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Highland ReCAP

A Review of Capital Markets

August 2023

Summary

Markets seemed to wilt in the summer heat of August before staging a small rally at month-end to pare earlier losses. On August 1st, Fitch downgraded its rating for U.S. government debt from AAA to AA+, sparking an equity and interest rate sell-off that persisted for three weeks. Later in the month, encouraging economic data on job openings, consumer spending, and inflation helped staunch the freefall and regain some of the lost ground. On balance stocks and bonds finished lower for the month.

Equities

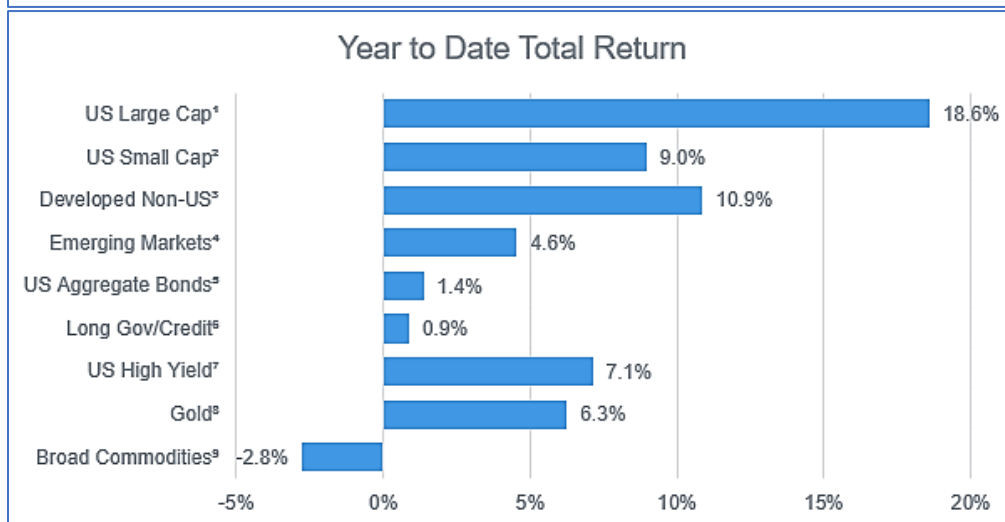
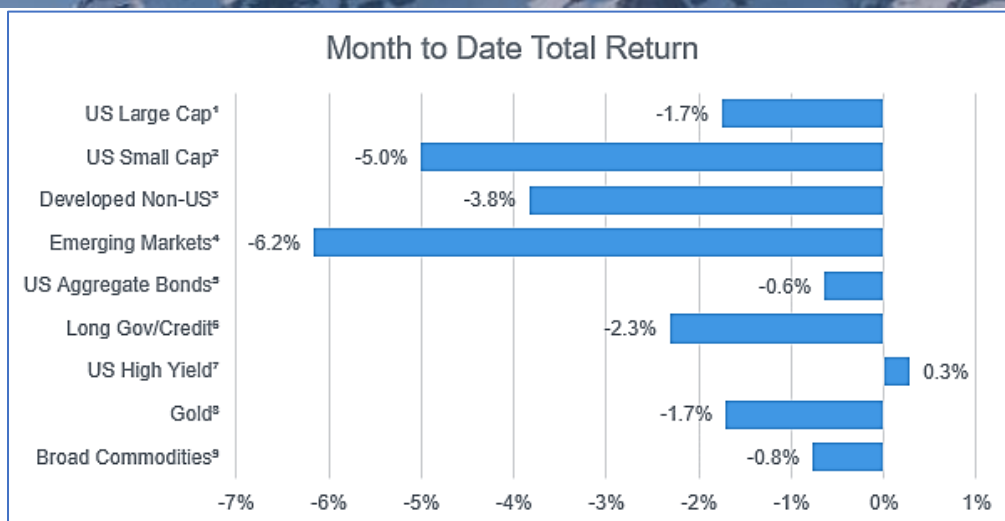
Global equities declined for the month as riskier assets bore the brunt of August's drawdown. Large cap domestic stocks rallied to the end of August, but still posted their first negative monthly return since February. Developed international stocks fared better than emerging markets as China continued to generate headlines tied to troubles within the property sector and a general slowdown in economic activity.

Fixed Income

Fitch's downgrade of U.S. government debt drove heightened interest rate volatility as the 10-year Treasury yield spiked to 4.35%, a level not seen since late 2007, before easing back to 4.11% to close the month. Inflation continued to cool ahead of the Fed's next meeting in September, but commentary from policy makers was mixed regarding the near-term path for interest rates. Credit spreads remained resilient and high yield bonds outpaced investment grade fixed income, eking out a positive return in August.

Market Trends

As of August 31, 2023



	1M	3M	YTD	1Y	3Y	5Y	10Y
US Large Cap ¹	-1.7%	8.5%	18.6%	15.4%	9.9%	10.8%	12.6%
US Small Cap ²	-5.0%	9.0%	9.0%	4.7%	8.1%	3.1%	8.0%
Developed Non-US ³	-3.8%	3.8%	10.9%	17.9%	6.1%	4.1%	4.9%
Emerging Markets ⁴	-6.2%	3.5%	4.6%	1.3%	-1.4%	1.0%	3.0%
US Aggregate Bonds ⁵	-0.6%	-1.1%	1.4%	-1.2%	-4.4%	0.5%	1.5%
Long Gov/Credit ⁶	-2.3%	-2.6%	0.9%	-5.1%	-10.0%	-0.2%	2.6%
US High Yield ⁷	0.3%	3.4%	7.1%	7.2%	1.8%	3.3%	4.5%
Gold ⁸	-1.7%	-1.4%	6.3%	12.9%	-1.2%	8.9%	2.5%
Broad Commodities ⁹	-0.8%	9.7%	-2.8%	-8.7%	15.2%	6.7%	-0.9%

1 – Russell 1000, 2 – Russell 2000, 3 – MSCI EAFE, 4 – MSCI Emerging Markets, 5 – Bloomberg US Agg, 6 – Bloomberg US Long Gov/Credit
7 – Bloomberg US Corporate High Yield, 8 – Bloomberg Gold Subindex, 9 – Bloomberg Commodity

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Disclosure Statements

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