EQUITY & FIXED INCOME MARKETS COMMENTARY

Stocks were mostly higher in September. The S&P 500 rose by 2.1%, while Mid-cap and Small-cap stocks gained a bit less, as the Mid-Cap S&P 400 Index and the Small-Cap S&P 600 Index were up by 1.2% and 0.9% for the month, respectively. Meanwhile the Dow Jones Industrial Average rose by 2.0% in September, while the NASDAQ Composite was up 2.8% for the month. International stock indices were also up in September, with developed markets up 0.6% and emerging markets up a whopping 6.4% on the heels of China's announced economic stimulus package. Bond indices were all higher in September, as the 10-year U.S. Treasury bond yield fell to 3.79%, from 3.92% last month.

LOOMING PORT STRIKE

This month's topic is one that has not received much press, but which probably should. The International Longshoremen's Association (ILA) represents 45,000 dock workers in 36 ports across the Eastern U.S. and Gulf Coast (including Houston). It's current contract with the United States Maritime Alliance (which represents port owners/operators) expired at midnight on September 30th and the ILA has now gone on strike as they could not come to an agreement on a new contract. Those 36 ports that are impacted by the strike currently account for over 40% of U.S. imports as well as significant export volumes – both affecting almost all industries in some fashion. U.S. West Coast port workers are represented by a different union and are not impacted by the ILA strike. That said, shippers have already been rerouting containers to the West Coast to avoid being stuck at sea in the event of a strike. This has caused the port of Long Beach, California to record its busiest month in 113 years in August. Accordingly, there is near zero capacity to absorb the imported freight otherwise bound for the Eastern and Gulf Coasts during the strike.

As you can imagine, this strike has the potential to significantly disrupt U.S. supply chains, causing shortages of parts and goods that then have an adverse knock-on effect to manufacturers and retailers. Similar disruptions during the pandemic – and their inflationary effect, are indelibly burned in our collective memories. Accordingly, the shutdown could have profound negative consequences to the U.S. economy if it lasts more than a few days. In fact, JP Morgan analysts estimate that an ILA strike could cost the U.S. economy $5 billion a day, or about 6% of daily gross domestic product (GDP). Furthermore, upon conclusion of the strike, it will take a long while to process the backlog of containers awaiting unloading. The Copenhagen-based shipping advisory firm Sea Intelligence has estimated that due to currently low excess capacity at strike-affected ports, it will take six days to clear the backlog from each day of the strike. Thus, a one-week strike would not be cleared until the end of November and a two-week strike would not allow affected ports to get back to normal operations until early 2025. The last time the ILA went on strike was in 1977 – a time when affected ports represented significantly less of a portion of U.S. imports and globalization of trade was not as extensive as today. That 1977 strike lasted 44 days.

It is important to note that the West Coast port workers held a strike in 2002 and after 10 days, President George W. Bush invoked the Taft-Hartley Act, which implements an 80-day "cooling off" period that forces union employees back to work while mediated contract negotiations continue. The Biden administration is on record as saying they will not invoke powers under Taft-Hartley in the event of an ILA strike. If right, then a lengthy ILA strike could be in order. It also comes at a time that 32,000 Boeing workers are currently on strike, shutting down airplane manufacturing, a major U.S. industry. As mentioned, the impact of these strikes on the economy – and on stocks – could be hard-felt. Could this be the event that potentially pushes an already slowing economy into recession? Let's hope not, but in the event it does, we believe our current defensive investment posture is well situated to weather such a development.

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REFERENCED INDICES

It is not possible to invest directly in an index. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses.

- **S&P 500® Index** – a market-cap weighted index composed of the common stock of 500 leading companies in leading industries of the U.S. economy.
- **S&P 500® Equal Weight Index** (EWI) – the equal-weight version of the S&P 500® Index. The index includes the same constituents as the capitalization-weighted S&P 500® Index, but each company in the S&P 500 EWI is allocated a fixed weight – or 0.2% – of the index total at each quarterly rebalance.
- **S&P MidCap 400® Index** – a market-cap weighted index composed of the common stock of 400 mid-sized companies reflecting the distinctive risk and return characteristics of the U.S. mid-cap equities sector.
- **S&P SmallCap 600® Index** – a market-cap weighted index composed of the common stock of 600 small-sized companies reflecting the distinctive risk and return characteristics of the U.S. small-cap equities sector.
- **Blended Equity Benchmark** – a customized index comprised of a blend of a 50% weight to the S&P 500® Index, 30% to the S&P MidCap 400® Index and 20% to the S&P SmallCap 600® index.
- **Dow Jones Industrial Average® (The Dow®)** – a price-weighted index composed of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.
- **Nasdaq Composite Index** – an index that measures all Nasdaq domestic and international based stocks listed on the Nasdaq Stock Market.
- **Bloomberg Intermediate US Govt/Credit TR Index Value Unhedged** – the index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities with a maturity greater than 1 year but less than 10 years.