MARKET UPDATE

MARKET MONTH: OCTOBER 2023

As of October 31, 2023

Stocks declined for the third straight month in October, with each of the benchmark indexes listed here ending the month notably lower. The Nasdaq and the S&P 500 endured their worst October since 2018. The S&P 500, down for three straight months, had its worst three-month performance since the period ended June 2022. The Nasdaq also had its worst October since 2018, down about 11.0% over the past three months, marking its poorest three-month performance since the August-October period in 2022. This was not a good month for the Dow, which suffered its worst October since 2020.

The most recent inflation data demonstrated the challenges the Federal Reserve faces in trying to bring down rising prices, with annual core prices for the Consumer Price Index (CPI) and the personal consumption expenditures price index remaining well above the 2.0% target set by the Fed. Prices for shelter and food climbed higher, while energy prices dipped lower.

Speaking of the Federal Reserve, it did not meet in September: its next meeting concludes on November 1. However, Fed Chair Jerome Powell has indicated on several occasions that inflation has remained elevated, while the economy has shown overall strength and is likely able to withstand higher interest rates for a longer period of time.

The economy has proven resilient despite the threat of a government shutdown, an autoworkers strike, the ongoing war in Ukraine, and the Israel-Hamas conflict. Third-quarter gross domestic product expanded at an annualized rate of 4.9%, according to the advance estimate. While subsequent iterations for the third quarter could see a reduction in growth as more complete data is made available, the economy clearly expanded above expectations in the third quarter. Consumer spending, which makes up about 70.0% of the economy, rose, with increased spending in durable goods, nondurable goods, and services. However, that trend may not last, as consumers may have to tighten their purse strings in light of high interest rates, while the resumption of student loan payments and dwindling pandemic-era savings might eat into their budgets.

Job growth was robust in September, with the addition of nearly 340,000 new jobs. Wages continued to rise, increasing 4.2% over the last 12 months. Despite job growth, unemployment claims increased from a year ago (see below).

Third-quarter corporate earnings have been mixed thus far. Roughly 25.0% of companies in the S&P 500 have reported third-quarter results. While nearly 77.0% of those companies have reported earnings better than expected, S&P companies are on target to see profits decline by 0.2% compared to last year's third-quarter earnings.

The secondary housing market retreated for the fourth straight month in September, primarily due to lack of inventory, high prices, and advancing mortgage rates. However, while existing home sales declined, sales of new single-family homes advanced (see below).

Industrial production expanded for the second month in a row in September (see below). According to the latest survey from the S&P Global US Manufacturing Purchasing Managers' Index™, purchasing managers reported that manufacturing contracted in September. However, the services sector expanded, but at a slower pace than in August.

Each of the market sectors ended September lower, with the exception of utilities, which eked out a 0.4% gain. Energy fell 6.3%, while consumer discretionary dropped over 5.0%. Information technology recouped losses from early in the month, but not enough to avoid slipping 0.6% by the end of October.

Bond prices fell in October, with yields increasing over the previous month. Ten-year Treasury yields rose, while the 2-year Treasury yield fell nearly 10.0 basis points in October. The dollar inched higher against a basket of world currencies. Gold prices ended October on an upswing. Crude oil prices declined in October despite the turmoil in the Middle East. The retail price of regular gasoline was $3.533 per gallon on October 23, $0.345 lower than the price a month earlier and $0.236 lower than a year ago.

STOCK MARKET INDEXES

Market/Index	2022 Close	Prior Month	As of October 31	Monthly Change	YTD Change
DJIA	33,147.25	33,507.50	33,052.87	-1.36%	-0.28%
Nasdaq	10,466.48	13,219.32	12,851.24	-2.78%	22.78%
S&P 500	3,839.50	4,288.05	4,193.80	-2.20%	9.23%
Russell 2000	1,761.25	1,785.10	1,662.28	-6.88%	-5.62%
Global Dow	3,702.71	3,982.95	3,852.70	-3.27%	4.05%
Fed. Funds Target Rate	4.25%-4.50%	5.25%-5.50%	5.25%-5.50%	0 bps	100 bps
10-year Treasuries	3.87%	4.57%	4.87%	30 bps	100 bps
US Dollar-DXY	103.48	106.19	106.70	0.48%	3.11%
Crude Oil-CL=F	$80.41	$90.87	$81.31	-10.52%	1.12%
Gold-GC=F	$1,829.70	$1,864.90	$1,992.80	6.86%	8.91%

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark the performance of specific investments.

LATEST ECONOMIC REPORTS

Employment: Employment rose by 336,000 in September from August following upwardly revised totals for July (157,000 to 236,000) and August (187,000 to 227,000). Over the last 12 months ended in September, the average monthly job gain was 267,000. Employment trended upward in leisure and hospitality; government; health care; professional, scientific, and technical services; and social assistance. The unemployment rate and the number of unemployed persons were unchanged at 3.8% and 6.4 million, respectively. The employment-population ratio and the labor force participation rate were unchanged at 60.4% and 62.8%, respectively. In September, average hourly earnings increased by $0.07, or 0.2%, to $33.88. Over the 12 months ended in September, average hourly earnings rose by 4.2%. In September, the average workweek was unchanged at 34.4 hours.

There were 210,000 initial claims for unemployment insurance for the week ended October 21, 2023. The total number of workers receiving unemployment insurance was 1,790,000. By comparison, over the same period last year, there were 201,000 initial claims for unemployment insurance, and the total number of claims paid was 1,391,000.

FOMC/interest rates: The Federal Open Market Committee left the Federal Funds target rate unchanged following its meeting in September. However, the October meeting ended later in the afternoon on November 1, after the publication of this report. However, most expect interest rates to remain unchanged at their current 5.25%-5.50% range.

GDP/budget: The economy accelerated at a notable pace in the third quarter, as gross domestic product increased 4.9%, according to the initial, or advance, estimate. GDP increased 2.1% in the second quarter. The increase in third-quarter GDP compared to the previous quarter primarily reflected a rise in consumer spending, private inventory investment, exports, federal, state, and local government spending, and residential fixed investment. Nonresidential fixed investment declined, while imports, which are a negative in the calculation of GDP, increased. Consumer spending, as measured by personal consumption expenditures, rose 4.0% in the third quarter, compared to a 0.8% increase in the second quarter. The increase in personal consumption expenditures reflected increases in goods (4.8%) and services (3.6%). The increase in fixed investment (0.8%) included a 3.9% advance in residential fixed investment (-2.2% in the second quarter). Nonresidential fixed investment ticked down 0.1% after increasing 7.4% in the previous quarter. Exports increased 6.2% in the third quarter after falling 9.3% in the second quarter. Imports increased 5.7% in the third quarter, significantly higher than the 7.6% decrease in the second quarter. Consumer prices increased 2.9% in the third quarter compared to a 2.5% advance in the second quarter. Excluding food and energy, consumer prices advanced 2.4% in the third quarter (3.7% in the second quarter).

The federal budget had a deficit of $171.0 billion in September, the last month of fiscal year 2023. The total deficit for the fiscal year was $1.695 billion, comprised of $6.134 billion of total outlays and $4.439 billion of total receipts. By comparison, the FY23 total deficit was more than 23.0% greater than the total deficit for FY22 ($1.375 billion). For FY23, individual income tax receipts totaled $2.176 billion, well below the $2.632 billion collected in the prior fiscal year. Corporate income tax receipts were also lower in FY23, at $420.0 billion, compared to $425.0 billion collected in FY22.

Inflation/consumer spending: According to the latest Personal Income and Outlays report, consumer spending increased 0.7% in September, up from 0.4% in August. Personal income and disposable personal income rose 0.3% in September. Consumer prices rose 0.4% in September, the same increase as in the previous month. Consumer prices excluding food and energy (core prices), the preferred inflation indicator used by the Federal Reserve, increased 0.3% in September, up from the August increase of 0.1%. Over the 12 months ended in September, consumer prices increased 3.4%, the same increase as for the 12 months ended in August. Core prices rose 3.7% for the year ended in September, down from 3.8% for the 12 months ended in August. Over the last 12 months, prices for goods increased 0.9% and prices for services increased 4.7%. Food prices increased 2.7%, and energy prices decreased by less than 0.1%.

The Consumer Price Index rose 0.4% in September compared to a 0.6% advance in August. Over the 12 months ended in September, the CPI advanced 3.7%, unchanged from the annual rate for the period ended in August. Core prices, excluding food and energy, rose 0.3% in September and 4.1% over the last 12 months. Prices for shelter were the largest contributors to the monthly all items increase, accounting for over half of the September gain. An increase in gasoline prices was also a major contributor to the all items monthly rise. While the major energy components were mixed in September, energy prices rose 1.5% over the month. Food prices increased 0.2% in September, as they did in the previous two months. For the 12 months ended in September, food prices rose 3.7%; shelter prices increased 7.2%; energy prices dipped 0.5%; gasoline prices rose 3.0%; new vehicle prices advanced 2.5%; and used vehicle prices fell 8.0%.

Prices that producers received for goods and services increased 0.5% in September after rising 0.7% in August. Producer prices increased 2.2% for the 12 months ended in September, the largest increase since moving up 2.3% for the 12 months ended in April. Prices for goods rose 0.9% in September, the third consecutive monthly increase. Nearly three-quarters of the broad-based September advance in prices for goods was attributable to a 3.3% rise in prices for energy, with gasoline prices increasing 5.4%. Prices for foods increased 0.9% in September and 1.2% for the year. In September, prices for services advanced 0.3%, and 2.9% since September 2022.

Housing: Sales of existing homes decreased 2.0% in September, marking the fourth consecutive month of declines. Since September 2022, existing-home sales dropped 15.4%. According to the report from the National Association of Realtors®, limited inventory and housing affordability continued to hamper home sales. In September, total existing-home inventory sat at a 3.4-month supply at the current sales pace, up from 3.3 months in August. The median existing-home price was $394,300 in September, down from the August price of $404,100 but well above the September 2022 price of $383,500. Sales of existing single-family homes dropped 1.9% in September and 15.8% from a year ago. The median existing single-family home price was $399,200 in September, down from the August price of $410,200 but above the September 2022 price of $389,600.

NOV. KEY DATES/ DATA RELEASES

11/1: S&P Manufacturing PMI, JOLTS, FOMC meeting statement

11/3: S&P Services PMI, employment situation

11/7: International trade in goods and services

11/10: Treasury statement

11/14: Consumer Price Index

11/15: Producer Price Index, retail sales

11/16: Industrial production, import and export prices

11/17: Housing starts

11/21: Existing home sales

11/22: Durable goods orders

11/27: New home sales

11/29: GDP, international trade in goods

11/30: Personal income and outlays

New single-family home sales jumped higher in September, climbing 12.3% above the August estimate. Overall, single-family home sales were up 33.9% from a year earlier. The median sales price of new single-family houses sold in September was $418,800 ($433,100 in August). The September average sales price was $503,900 ($522,700 in August). The inventory of new single-family homes for sale in September decreased to 6.9 months, down from 7.7 months in August

Manufacturing: Industrial production advanced 0.3% in September after advancing 0.4% in August. Manufacturing output rose 0.4% in September but was 0.8% below its year-earlier level. The output of motor vehicles and parts moved up only 0.3%, as motor vehicle assemblies were held down by the strike against three automakers. In September, mining increased 0.4%, while utilities decreased 0.3%. Total industrial production in September was 0.1% above its year-earlier level.

New orders for durable goods rose 4.7% in September after declining in each of the previous two months. Excluding defense, new orders increased 5.8%. Excluding transportation, new orders increased 0.5%. Orders for transportation equipment increased 12.7% following a 1.1% decline in August. Core capital goods orders, excluding defense and aircraft, advanced 0.6% in September following a 1.1% advance in August.

Imports and exports: September saw both import and export prices increase for the third straight month. Import prices ticked up 0.1% following a 0.6% increase in August. Higher fuel prices drove the September increase. Despite the recent increases, prices for imports declined 1.7% for the year ended in September. Import fuel prices advanced 4.4% in September after rising 8.8% in August. Import fuel prices have not recorded a one-month decline since May 2023. Prices for nonfuel imports decreased 0.2% for the second consecutive month in September. Export prices rose 0.7% in September after advancing 1.1% in August. Higher prices for nonagricultural exports in September more than offset lower agricultural prices. Despite the recent advances, prices for exports decreased 4.1% over the past year. The 12-month drop in September was the smallest over-the-year decline since February 2023.

According to the advance report, the international trade in goods deficit increased $1.1 billion, or 1.3%, in September. Exports of goods increased 2.9% from August, while imports of goods rose 2.4%.

The latest information on international trade in goods and services, released October 5, was for August and revealed that the goods and services trade deficit decreased $6.4 billion, or 9.9%, from July. Exports for August rose 1.6% from the previous month. Imports decreased 0.7%. Year to date, the goods and services deficit decreased $137.6 billion, or 20.7%, from the same period in 2022. Exports increased 1.1%, while imports decreased 4.3%.

International markets: The war in Ukraine has weighed on European economies. The combined gross domestic product for the eurozone's 20 member countries fell 0.4% in the third quarter. The Russia-Ukraine war pushed energy and food prices higher at the outset of Russia's invasion, weakening household spending. On the other hand, consumer prices eased

EYE ON THE MONTH AHEAD

The Federal Open Market Committee concludes its two-day meeting on November 1. Another interest-rate increase will likely come out of that meeting or when they next meet in December. The markets will look to rebound from three consecutive monthly downturns.

in October, with core prices (excluding food and energy) dipping from 4.5% in September to 4.2% in October. In addition, prices rose 2.9% for the year ended in October, the lowest 12-month rate of inflation since the period ended July 2021. All of which prompted the European Central Bank to maintain interest rates at their current levels for the first time in the last 11 meetings. China's economy showed new signs of slowing as factory orders declined and construction activity waned. A slowdown in growth overseas and a decline in real estate has hampered Chinese economic growth. For October, the STOXX Europe 600 Index decreased 1.8%; the United Kingdom's FTSE 100 fell 1.90%; Japan's Nikkei 225 Index dropped 1.2%; and China's Shanghai Composite Index lost 3.0%.

Consumer confidence: Consumer confidence declined for the third straight month in October. The Conference Board Consumer Confidence Index® decreased to 102.6, down from 104.3 in September (revised). The Present Situation Index, based on consumers' assessment of current business and labor market conditions, declined to 143.1 in October, down from 146.2 in the previous month. The Expectations Index, based on consumers' short-term outlook for income, business, and labor market conditions, fell slightly to 75.6 in October from 76.4 in September.

Data sources:Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.

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