October 2023 Market Recap

By Dan Frost

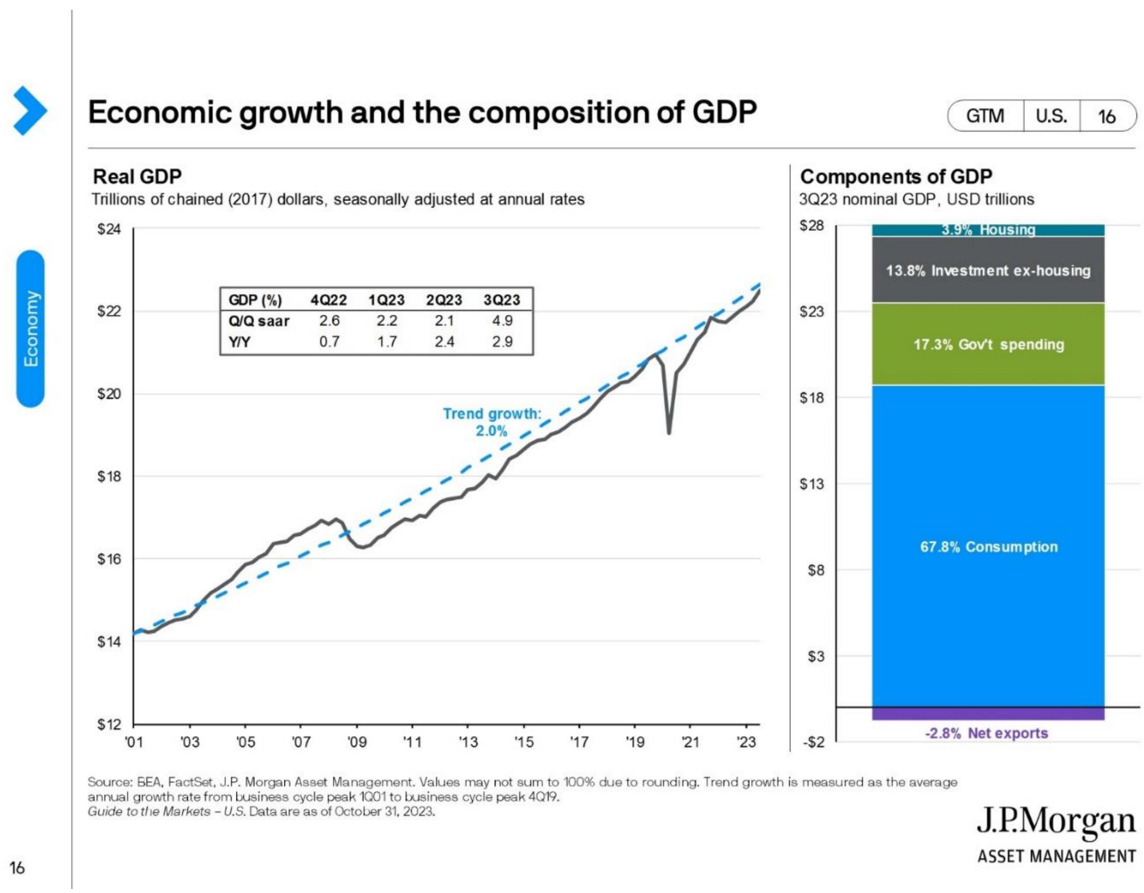
Highlights

- The U. S. economy experienced robust growth during the third quarter.
- The October employment report showed signs of softening in the labor markets.
- Stocks had their third consecutive monthly loss.
- Interest rates rose further, with long-term yields eclipsing 5% for the first time in 16 years.

Economic Update

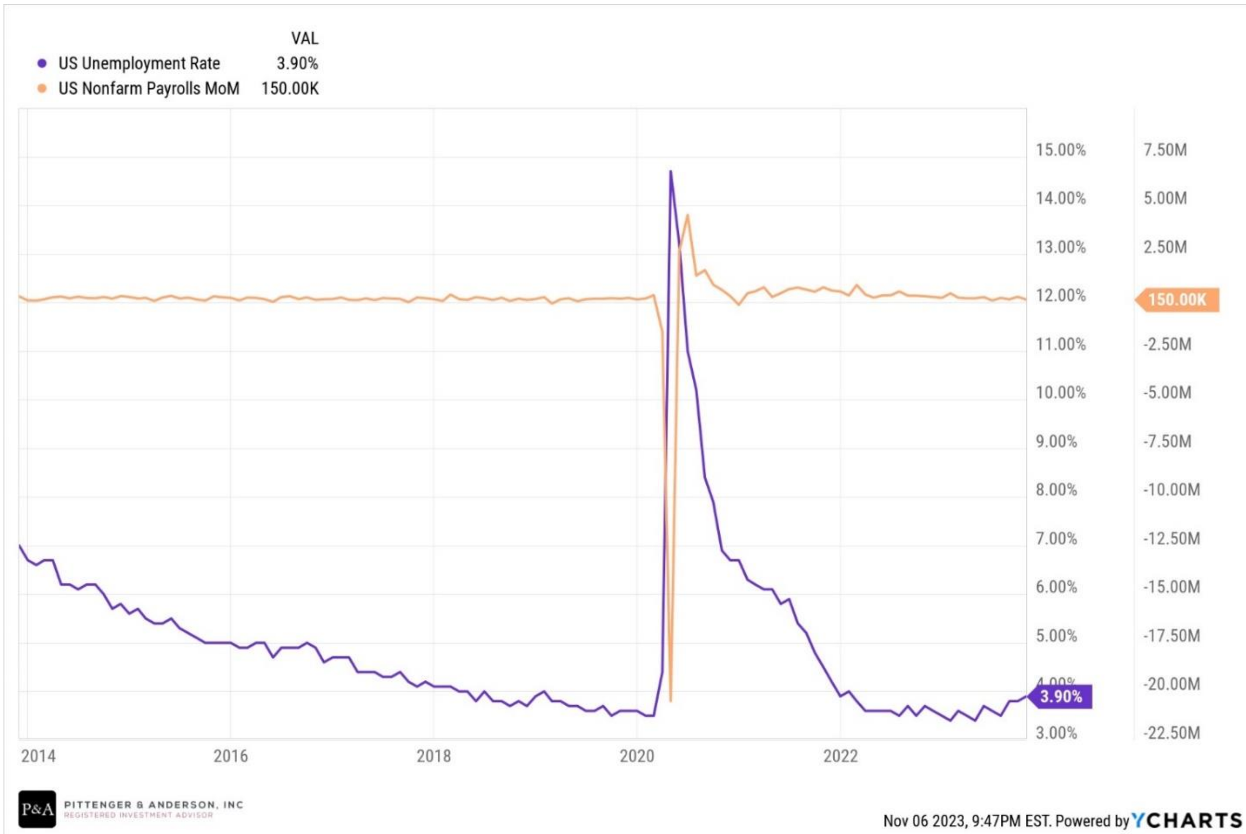
<u>Gross Domestic Product</u>

Real GDP, which measures growth in the overall size of the economy, soared at a 4.9% annualized rate in the third quarter. Excluding the surge following the reopening of the economy from the COVID pandemic in 2020-2021, it was the fastest growth rate for any quarter going back to 2014. On a year-over-year basis GDP grew by 2.9%. Consumer spending, which makes up over two-thirds of GDP, led the way with a 4.0% growth rate. “Core GDP” excluding the more volatile categories of government spending, inventories, and international trade grew by a healthy 3.3% in Q3.



Employment

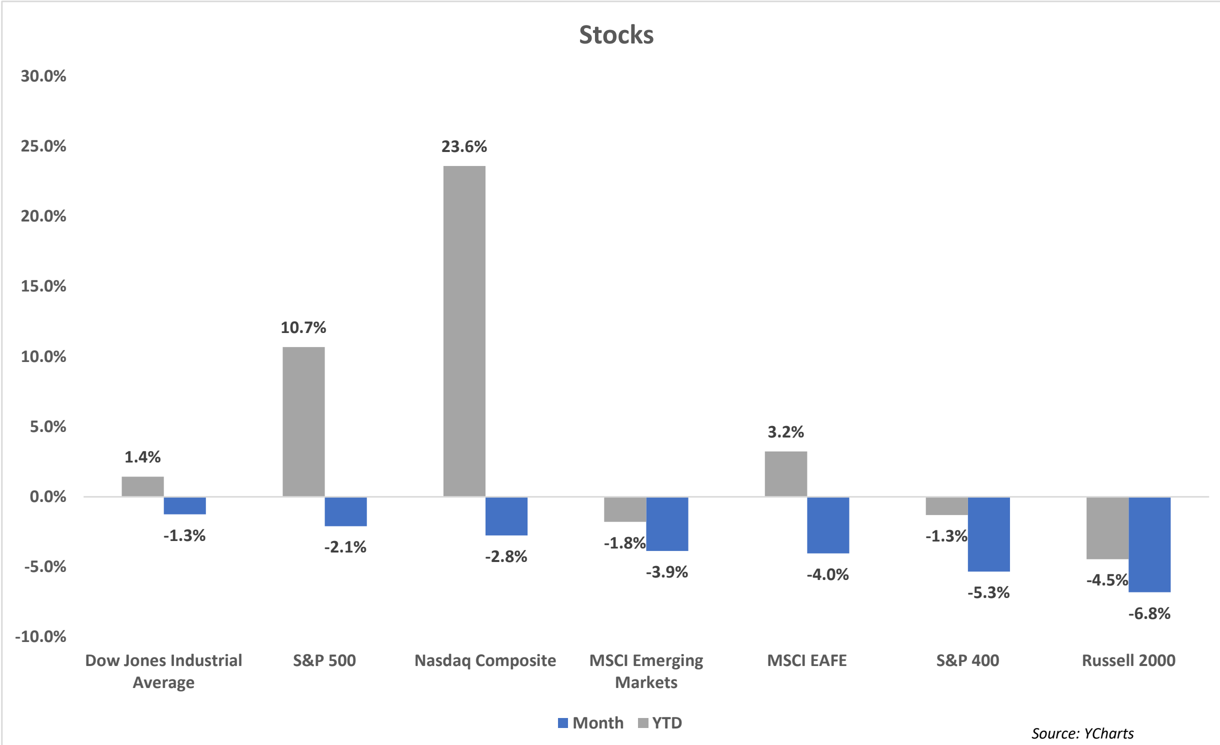
The October employment report showed signs of some softening in the labor market. Nonfarm payrolls came in lower than expected with a gain of 150,000, the second lowest increase going back to the beginning of 2021. The headline unemployment rate rose to 3.9%, which is still very low by historical standards but up from the recent generational lows of 3.4%. Excluding the COVID related spike in unemployment, there have only been three other months going back to June of 2018 where the headline unemployment rate was higher than 3.9%.



Stocks and Bonds

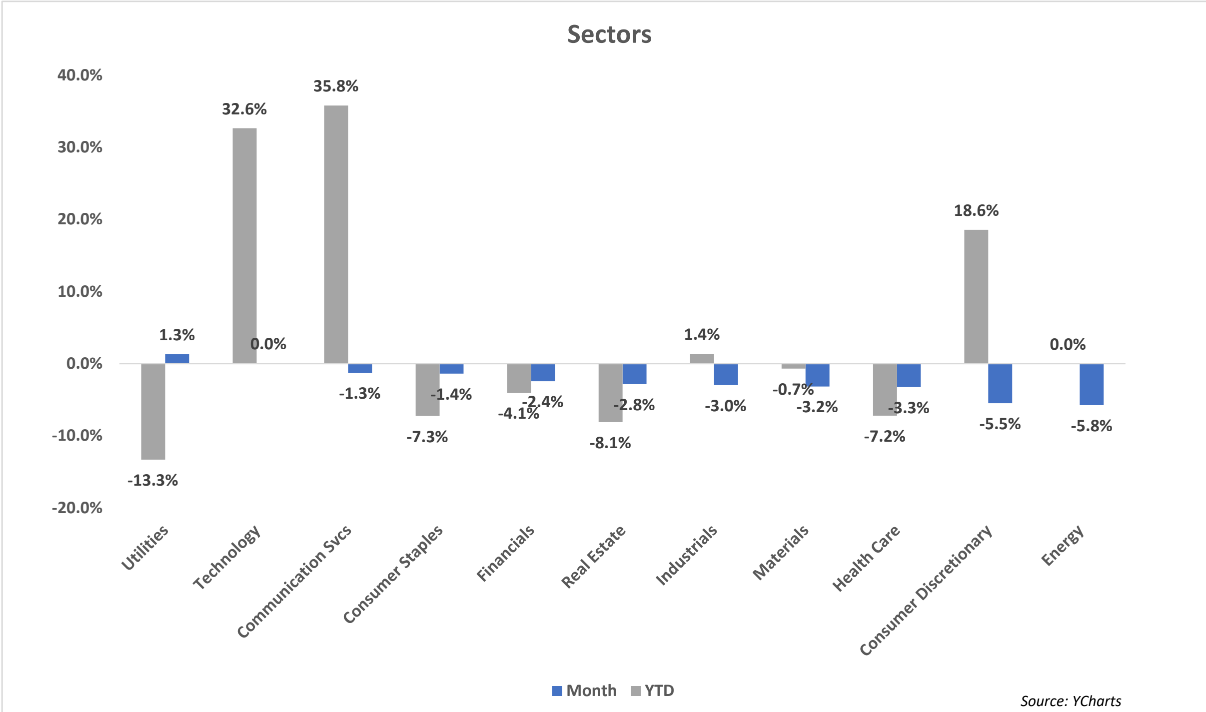
Stocks declined for the third straight month, with the Dow Jones Industrial Average falling 1.3%, the S&P 500 slipping 2.1%, and the NASDAQ giving up 2.8%. Globally, Emerging Markets fell 3.9% and EAFE lost 4.0%. Small and mid-cap stocks were the most adversely affected; the Russell 2000 dove 6.8%, while the mid-cap S&P 400 closed down 5.3%.

At its lows for the month the S&P 500 was in "correction" territory with a decline of 10.28% off the most recent closing high of 4,589 reached in July but improved in the last two days of October.

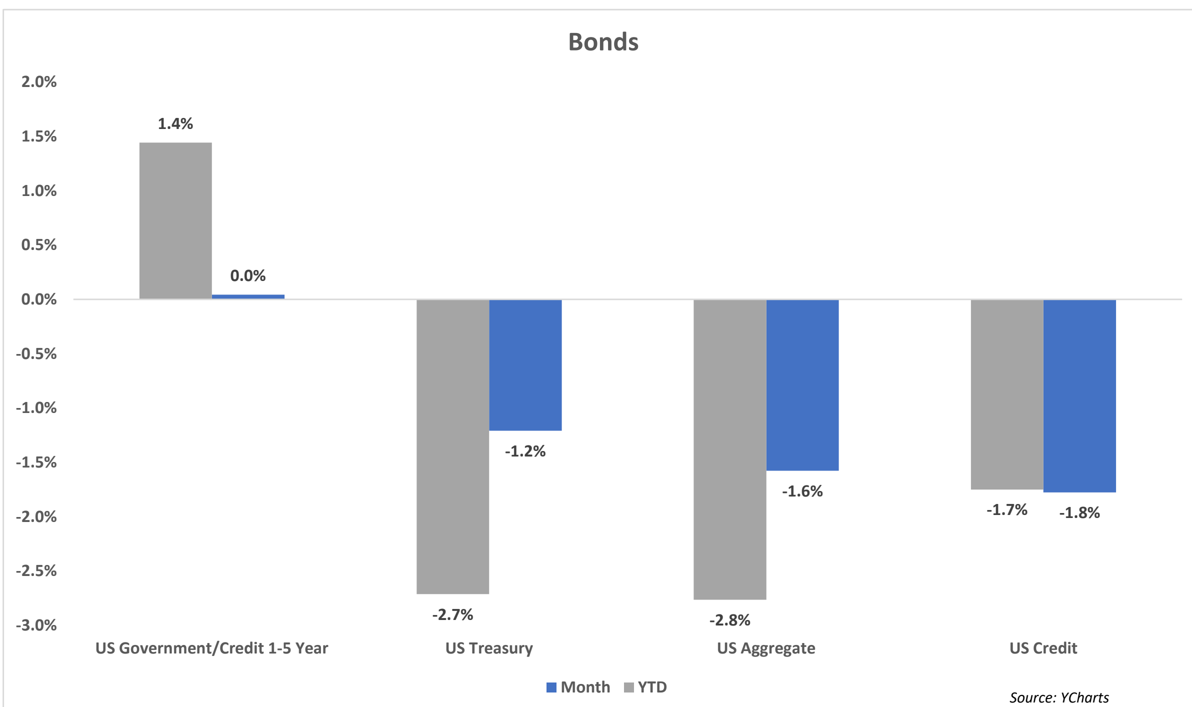


After being the only US stock sector to finish in the black for the last two months, Energy was the biggest laggard in October, with a 5.8% decline. Only Utilities and Technology advanced higher in October, up 1.3% and 0.1%, respectively.

Year-to-date, the broad market continues to be propped-up by a narrow number of sectors and individual stocks. At the sector level only Technology, Communications, Consumer Discretionary, and Industrials (barely) are on the plus side of the ledger for 2023.



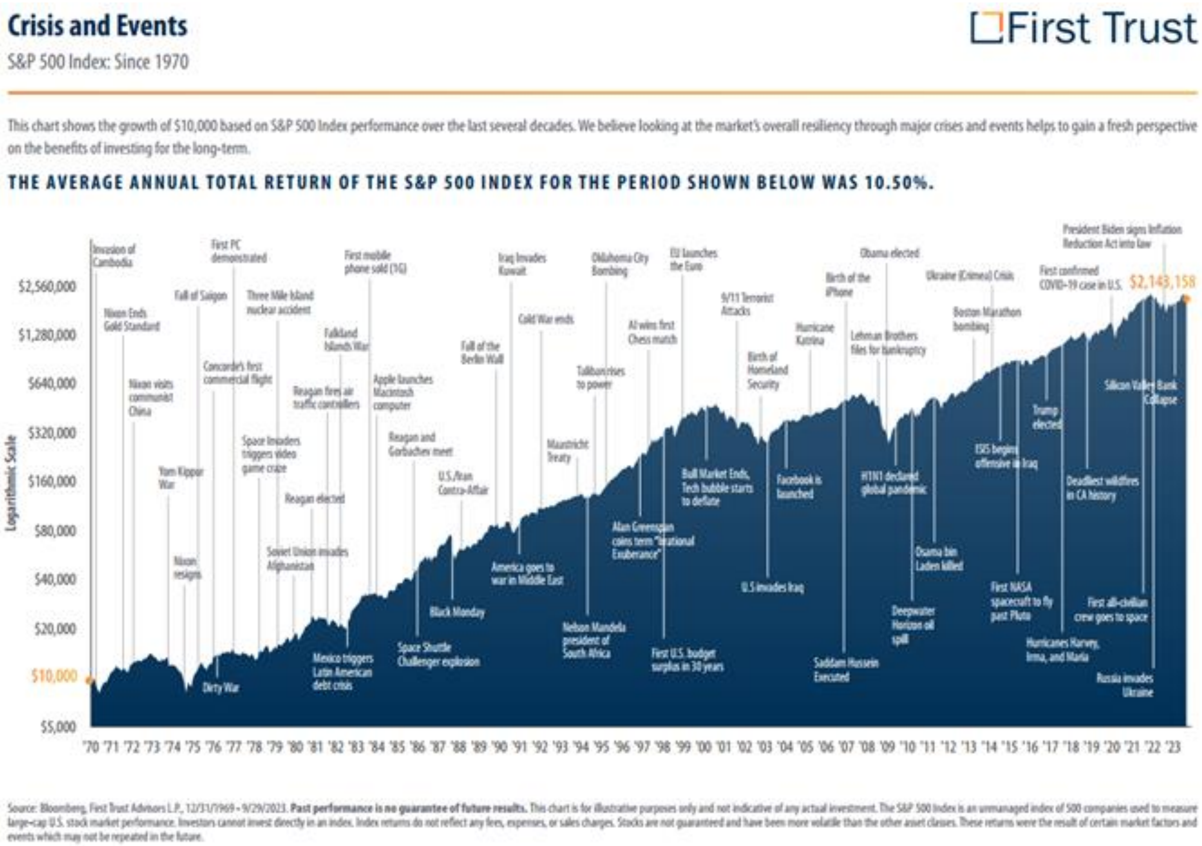
The yield curve trended toward normalcy in October. Yields on the 3-year, 5-year, 10-year, 20-year, and 30-year treasuries all increased by double-digits, with the 30-year logging the largest rise of 31 basis points. The 20-year and 30-year both eclipsed 5% for the first time since July 2007, ending the month at 5.21% and 5.04%, respectively. At the short end of the curve, the yield on the 6-month hovered between 5.5% and 5.6% and finished the month roughly unchanged.



Wall of Worry

There was no shortage of things for investors to worry about during the past month. A battle over nominating a new Speaker of the House of Representatives, the ongoing war between Russia and Ukraine, Hamas launching an attack on Israel, and the Fed's revelation that interest rates could remain higher for longer leading to a rise in longer-term rates.

The historical record shows us that there is always a "good reason to sell," but the chart below reminds us that while markets can have extreme reactions over the short-term, over the long run they are resilient.



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