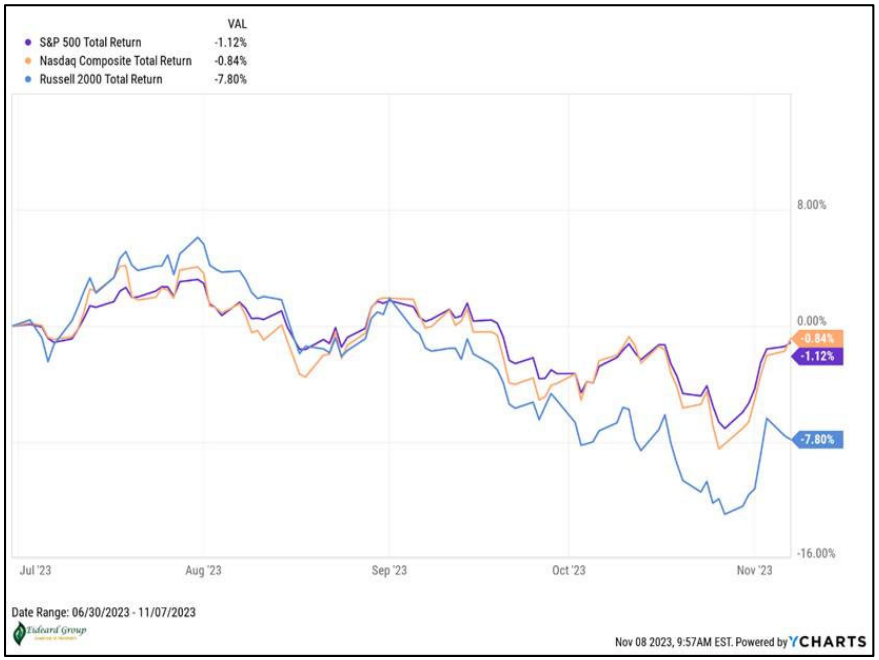
Market Movement Highlights

Harkening back to our mid-year market commentary, we offered the following question: *"Are we simply witnessing what may be a short-lived bear market rally or are we on the cusp of a new bull market cycle?"* The answer in that moment was admittedly confusing, if not elusive, since the signaling continued to be mixed, though we still leaned toward the latter camp. Notwithstanding our optimism, the economic and financial markets continued to confound as we entered July. The equity markets, however, took little notice climbing another 3-4% through mid-month, before reaching their respective YTD peaks. (We should applaud Jerome Powell and the FED, who on the notion that the impact of their earlier rate increases had not yet fully pervaded the economy, they for the second consecutive time stood pat against imposing another rate increase in favor of a "wait and see" posture.) As late July succumbed to August, and late summer ushered in the fall, the S&P 500 had turned down by (8%), the Nasdaq by (10%), and small cap stocks by almost (17%), with respective YTD returns of +10.7%, +23.6% and (4.5%) as of October. The international markets fared no better, as developed and emerging market stocks fell by (11%) and (12%), respectively, to register YTD returns of +3.2% and (1.8%), respectively.

On the flip side, the bond markets reacted much the same way. As US Treasury yields continued to press higher through the 3rd quarterly stanza, general market bond yields followed suit, eroding fixed income prices and widening unrealized losses which previously had been healing. This suggests that bonds of all ilk may be on pace for a 3rd straight year of poor performance in an environment where interest rates remain rigid at 22 year highs!



Meanwhile, as the financial markets entered October licking their wounds, a bright note (at least we think) emerged with the BEA's first estimate of 3Q23's GDP growth; a whopping +4.9%, something not seen since 4Q 2021, the first post pandemic quarter when pent-up consumer demand had already been unleashed. Consumer spending since then continues to remain strong on the back of a still very tight labor market and historic unemployment lows. While one would surmise that this normally positive backdrop would ordinarily support continued US economic growth and prosperity, the FED seems cautionary, sober and steadfast over the economy's resiliency, since inflation remains stubbornly elevated at 3.7% against its 2% target. This in turn appears to reinforce the FED's stance for a

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"higher for longer" rate regime, an unwelcome posture which now appears to be muting overall market performance.

Looking Forward

Unfortunately, since October 7th, now appropriately coined as Israel's 911, we must now also focus our attention more keenly on the potential for market turbulence related to increasing geopolitical risk re-emerging in the Middle East and around the globe. Were that the Ukrainian war, now two years old, was not enough (or) that Russia's partnership with China is heightening our strategic concerns (or) that arguably a financially stronger Iran is now reportedly enabling terrorist proxies in Gaza, Lebanon and Syria; all present risks material to regional and global stability. To these growing concerns, we must remain vigilant and be prepared to respond. In that regard, while we all know it is always prudent to maintain some cash on hand i.e. "dry powder", perhaps it's even more prudent now, as long term investors, that we revisit our near-term liquidity needs and maintain cash balances a bit larger and handier than usual. After all, at least one silver lining in today's higher rate regime is that we can finally be well compensated for investing in risk free treasury bills whose yields now hover around 5%.

As we come to our closing remarks, we hesitate to end on a sour note. For reasons we are yet able to discern, the first week of November has offered a noticeable upturn in equity performance. Perhaps the emerging upside return is only attributable to investors covering their short positions, a so called "short covering rally"! We don't know for certain, but what we do generally know from market history is that the months of September and October typically deliver dour performance, which is then often followed by sharp recoveries in November and December. Perhaps the phenomena has something to do with the approaching Holiday Season, the gathering of family and friends and the rum-laced eggnog we all enjoy as we anticipate the New Year!

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November 7th, 2023

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