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Highland ReCAP

A Review of Capital Markets

October 2023

Summary

Markets continued to decline in October, retracing lower for the third consecutive month. Stocks took a hit due to a combination of strong economic data – which fueled concerns that higher interest rates will persist – and geopolitical risks associated with an escalating conflict in the Middle East. Bond yields were volatile throughout the month, with most of the movement reserved for the long end of the curve. The 10-to-30-year part of the Treasury curve breached new post-GFC (Global Financial Crisis of 2007-2009) highs with the 10-year yield topping 5% before easing into the month end.

Equities

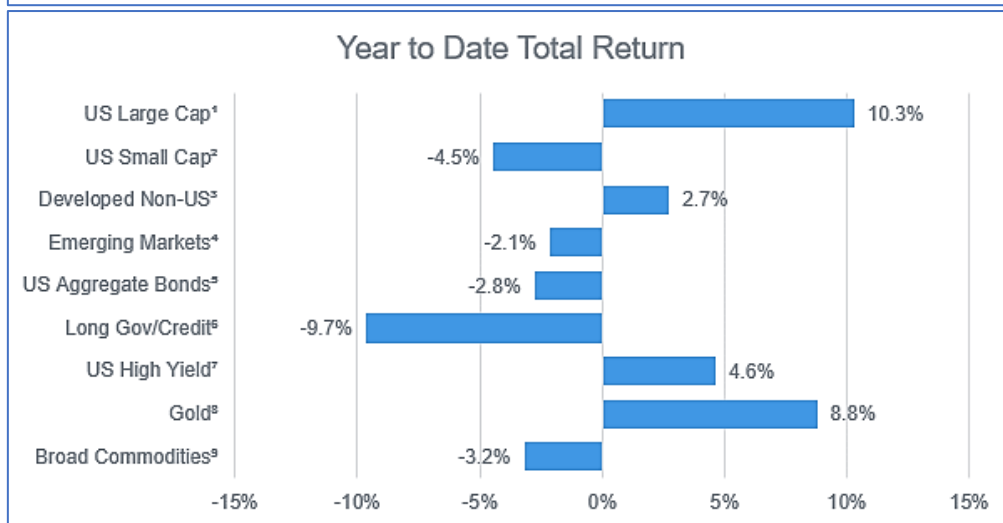
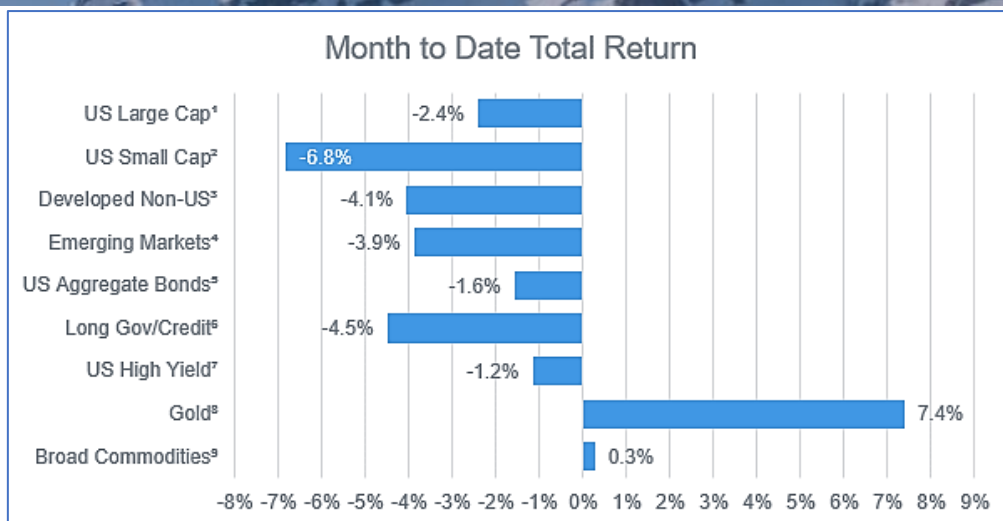
Global equities declined in October as Central Bank policy remained squarely in investors' crosshairs. Initial reports for U.S. GDP in the 3rd quarter came in at a robust 4.9%, fueled by resilient consumer spending, while September's jobs report surprised with extremely strong hiring numbers. Paradoxically, U.S. stocks weakened on the news due to concern that a sturdy economy will serve to embolden the Fed to keep rates higher for longer. Globally, geopolitical risk crystalized in the Middle East, with the effects of Israel's war on Hamas rippling across global equity and commodity markets.

Fixed Income

Fixed income returns continued to disappoint in October, with elevated interest rate volatility driving bond prices lower for the month. The 10-year Treasury yield topped 5% for the first time since July 2007, as investors continued to recalibrate medium and long-term expectations for interest rates. Inflation appears to have stabilized but remained above target at 3.7% year-over-year. Credit extended its outperformance as incrementally higher yields offset slight spread widening in October.

Market Trends

As of October 31, 2023



	1M	3M	YTD	1Y	3Y	5Y	10Y
US Large Cap ¹	-2.4%	-8.6%	10.3%	9.5%	9.5%	10.7%	10.9%
US Small Cap ²	-6.8%	-16.7%	-4.5%	-8.6%	3.9%	3.3%	5.6%
Developed Non-US ³	-4.1%	-10.9%	2.7%	14.4%	5.7%	4.1%	3.1%
Emerging Markets ⁴	-3.9%	-12.2%	-2.1%	10.8%	-3.7%	1.6%	1.2%
US Aggregate Bonds ⁵	-1.6%	-4.7%	-2.8%	0.4%	-5.6%	-0.1%	0.9%
Long Gov/Credit ⁶	-4.5%	-12.5%	-9.7%	-3.7%	-12.8%	-1.4%	1.3%
US High Yield ⁷	-1.2%	-2.1%	4.6%	6.2%	1.2%	3.1%	3.9%
Gold ⁸	7.4%	0.6%	8.8%	20.9%	1.3%	9.2%	3.3%
Broad Commodities ⁹	0.3%	-1.2%	-3.2%	-3.0%	15.8%	6.7%	-0.6%

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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