FLAGSTONE
FINANCIAL ADVISORS, INC.

MARKET REVIEW
THIRD QUARTER 2023

What Happened:

After enjoying a strong nine-month rally from October 2022 through June 2023, it seemed natural for stocks to take a breather. The third quarter provided that breather. Most stock indices were down slightly for the quarter, anywhere from 3%-5%. Bonds also had a down quarter due to climbing interest rates, losing about 3%. However, considering the onslaught of negative headlines—impeachment inquiries, a government shutdown, labor union strikes, Ukraine war, rising crime, Congressional chaos, presidential indictments—it is surprising the losses weren't even greater.

As investors, it is easy to get caught up in the negativity. So many problems, so much division and infighting, and nobody offering meaningful solutions. However, all the negativity and uncertainty provides an ideal setting for future market advances. Recall that the markets like to climb the "wall of worry." These days, the wall is formidable. Savvy investors know that the market is not too concerned with negative headlines. Instead, the market looks ahead to assess corporate earnings projections for the coming year and the market likes what it sees.

Earnings for the third quarter will be released in the coming weeks. Analysts are projecting earnings to be down about 1% in the third quarter in large part due to the lingering effects of inflation and rising interest rates. However, as inflation slowly abates and interest rates stabilize, earnings growth is expected to take off starting in the fourth quarter. Expectations for earnings growth are a robust 8% for the fourth quarter and 12% for the year 2024. These numbers are impressive and suggest that future market returns may be strong.

YTD Performance Through September 30, 2023:

S&P 500 Index (large stocks)	13.1%
Russell 2000 Index (small stocks)	2.5%
MSCI EAFE Index (international stocks)	7.1%
Bloomberg U.S. Aggregate Bond Index (bonds)	(1.2)%

Prognosis:

The growth projections for corporate earnings give us optimism for a continuation of the bull market. Pullbacks like we saw in the third quarter are normal and to be expected. But the larger trend is upward.

To pile on more optimism, we will reshare a historical tidbit from CFRA, which is one of our most reliable research firms. Going all the way back to WWII, CFRA found that following down years, such as 2022, the average market return for the subsequent year is 25.3% when two conditions are met: 1) January is positive and 2) the first quarter's performance does not fall below the previous year's low. We satisfied both conditions in 2023. CFRA always reminds us that history does not guarantee future events, but we get comfort from it nonetheless.

Wishing you all a prosperous and colorful fall season.

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