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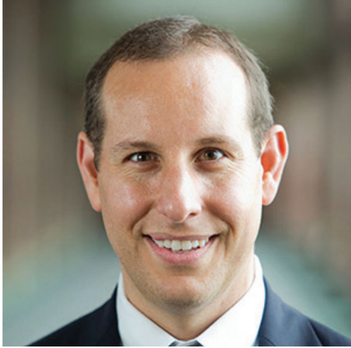
CIO NOTE

October 23, 2018



Mark DiOrio, CFA
Chief Investment Officer
Brookstone Capital Management

October is living up to its seasonal reputation as the most volatile month of the year. The current volatility is being driven by a traditional calendar-based liquidity crunch.

This quarter, there will be more than $400 billion in new Treasury securities issued. This is on top of about a 10% increase from last year in maturing debt globally that needs to be rolled over. At the same time, the Fed is no longer a buyer of bonds, effectively eliminating a major buyer in the treasury market helping to assume any marginal increase in treasury issuance.

It is common for bonds to be issued in October and early November after Summer has concluded and before the year-end holidays. A combination of the Federal Reserve raising short-term interest rates and the increase in the supply of bonds has caused interest rates to rise with the 10-year treasury recently hitting its highest level of 3.23%, its highest level since 2011.

Another attribute of the October, early November market is that stock buy backs are on hold before quarterly earnings announcements. With stock buy backs at record levels, in aggregate, this represents a large pool of dollars on the sidelines.

The reaction in the equity market is often swift and can be overly dramatic. It might be wise to let the calendar-based liquidity crunch run its course and take advantage of any opportunities it presents.

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