MONTHLY MARKET COMMENTARY

OCTOBER 2023 Executive Summary

Benchmark Returns as of October 31, 2023

	For the Month	Year-to-Date		For the Month	Year-to-Date
S&P 500	-2.10%	10.69%	**Bloomberg Aggregate Bond Index**	-1.58%	-2.77%
Dow Jones Industrial Average	-1.26%	1.44%	**Developed International**	-4.11%	1.47%
Nasdaq	-2.76%	23.61%	**Emerging Markets**	-3.87%	-1.80%

Designers of haunted house tours use the disruption of our ability to make sense of and navigate the world to spark our fears; they are also careful to let us know that we'll make it out at the end. The ghouls and monsters disrupting investors' senses this month included the continued selloff in bonds with its attendant rise in interest rates and devilments in DC. Adding to concerns was the outbreak of war between Hamas and Israel. Still, major economic reports supplied the "we survived" relief from a U.S. economy that denies a nail in its coffin.

The specter of higher interest rates that weakened stock performance in September continued to haunt the equity markets this month. The benchmark 10-year U.S. Treasury bond yield remained elevated, rising further from 4.58% at the beginning of October to 4.88% at month-end, including brief intraday trades above 5% late in the month. Numerous factors were behind the bond selloff that drove yields higher, including:

- **increasing supply necessary to pay for U.S. government budget deficits,**
- **the ongoing debate on the likelihood and timing of another Fed rate increase, and**
- **uncertainty regarding the terminal rate of inflation and the time required to reach the Fed's stated goal.**

Political and geopolitical crises kept market participants on edge. In Washington, DC, the concessions made to avoid a September 30th government shut down cost Kevin McCarthy his House speakership. The protracted process of vetting and approving his replacement heightened concerns of a loss in confidence in U.S. governance that would increase borrowing costs. It also narrowed the odds of meeting the latest government funding deadline of November 17th. Just days after McCarthy's October 3rd ouster, Hamas launched a surprise attack on Israel, igniting another global hotspot even as the Russia/Ukraine conflict ground on for its 20th month.

In contrast, there was proof throughout the month of enduring U.S. economic strength beginning with the labor report released October 6th. Despite a blowout addition of 336,000 new jobs in September and upward revisions to both July and August job totals, wage gains were modest, thus keeping inflation fears in check. In related labor news, the United Auto Workers strike persisted for most of the month. Even as it appeared to be resolved in the final days of October, caution remains that emboldened labor organizations will drive less market-friendly wage levels.

Other major economic reports showed:

- **strong retail sales (up 0.7% in September vs. and expected 0.3% gain),**
- **the first estimate of third quarter GDP matched the elevated expectation of 4.9% noted in last month's commentary,**
- **the core year-over-year Personal Consumption Expenditures price index for September eased 0.01% to 3.7%, and**
- **the FOMC left short term interest rates unchanged at 5.25% - 5.50% (announced November 1st).**

As of October 31st, 279 of the companies in the S&P 500 had reported third quarter earnings. Using a blended metric (actual earnings plus estimates for companies yet to report) year over year earnings growth is 4.9%. The weakest results have been from Energy companies. If these are excluded, the growth rate jumps to 10.3%. *Source: LSEG I/B/E/S*

Looking ahead, can the "we survived" mindset support a reversal of the three-month slide in stock returns? As noted by our colleagues at Argus Research, "since 1980, [November] has been the best month for equity performance, with an average 1.9% gain." We would certainly be thankful for that outcome.

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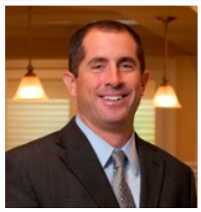

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