Argent Capital Management LLC

Market Overview – October 2023

The stock market has a tendency for increased volatility in the month of October and was true to form in 2023. All three of the major averages, the S&P 500, Dow Jones Industrial Average, and Nasdaq Composite, finished the month in the red, building on the losses in September. While markets have dramatically rebounded in early November, the S&P 500 in October clocked its third monthly loss in a row for the first time since 2020 and officially entered correction territory, falling more than 10% from its high reached at the end of July.

There were three primary catalysts for the declines. First, interest rates continued their ascent. There was a barrage of economic data affirming the resilience of the U.S. economy, including a blowout jobs report, better-than-expected retail sales data and a monster third-quarter GDP release of 4.9%. In addition, October inflation data was hotter-than-expected. Investors concluded that the Federal Reserve would stick to “higher for longer” interest rates in its ongoing effort to cool things down. The benchmark 10-year US Treasury rate pushed through 5%, the highest since 2007.

The Israeli-Hamas conflict created additional stock market pressure in October. The sudden and tragic events that unfolded in the Middle East led investors on a flight to safety, and the price of gold appreciated considerably. The price of oil and other commodities rallied on concerns that the strife could spread and disrupt global supply. U.S. WTI crude oil prices briefly crossed above $90/barrel.

Finally, third-quarter earnings seasons began with depressed expectations. Wall Street analysts expect earnings to decline by 1.5% and sales to fall mid-single digits year-over-year. While companies are reporting better-than-feared results, the forward commentary and guidance have been more downbeat than expected, exacerbated by geopolitical uncertainty and the impact of higher interest rates on company profit margins.

It is important to note that stock market corrections are hardly unusual. Since World War II, they have occurred about once every 18 months. Furthermore, the decline in October still left the S&P 500 higher by more than 9% this year, a pretty good showing. Fears of an upcoming recession are widespread, but it is not yet showing in the data. Consumers are still spending and buying houses regardless of 30-year mortgage rates briefly crossing 8%. The labor market is loosening but firm, and the impact of inflation is at least partially offset by higher wages. Valuations are now much more reasonable than they were over the summer.

As a reminder, we are 100% employee-owned, and we thank you for your business and your interest. If you like our market letters, our frequent podcast, ‘Conversations with Ken,’ and my videos, we hope you will share them with friends. In addition, whether you're ready to invest hundreds of dollars or millions of dollars, our time-tested Mid Cap strategy has a variety of vehicles that provide convenient ways to invest. For more information on Mid Cap and our other four U.S equity strategies – Large Cap, Dividend Select, Focused Small Cap and SMID Cap, please contact clientservices@argentcapital.com.

Sincerely,

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