October 25, 2023

Good Afternoon,

After a brief pause, volatility has returned to Wall Street. While interest rates seem to have peaked, at least temporarily, stocks have been rattled by global conflicts, turmoil in Washington, DC, and stubbornly high inflation. The result is a retracing of stock prices back to where they were in May. Q3 corporate earnings have also provided fireworks. For example, Alphabet (parent of Google) reported earnings yesterday that beat estimates. However, their Cloud business unit was slightly weaker than anticipated. The result is a 10% drop in the stock price today, leading the tech-heavy NASDAQ index down sharply, as well. Stock prices are getting more attractive, and we suspect we will see a solid rally before the end of the year.

Interest rates have risen dramatically over the past 24 months and are back to where they were in 2007. While this may seem extraordinary, it's a sign that the bond market is returning to normal. 2008 brought "The Great Recession" and all kinds of artificial bond market forces engineered by the Federal Reserve to bring interest rates to near zero to stimulate the economy. As the Fed raises the Fed Funds Rate and stops interfering with the bond market, interest rates will resume their normal course and be determined by economic factors rather than Fed policy. Once we clear this hurdle we're going to be just fine.

The US House of Representatives has finally elected a Speaker and can get back to work. It is likely that Republicans will show solidarity and approve some resolutions and spending increases, especially for defense, based on current global geo-political strife. Will they be able to agree on other spending issues and keep the government open beyond November's deficit limit deadline? Let's hope so. We'll see how the antics of the past several months influence voters next fall. The country has had enough of the circus and it's time to park the clown car.

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Enjoy your week,

Wade

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