

November 1, 2023

Good Afternoon,

Stocks enjoyed an exciting Halloween rally, but it wasn't enough to avoid a third consecutive monthly decline in the major indices. The S&P 500 and NASDAQ both reached correction territory last week, meaning they had fallen 10% from their highs this summer. Corrections are a normal process of market cycles. The summary rally made many stocks overpriced and the recent decline is likely overdone, so we anticipate stocks will finish higher than current levels by year end. Rising interest rates have dampened enthusiasm for stocks as bond yields are now attractive and present competition for investment dollars. Higher rates also tend to slow consumer demand and restrict business expansion.

Speaking of interest rates, the Federal Reserve left rates unchanged today and remains wary of persistent inflation. There's a good chance they are done raising the Fed Funds Rate, but their effort to shrink the Fed balance sheet is impacting the bond market and interest rates indirectly. The Fed *had been* buying US Treasury bonds to create additional demand to push prices up and, consequently, yields down. That was their "quantitative easing" (QE) program in existence for years, designed to keep rates artificially low. Now, as those bonds mature, they are not reinvesting in more bonds. The result is less demand which pushes bond prices down and yields up. The new strategy has been labeled "quantitative tightening." Supply and demand forces in the bond market are now in charge of longer-term interest rates.

If you are still awake at this point, give yourself extra credit. Sometimes exciting markets call for boring explanations. Thanks for hanging in there and Happy November! And just like that it's snowing outside.

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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.

Have a great week,

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