Seacoast
WEALTH MANAGEMENT

MARKET UPDATE

NOVEMBER 3, 2023

"It is a part of probability that many improbable things will happen."

Aristotle

October is a fascinating month in markets, home to the two greatest crashes in U.S. stock market history, yet benign relative to other months over decades of results. In fact, since 1970 October has averaged about a 1% return, ranking right in the middle of the pack. Equity investors betting on the law of averages would have been disappointed in 2023 as stocks declined broadly. The S&P 500 declined (2.1%), the Dow Jones Industrials (1.3%), NASDAQ (2.8%), and the Russell 2000 (6.8%).

Moreover, the triple threat of geopolitical risks, decelerating earnings growth, and massive U.S. government funding needs at higher interest rates proved too much for fixed income as well. Once again bonds were no safe haven for investors in the face of a resolute Federal Reserve and ever-increasing Treasury issuance. The Bloomberg Aggregate Bond Index declined 1.6% for the month.

Markets around geopolitical events

GTM | U.S. | OTB

S&P 500 selloffs around geopolitical events

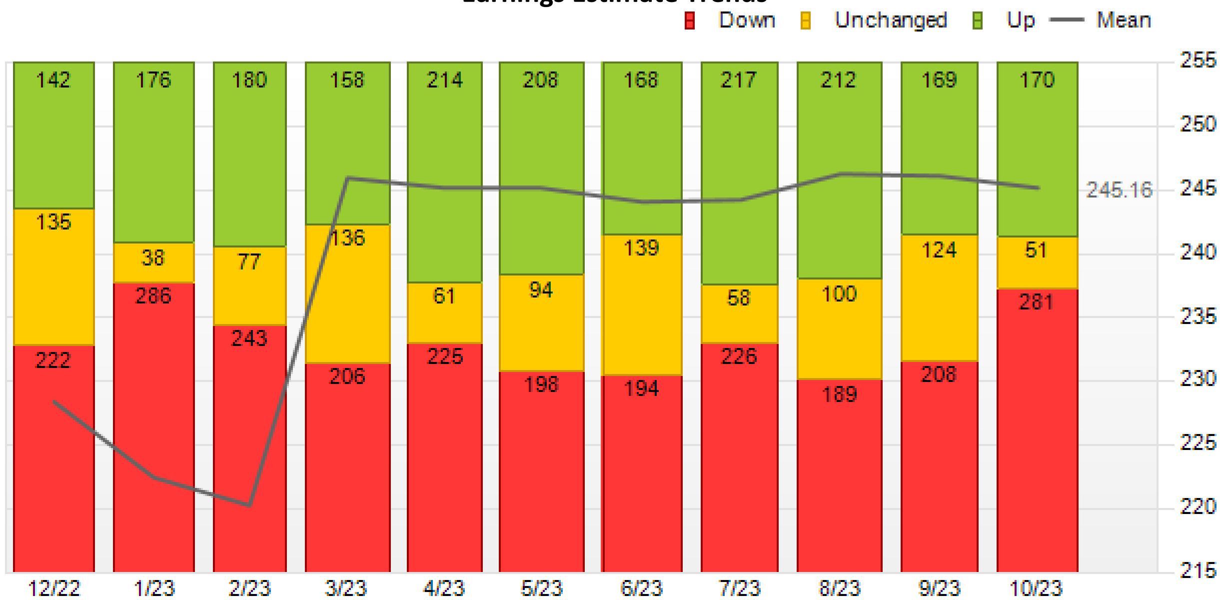
Event	Start of sell off	Duration of sell off (trading days)	Size of sell-off (%)	Duration to recover to prior level (trading days)
Israel Arab war / oil embargo	10/29/1973	27	-17.1%	1475
Shah of Iran exiled	1/26/1979	9	-4.6%	34
Iranian hostage crisis	10/5/1979	24	-10.2%	51
Soviet invasion of Afghanistan	12/17/1979	12	-3.8%	6
Libya bombing	4/21/1986	20	-4.9%	7
First Gulf War	1/1/1991	6	-5.7%	8
Kosovo bombing	3/18/1999	4	-4.1%	9
9/11 attacks	9/10/2001	6	-11.6%	15
Iraq war	3/21/2003	7	-5.3%	16
Arab spring (Egypt)	1/27/2011	2	-1.8%	3
Ukraine conflict	3/7/2014	6	-2.0%	13
Intervention in Syria	3/7/2014	21	-7.4%	12
Russia/Ukraine War	2/11/2022	17	-7.2%	11
Average	**(1973-2022)**	**9**	**-5.3%**	**12**

Table Source: JP Morgan Asset Management

As the above table illustrates, geopolitical unrest has a varying impact on stock prices. Middle East unrest has historically caused the most volatility because of the actual or perceived risks to global oil market supplies. The S&P 500 peaked three trading days after the latest conflict in the region began and then declined 4.2% to the close of the month.

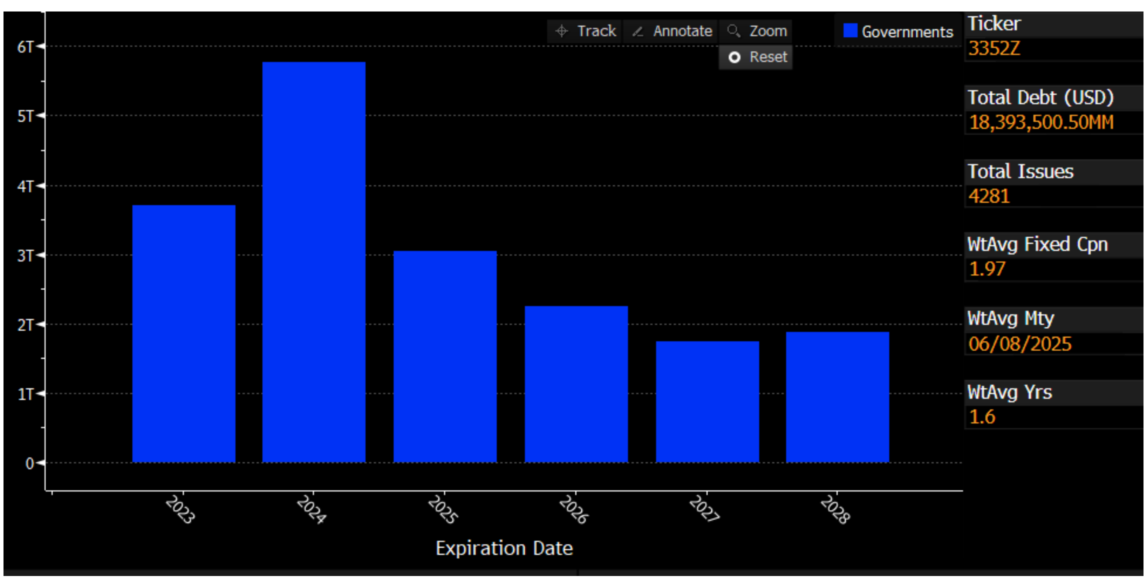
As of this writing more than half of the S&P 500 constituents have reported third quarter results. Overall earnings have come in better than feared, however stock price reactions are now skewing negatively in a distinct change from earlier this year. Management commentary remains cautious for 2024 and there are mounting concerns that earnings estimates for 2024 are still too high and must come down to reflect macro-economic risks. During October, 56% of the companies in the S&P 500 saw their 2024 earnings estimates decline, up from just 38% in August.

Earnings Estimate Trends



Source: FactSet Data

Finally, the magnitude of the U.S. government's future debt issuance is worrisome to say the least. The chart below only reflects current treasury debt maturities that will need to be refinanced by the government. On top of these staggering amounts, deficits are running north of $2 trillion per year and the Federal Reserve shows no signs of changing its stance on "quantitative tightening." Almost by definition these higher funding costs will crowd out other investment opportunities in the coming years.



Source: Bloomberg

There is nothing in the historical record of Aristotle as an investor. However, his insights on probability inform how we manage portfolios at Seacoast Wealth Management, where the mantra is to prepare and protect. All year we avoided bigger losses in the fixed income markets by emphasizing short-term investment grade corporate debt and US Treasury and agency issues. Within equities we resisted the temptation to chase the so-called Magnificent Seven stocks and they have declined on average almost 9% over the last three months. We remain diligent in building high-quality portfolios with emphasis on long-term returns and will look to use market volatility to capture opportunities as they arise.