

# September 2023 Investment Report

## 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, represented by the MSCI ACWI ex-U.S. 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%.
- The International Equity Fund, Inflation Protection Fund and Multiple Asset Fund underperformed their respective benchmarks. The U.S. Equity Fund and Fixed Income Fund outperformed their respective benchmarks.

## 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 didn't 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.

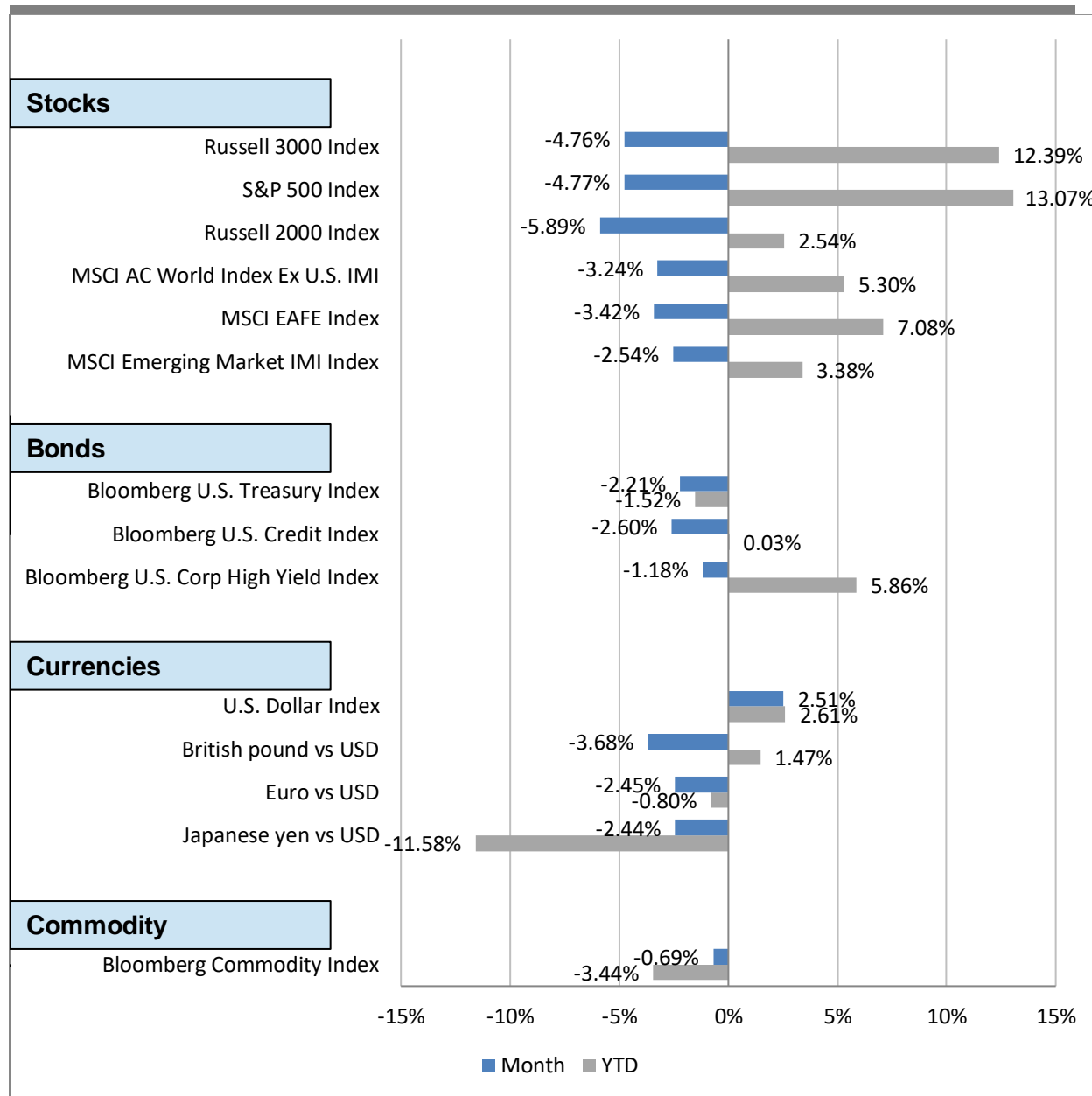
### Equity Markets Lose Momentum

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%.

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%.

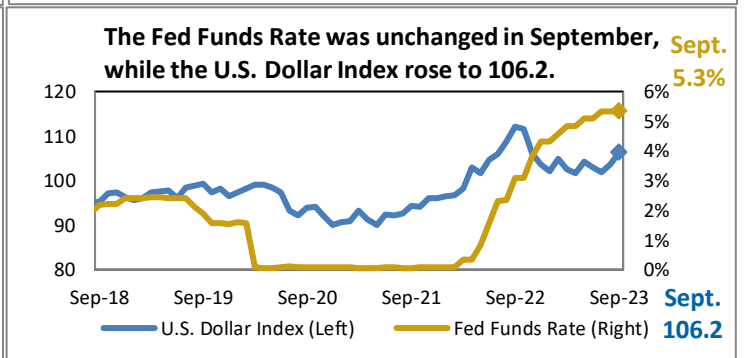
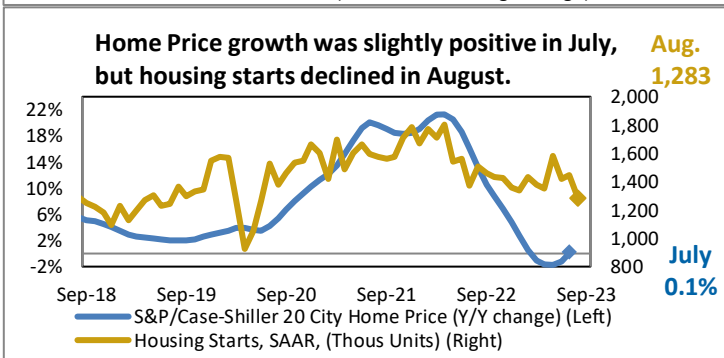
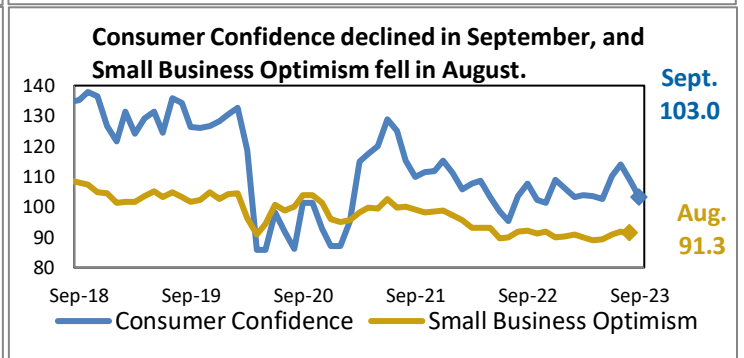
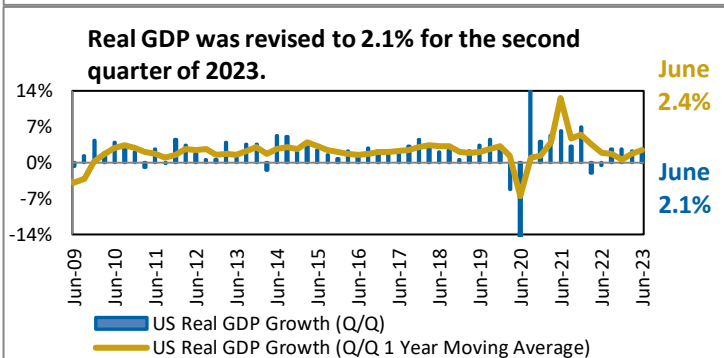
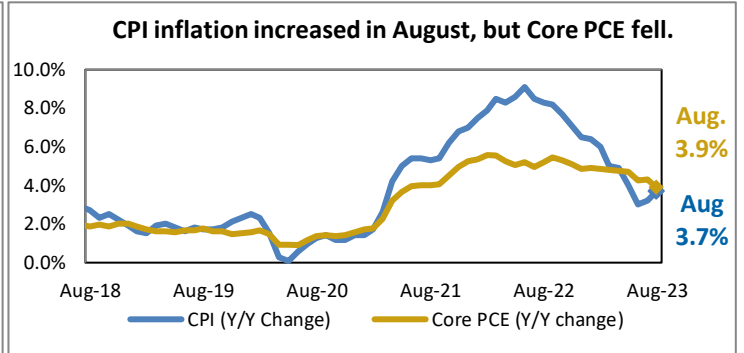
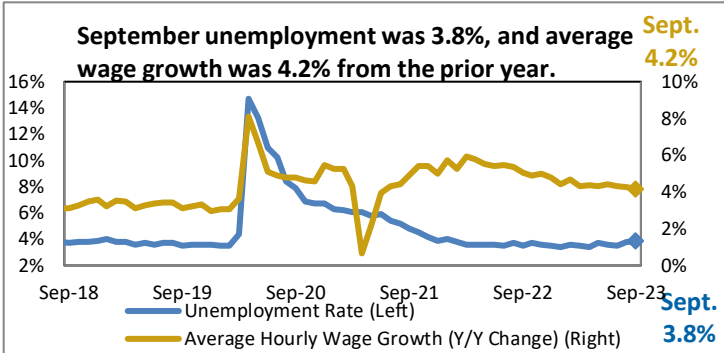
Sources: Bureau of Economic Analysis, Bloomberg, Wall Street Journal, Freddie Mac and FactSet.

## Market Performance



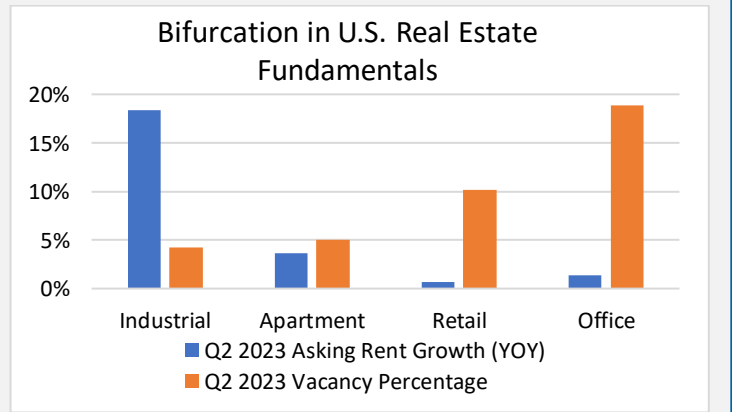
Source: FactSet, as of September 30, 2023.

## Key Monthly Economic Statistics



### Chart of the Month

- The real estate market is seeing a bifurcation among property sectors as illustrated by rent growth and vacancy.
- Industrial properties are benefiting from eCommerce adoption, onshoring and occupiers focused on inventories / supply chain resiliency. This is illustrated by exceptional rent growth and a low vacancy rate. Following record year-over-year rent growth of 17.1% in Q2 2022, the apartment sector is returning to pre-pandemic level rent growth and a strong market vacancy.
- The most challenged sectors are retail and office. Although retail is showing signs of stabilization since the pandemic, rental rates remain relatively unchanged, and vacancies remain high. Office properties are most challenged due to remote work trends. Rent growth in this sector is concentrated in top-tier buildings due to a flight to quality causing older buildings to be most impacted in this sector.



Source: FactSet, U.S. Bureau of Labor Statistics, The Conference Board, Federal Reserve Bank of St. Louis, Bureau of Economic Analysis, National Association of Realtors, U.S. Census Bureau, S&P Global, Jones Lang LaSalle, Moody's Analytics

## Investment Fund Review (Net-of-Fees Performance)<sup>i</sup>

### Equity Funds

#### U.S. Equity Fund

| Fund                           | September | QTD    | YTD    |
|--------------------------------|-----------|--------|--------|
| U.S. Equity Fund               | -4.43%    | -3.30% | 10.84% |
| Russell 3000 Index             | -4.76%    | -3.25% | 12.39% |
| Difference (percentage points) | +0.33     | -0.05  | -1.55  |

- During the month, the fund slightly outperformed its benchmark mainly due to its strategic underweight to poor performing mega-tech companies and allocation to private equity and private real estate.
- During the quarter, the fund performed in line with its benchmark. While relative performance was negatively impacted by the strategic underweight to mega-tech companies and overweight to small- and mid-sized companies, positive contributors included investments in alternatives and excluding certain stocks in accordance with Wespath's Investment Exclusions policies (described [here](#)).
- Year to date, the fund's investments in private markets and an underweight to strong performing mega-tech companies detracted from relative performance. To a lesser extent, the fund benefited from active managers' investments, particularly growth-oriented strategies, and excluding certain stocks in accordance with Wespath's Investment Exclusions policies (described [here](#)).

#### International Equity Fund

| Fund  | September | QTD    | YTD   |
|---|-----------|--------|-------|
| International Equity Fund                       | -4.23%    | -5.55% | 2.84% |
| MSCI ACWI ex U.S. Investable Market Index (Net) | -3.24%    | -3.49% | 5.30% |
| Difference (percentage points)                  | -0.99     | -2.06  | -2.46 |

- During the month and quarter, the fund underperformed the benchmark as a result of underperforming active managers across a number of different investment strategies. Alternative investments provided some ballast as international equity markets were down during both periods.
- Year to date, the fund lagged behind the benchmark as most active managers investing in developed and developing markets underperformed their respective benchmarks.

## U.S. Equity Index Fund

| Fund                           | September | QTD    | YTD    |
|--------------------------------|-----------|--------|--------|
| U.S. Equity Index Fund         | -4.74%    | -3.22% | 12.55% |
| Russell 3000 Index             | -4.76%    | -3.25% | 12.39% |
| Difference (percentage points) | +0.02     | +0.03  | +0.16  |

- The U.S. Equity Index Fund is a passively managed fund designed so that it closely matches the fund benchmark, less fees and expenses. During the month, quarter and year to date, certain stocks excluded in accordance with Wespath's Investment Exclusions policies (described [here](#)) contributed positively to relative performance.

## Fixed Income Funds

### Fixed Income Fund

| Fund                                    | September | QTD    | YTD    |
|---|-----------|--------|--------|
| Fixed Income Fund                       | -2.03%    | -2.00% | 1.07%  |
| Bloomberg U.S. Universal (ex MBS) Index | -2.15%    | -2.52% | -0.12% |
| Difference (percentage points)          | +0.12     | +0.52  | +1.19  |

- The fund's overweight allocation to and asset manager security selection in below investment grade bonds was the biggest positive contributor to benchmark-relative performance for the month and quarter.
- Overweight allocations to investment grade, below investment grade and emerging market debt contributed positively to relative results year to date. Issue selection within emerging market and investment grade credit also contributed.
- The fund's allocation to Positive Social Purpose loans contributed positively to benchmark-relative results for all three time periods.

### Extended Term Fixed Income Fund

| Fund   | September | QTD    | YTD    |
|--|-----------|--------|--------|
| Extended Term Fixed Income Fund                  | -4.19%    | -5.87% | -2.28% |
| Bloomberg U.S. Government/Credit Long Term Index | -6.22%    | -9.37% | -5.40% |
| Difference (percentage points)                   | +2.03     | +3.50  | +3.12  |

- The fund's policy of maintaining a lower sensitivity to interest rate movements until interest rates return to higher levels was the largest driver of benchmark-relative performance for the month, quarter and year to date. For the quarter and year to date, asset manager security selection also contributed positively to benchmark-relative performance.

### Inflation Protection Fund

| Fund                            | September | QTD    | YTD    |
|---------------------------------|-----------|--------|--------|
| Inflation Protection Fund (IPF) | -1.78%    | -1.52% | 0.75%  |
| IPF Benchmark <sup>ii</sup>     | -1.73%    | -1.88% | -0.47% |
| Difference (percentage points)  | -0.05     | +0.36  | +1.22  |

- For the month, the allocation to floating rate senior secured loans contributed positively to benchmark-relative performance but was more than offset by the allocation to and selection within emerging market inflation-linked bonds as well as the allocation to developed market inflation-linked bonds.
- For the quarter, the allocation to floating rate senior secured loans contributed positively to relative performance. The asset manager's investment selections within commodities also helped. The positive results were partially offset by the allocation to emerging and developed market inflation-linked bonds.
- Year to date, the allocation to floating rate senior secured loans and allocation and selection within emerging market inflation-linked bonds contributed positively to benchmark-relative results. The allocation to developed market inflation-linked bonds and allocation to real assets also helped.

### Balanced Fund

#### Multiple Asset Fund

| Fund                           | September | QTD    | YTD   |
|--------------------------------|-----------|--------|-------|
| Multiple Asset Fund (MAF)      | -3.51%    | -3.45% | 4.98% |
| MAF Benchmark <sup>iii</sup>   | -3.35%    | -2.97% | 5.83% |
| Difference (percentage points) | -0.16     | -0.48  | -0.85 |

- During the month, the U.S. Equity Fund and Fixed Income Fund contributed positively to benchmark-relative performance, while the Inflation Protection Fund and International Equity Fund detracted.
- During the quarter and year to date, the Fixed Income Fund and Inflation Protection Fund contributed positively to benchmark-relative performance, while the U.S. Equity Fund and International Equity Fund detracted.

## Social Values Choice Suite of Funds

### Social Values Choice Bond Fund

| Fund                                    | September | QTD    | YTD    |
|---|-----------|--------|--------|
| Social Values Choice Bond Fund          | -2.30%    | -2.53% | 0.02%  |
| Bloomberg U.S. Universal (ex MBS) Index | -2.15%    | -2.52% | -0.12% |
| Difference (percentage points)          | -0.15     | -0.01  | +0.14  |

- The fund's duration positioning helped results but was more than offset by manager security selection for the month and quarter.
- Duration positioning and security selection contributed positively to benchmark-relative performance year to date.

### Social Values Choice Equity Fund

| Fund                                     | September | QTD    | YTD    |
|--|-----------|--------|--------|
| Social Values Choice Equity Fund (SVCEF) | -4.76%    | -3.50% | 12.19% |
| SVCEF Benchmark <sup>iv</sup>            | -4.78%    | -3.33% | 12.20% |
| Difference (percentage points)           | +0.02     | -0.17  | -0.01  |

- The Social Values Choice Equity Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. The fund's fair market valuation policy (described [here](#)) negatively impacted benchmark-relative performance for the quarter and year to date periods but positively impacted for the month.

### U.S. Treasury Inflation Protection Fund

| Fund                                       | September | QTD    | YTD    |
|--|-----------|--------|--------|
| U.S. Treasury Inflation Protection Fund    | -2.09%    | -2.87% | -1.27% |
| Bloomberg U.S. Inflation Linked Bond Index | -1.93%    | -2.80% | -0.87% |
| Difference (percentage points)             | -0.16     | -0.07  | -0.40  |

- The U.S. Treasury Inflation Protection Fund is a passively managed fund designed to closely match the performance of the fund benchmark, less fees and expenses.
- The benchmark-relative performance deviation for the three periods is due to a modest difference in duration at the fund level. The small difference has resulted in underperformance given the increase in real yields during the quarter.

**For additional information, please contact:****Karen Manczko***Director, Institutional Relationships*

(847) 866-4236 direct

(847) 866-4100 general

[kmanczko@wespath.org](mailto:kmanczko@wespath.org)**Evan Witkowski, CIPM, FSA Credential Holder***Manager, Institutional Relationships*

(847) 866-5271 direct

(847) 866-4100 general

[ewitkowski@wespath.org](mailto:ewitkowski@wespath.org)

1901 Chestnut Avenue  
Glenview, Illinois 60025  
(847) 866-4100  
[wespath.org](http://wespath.org)

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- <sup>i</sup> Historical returns are not indicative of future performance. Fund returns are net of fees. Please refer to the [Investment Funds Description – P Series](#) for more information about the funds. This is not an offer to purchase securities.
- <sup>ii</sup> The benchmark for the Inflation Protection Fund was comprised of 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index through January 31, 2023. Effective February 1, 2023, the benchmark for the Inflation Protection Fund is 90% Bloomberg U.S. Treasury Inflation-Linked Bond Index and 10% Bloomberg Commodity Index.
- <sup>iii</sup> The benchmark for the Multiple Asset Fund is comprised of 35% Russell 3000 Index, 30% MSCI All Country World Index (ACWI) excluding USA Investable Market Index (IMI), 25% Barclays Capital U.S. Universal Index ex-Mortgage Backed Securities and 10% Inflation Protection Fund (IPF) Benchmark.
- <sup>iv</sup> The benchmark for the Social Values Choice Equity Fund is the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index.