October 2026 Market Recap

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The broader markets were down slightly in October, but tech was sold off significantly. The AI-driven trade now appears to be losing steam, at least for the time being. The US economy grew at a brisk pace during the third quarter, driven by consumer spending. Inflation remains above the Federal Reserve's target with little sign of slowing. Housing continues to sour, impacted by a host of factors.

Nasdaq Suffers October Selloff as Investors Reassess AI Trade

The broader markets were slightly lower during October, but tech stocks dropped significantly. The popular Dow Jones Industrial Average® (DJIA) led the way higher, gaining 1.7% compared to September. The broad market S&P 500® (SPX) didn't do as well, dropping just under 1% for the month. The tech-heavy NASDAQ Composite Index (COMP) led the way lower, falling 5.3%. The COMP posted its worst single-day performance since June on the last trading day of October, falling nearly 3%. The index is now 8% below its recent high.

Weighing on tech stocks is a host of factors. While the AI-driven trade in the past was centered on what could possibly happen, it now appears that investors are scrutinizing performance with a more discerning hand. Tech investors are also likely taking cash off the table after the COMP has put together a significant upside swing, which dates to the start of 2023. Investors are also beginning to rotate out of tech and looking at more defensive sectors like consumer staples and healthcare. The uncertainty regarding the elections and the on-going war with Iran are exacerbating investors' worries over the future.



Source: Wall Street Journal

Strong Consumer Spending and AI Investment Drive GDP Higher

The US economy grew at a brisk pace during the third quarter, according to the latest data from the Bureau of Economic Analysis. Gross domestic product (GDP) -- which captures the total output of goods and services in the US -- accelerated at a 3.4% rate during the quarter, significantly outpacing the 2.2% growth rate recorded during the second quarter. The results were also better than estimates, which called for a growth rate of 3%.

Among the drivers included the US consumer. Consumer spending rose at a brisk 3.8% during the third quarter. While that equaled the growth rate of the second quarter, it far outpaced the 0.7% recorded during the first quarter. The US consumer -- which accounts for two-thirds of US economic activity -- has been a dependable and robust driver of the US growth for years.

GDP was also lifted by significant investments tied to the AI boom. Business investment, excluding housing, was up 12.7% during the quarter. Investment in information processing equipment was also up, gaining 37.4%. Investment in software and research and development also rose significantly.

Housing investment, which has been impacted by consistently high mortgage rates, dropped 3.3%. Housing investment has now fallen in six of the last seven quarters.

The strong GDP report will likely give the Fed more runway to lift rates when it meets again in December.
The report was the first of three quarterly reports the government issues measuring US growth. AP News

Inflation Climbs to 3.6% as Iran War Drives Energy Costs Higher

Inflation continues to accelerate, according to the latest data from the government. The personal consumption expenditures price index (PCE) increased 0.5% during September, bringing the annual inflation rate to 3.6%, up from 3.4% for August. While the monthly and annual numbers were in line with estimates, the top line number is significantly above the Fed's 2% target and has been so for years. Excluding the more volatile components of food and energy, so-called core PCE rose 0.3% during the month and 3.1% compared to a year ago.

Likely taking no one by surprise, the increase in prices during September were largely driven by higher energy costs. Gasoline and other energy goods rose 9.2% in September while energy goods and services increased 5.4%.

The leading role of energy in higher costs has many economists worried that the ongoing war with Iran and disruptions in global energy supplies are likely to continue to push prices higher and spread to other parts of the economy.

The Fed generally prefers the PCE measure of inflation because it has broader coverage and better accounts for consumer spending behavior. CNBC

Pending Home Sales Hit Record Low as Affordability Crisis Deepens

Traffic of prospective buyers to new homes fell to its lowest level since 2012, according to the National Association of Home Builders. That is likely the latest sign that the US housing market continues on its anemic path. It also indicates that residential real estate -- usually the backbone of US wealth building -- may be on slippery footing.

Meanwhile, the National Association of Realtors reported that pending home sales hit all-time lows that date back to 2001. The index fell 7.3% in September and 11.3% compared to a year ago. That significantly above estimates which called for a decline of just 0.4%. Pending home sales are a forward-looking index that measures homes sales under contract but are not completed. Many view it as a gauge of the future health of the housing market.

A host of factors are impacting the sector at once. What it costs to finance a home is at the top of the list. While many thought earlier this year that the price of financing a home may be about to thaw, the war with Iran put that on hold. The average rate of a 30-year fixed mortgage now stands at 7.24%, up significantly since the start of the war with Iran.

Five years ago rates were around 3%.

The median price of a home in the US now stands at $417,500, putting home ownership simply out of reach for many in the US. NAR, Axios

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The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

The Nasdaq Composite Index is a market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks. The index includes all Nasdaq listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debentures.

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 actively traded "blue chip" stocks, primarily industrials, but includes financials and other service-oriented companies. The components, which change from time to time, represent between 15% and 20% of the market value of NYSE stocks.

The Conference Board creates the Present Situation Index (PSI) from survey data of approximately 5000 households across the United States to gauge public opinion about the US economy. When the index is positive, people feel good about the current economic situation. When negative, people are less optimistic. The (PSI) along with the Expectations Index are used by The Conference Board to create the Consumer Confidence Index (CCI) which tells us how optimistic (or not) people are about the future of the economy.

The Expectations Index is a component of the Consumer Confidence Index® (CCI), which is published each month by the Conference Board. The CCI reflects consumers' short-term—that is, six-month—outlook for, and sentiment about, the performance of the overall economy as it effects them. The Expectations Index is made up of the average of the CCI components that deal with six-month outlooks for business, employment, and income.

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