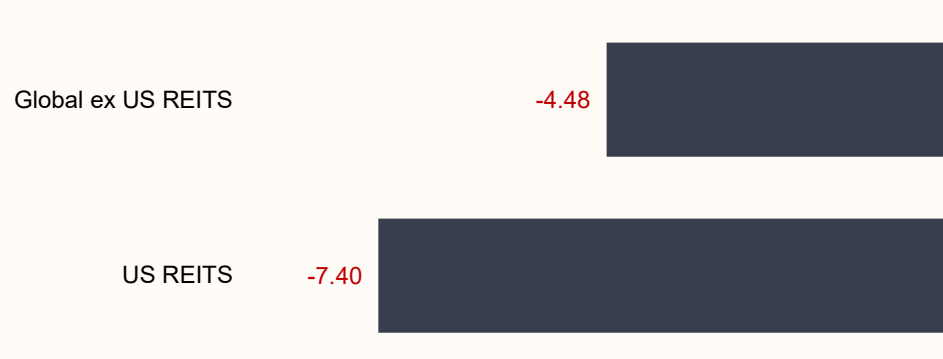


# Real Estate Investment Trusts (REITs)

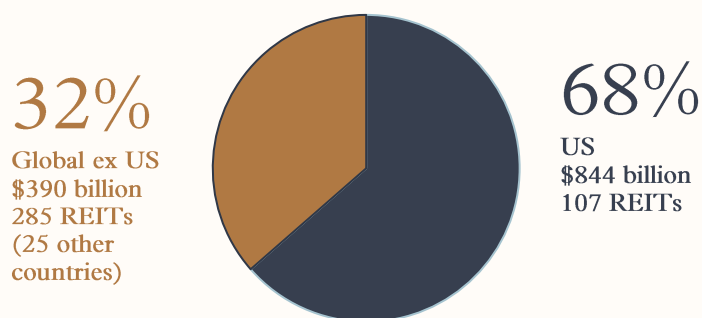
## THIRD QUARTER 2023 INDEX RETURNS

- Public real estate investment trusts (public REITs) broadly underperformed stock markets during the quarter.
- US REITS underperformed non-US REITs during the quarter.

### RANKED RETURNS (%)



### TOTAL VALUE OF REIT STOCKS



### PERIOD RETURNS (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Global ex US REITs	-4.48	-8.16	2.30	-2.67	-3.22	0.41
US REITs	-7.40	-2.05	2.61	6.12	1.56	5.28

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



# Commodities

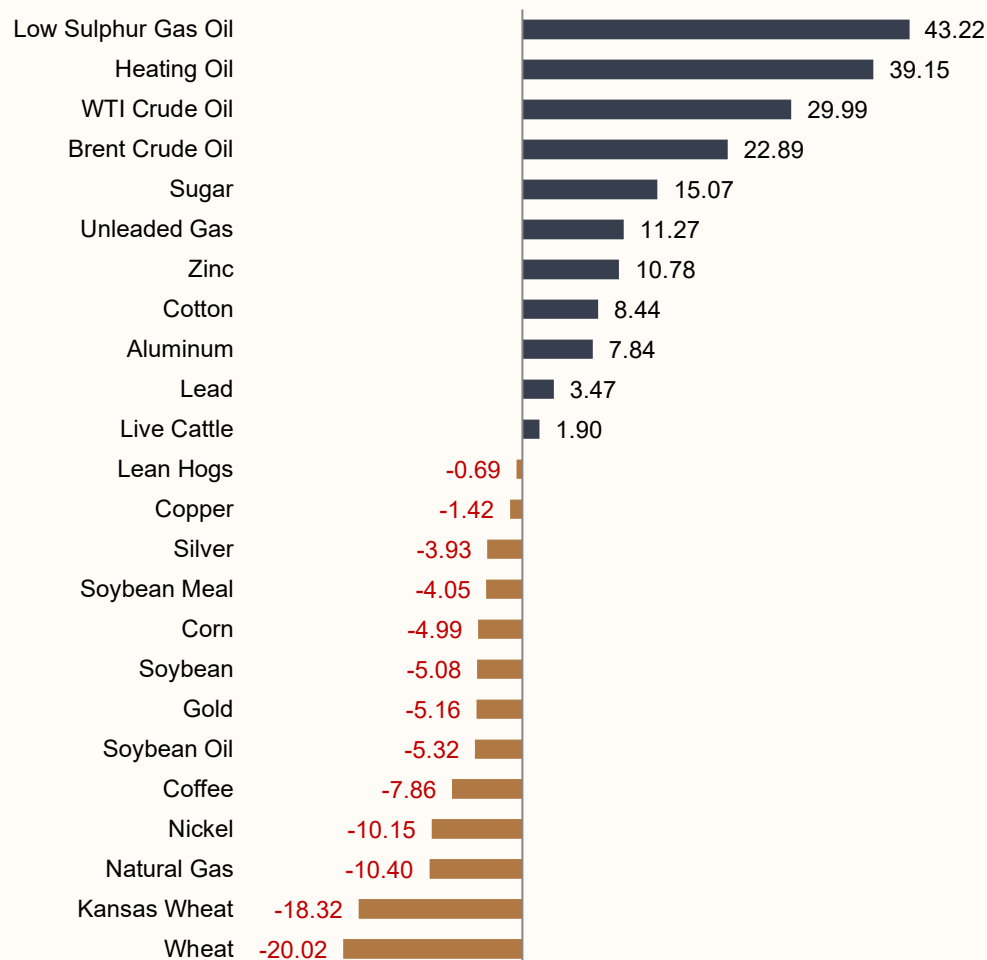
## THIRD QUARTER 2023 INDEX RETURNS

- Commodities broadly increased +4.71% in the third quarter of 2023.
- Low Sulphur Gas Oil and Heating Oil were the best performers, returning +43.22% and +39.15% during the quarter, respectively.
- Wheat and Kansas Wheat were the worst performers, returning -20.02% and -18.32% during the quarter, respectively.

### PERIOD RETURNS (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Commodities	4.71	-3.44	-1.30	16.23	6.13	-0.75

### Q3 RANKED RETURNS (%)



Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

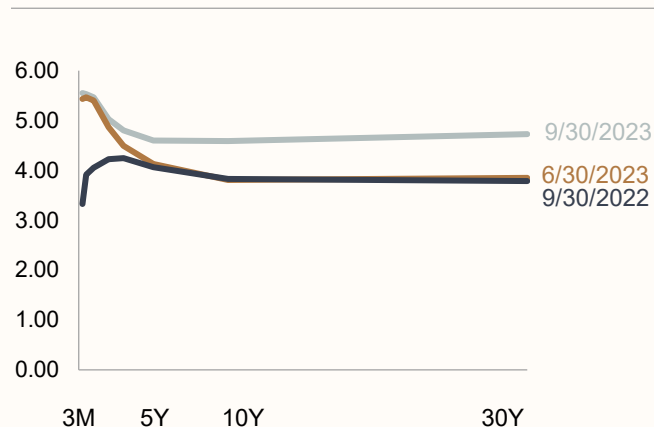


# Fixed Income

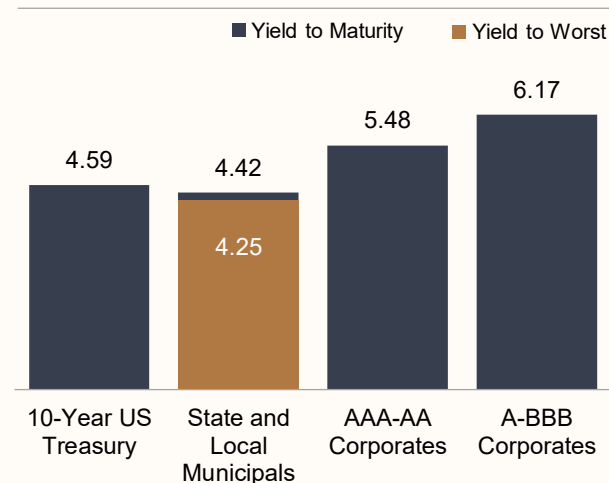
## THIRD QUARTER 2023 INDEX RETURNS

- Interest rates increased across all bond maturities in the US Treasury market for the quarter.
- On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 31 basis points (bps) to 5.55%, while the 1-Year US Treasury Bill yield increased 6 bps to 5.46%. The yield on the 2-Year US Treasury Note increased 16 bps to 5.03%.
- The yield on the 5-Year US Treasury Note increased 47 bps to 4.60%. The yield on the 10-Year US Treasury Note increased 78 bps to 4.59%. The yield on the 30-Year US Treasury Bond increased 88 bps to 4.73%.
- In terms of total returns, short-term US treasury bonds returned +0.17% while intermediate-term US treasury bonds returned -0.81%. Short-term corporate bonds returned +0.25% and intermediate-term corporate bonds returned -0.96%.<sup>1</sup>
- The total returns for short- and intermediate-term municipal bonds were -0.94% and -2.96%, respectively. Within the municipal fixed income market, general obligation bonds returned -4.10% while revenue bonds returned -4.04%.<sup>2</sup>

US TREASURY YIELD CURVE (%)



BOND YIELD ACROSS ISSUERS (%)



PERIOD RETURNS (%)

Asset Class	QTR	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
ICE BofA US 3-Month Treasury Bill Index	1.31	3.60	4.47	1.70	1.72	1.11
ICE BofA 1-Year US Treasury Note Index	1.21	2.90	3.68	0.60	1.46	1.00
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.56	2.10	2.68	-1.05	1.03	1.15
Bloomberg U.S. High Yield Corporate Bond Index	0.46	5.86	10.28	1.76	2.96	4.24
FTSE World Government Bond Index 1-5 Years	-1.01	-0.15	3.68	-3.80	-0.84	-1.00
Bloomberg U.S. TIPS Index	-2.60	-0.78	1.25	-1.98	2.12	1.74
Bloomberg U.S. Aggregate Bond Index	-3.23	-1.21	0.64	-5.21	0.10	1.13
Bloomberg Municipal Bond Index	-3.95	-1.38	2.66	-2.30	1.05	2.29
Bloomberg U.S. Government Bond Index Long	-11.79	-8.50	-9.04	-15.66	-2.78	0.75

1. Bloomberg US Treasury and US Corporate Bond Indices.

2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2023 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2023 ICE Data Indices, LLC. S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg.



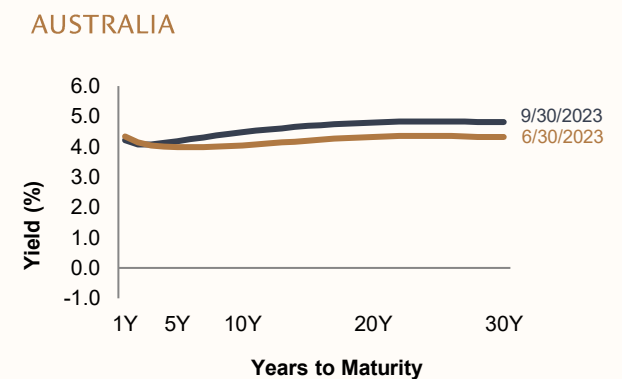
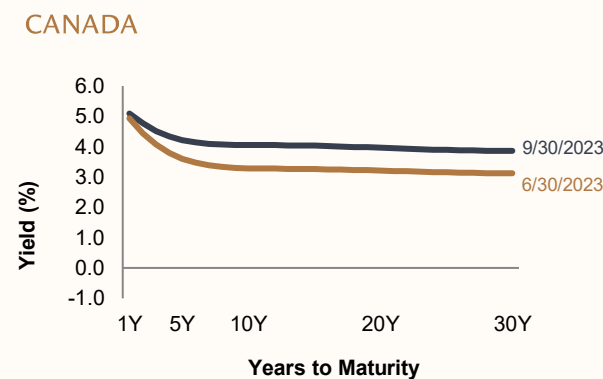
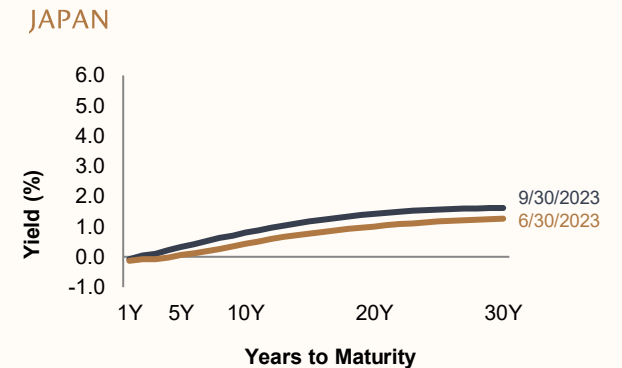
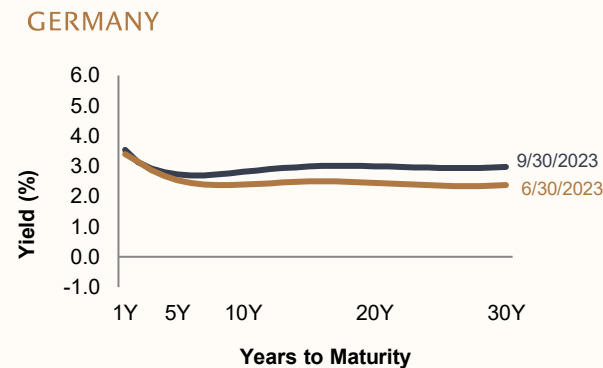
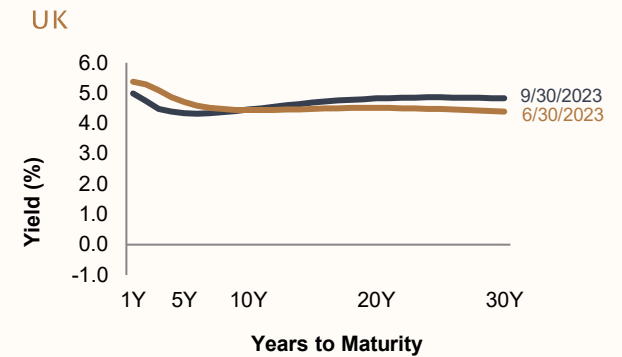
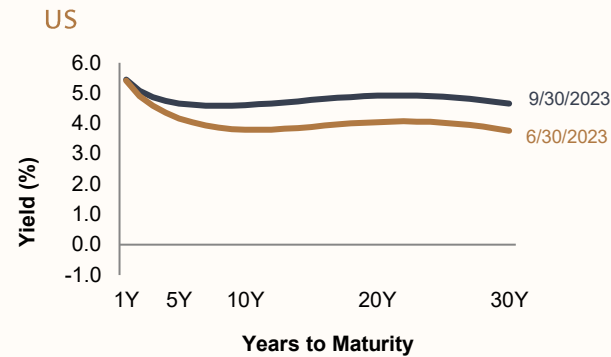
# Global Fixed Income

## THIRD QUARTER 2023 YIELD CURVES

- With the exception of the UK and Australia, interest rates generally increased across global developed markets for the quarter. In the UK, short- to intermediate-term rates decreased. In Australia, ultrashort-term rates decreased.
- Realized term premiums were generally negative across global developed markets.
- In Japan, ultrashort-term nominal interest rates were negative. In the UK, Germany, Canada, and Australia, the short-term segment of the yield curve was inverted.

### CHANGES IN YIELDS (BPS) SINCE 6/30/2023

	1Y	5Y	10Y	20Y	30Y
US	3.4	49.2	81.2	86.5	89.4
UK	-39.4	-36.3	1.7	31.2	43.4
Germany	14.7	18.7	42.1	54.6	60.4
Japan	6.0	26.1	36.2	41.9	36.3
Canada	15.6	61.8	76.7	75.2	73.7
Australia	-11.0	20.5	42.8	47.8	49.7



# Market Outlook

## CAPSTONE COMMENTARY



### THE RECENT STOCK MARKET PULLBACK DOESN'T NECESSARILY MEAN BIG DECLINES AHEAD, IN FACT, GAINS COULD RESUME IN THE FOURTH QUARTER

- **Heading into the final months of 2023, material stock market declines will likely subside. The recent stock market pullback has already removed a lot of market froth (when prices get ahead of intrinsic values) and tempered investor euphoria.**
- **We noted that stock market valuations had increased materially amid bullish investor sentiment in our previous quarterly market outlook. However, after the global stock market pullback in the third quarter (a nearly 7% decline from July 31st to September 26th)<sup>1</sup>, investor sentiment has turned negative.**
- **Stock market gains could resume in the fourth quarter, particularly if more companies and sectors (beyond large-capitalization technology stocks) appreciate meaningfully.**
- **As we mentioned in our previous quarterly market review, outsized gains in large-cap tech stocks (partly due to expectations around AI) contributed nearly all of the aggregate stock market gain this year. Many other sectors and areas of the market have materially underperformed, including profitable, less expensive value stocks and most mid and small-capitalization stocks.**
- **Broader stock market participation would likely occur if positive economic growth and elevated inflation continue and interest rates remain at current levels for longer.**

1 Sources: YCharts, MSCI. Global stocks represented by the MSCI All-Country-World Investible Market Index (IMI) Net Total Return USD, fell -6.89% from July 31st 2023 to September 26th.

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# Market Outlook

## CAPSTONE COMMENTARY



### BOND MARKETS ARE LIKELY TO STABILIZE, AND HIGHER YIELDS WILL BOOST FUTURE BOND RETURNS

- The bond market volatility investors have experienced for the last several quarters should stabilize soon.
- The significant rise in interest rates over the past year and a half has pushed yields on long-term U.S. treasury bonds - benchmarks for home mortgages and other essential consumer and business borrowing rates—to their highest level since October 2007.
- At this point, it's fair to say that treasury yields have already priced in a "higher for longer" scenario, which should remove a key source of downside volatility for the bond markets going forward.
- Bond markets are priced to deliver higher (positive) long-term returns. Better future bond performance is primarily due to higher starting yields (e.g., 5% to 6%)<sup>2</sup> that investors can earn on high-quality (investment-grade) bonds.
- Secondly, because the economy and inflation are likely to slow, we are much closer to the end of the current rate hiking cycle. The longer central banks keep rates high, the longer investors have to benefit from higher bond yields.
- Moreover, when the economy and inflation slow enough, central banks will inevitably start to cut rates, resulting in bond price appreciation.

<sup>2</sup> Source: Bloomberg. The yield-to-worst of the Bloomberg U.S. Aggregate Bond Index was 5.39% as of 09-30-2023.

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