Marketline October 2022

Stocks:

Frequently, financial journalists drive me nuts. For instance, here in early November, the business pages are filled with headlines noting that October 2022 saw the best stock returns of any October in forty-seven years. True, if you were a Dow Jones aficionado – that index rose 14%. But if you are a NASDAQ fan, you got only 4%. And if you were invested in the FT-SE index of large European companies, you made the same 4%. The S&P 500 shot the middle, at 8%. I'm not dismissing the strong numbers over at the Dow, but that's thirty large-cap stocks and not completely representative of "the market." So: reader beware! Still, the month was a good one for stock investors while proving that it's not worth shifting in and out of markets trying to avoid losses or capture gains. Eventually, you will zig while the market zags.

What's next? Is the bear market over? Last month we wrote: "We have noted before that there is no "bottom" per se; instead, finding support for prices is a process. That includes bad days, bad months, good days, and good months – all of which are the trial and error of the marketplace determining if $X is the right price given the extant uncertainties, or if it should be $Y instead. The one thing we do know is that a bear market like this clears the way for higher returns later." So we had one of those *good months* – brought to us courtesy of the notion that the Fed is bound to stop hiking rates soon since there's damage showing up in the economy. More specifically, there's damage showing up in the Treasury market. But we discuss that below in more detail.

Anyway, trickling money back into stocks has been our mindset recently, aided by lower prices on entire groups of stocks (like the homebuilders discussed last month) and individual names after earnings reports. As always we invite your questions and comments as you see activity in your portfolios. Remember – we like to hear from you.

Bonds:

The big news in the bond market is going to sound like a snoozer to everyone who isn't riveted by the mechanics of bonds, and that is: the Treasury market, one of the deepest and most liquid markets in the world, has become increasingly illiquid. That means trades are more expensive to effect. This is bad. Treasuries grease a lot of skids these days, from trade to budgets to loans and more. And we're not talking about just US activity. Treasuries are like gold overseas as well. The Treasury market needs for trades to be done quickly, in large sizes, very cheaply, anywhere in the world.

But at the moment, there's very strong demand for US dollars, exactly like the ones you have in your pocket. What do governments do to obtain dollars? They sell Treasuries. Governments are competing with each other to rid themselves of Treasuries at the very same time that the Federal Reserve is ridding itself of Treasuries. That is pressuring yields upwards. Meanwhile, on the supply side, the US government has endless budget deficits that must be financed by … well, selling Treasuries. More pressure on yields.

With everyone selling Treasuries, and the US government issuing more Treasuries constantly, we need new buyers or things are going to get awkward and ugly. Janet Yellen – ok, she has almost no credibility now but we still quote her because she is Treasury Secretary – said that the Treasury Department is "… looking at a number of ways to improve resilience, make sure that intermediation is available, enhance oversight of trading venues, increase the transparency and have better data on markets." There is mention of buybacks, which means Treasury would buy its own securities. That is guaranteed to excite the market.

Meanwhile, interest rates rose last month, making it even more amazing that the stock market performed so well. The long bond ended at a hefty 4.16%, but the one year bill closed way up at 4.6%! Eventually that's going to boost the rates on money market funds.

Note: For 2023, the IRS has hiked the amounts that individuals can contribute to IRAs and employer sponsored retirement accounts. While there are plenty of details not included here, the basics are: $6500 to an IRA if you are under fifty, and $7500 if you are over fifty; and $22,500 to a 401k if you are under fifty, and *another* $7500 if you are over fifty. Income limits determining ROTH contributions and the deductibility of IRA contributions rise as well.

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