WEEKLY MARKET UPDATE | OCTOBER 20, 2023

Making a Federal (Reserve) case about the market.

The economy

- U.S. stocks moved lower during the week ending October 20, in reaction to comments from U.S. Federal Reserve Chair Jerome Powell regarding monetary policy, rising long-term U.S. Treasury yields, and concerns about growing geopolitical tensions in the Middle East.
- In a speech at the Economic Club of New York on Thursday, Powell noted that he is encouraged by the decline in inflation and that the Fed could keep its interest rate-hiking cycle on hold if no signs emerge that strong economic activity might reignite inflation. Powell stated, "Given the uncertainties and risks, and how far we have come, the Committee is proceeding carefully. We will make decisions about the extent of additional [monetary] 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." However, Powell sounded a cautious note: "Given the fast pace of the [policy] tightening, there may still be meaningful tightening in the pipeline."
- Following Powell's speech, the yield on the 10-year U.S. Treasury note, which had been rising steadily for much of the week, crossed 5%, viewed by some investors as a key psychological level, in overnight trading on Thursday—its highest level since July 2007. Rising interest rates can have a negative effect on stock prices as they increase borrowing costs for companies and erode the value of future earnings. The 10-year yield ended the week up 29 basis points to 4.91%.
- The Census Bureau also reported that U.S. retail sales—a gauge of consumer spending, which comprises more than two-thirds of the nation's gross domestic product (GDP)—increased 0.7% in September, down marginally from the 0.8% gain in August, and rose 3.8% over the previous 12-month period. Core sales, which exclude motor vehicles and parts, as well as gasoline stations, were up 0.6% for the month and 4.0% year-over-year. Food services and drinking places, and nonstore retailers posted the most notable gains versus the same period in 2022. Some investors interpreted the continued strength of the U.S. consumer, and by extension U.S. economic activity, as a sign that the Fed would need to continue its rate-hiking cycle in order to tame inflation.
- President Joe Biden traveled to Israel on Wednesday to meet with Prime Minister Benjamin Netanyahu to discuss the conflict between Israel and Hamas. The meeting occurred amid increasing tensions following the bombing of a hospital in Gaza, a Palestinian territory controlled by Hamas. The Israeli government and Gazan militants each blamed the other for the attack. Biden stated that, based on information provided by the U.S. Department of Defense, the explosion was caused by an errant rocket launched by Palestinian Islamic Jihad, a Sunni Islamic militant group. In protest of the U.S. government's conclusion about the attack, the leaders of several Arab nations canceled a previously scheduled meeting with Biden in Jordan. Soon thereafter, Biden announced that the U.S. had reached an agreement with Israel and Egypt to send 20 trucks of humanitarian aid into Gaza.
- There was mixed news during the week regarding the U.S. housing market. The National Association of Realtors (NAR) reported that sales of existing homes declined 2.2% in September and plunged 16.6% versus the same period a year earlier. However, the median existing-home sale price rose 2.8% year-over-year to $394,300—but remained below the all-time high of $413,800 recorded in June 2022. (Home sales are viewed as an indicator of housing market trends, and by extension, the health of the broader economy.) The inventory of unsold existing homes as of the end of September stood at 1.13 million, up 2.7% from the end of the previous month. The total is equivalent to a 3.4-month supply at the current monthly sales pace. The NAR considers a six-month supply of homes to be a "balanced market," in which prices rise modestly. Inventories of greater than six months typically have favored buyers, while a supply of homes that will be depleted in less than six months denotes a "seller's market."

Stocks

- Global equities closed down for the week. Developed markets fared better than emerging markets.
- U.S. equities lost ground during the week. Consumer staples and energy were the top-performing sectors, while consumer discretionary and real estate lagged. Value stocks led growth, while small caps outperformed large caps.

Bonds

- The 10-year U.S. Treasury note yield increased to 4.91% during the week.
- Global bond markets declined for the week.
- High-yield bonds led the markets, followed by government bonds and corporate bonds.

The Numbers as of October 20, 2023	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	-1.4%	7.3%	15.3%	649.3
MSCI EAFE ($)	-1.7%	1.8%	16.5%	1979.0
MSCI Emerging Mkts ($)	-2.2%	-2.7%	7.6%	930.8
US & Canadian Equities				
Dow Jones Industrials ($)	-1.6%	-0.1%	9.2%	33127.3
S&P 500 ($)	-2.4%	10.0%	15.2%	4224.2
NASDAQ ($)	-3.2%	24.1%	22.3%	12983.8
S&P/ TSX Composite (C$)	-1.8%	-1.4%	2.9%	19115.6
UK & European Equities				
FTSE All-Share (£)	-2.6%	-2.1%	5.3%	3990.6
MSCI Europe ex UK (€)	-2.2%	3.9%	11.0%	1539.5
Asian Equities				
Topix (¥)	-2.3%	19.2%	19.0%	2255.7
Hong Kong Hang Seng ($)	-3.6%	-13.2%	5.5%	17172.1
MSCI Asia Pac. Ex-Japan ($)	-2.2%	-4.8%	8.8%	481.5
Latin American Equities				
MSCI EMF Latin America ($)	-1.6%	3.0%	-1.6%	2192.8
Mexican Bolsa (peso)	-2.3%	-0.4%	4.2%	48267.1
Brazilian Bovespa (real)	-2.2%	3.2%	-3.4%	113195.9
Commodities ($)				
West Texas Intermediate Spot	1.2%	10.6%	3.2%	88.8
Gold Spot Price	2.9%	8.7%	21.2%	1982.7
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	-1.3%	-3.8%	2.8%	429.1
JPMorgan Emerging Mkt Bond	-1.6%	-1.4%	8.2%	757.2
10-Year Yield Change (basis points*)				
US Treasury	29	103	68	4.91%
UK Gilt	27	99	75	4.65%
German Bund	15	32	49	2.89%
Japan Govt Bond	8	42	59	0.84%
Canada Govt Bond	11	78	40	4.08%
Currency Returns**				
US$ per euro	0.8%	-1.1%	8.2%	1.059
Yen per US$	0.2%	14.3%	-0.2%	149.84
US$ per £	0.1%	0.6%	8.2%	1.216
C$ per US$	0.4%	1.2%	-0.4%	1.371

Source: Bloomberg. Equity-index returns are price only, others are total returns.

*100 basis points = 1 percentage point.

**Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

Important information

Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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