Third Quarter

3Q23

Quarter In Review

Jensen Private Client

Firm Update

We find ourselves thinking time seems to move faster as each year goes by, and one of our clever colleagues said "Mathematically, it makes sense. Every year of your life later in age becomes a smaller fraction of your age." The passing of the summer season was no exception to this feeling and the rush to year-end has begun.

We would like to remind clients that Required Minimum Distributions (RMDs) must be processed by December 29, which is the last business day of the year. If you have not taken your RMD and are ready to do so, please give us a call. Otherwise, we will contact you in early December to complete this process.

If you plan to make annual gifts to loved ones, charities or others, we strongly encourage you to share those plans with us as soon as possible. After December 15, our clients' custodians cannot guarantee transactions will be successfully processed by the end of the year.

Third Quarter 2023 in Review

Equity markets declined in the third quarter, the first quarterly decline for the year and there was evidence of a shift in investor sentiment over the period. Energy sector stocks were in favor due to the increase in commodity oil prices. Conversely, after leading the market rally in the first half 2023, shares of the top two technology companies in the S&P 500 by weight, Microsoft (MSFT) and Apple (AAPL) declined. Investors also appeared to react negatively to the FOMC's (Federal Open Market Committee) September meeting during which the Fed hinted at the possibility of future rate increases.

Looking Ahead

Despite the equity market advance thus far in 2023, our outlook remains cautious for a variety of reasons. First, the market's solid year-to-date performance has been driven by only a handful of stocks. Furthermore, the largest stocks have been outsized contributors to the market return in 2023, with the 10 largest positions in the S&P 500 Index accounting for over 90% of the total return of the index this year. We do not believe these trends are sustainable in perpetuity.

Second, investors are receiving mixed signals from the capital markets. Equity market indicators suggest that economic challenges stemming from higher interest rates either already occurred or simply never materialized. In addition to the equity market appreciation, earnings estimates point to a continuation of steady growth for the remainder of this year and into 2024. Conversely, the fixed income market is sending a clear signal of a pending economic slowdown. In particular, the treasury yield curve – the difference between long-term and short-term treasury yields – has been inverted for over a year now. Such inversions – when short-term rates are greater than long-term rates – are rare but have accurately predicted all ten recessions since 1955.

This combination of narrow market leadership and cautious signals from the treasury market suggest that equity investors are engaging in the dangerous exercise of ‘fighting the Fed’. In our view, momentum driven, top-heavy markets create opportunities for long-term investors focused on high-quality stocks. High-quality businesses are in a position to benefit from durable competitive advantages, steady free cash flow generation, and attractive long-term growth opportunities. In an environment characterized by high interest rates and an uncertain macroeconomic outlook, we believe these high-quality attributes can provide resiliency via pricing power and financial flexibility.

Connect With Us

Thank you for your continued confidence in Jensen. We are tremendously grateful for your ongoing support, and as always, please do not hesitate to contact us with any questions you may have.

S&P 500 Index: Is a market value weighted index consisting of 500 stocks chosen for market size, liquidity and industry group representation. The Index is unmanaged, and one cannot invest directly in the Index.

JENSEN™
PRIVATE CLIENT

5500 Meadows Road, Suite 200
Lake Oswego, OR 97035
800.221.4384