

The month of October was the third consecutive month of declines for most investment portfolios. The stock market does exhibit an element of seasonality.

The September decline was not surprising in that it is the only month in which, on average, the U.S. stock market has declined since 1928. August and September have, on average, been flat-to-negative months since 2000. October is more of a mixed bag. But very interestingly, November has historically been one of the better months of the year on average, especially since 2000. And if you are curious, April and July have also tended to be pretty good months, on average. December is typically a good month, but that was not the case in 2022.

Putting aside both the discussion of seasonality in the markets and the sad but very real geo-political tension arising from the Hamas-Israel conflict, the main reason both the stock market and the bond market were down in August, September, and October was that market interest rates jumped higher. By way of illustration, the most widely followed market interest rate, the U.S. Treasury 10-year note, climbed from 3.74% on July 19th to 4.98% on October 19th. This was a significant net negative for the fixed income market. As for the stock market, it went down also. Its recent low was reached on October 27th - so just a bit more than one week after market rates had peaked. Thankfully, market rates have been decreasing over the past few weeks, which has been helping the markets.

It is my opinion that the recent market lows will hold for the remainder of the year. In other words, I do not believe the markets will go below the levels reached on October 27th.

My reasons for this short-term optimistic view are as follows:

- The seasonality factor that I previously discussed., i.e. we are entering in a time period when the markets tend to do better.
- I believe we have seen the last central bank rate hikes. Monetary policy now seems to be sufficiently restrictive to significantly contribute to the inflation rate trending lower.
- We reached extreme levels of pessimism/bearishness in mid-October. I do not anticipate us seeing that level of pessimism again in the near-future.

In support of my opinion, RBC Capital Markets had this to say on November 6th:

'...pessimism in equity markets may have gotten too extreme....From these kinds of levels, the S&P 500 is typically up about 14% over the next 12 months.'

'Current inflation and interest rate forecasts imply a trailing price/earnings ratio in the low 20s for 2023-24.....This implies the S&P 500 could move to just under 4,700 at year end if our 2023 EPS forecast of \$223 proves accurate and to +5,300 at year end-end 2024 if our 2024 EPS forecast of \$232 proves accurate.'

FYI: As of this writing the S&P 500 currently stands at 4,378.

Source: The Pulse of the Market: Potentially peaking yields, small caps, bearish extreme in sentiment, RBC Capital Markets, November 6, 2023

On a one-to-two-year basis, I have become more optimistic, mainly because I foresee an eventual decline in central bank rates. Why? Because today's restrictive monetary policy may cause a recession in Canada and an economic slowdown in the U.S. - which will further lower our inflation rate. This in turn should convince the central banks to move away from their restrictive monetary policy to a more accommodative policy. RBC views today's high rates as being more of an aberration than being the new normal. Lower market and central bank interest rates should result in higher stock and bond prices.

On a very long-term basis, our top Technical Strategist Robert Sluymer believes the U.S. stock market is in a long-term secular bull market that should peak near 2034.

Source: Trend&Cycle: Weekly Chartbook, RBC Wealth Management, November 7, 2023

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