Goodman Financial
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY

AUGUST 2023 MARKET COMMENTARY

EQUITY & FIXED INCOME MARKETS COMMENTARY

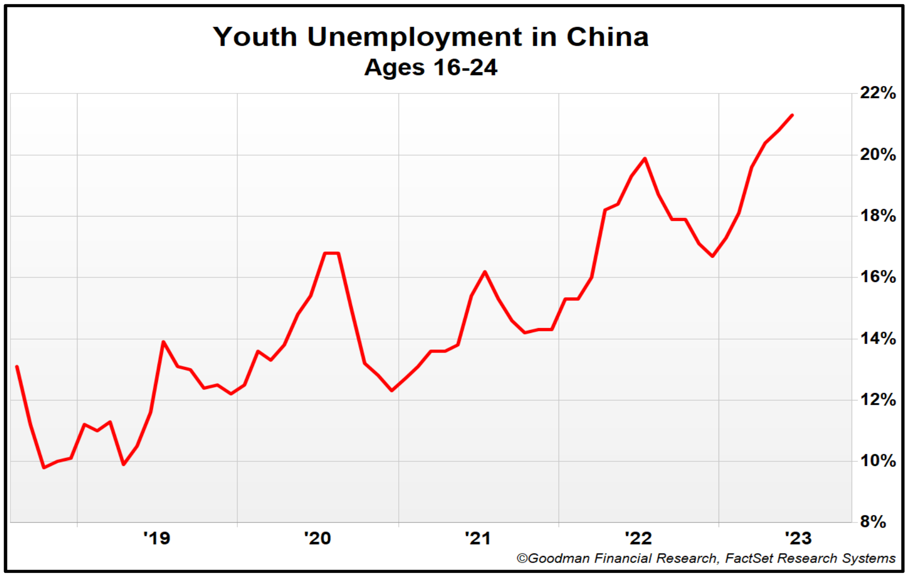
Stocks were broadly lower in August. The S&P 500 closed down -1.6%, ending a five month winning streak. The Blended Equity benchmark lost -2.5% in August, as the Mid-Cap S&P 400 and the Small-Cap S&P 600 Indices were down -2.9% and -4.1%, respectively. International stock indices also posted losses in August, with developed markets and emerging markets down -4.1% and -6.4%, respectively. Bond indices had mixed returns for the month, as the 10-year U.S. Treasury bond yield rose to 4.09%, from 3.95% last month

CHINA – A HOUSE OF CARDS?

Hailed as an economic powerhouse and a global manufacturing hub, China is currently grappling with a multitude of challenges that have cast shadows over its economic stability. As the world's economic growth engine for the past decade and the second largest economy, any economic weakness can, and probably will, negatively impact other countries' growth, including the U.S. A number of factors point to a faltering economy that threatens to weigh negatively on global growth. Let's highlight a few of those concerns:

- The Chinese property market, especially for residential properties, is in a freefall. A number of large, national property developers have defaulted on some of their debt. One of China's largest developers, Evergrande, recently filed for bankruptcy in the U.S. By one account, there is enough uncompleted housing stock to accommodate 200 million people. New home prices are now falling, which has the potential to destroy much accumulated wealth.
- China has a mounting debt burden. Both state-owned enterprises and local governments have accumulated over $15 trillion of debt according to the International Monetary Fund (IMF). The **Wall Street Journal** (**WSJ**) has reported a third of China's major cities are struggling just to pay interest on their debt – amounting to nearly 20% of fiscal resources for 25 large cities. Further, a huge source of those city's income comes from land sales to developers, which are grinding to a halt.
- China's export-oriented economy has been hit hard by falling global demand, both from waning pandemic impacts as well as geopolitical tensions. Chinese customs data shows overseas shipments from China slumped 15% in July from a year earlier.
- China is facing deflationary pressures, as consumer prices fell 0.3% compared with a year earlier. China is loath to counter deflation through either lower interest rates or fiscal stimulus. The risk is that fear of falling prices will cause consumers to spend and invest less – a process that has the potential to feed on itself and become self-fulfilling.
- Youth unemployment (ages 16-24) has been skyrocketing, recently reaching a high of more than 20%, up from 12% three years ago (as seen in the attached chart). In typical Chinese fashion, the government said it would temporarily suspend publishing youth joblessness data, with no timeline for lifting the suspension, citing "statistical work that needs continuous improvement".
- China's mishandling of the Covid pandemic is one for the ages. Their "zero-Covid" lockdown policy was completely unrealistic and led to global supply chain issues and massive unemployment. It also caused the rest of the world to reassess their exposure to Chinese based supply chains and moving production out of China to other countries.

As we have written recently, we have a growing conviction that the U.S. will enter an economic recession over the next year. What's happening in China only raises that conviction. We continue to incorporate that concern into our investment decisions, where we are taking on a more defensive posture.



Disclaimer: The information, analysis, and opinions expressed herein are for general and educational purposes only. Nothing contained in this commentary is intended to constitute personalized legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. All investments carry a certain risk, and there is no assurance that an investment will provide positive performance over any period of time. Past performance is not indicative of future results. Your own performance may vary from the composite performance; please see your quarterly Portfolio Review report for your specific returns. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses. It is not possible to invest directly in an index. Information obtained from third p arty sources are believed to be reliable but not guaranteed. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice. Blended Equity Benchmark: 50% S&P 500 Index, 30% S&P 400 Mid-cap Index, 20% S&P 600 Small-cap Index. Fixed Income Benchmark: Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index

REFERENCED INDICES

You cannot invest directly in an index. Index results assume the reinvestment of all dividends and interest.

- **S&P 500 Index** - a market-cap weighted index composed of the common stock of 500 leading companies in leading industries of the U.S. economy.
- **S&P 400 Mid-cap Index** – a market-cap weighted index composed of the common stock of 400 mid-sized companies reflecting the distinctive risk and return characteristics of the U.S. mid-cap equities sector.
- **S&P 600 Small-cap Index** – a market-cap weighted index composed of the common stock of 600 small-sized companies reflecting the distinctive risk and return characteristics of the U.S. small-cap equities sector.
- **Dow Jones Industrial Average Index** – a price-weighted index composed of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.
- **Nasdaq Composite Index** – an index that measures all Nasdaq domestic and international based stocks listed on the Nasdaq Stock Market.
- **Barclays Intermediate Govt/Corp Index** – the index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities with less than 10 years to maturity.