Jason Colodne of Colbeck Capital: October Market Rewind

November 17, 2021 (Investorideas.com Newswire) Despite continued uncertainty surrounding inflation, the COVID-19 Delta variant's impact, and supply chain issues possibly hampering holiday spending, stock market activity was promising in October, and several elements indicated economic recovery was progressing in the U.S., says Jason Colodne, co-founder of Colbeck Capital Management, an NYC-based private equity asset manager focused on strategic lending.

Economic Snapshot

Notable job growth occurred in October. According to the latest Bureau of Labor Statistics data, total employment rose by 531,000, driven in part by gains in the leisure and hospitality, professional and business services, manufacturing, and transportation and warehousing industries.

While both the unemployment rate and number of unemployed persons remain above pre-pandemic levels, both measurements trended downward in October.

The unemployment rate moved from 4.8% in September to 4.6%-considerably below an earlier Congressional Budget Office projection, which suggested the rate would be 8.6% by the fourth quarter of 2021. The number of unemployed persons decreased from 7.7 million to 7.4. million. September's employment total was revised from 194,000 to 312,000.

According to Department of Labor data, initial unemployment insurance filings also declined in the last week of the month by 14,000, reaching their lowest level since March 14, 2020.

Amid indications employment and the overall economy have strengthened, as speculated, the Federal Open Market Committee announced in a Nov. 3 statement that it would begin pulling back from the treasury and mortgage-backed securities purchasing pattern it had followed in recent months to facilitate fluid financial and market conditions and the availability of credit.

In September, the committee said it would increase its Treasury securities holdings by at least $80 billion and its agency-held mortgageâ€'backed securities by at least $40 billion per month. The organization maintained similar Treasury and mortgage-backed security purchase amounts in October.

Starting this month, the FOMC will lessen its monthly net asset purchase pace by $10 billion for Treasury securities and $5 billion for agency mortgage-backed securities.

The committee plans to increase its holdings of Treasury securities by at least $70 billion and heighten agency mortgageâ€'backed securities by at least $35 billion during the second portion of November.

According to the committee, its planned December purchases are estimated to be less-at least $60 billion in Treasury securities holdings and $30 billion in mortgage-backed securities holdings. The FOMC also noted it is prepared to adjust the pace of its asset purchases in the future if that becomes necessary due to the economic outlook.

Other economy-related results indicated consumer spending might be positioned to grow-but also faces some potential challenges.

According to Conference Board data after three months of declining, consumer confidence rose in October, which showed its Consumer Confidence Index increased from 109.8 in September to 113.8.

The number of consumers planning to buy a home, automobile, or major appliance increased in October-which Lynn Franco, senior director of economic indicators at The Conference Board, said in a statement could indicate spending would support economic growth through the end of 2021.

However, a number of rising costs, including food, shelter, energy, and gas, which all increased in September, could still affect consumer spending.

The most recent results from the Consumer Price Index for all Urban Consumers-which reflects spending patterns for 93 % of the U.S. population-increased 0.4 % in September, after rising 0.3 % the month before. From September 2020 to 2021, the index for all items increased 5.4 % before seasonal adjustment, a slight uptick from the 5.3 %-rise seen between August 2020 and August 2021.

The bipartisan debate over the status of the debt ceiling also continued in October, posing additional economic uncertainty.

Despite the mounting pressure and myriad suggestions being tossed around-including the Treasury Department potentially minting a $1 trillion platinum coin that could be deposited at the Federal Reserve for funding, according to Business Insider-by the month's end, the government still hadn't clarified whether it would raise the amount the U.S. is authorized to borrow to fund existing obligations such as Social Security and Medicare benefits.

The Treasury Department has said failing to increase the debt limit would severely affect the economy, potentially instigating a ripple effect throughout employment and other sectors that would be difficult to predict because the U.S. has never defaulted on its obligations before.

Despite August and October debt limit adjustments, the Treasury Department has estimated the last increase will only facilitate government spending until December 3 and urged Congress to increase or suspend the debt limit as a longer-term solution.

Recent Market Activity

According to Nasdaq research, fears about September's stock market dip were somewhat calmed in October, with stocks hitting a high note-including the S&P 500 having its best month of the year.

After decreasing in September, the S&P 500 was up 6.91% in October, resulting in a 22.61% YTD return, according to the most recent S&P Dow Jones Indices report.

The S&P MidCap 400 also increased by 5.82% for the month, bringing its year-to-date return to 21.13%, compared to 14.48% in September. The S&P SmallCap 600 was down again, however, after also declining in September. In October, the index decreased 3.36%, resulting in a 23.02% YTD return.

According to CNBC, the Nasdaq Composite also had its strongest month since November 2020, increasing nearly 7.3% during the month, and the Dow Jones Industrial Average rebounded from its September decline to gain 5.8% in October.

Similarly, new institutional leveraged loan activity in the U.S. experienced a robust period in October and the months prior. In addition to remaining solid throughout the end of the third quarter, leveraged loan YTD volume has now surpassed its 2019 and 2020 totals, according to a Fitch Ratings report.