Stocks retreat on news from the Fed and China.

Monthly snapshot

- Global equity markets recorded losses in August due to investors' uncertainty regarding the direction of U.S. Federal Reserve (Fed) monetary policy, as well as worries about China's weakening economy.
- Global fixed-income assets also posted negative returns over the month. U.S. Treasury yields moved modestly higher in the intermediate and long segments of the curve, while the direction of yields was mixed in the short end.
- We continue to expect inflation to run structurally higher in the years ahead due to persistent labor-market tightness, the need to increase the resiliency and diversity of supply chains, and the need to offset the depressive impact of higher taxes and financing costs on profit margins.

Global equity markets recorded losses in August–just the second monthly downturn thus far in 2023–due to investors' uncertainty regarding the direction of U.S. Federal Reserve (Fed) monetary policy, as well as worries about China's weakening economy. Developed markets outperformed their emerging-market counterparts during the month. The Nordic countries recorded comparatively smaller losses and were the top performers among developed markets in August, bolstered mainly by strength in Denmark. The Pacific ex Japan region was the primary market laggard due largely to significant weakness in New Zealand. Europe led the emerging markets during the month, benefiting from notable gains in Egypt and Turkey. Conversely, stocks in Colombia and South Africa experienced double-digit losses and were the weakest emerging-market performers in August.[1]

During a speech at the Kansas City Fed's annual economic symposium at Jackson Hole, Wyoming, in late August, Fed Chair Jerome Powell reiterated the central bank's goal of reducing the annual rate of inflation to 2%, and said that the Fed would consider additional interest-rate hikes if needed. Powell commented, "We are committed to achieving and sustaining a stance of monetary policy that is sufficiently restrictive to bring inflation down to [2%] over time." He also noted that the central bank "will assess our progress based on the totality of the data and the evolving outlook and risks."

China, the world's second-largest economy, has recently experienced relatively weak credit growth, a downturn in exports, and a year-over-year decline in consumer prices. Lower demand for goods and services from Chinese consumers could have a negative impact on other countries' exports of iron ore, crude oil, factory equipment, and luxury goods into the country. U.S.-based manufacturers of chemicals and heavy machinery have cautioned that they may experience a slowdown of sales in China. Additionally, a large property developer filed for protection under Chapter 15 of the U.S. bankruptcy code, which safeguards non-U.S. companies that are undergoing debt restructurings from creditors seeking to sue the firms or to freeze their assets in the U.S.

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[1] All equity market performance statements are based on the MSCI All-Country World Index (ACWI).

Key measures: August 2023

Equity		
Dow Jones Industrial Average	-2.01%	↓
S&P 500 Index	-1.59%	↓
NASDAQ Composite Index	-2.05%	↓
MSCI ACWI Index (Net)	-2.79%	↓
Bond		
Bloomberg Global Aggregate Index	-1.37%	↓
Volatility		
Chicago Board Options Exchange Volatility Index **PRIOR MONTHLY: 13.63**	13.57	↓
Oil		
WTI Cushing crude oil prices **PRIOR MONTHLY: $81.80**	$83.63	↑
Currencies		
Sterling vs. U.S. dollar	$1.27	↓
Euro vs. U.S. dollar	$1.09	↓
U.S. dollar vs. yen	¥145.59	↑

Sources: Bloomberg, FactSet, Lipper

Most global fixed-income asset classes lost ground in August. However, U.S. high-yield bonds registered positive returns and were the top performers within the U.S. market for the period.[2] U.S. corporate bonds, mortgage-backed securities (MBS) and U.S. Treasurys declined.[3] Treasury yields moved modestly higher in the intermediate and long segments of the curve, while the direction of yields was mixed in the short end (bond prices move inversely to yields). The yield on the 2-year Treasury note dipped 3 basis points (0.03%), and yields on 3-, 5-, and 10-year notes rose 0.03%, 0.05%, and 0.12%, respectively, in August. The spread between 10- and 2-year notes moved from -0.91% to -0.76% during the month, and the yield curve remained inverted.

Global commodity prices saw mixed performance in August. The West Texas Intermediate (WTI) crude-oil spot price and the Brent crude oil price gained 2.1% and 1.6%, respectively, in U.S. dollar terms, on expectations that production output cuts from the Organization of the Petroleum Exporting Countries (OPEC) would continue through the end of 2023. The gold spot price was down 4.1% for the month due to strength in the U.S. dollar. The New York Mercantile Exchange (NYMEX) natural gas price rose 5.1% in August, benefiting from forecasts for more hot weather in the U.S., which would increase demand. Wheat prices fell nearly 10% over the month due to Russia's shipments of large quantities of cheaply priced grain.[4]

Economic data

U.S.

According to the Department of Labor, the U.S. consumer-price index (CPI) rose 0.2% in July, matching the monthly increase in June. The CPI advanced 3.2% year-over-year—up modestly from the 3.0% annual rise in June, which was the lowest in more than two years. The government attributed the month-over-month increase in inflation to higher costs for housing and, to a lesser extent, motor vehicle insurance. Core inflation, as measured by the CPI for all items less food and energy, was up 0.2% in July, matching the rise in June, and advanced 4.7% over the previous 12 months.

The Department of Labor reported that U.S. payrolls expanded by 187,000 in August, and the unemployment rate rose 0.3 percentage point to 3.8%. The health care and leisure and hospitality sectors added 71,000 and 40,000 jobs, respectively, during the month. In contrast, transportation and warehousing payrolls declined by 34,000 in August, while the information industry saw a loss of 15,000 jobs. Average hourly earnings rose 0.2% for the month and 4.3% year-over-year. The 12-month increase was slightly lower than the 4.4% annual rise in July.

[2] According to the ICE BofA U.S. High Yield Constrained Index.

[3] According to the ICE BofA U.S. Corporate, Bloomberg US Mortgage Backed Securities, and ICE BofA U.S. Treasury indexes.

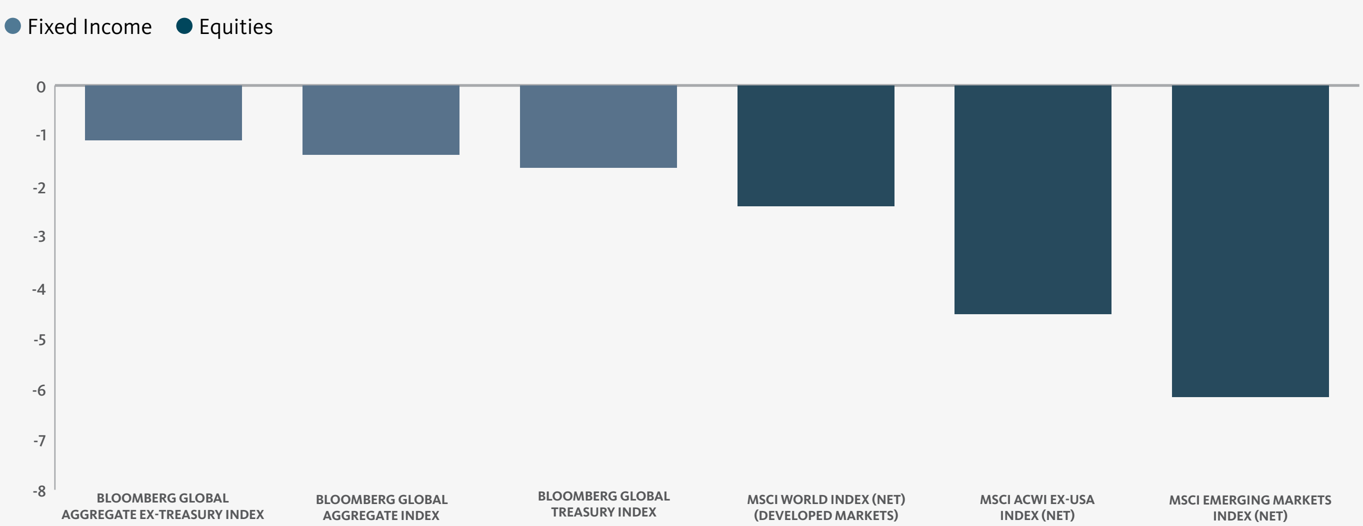
[4] According to market data from The Wall Street Journal.

U.K.

According to the Office for National Statistics (ONS), consumer prices in the U.K. dipped 0.3% month-over-month in July—a sharp decline from the 0.6% increase in June. Inflation increased 6.4% over the previous 12-month period, down from the 7.3% annual upturn in June. Lower gas and electricity costs were the main contributors to the decrease in prices in July. Core inflation, which excludes volatile food prices, rose at an annual rate of 6.4% in July, unchanged from the year-over-year increase for the previous month.

The ONS also reported that U.K. GDP grew 0.5% in June (the most recent reporting period), up from a 0.1% decrease in May, and increased 0.2% over the previous three-month period. Production output and the construction sector saw upturns of 1.8% and 1.6%, respectively, in June, versus corresponding 0.6% and 0.2% declines in May.

Major Index Performance in August 2023 (Percent Return)



Sources: FactSet, Lipper

Eurozone

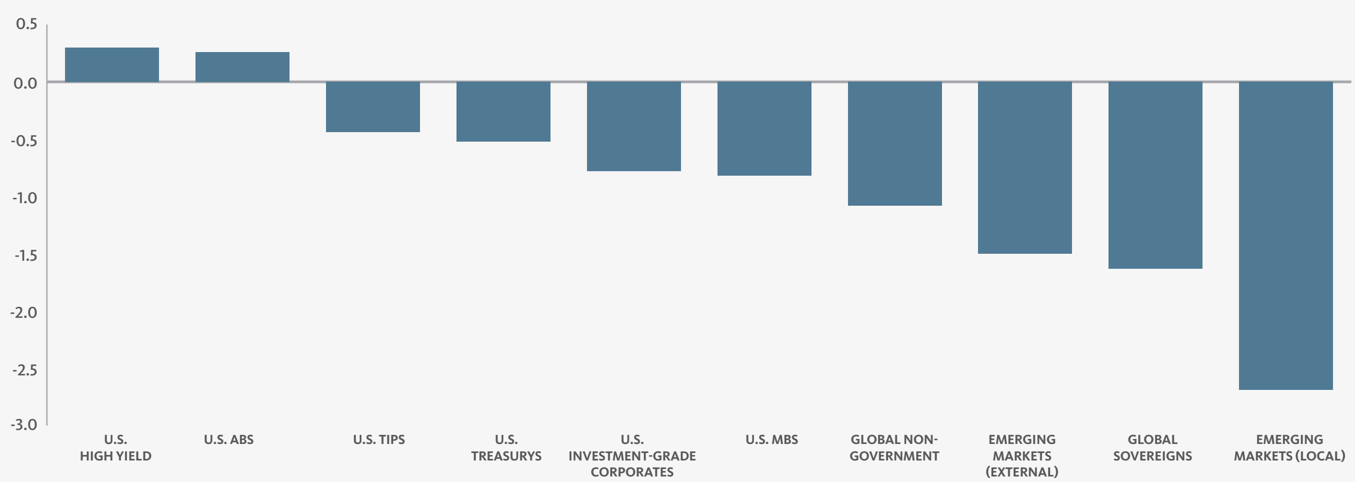
Eurostat estimated that the inflation rate in the eurozone was unchanged at 5.3% for the 12-month period ending in August. Prices for food, alcohol and tobacco rose 9.8%, but the pace of acceleration slowed from the 10.8% annual rate in July. Energy prices decreased 3.3% year-over-year, following a 6.1% decline in July. Core inflation, which excludes volatile energy and food prices, rose at an annual rate of 5.3% in August, down 0.2 percentage point from July.[5]According to Eurostat's second estimate, eurozone GDP grew 0.3% in the second quarter of 2023, improving from the flat growth rate in the first quarter, and increased 0.6% year-over-year. The economies of Ireland and Lithuania were the strongest performers for the second quarter, expanding 3.3% and 2.8%, respectively, while Poland's economy contracted 3.7% during the period.

Central banks

The Fed's next policy meeting is scheduled for September 19-20. Minutes from the Federal Open Market Committee's (FOMC) meeting in July, which were released in August, revealed that the members remain focused on curbing inflation despite the steady downward trend in the U.S. personal-consumption-expenditures (PCE) price index over the past year. Most committee participants maintained their belief that there are "significant upside risks to inflation, which could require further tightening of monetary policy." However, several FOMC members expressed the view that the Fed should take a more measured approach, noting that, "with the stance of monetary policy in restrictive territory, risks to the achievement of the Committee's goals had become more two-sided, and it was important that the Committee's decisions balance the risk of an inadvertent overtightening of policy against the cost of an insufficient tightening."

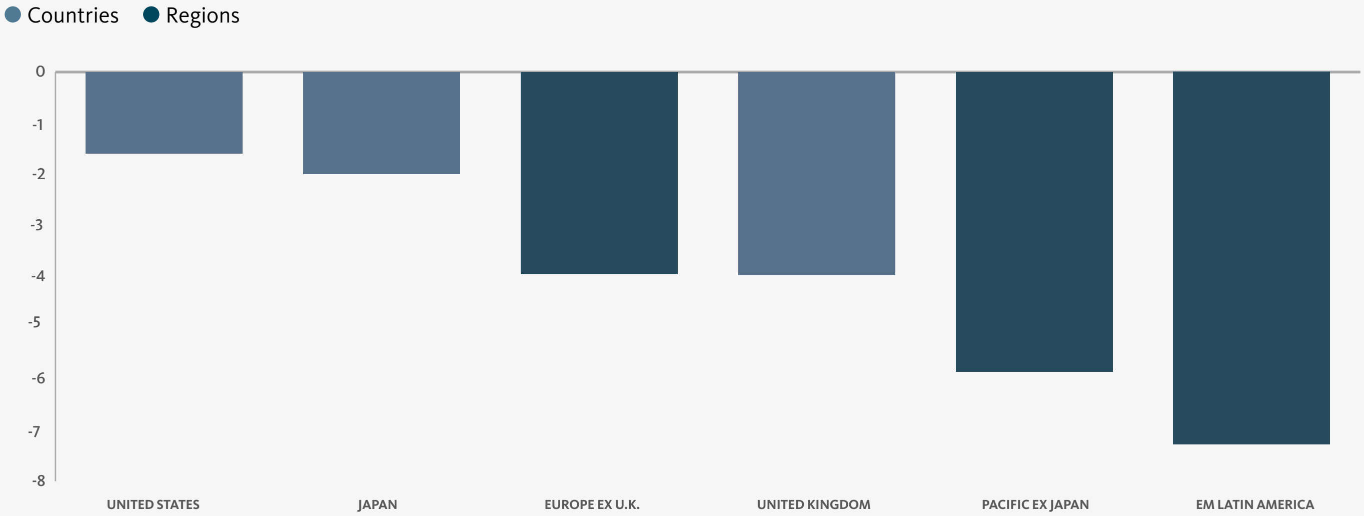
[5] According to Eurostat. August 31, 2023.

Fixed-Income Performance in August 2023 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index descriptions section for more information.

Regional Equity Performance in August 2023 (Percent Return)



Sources: FactSet, Lipper. See “Corresponding Indexes for Regional Equity Performance Exhibit” in the Index descriptions section for more information.

In a split 6-3 vote, the Bank of England (BOE) raised the Bank Rate by 25 basis points (bps) to a 15-year high of 5.25%. Two BOE members supported a 0.50% increase, while another favored leaving the benchmark interest rate unchanged at 5.00%. In its announcement of the rate hike, the BOE noted that, while the overall inflation rate in the UK had slowed from 8.7% to 7.9% month-over-month in June, it remained well above the central bank’s 2% target. The BOE also commented, “Given the significant increase in Bank Rate since the start of this tightening cycle, the current monetary policy stance is restrictive. The [Monetary Policy Committee] will continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including the tightness of labor market conditions and the behavior of wage growth and services price inflation.

The European Central Bank’s (ECB) next monetary policy meeting is scheduled for September 14. The ECB increased its benchmark interest rate by 0.25% to 4.25% following its meeting in late July.

The next monetary policy meeting for the Bank of Japan (BOJ) will be held on September 21-22. The central bank left its benchmark interest rate unchanged at -0.1% following its meeting on July 28. However, the BOJ set a rigid upper yield limit of 1.0% for the 10-year Japanese government bond (JGB). The 10-year JGB yield ended August at 0.65%.

SEI's view

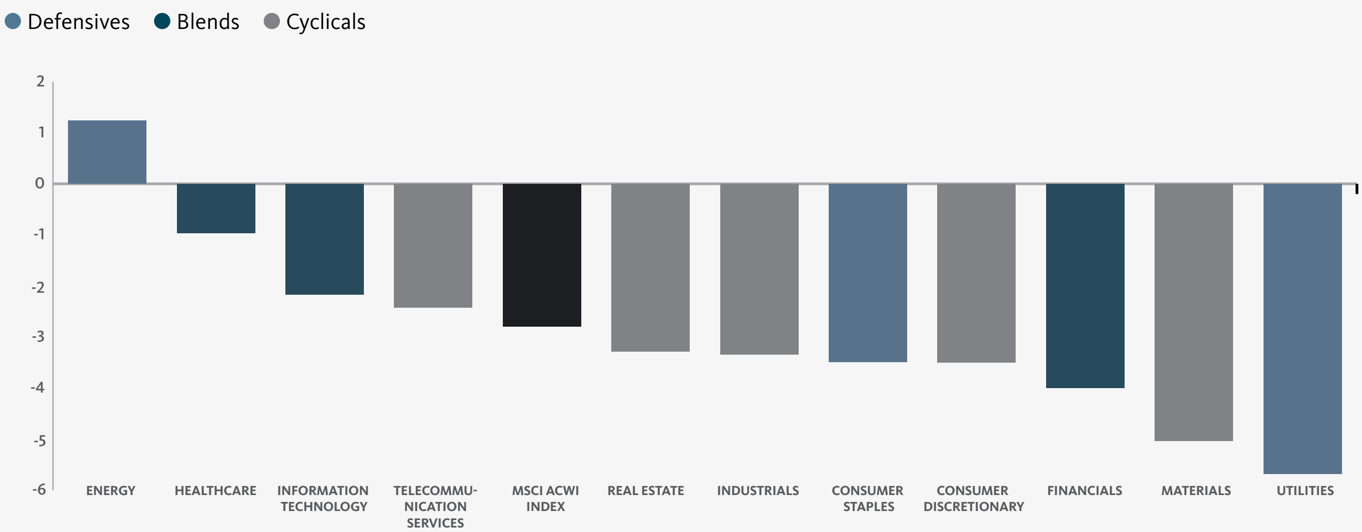
Economists have been spending much of their time this year arguing when or if economic growth, inflation, corporate profits, interest rates, and equities will peak. Optimists and pessimists alike have been confounded by the ebb and flow of the data and the gyrations of the financial markets.

In general, input-price inflation has decelerated significantly. Canada's industrial product price index registered an outright decline in its price level, with a year-over-year change of -2.7% through July.[6] The eurozone's producer-price index (PPI) has witnessed the sharpest deceleration, falling from a peak year-over-year rate of 43% through August 2022 to a July 2023 reading of a 3.4% annual decline. By contrast, the improvement in producer prices has been less dramatic in Japan (still rising at a 3.6% year-over-year pace as of July). We believe that these year-over-year PPI inflation readings should continue to show improvement in the months immediately ahead owing to favorable base effects.

On a longer-term basis, we believe that demographic shifts are likely to keep labor markets tighter than has been the case at any point since the baby boomers–who were born between 1946 and 1964–first made their presence felt in the workforce in the 1970s. The new focus on supply-chain resiliency, reduced dependence on China as a manufacturing hub, the transition away from relatively cheap fossil-fuel energy to greener but more expensive sources of power, and the likelihood of significantly higher corporate taxes and financing costs in the years ahead, all suggest to us that inflation will tend to settle at 3% or more in advanced industrial economies instead of the previous norm of 2% or less.

[6] Source: Statistics Canada. August 2023.

Global Equity Sector Performance in August 2023 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

Persistent inflation and ongoing labor-market tightness have forced most major developed-country central banks to keep raising their benchmark interest rates. The Fed, the Bank of Canada, and the ECB already have benchmark rates that match or exceed the peak recorded in 2008.[7] We think it's likely that the BOE will soon join this group. We continue to expect inflation to run structurally higher in the years ahead due to persistent labor-market tightness, the need to increase the resiliency and diversity of supply chains, and the need to offset the depressive impact of higher taxes and financing costs on profit margins.

While U.S. equities experienced a downturn in August, the valuation in the market remains problematic. The price-to-earnings ratio of the broad-market S&P 500 Index had been on the rise this year, ending August at 18.6 times analysts' estimated earnings for the next 12 months.[8] The expansion in the price/earnings multiple on forward earnings for most of 2023 occurred despite the additional monetary tightening by the Fed and other central banks. The overall market also appears to be overvalued relative to today's bond yields. If earnings experience a substantial contraction, history suggests that stock valuations also will fall.

We expect inflation to run structurally higher in the years ahead due to persistent labor-market tightness, among other factors.

[7] Sources: U.S. Federal Reserve, Bank of Canada, European Central Bank. August 2023.

[8] Sources: Standard & Poor's, Yardeni Research Inc. August 31, 2023.

Glossary of Financial Terms

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

Mortgage-backed securities (MBS) are pools of mortgage loans packaged together and sold to the public. They are usually structured in tranches (a slice or portion of a structured security) that vary by risk and expected return.

Yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (are (which is used to assess the risk of default of companies or countries). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates that short- and long-term yields are closer together.

An **inverted yield curve** occurs when short-term yields exceed long-term yields. While an inverted yield curve historically has predicted economic recessions, it is an indicator—not a forecast.

The **federal-funds rate** is the interest rate charged to lending institutions on unsecured overnight loans. It is set by the U.S. Federal Reserve's Federal Open Market Committee. The rate is increased when the Federal Reserve wants to discourage borrowing and slow the economy and decreased when the Federal Reserve wants to spur economic growth.

Economic output comprises a quantity of goods or services produced in a specific time period.

Monetary policy refers to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.\

A **recession** is a significant and prolonged downturn in economic activity.

The **personal-consumption-expenditures (PCE) price index** measures the prices that consumers pay for goods and services to reveal underlying inflation trends. The core PCE price index, the primary inflation monitor used by the Federal Reserve, excludes volatile food and energy prices.

Input price inflation measures changes in the prices of materials and fuels purchased by manufacturers for processing.

Price/earnings (P/E) ratio is calculated by dividing the current market price of a stock by the earnings per share. Price/earnings multiples often are used to compare companies in the same industry, or to assess the historical performance of an individual company.

Index Descriptions

All indexes are quoted in gross performance unless otherwise indicated.

The **MSCI All Country World Index (ACWI)** is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **ICE BofA U.S. High Yield Constrained Index** is a market capitalization-weighted index which tracks the performance of U.S. dollar-denominated below-investment-grade (rated BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody's Investors Service) corporate debt publicly issued in the U.S. domestic market.

The **ICE BofA U.S. Corporate Index** includes publicly issued, fixed-rate, nonconvertible investment-grade (rated BBB- or higher by S&P Global Ratings and Fitch Ratings or Baa3 or higher by Moody's Investors Service) dollar-denominated, U.S. Securities and Exchange (SEC)-registered corporate debt having at least one year to maturity.

The **ICE BofA U.S. Treasury Index** tracks the performance of fixed-rate, nominal debt issued by the U.S. Treasury.

The **Bloomberg U.S. Mortgage Backed Securities Index** tracks the performance of fixed-rate agency mortgage-backed securities (MBS) guaranteed by the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Freddie Mac (FHLMC).

The **Bloomberg Commodity Total Return Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

Consumer-price indexes measure changes in the price level of a weighted-average market basket of consumer goods and services purchased by households. A consumer price index is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

Producer-price indexes (PPI) measure the average change over time in selling prices received by domestic producers of goods and services.

Corresponding Indexes for Fixed-Income Performance Exhibit	
U.S. High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Global Treasury Index
Global Non-Government	Bloomberg Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg US Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg US Asset Backed Securities Index
U.S. Treasurys	Bloomberg US Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg 1-10 Year US TIPS Index
U.S. Investment-Grade Corporates	Bloomberg US Corporate Bond Index

Corresponding Indexes for Regional Equity Performance Exhibit	
United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex U.K.	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

Disclosures

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Diversification may not protect against market risk. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.

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