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Stocks:

The market took a breather in October thanks to higher interest rates on top of an unenthusiastic reception for technology company earnings. All three indices dipped by 0.5% to 1.3%, with the best performance accruing to the Nasdaq. We'll discuss those higher interest rates below, but our market wasn't the only bourse affected by this phenomenon: European stocks slipped and in Mexico, stocks slid more seriously - over 3%. Only Canada managed to squeeze out a small gain.

Despite the initial reaction to earnings reports, there's no question the numbers were strong. It's a feature of valuation that expectations are a big part of the equation, and if investors are thinking one dollar a share of earnings is coming down the pike, but the report reveals only 90 cents, the share price will suffer. Still, 90 cents may be way better than the year-ago report of 75 cents. These disappointments can generate opportunities; in fact, even when earnings truly look awful relative to year-ago numbers, share prices can overreact on the downside.

This month, we're shining a spotlight on three big American companies where trouble has arrived for disparate reasons. These behemoths will attract increasing attention from investors, governments, and the press in coming years. Boeing is finally putting to rest its labor issues, but that's just the first step toward healing its ills. One of only two major airplane manufacturers in the world (Airbus is the other), Boeing makes up a noticeable portion of America's capital goods exports, and it's having trouble making safe planes these days. We'll see the effects in the US's economic numbers. Over at Intel, things are not much better and may be worse. In line for billions of taxpayer dollars to be delivered via the Chips Act, Intel has halted plant construction – not just here but around the world – and laid off thousands. It reported a surprisingly large loss last quarter, and it is facing enormous capital expenditures to achieve status as an important fabricator once again. America's largest tech companies – Apple, Nvidia, Broadcom - thus far refuse to hire Intel to make their chips. Meanwhile, in the "old tech" corner, we have Ford, trying to change its spots by incorporating EVs into its product mix. Ford is following a mandate issued by the US government to rapidly increase its corporate fuel average (CAFÉ). Unfortunately, those cars aren't selling to expectations. Sales are good, just not great. Ford is losing billions in its EV division, and this has resulted in plant closings and layoffs. All three of these companies' stocks have declined substantially this year.

Our review of these former stalwarts is a reminder that even mighty companies can encounter persistent trouble, sometimes lasting for years. It pays to avoid holding big positions, no matter how much you may love a stock.

Bonds:

As quickly as rates sank in September, they rose in October! In fact, it was a rollicking ride (the bond market is fun these days!), with the ten-year rising from 3.78% to 4.28%, and the thirty-year settling at 4.47%, up from 4.12%. That meant losses in bond prices, but higher income for new bond buyers.

A reasonable question is: if the Fed is cutting interest rates, why are interest rates actually rising? The answer is that the Fed only controls the shortest end of the yield curve – basically overnight funds and yields out to about one year. It has limited control over the long end of the bond market, encompassing maturities over a year. When you think about your mortgage, that was likely issued with a fifteen- or thirty-year expiration, right? So that's the portion of the yield curve that matters to home buyers – most specifically, the ten-year rate. The Fed doesn't set those rates – the market does.

So what caused the rise in rates during October? It boiled down to better-than-expected economic numbers and a few tough auctions over at Treasury. In coming years, the market must swallow ever larger debt issuance by the US to fund deficits, and recently, participants have shown reluctance, requiring higher yields to clear inventories. This phenomenon bears watching over time because higher rates can send our deficit skyrocketing all on their own, without budget busters from Congress. The feedback loop would require difficult choices, to say the least.

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