Capital Market Review

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The Month Ending October 31, 2022

Inflation remains at multi-decade highs, leading the Federal Reserve to continue with plans to increase short-term interest rates. Yet, the stock market just commenced a strong October. The Dow Jones Industrial Average posted its best monthly return since 1976, and despite rising interest rates throughout the month, the NASDAQ Composite even posted a 4% return.

As recession risk remains in the headlines, investors may be confused by October's strong showing in the stock market and third-quarter GDP reportedly increasing at 2.6% over the past year. Third quarter GDP was driven primarily by exports, mainly the U.S. exporting oil and gas to Europe to compensate for the lack of Russian supplies. While exports could be a positive driver of growth for the next few quarters, it's difficult to see the U.S. transitioning to an export-driven economy to provide a long-term growth tailwind.

The most critical component of GDP is the U.S. consumer, making up about 70% of the economy, and it remains strong with positive contributions to GDP since the pandemic recovery began. Areas of concern are the consumer housing market and longer-term investments made by businesses. Businesses have been slowing investment in certain areas, although recent quarterly earnings announcements show this is more sector dependent than a broad-based slowdown. On the residential side, higher interest rates are significantly impacting housing demand. Some might say a 7% mortgage is cheaper than their first mortgage. However, consumers tend to anchor to recent data points, which was a sub-3% mortgage not too long ago, making 7% a tough pill to swallow.

Just like GDP, a strong stock market in October only told part of the story. Quarterly earnings season has seen some of the mega cap companies that have been driving the stock market higher for a few years underperform expectations, sending their stocks considerably lower. On the other hand, companies that had been underperforming for years are now beating expectations, leading the market higher last month.

While no one knows what comes next for the stock market or economy, we are seeing the benefits of our approach to active management and maintaining long-term allocations. Short-term markets are challenging to navigate but having the fortitude to stay invested during difficult times can lead to successfully meeting long-term goals.

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