



OCTOBER 2023

Capital Markets Commentary

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Market Update

Historically, October is a volatile month for investors and this year was no exception. Both stocks and bonds struggled to gain traction as investors waited for clarity from the Federal Reserve. Domestic stock indices for large, mid, and small-cap stocks, including growth and value styles, posted negative monthly returns. Exhibit 1 illustrates how divided the performance of domestic stocks remains. Bond yields rose during the month, putting pressure on bond prices. The U.S. Bloomberg Aggregate Bond Index performance fell -1.58% in October, which pulled the year-to-date return down to 2.77%. The performance of international stocks also struggled during the month, and MSCI EAFE and MSCI EM year-to-date total returns are just -2.14% and 2.74%, respectively.

EXHIBIT 1

OCTOBER 10/1/23 to 10/31/23			YTD 1/1/23 to 10/31/23		
	VALUE	GROWTH		VALUE	GROWTH
Large-Cap	-3.53%	-1.42%	Large-Cap	-1.80%	23.20%
Mid-Cap	-4.95%	-5.10%	Mid-Cap	-4.44%	4.28%
Small-Cap	-5.97%	-7.71%	Small-Cap	-6.46%	-2.87%

RUSSELL 1000 GROWTH TR, RUSSELL 1000 VALUE TR, RUSSELL MID CAP GROWTH TR, RUSSELL MID CAP VALUE TR, RUSSELL 2000 GROWTH TR, RUSSELL 2000 VALUE TR

The Fed Pauses

The Federal Reserve held its October meeting at the end of the month and announced on November 1st that they were holding the Federal Funds rate at a range of 5.25%–5.50%. It was the second consecutive meeting that the Fed maintained its current level.

Fed Chair Jerome Powell said the committee has ultimately not made any future decisions on interest rates but left the door open to additional Fed rate hikes. Powell said, “We will make decisions about the extent of additional policy firming and how long policy will remain restrictive based on the totality of the incoming data, the evolving outlook, and the balance of risks.” Investors remain concerned that the Fed will continue raising the Federal Funds rate, not just slowing economic growth but pushing the U.S. economy into a recession. The Fed does not have an excellent track record of providing soft economic landings.

Earlier in the month, Powell reiterated that “inflation is still too high.” This statement sent Treasury yields soaring and pushed the 10-year yield over 5% for the first time since 2007. Conventional 30-year mortgage rates, which follow the 10-year Treasury directionally, climbed to an average of nearly 8%. According to the Mortgage Bankers Association of America, mortgage demand fell to its lowest level in 28 years.

Signs of Softening

In October, the U.S. labor market saw a slowdown with the creation of 150,000 jobs, falling short of the expected 180,000 jobs. The unemployment rate also increased from 3.8% to 3.9%, as labor union strikes of the United Auto Workers and Hollywood actor and writer unions continued.

The expanding United Auto Worker strike also impacted the ISM Manufacturing PMI in October, as the index fell to 46.7. This was the 11th consecutive monthly reading showing a manufacturing sector contraction. A level below 50 signals the industry is contracting, while above 50 is expansion. The ISM Services PMI Index continued to expand, but at a much slower pace than was forecasted. Consensus estimates from analysts were 53, and October’s reading was just 51.8.

Investors welcomed this data as it suggests that the Fed’s effort to tighten monetary policy is working as economic conditions are softening. The rationale is that the data shows that both the job market and the economy are slowing and will hopefully discourage the Fed from raising interest rates further.

Another Regional Bank Failure

Citizens Bank in Sac City, Iowa closed, and the FDIC has taken receivership. Citizens Bank was unrelated to the much larger Citizens Financial Group based in Rhode Island. Bank examiners discovered significant concentrated loan losses out of state and in a single industry. According to the FDIC, the bank had \$66 million in assets. Citizens Bank became the 5th bank to fail this year, joining Silicon Valley, Signature, First Republic, and Heartland Tri-State Bank.



6125 Memorial Drive, Dublin, Ohio 43017 | 1.866.633.3371 | meederinvestment.com

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