



EQUITY & FIXED INCOME MARKETS COMMENTARY

Stocks struggled in September. The S&P 500 closed down -4.8%, while the Blended Equity benchmark lost -5.2% in September, as the Mid-Cap S&P 400 and the Small-Cap S&P 600 Indices were down -4.2% and -4.9%, respectively. International stock indices posted smaller losses in September, with developed markets and emerging markets down -3.7% and -2.8%, respectively. Bond indices were broadly lower in September, as the 10-year U.S. Treasury bond yield rose to 4.57%, from 4.09% last month.

UAW STRIKE

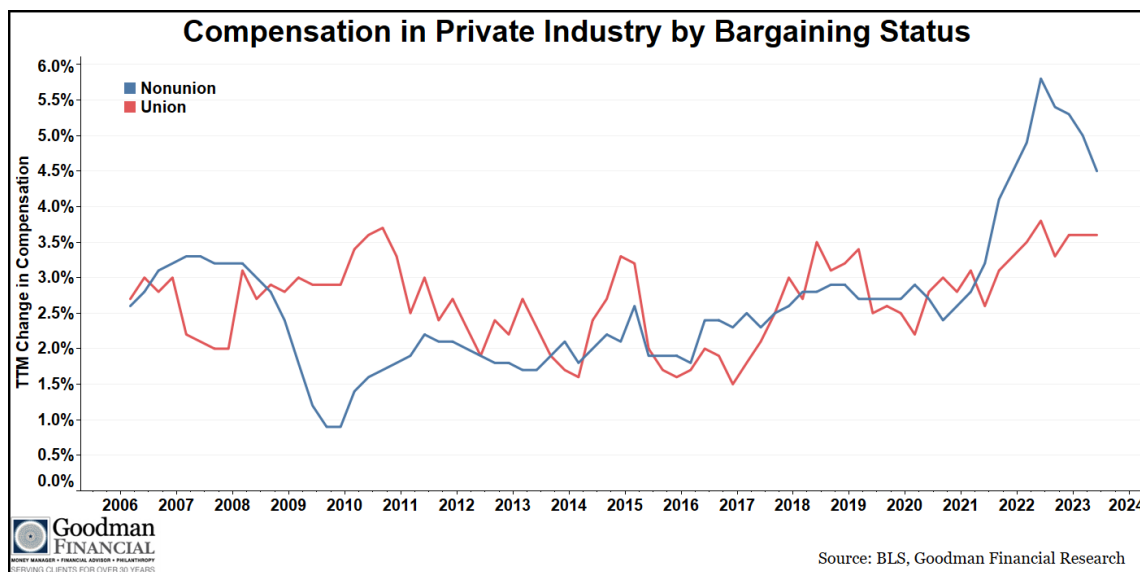
On September 15th, the United Auto Workers (UAW) declared a strike when contract talks failed to secure new labor agreements before the current deals expired. At the time of writing, the strike is entering its third week and is set to potentially become one of the largest in the industry's history, targeting not just one but all three of the largest automotive manufacturers in the country – Ford, General Motors, and Stellantis (formerly Chrysler).

The broader macroeconomic impact remains unclear though strikes and labor union uncertainty are expected to remain key headwinds to the US economy through year-end. Ultimately, the severity of the economic impact will be determined by the duration of the strike and the terms of the final labor agreement. The chart below shows growth in union wages has lagged non-union pay over the past several years. Many union contracts are now coming up for renewal which may become an inflationary headwind. Additionally, if a strike leads to reduced vehicle availability, limited supply can drive up vehicle prices, potentially making it more expensive for consumers to purchase. This can result in not only lost revenue for automakers but ripple effects throughout the complex automotive supply chain, affecting suppliers, distributors, and dealerships. Moody's Analytics estimates that if the strike lasts through October, the result will be 10% higher used vehicle prices, and 5% higher new vehicle prices by mid-2024.

Recall that rising car prices were a big reason why inflation climbed as the US emerged from the pandemic in 2021 and 2022. The UAW strike is a danger to supply chains that only recently recovered from Covid-era bottlenecks. To the extent the current labor dispute reduces supply and contributes to higher prices, it will work against the Federal Reserve's efforts to curb inflation through interest rate hikes while attempting to avoid a recession.

The question remains whether other industries will follow the UAW example. A successful strike can influence labor relations and collective bargaining in the broader economy and may encourage other labor unions to demand higher wages. The entertainment industry is one recent example as the Hollywood writer's strike recently ended after nearly five months of negotiations, while the actor's strike continues. Other industries to watch include parcel delivery companies where delivery workers are represented by the Teamsters union and airlines with pilot and flight attendant unions.

The current contentious labor environment appears counterproductive to the Fed's efforts to engineer a soft landing. As rising wages contribute to inflation, we expect the Fed to hold rates higher for longer, increasing the odds for the US economy to experience a mild recession in 2024. This gives us some confidence in taking a more defensive equity stance in the near term.





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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.