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October 2023: Market Review

Global equity and fixed income markets declined in October as geopolitical concerns and rising long-term bond yields weighed on market sentiment. The S&P 500 Index fell by -2.1%, while the tech-heavy NASDAQ Composite Index was down -2.8%, and the Dow Jones Industrial Average declined -1.3%. The surprising terrorist attack on Israel by Hamas on October 7, and retaliation by the Israeli armed forces, rekindled a seven-decade struggle between the Israelis and Palestinians. The broader economic implications are that this conflict could result in significant destabilization across the Middle East, likley resulting in higher oil prices and higher levels of U.S. defense spending. Third-quarter corporate earnings have been mixed thus far, especially for technology companies. Despite solid growth and earnings exceeding consensus expectations, investors' negative reaction to increasing expenses hampered share prices in October. Third quarter real GDP growth was +4.9%, led by increases in consumer spending and inventory investment. The CPI measure of headline inflation rose +3.7% year-over-year in September due to oil prices spiking to levels not seen since August of 2022. The September unemployment rate was unchanged from last month at 3.8%, despite a strong labor department report showing that the economy added 336,000 jobs - roughly double the consensus estimates.

October brought the third consecutive negative month for large-cap domestic equities with a decline of -2.1% for the S&P 500 Index. Large-cap growth stocks (Russell 1000 Growth Index -1.4%) outperformed their value counterparts (Russell 1000 Value Index -3.5%), further widening the growth style's considerable outperformance among large-caps year-to-date. Conversely, in small-cap, the Russell 2000 Growth Index (-7.7%) underperformed the Russell 2000 Value Index (-6.0%), and the Russell Mid Cap Value Index fell -5.0% versus a loss of -5.1% for the Russell Mid Cap Growth Index. WTI crude oil ended the month at $81 per barrel, down -12% from last month's close of $91.

Developed international equities underperformed their U.S. counterparts in October. The MSCI EAFE Index and the MSCI ACWI ex USA Index both declined -4.1%. Growth style equities outperformed their value counterparts as the MSCI ACWI ex USA Growth Index (-3.9%) declined less than the MSCI ACWI ex USA Value Index (-4.4%), but value performed much better year-to-date in international markets. The MSCI Emerging Markets Index decreased -3.9% and held up slightly better than developed markets in October, but emerging markets have been the worst performing international asset class overseas thus far in 2023.

U.S. fixed-income markets declined for the sixth straight month in October, driven by a considerable increase in yields on the longer end of the curve. The 10-year treasury yield rose 30 basis points from 4.57% at the end of September up to 4.87% to end October. The Bloomberg U.S. Aggregate Bond Index decreased -1.6% during the month. Longer duration bonds underperformed shorter duration bonds in October as the Bloomberg U.S. Treasury 20+ Year Index fell -5.5%. The yield curve spread between the U.S. 10-year and 2-year treasuries continued to un-invert, narrowing to end October at -0.19%. Investment grade bonds (Bloomberg Investment Grade Index -1.3%) lagged behind lower credit rated bonds (Bloomberg High Yield Index -1.2%).

Volatility persisted in global financial markets throughout October as investors kept a watchful eye on economic data, corporate earnings, and the Federal Reserve's hints on what could occur at their next meeting on November 1st. The U.S. economy has remained resilient with the strong third quarter real GDP report revealing that consumers are continuing to spend despite the presumed headwinds of higher interest rates. Looking towards the end of the year and the start of 2024 investors will be monitoring supply and demand for U.S. treasuries, and where the long end of the yield curve ultimately settles. Additionally, any escalation of military force from Israel's allies or Hamas' allies could lead to increased market volatility.

See footnotes on the following page.

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