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November Market Update

There was no shortage of market activity in October, with elevated interest rates, government deficits, and war in the Middle East in the spotlight.

Tallying October — traditionally known as the most volatile month of the year — the S&P 500 fell by 2.20%, the Nasdaq 100 shed 2.08%, and the Dow Jones Industrial Average decreased by 1.36%.

Earnings Season Unfolds

Earnings results for the third quarter have been mostly good thus far, but you wouldn't know it by glancing at the markets.

As of October 27th (with 49% of S&P 500 companies reporting actual results), 78% of S&P 500 companies had reported a positive earning per share (EPS) surprise, and 62% of S&P 500 companies had reported a positive revenue surprise for Q3, according to data from FactSet.

Companies that have reported negative results (such as Tesla) have been punished by the markets, perhaps unfairly in some cases. Earnings season will continue this month.

Fed: Another (Dovish-Sounding?) Pause

For the second consecutive time, the Federal Reserve left interest rates unchanged at the November 1st meeting, as was widely expected.

The Fed's tone was interpreted as "dovish." However, the Fed indicated that there have not been any decisions made about future meetings and Federal Reserve Chair Jerome Powell acknowledged that the U.S. economy is "strong."

Ultimately, the Fed's statement was virtually unchanged compared to the last meeting, which gave market participants little to go on in the short term, yet the U.S. stock indexes rallied on the day of the Fed decision.

Labor Market Strength

Logic-defying labor market strength continued in September (with data released in October). Dow Jones estimates were for 170,000 in new jobs added.

336,000 jobs added was the headline jobs number — way above consensus expectations. How was there so much job creation as the Fed worked so hard to cool the economy?

Inflation: Sticky

Inflation remained elevated based on multiple metrics throughout October's releases of September data.

Producer Price Index (PPI): Producer pricing (wholesale pricing) showed a rise of 0.5% in September versus the Dow Jones estimate for a 0.3% rise.

Those wholesale prices remain elevated. Producer inflation tends to be a leading indicator for consumer inflation (meaning increases in producer pricing can signal what's to come for consumer pricing).

Consumer Price Index (CPI): Consumer pricing for September showed us a bit hotter-than-expected data reading, at a 3.7% year-over-year rise versus estimates for 3.6%. On a month-over-month basis, data showed a 0.4% increase in consumer pricing vs. 0.3% expected. Shelter (including rent) and energy remained firm.

While markets didn't seem to mind the hotter PPI, CPI was a different story, with the S&P 500 finishing the daily session lower. Tensions in the Middle East also ramped up on the same day, October 12th, and the tone for October was set.

Bullish Seasonals

Yes, the seasonal pattern for U.S. equities is strong at this time of year!

Historically, November and December are a strong time of year for U.S. equities. After October's dismal showing for U.S. stock indexes, market watchers are debating the opportunities in stocks for the remainder of the year.

According to data from CFRA Research, the S&P 500 has risen in 60% of the Octobers, 66% of the Novembers, and 77% of the Decembers since 1945.

Well, we know that October didn't pan out according to the historical data and pattern! Many market bulls are feeling enthusiastic about the next two months, despite the headlines.

Putting It Together

The overall market (and consumer) sentiment is rather sour heading into November — and for solid fundamental reasons. Regardless of the headlines, we are entering a historically strong time of year for U.S. equities.

This bullish seasonal tendency could provide a supportive backdrop going into the end of the year. However, rising rates are on the radar of investors, along with another potential looming government shutdown in mid-November, the Middle East, and other factors.

Staying the Course

Let's remember the goals that we have discussed, strategized, and implemented. More often than not, emotions can trigger the long-term investor into making snap decisions to their long-term detriment (think 2020).

Market timing is difficult to achieve. It is for this reason that we stress the overall importance of investing over the longer term. Remembering this during times of market upturns is equally as critical as staying resolved during market downturns.

With that said, if your priorities or objectives have shifted since your last conversation with your advisor, please feel free to reach out to them directly to discuss.

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