

The temperature here in Ottawa has suddenly switched from too hot to much colder than usual. Portfolios in September were sort of all over the place also, just like our temperature. The month started off well, but things decided to cool off once the markets started took close notice of the big increase in market interest rates that began in late July.

From where I stand, it almost looked as if the big money traders had come back from their vacations at their fancy summer mansions, started to catch up reading their business newspapers, turned on their TV to business channels, and finally realized that rates had increased a lot while they were away on holidays! This realization then led to negative conversations amongst themselves and then to 'mass-group' selling. While it is not surprising that higher rates often result in lower asset (e.g. bonds, equities, and real estate) prices, I do believe the massive selling from September 14th to October 3rd was overdone. These short-term oversold conditions probably then resulted in sellers getting exhausted and the markets begin to stabilize around October 3rd. Nevertheless, most investment portfolios suffered some damage in September since both the bond/fixed income market and the stock market went down.

Even if market interest rates had not gone up, I was not entirely surprised that September would be a tougher month, for two reasons: (1) the U.S. stock market had done quite well prior to September -partly due to the Artificial Intelligence craze - and was probably due for some kind of pullback, and (2) historically, September is the only month of the year that has provided a negative return on average for the U.S. stock market. I had even mentioned in my last monthly communication on September 8th that *'in the very short-term, I recognize that September and October are typically volatile months'*.

While I am always extremely hesitant to make short-term calls on the markets, I would say that the historical data I have read points in favor of relatively good returns for the last quarter of 2023. For instance, *'Bank of America strategist Ritesh Samadhiya noted that since 1950, there have been 15 instances in which the [S&P 500](#) rallied more than 15% through July and then dropped an average 8% between August and September. The good news? The broader market index typically rebounds following such sell-offs, averaging a gain of 5% between October and December.'*

Source: [History shows a September stock sell-off typically begets a fourth-quarter rally](#), CNBC, September 28, 2023

On a short-term basis, I do think that any further reported increase in the U.S. or Canadian central bank rates would be a net negative for the markets. But looking out over the next 18 months, I do think diversified portfolios should do well since rates would stabilize or start to decline, and corporate profits should increase in 2024 relative to 2023. Stable or

lower rates combined with higher corporate profits should result in higher asset prices. This can happen despite the sad fact that many individuals and businesses are suffering and will continue to struggle as a result of today's higher rates.

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