Current Market Conditions and Investment Report

The following market summary will provide insights into market conditions through the end of the Third Quarter. Since then, geopolitical conditions in Israel certainly have worsened. While we do not know the outcome of this activity, we do anticipate some market volatility over the coming months. Nonetheless, we remain steadfast in our long-term, value-aligned investment philosophy. In addition, our Investment Committee, under the counsel of our investment advisors and fund managers, will continue to closely monitor the market conditions and make prudent adjustments within the purview of our offering circular. As fiduciaries, we are committed to supporting investment decisions which are in the best interest of our broad Methodist community.

On average, Balanced Fund investors have seen a 6.93% year-to-date net return on their money, still considerably ahead of its comparable benchmark which stands at 5.55%. As a reminder, the vast majority of church investors choose the Balanced Fund (a fund of funds, currently comprised of 60% Stock Fund/40% Bond Fund.) Investors typically choose this fund for two primary reasons: 1) It adheres to a traditional long-term, institutional investment allocation; and 2) Church leaders prefer to rely on the informed decision of our Investment Committee and professional team of investment advisors.

Highlights

- U.S. stocks declined during the month of September with all sectors reporting negative absolute performance except energy, which benefited from the gains in oil prices.
- The S&P 500 Index of U.S. stocks decreased 4.8% in September, while non-U.S. stocks. IMI Index, decreased 3.2%. The Bloomberg U.S. Aggregate Bond Index decreased 2.5%.
- The Core Personal Consumption Expenditures (PCE) Index, the U.S. Federal Reserve's (Fed) preferred inflation measure, increased 3.9% year over year in August, the first reading under 4% in over two years. The Core Index excludes the more volatile food and energy components.
- Crude oil (West Texas Intermediate) increased 8.6% during the month to end at $90.79/barrel amid ongoing supply cuts by OPEC+, shrinking strategic reserves and unexpected Chinese demand.
- U.S. employers added 336,000 workers in September, the highest monthly gain since January, and the unemployment rate held at 3.8%.

Monthly Overview

Residential Mortgage Rates
As of September 28, Freddie Mac reported that the average interest rate on a 30-year fixed-rate mortgage increased to 7.31%, the highest average rate since 2000. Both new home sales and pending home sales for the month of August declined more than expected. Higher rates are decreasing home affordability and deterring homeowners from selling their homes and paying off low-rate mortgages.

Fed Keeps Rate Steady, Rate Hikes Slowing
The Fed left the Fed Funds interest rate unchanged at a range of 5.25%-5.5% in September, but signaled it may increase the rate one more time this year. Elsewhere, the Bank of England also kept its lending rate at 5.25%, the first time the central bank did not increase rates in nearly two years. The European Central Bank raised its deposit rate for the 10th consecutive time, by 0.25% to 4%. The central banks of Sweden and Norway matched the ECB's move and raised their key rates by 0.25% to 4% and 4.25%, respectively. The Bank of Japan and the Swiss National Bank left their key rates unchanged.

Equity Markets Lose Momentum
Global equities declined for the second consecutive month. The S&P 500 decreased 4.8% in its worst month so far this year. Market headwinds included a potential U.S. government shutdown that was ultimately averted; the United Auto Workers' strike against Ford, GM and Stellantis; concerns that consumers have been depleting excess savings; and the resumption of student loan repayments. Ahead of the third-quarter earnings season and through the end of September, 116 U.S. companies issued earnings per share (EPS) guidance. Of those companies, 64% issued negative EPS guidance, which is in-line with the 10-year average but above the 5-year average of 59%.

Bond Market
In the bond market, the Bloomberg U.S. Aggregate Index declined 2.5% as the long end of the U.S. Treasury yield curve shifted upward. The 10-year Treasury yield increased 0.48% from the start of the month, finishing at 4.57%.

Sources: Bureau of Economic Analysis, Bloomberg, Wall Street Journal, Freddie Mac and FactSet.

Rev. David Bell
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