Where We Stand

John Stoltzfus, chief investment strategist at Oppenheimer Asset Management, explains his top-down view of markets, the economy and asset allocation.

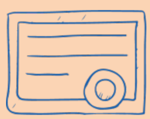
Third Quarter 2023 | *Current View*

Economic Growth

The U.S. economy continued to show resilience over the first three quarters of 2023 even as the Fed remained committed to keep monetary policy tight to curb inflation. The outlook for growth continues to show improvement even as inflation remains sticky.

Equities

After a powerful rally in the first half supported by economic resilience equity gains are being tested as investors question how much longer the Fed will have to maintain tight monetary policy to achieve its inflation target.

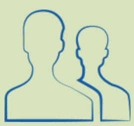


Fixed Income

Although bonds ultimately performed well in the first three quarters of the 2023 as economic activity appeared to be softening, yields swung widely and may continue to do so as the bond market assesses the Fed's ability to stem inflation while avoiding recession.

Inflation

The effect of ten Fed interest rate hikes since 2022 have blunted the trajectory of inflation. Though the inflation rate has come down it remains above the Fed's 2% target rate.

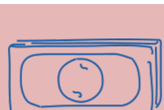


Employment

Job postings remain robust as some employers look to maintain head count as labor supply remains tight even as the economy slows.

Oil

Production cuts announced earlier by OPEC+ and Russia have raised oil prices on world markets even as the global growth remains uncertain.



Currencies

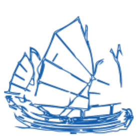
On a trade-weighted basis the U.S. dollar index regained strength in the third quarter as the Fed appeared likely to continue raising rates and as geopolitical risks prompted renewed interest in U.S. assets as a "safe haven."

Monetary Policy

With inflation proving sticky, the Fed continues to embrace a restrictive policy stance to further reduce inflationary pressure. Recession risk appears mitigated though not eliminated by resilience in employment and corporate earnings.

Public Policy

As the U.S. moves closer to the 2024 elections brinksmanship between the political parties on economic issues adds a level of volatility to the markets.



International Markets

We expect developed international and emerging equities to continue to lag U.S. markets near term as policymakers address structural issues and as monetary policy makers around the world address inflation risks.

Positive | Neutral | Negative

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Keys to Allocation

1
Core-Satellite Approach We advocate combining individual securities and actively managed portfolios around a core of other broadly diversified and strategically allocated investments.

2
Broad Market-Cap Exposure We favor exposure across large-, mid- and small-cap equities when making stock- and sector-specific allocations as global markets remain prone to frequent rotation and rebalancing.

3
Knowing What You Own Understanding how different investments interact with each other and how they behave in certain market environments is critical for investors to help achieve their long-term investment goals.

Sector Views

Sector	Rating
Technology **Rationale:** Makers of products vital to business and consumers remain poised to navigate higher interest rates. Newer technologies to benefit from M&A activity as established companies seek cost-effective synergies.	Outperform
Financials **Rationale:** Increased regulation and higher interest rates near term could impact revenues and earnings growth.	Perform
Health Care **Rationale:** Longer-term fundamentals remain solid for pharma with valuations in biotech becoming more attractive for M&A.	Perform
Consumer Discretionary **Rationale:** Leisure, hospitality, travel and back to office supportive to the sector. Valuations create prospects for M&A.	Outperform
Industrials **Rationale:** Aerospace, infrastructure, agriculture, energy and defense equipment needs likely to drive demand for products.	Outperform
Consumer Staples **Rationale:** This defensive sector remains attractive given near-term economic uncertainty. Although valuations remain rich, opportunities may arise on market downdrafts.	Perform
Energy **Rationale:** Volatility in energy prices is likely to persist in Q4 2023 until greater clarity is reached on global growth.	Perform
Utilities **Rationale:** Sector's role as bond proxy is challenged by bond yields that could go higher and remain high for longer.	Underperform
Real Estate **Rationale:** Location and purpose remain key to commercial real estate. High tax urban areas remain a drag. High rates also weigh on the sector.	Perform
Materials **Rationale:** Sector is likely to benefit as domestic and international infrastructure spending gains traction.	Perform
Communications **Rationale:** Exposure to tech-driven segments (AI, 5G, media, advertising streaming) provide longer-term opportunity.	Perform