Marketline October 2023

Stocks:

Once in a while when we write this piece, the few days that pass between month-end and publication change everything. That's the case this time. October brought another decline in stocks – about 2.2% for the S&P, 2.8% for the Nasdaq, and a more modest 1.4% on the Dow – but as soon as November began, stocks rose day after day. The accrued increase in the indices so far is about 4%, bringing the S&P at least above its level at the start of October. In this way, the market reminds us that timing is mostly useless.

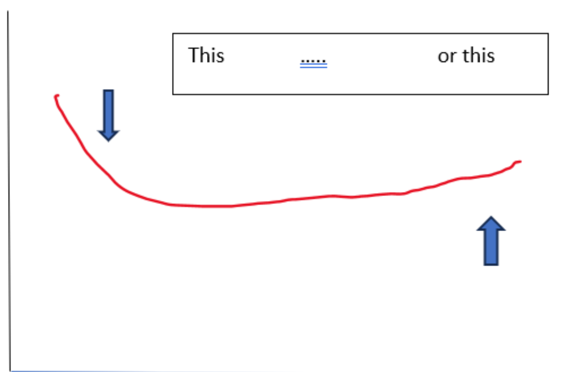
Our primary international trading partners – Mexico and Canada – fared slightly worse in October than the US; both were down about 3.5% but have similarly rebounded. Canada's economy is wallowing, but Mexico is going great guns thanks to strong services performance. We think of Mexico as a beneficiary of the US's factory build-out, but domestic demand from its own citizens is really propelling GDP. Over in Europe, the story is similar – pockets of strength offset by weakness. Germany is in a recession, while Spain is not. The FT-SE European stock index was last month's worst performer, off 3.8%.

The explanation for October's market action lies in one of the primary drivers of stock valuation: interest rates. As we will note below, rates rose during the month. So despite a mostly benign earnings picture, values fell. Likewise, on the first trading day of November, rates turned right around, heading down with a vengeance. This volatility is unusual, but it's a hallmark of our economy for the time being as the Fed grapples with how to address inflation. In our shop, we continue to scan the markets for undervalued securities, hoping to catch high-quality companies at temporarily low prices.

Bonds:

Rates rose across all maturities again this month. The two-year reached 5.09%, while the thirty-year also closed at 5.09%. Astute readers will note that the difference between the two-year and the thirty-year is now zero, meaning that the yield curve has flattened, versus its former inverted posture. Of course the one-year is over 5.4%, so inversion still reigns by that measurement.

The nuance between correcting an inversion because short rates fall and correcting an inversion because long rates rise is important. The latter is bearish, and can mean a recession is nearing.



Time will tell on that score of course. Incremental jobs data is less bullish by the day, but other metrics remain fairly strong, and in the background we still have the Fed's balance sheet reduction providing a headwind to the economy and interest rates.

Sector news has changed a bit. The big rally in November took most bonds with it, including municipals. We like to see a yield of 5% on longer munis – less than that and we tend to buy elsewhere. Good quality corporate bonds are still worth a close look. Triple-B bonds remain in the 6% camp. We're engaging in tax loss selling at the moment, and we're shifting a bit towards replacing municipals we have sold with corporates.

*Marketline Monthly is produced by **Cascade Investment Advisors, Inc**. We specialize in value investing for individuals. We apply our approach across markets, looking for low-priced securities that offer above-average potential. We use imagination and hard work to bring performance and personal service to our clients. Phone 503.703.3622 (Michelle); our website is www.cascadeinvestors.com. A full list of securities we invest in is available on request; mention of specific securities is not investment advice; such investments may or may not be profitable. Index returns quoted are price only.*