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Wall Street on Edge After Worst Month of the Year

A series of potential problems, including rising oil prices and labor strikes, have prompted a much warier mood among investors.

By Joe Rennison

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The stock market staggered to the end of its worst month of the year so far, dragged down by fears of a looming government shutdown, striking autoworkers, surging oil prices and the prospect of interest rates remaining high for longer than previously thought. Combined, they are darkening the outlook for the economy.

The S&P 500 declined almost 5 percent in September, its steepest monthly drop in 2023, and extending a more modest loss recorded in August. After fading on Friday afternoon, the index also notched its fourth straight week of losses, its longest losing streak of the year.

Just as a more hopeful outlook appeared to have taken hold among investors, propelled by robust corporate profits and resilient consumer spending, a series of potential problems have begun to arise, giving way to a much warier mood on Wall Street.

As sentiment swings, it highlights the pendulum of worry in the markets between the economy remaining too strong for policymakers intent on stamping out inflation and the looming risks that could suddenly pull growth too far in the opposite direction.

“Sentiment has soured,” said Steven Wieting, chief investment strategist at Citi Global Wealth. “There is just a lot of uncertainty.”

The flow of money into funds that buy U.S. stocks is roughly flat for the year, according to EPFR Global, a data provider. Nearly $1 trillion has flowed into money market funds over the same period, an investment that is tantamount to cash and seen as a haven in times of worry.

Chief among investors’ concerns is the prospect of interest rates remaining elevated for longer than previously thought, as the Fed battles inflation by keeping the brakes on the economy.

The yield on the 10-year Treasury bond, a measure of the cost of borrowing for the U.S. government and a crucial interest-rate benchmark around the world, has risen roughly half a percentage point since the start of the month, to almost 4.6 percent. As rates on longer-dated bonds rise, stocks tend to come under pressure, reflecting higher costs for companies and consumers over the long term. The average 30-year fixed-rate mortgage reached 7.31 percent this week, the highest level in nearly 23 years, according to Freddie Mac.

Complicating the Fed’s job is a surge in oil prices, threatening to reignite inflation. West Texas Intermediate crude, the U.S. oil benchmark, has risen to more than $90 a barrel, from around $70 three months ago, its highest level in more than a year.

Add a steadily strengthening U.S. dollar to higher yields and rising oil prices and investors face a trio of headwinds to the long-term performance of corporate America and the broader economy.

“That’s why investors have been having a tougher time,” said Michael Hartnett, an analyst at Bank of America. “My gut feeling is hard-landing risks are growing and growing,” referring to the analogy of a slowing economy as a plane touching down on a runway. Policymakers’ goal is to steer the economy to a so-called soft landing, cooling inflation without pronounced economic pain.

“If interest rates stay at these kinds of levels, or, God forbid, increase, that has really profound implications for global growth,” said Seth Bernstein, the chief executive of AllianceBernstein, a $600 billion investment management firm. “It just seems unlikely to me that we have a soft landing,” he added.

Working against them is the potential government shutdown that could begin this weekend, which will weigh on growth the longer the stalemate continues. The expanding autoworkers’ strike has further tempered growth expectations, though less meaningfully.

The threat of a government shutdown also presents another challenge for the policymakers, delaying the release of economic data that is crucial to navigating the economy through uncertain conditions.

The S&P 500 is still up about 12 percent this year, but remove just seven companies from the index — the chip maker Nvidia, Apple, Microsoft, Meta, Amazon, Tesla and Alphabet — and the rise is less than 1 percent.

That lack of broader conviction is also reflected in the Russell 2000 index of smaller U.S. companies, which is barely positive for the year.

Across the globe, major stocks indexes have slumped over the past month: In dollar terms, Germany’s Dax has fallen about 5 percent while Japan’s Nikkei and China’s CSI 300 lost about 3 percent. China’s slumping economy, on which many pinned their hopes for growth, has been a particular worry.

One possible silver lining is that September is often one of the worst months of the year for the stock market, so the downturn may be taken with a pinch of salt. And the government could yet avoid a prolonged shutdown and striking autoworkers could secure a contract before more severe economic effects are felt. Corporate profits are expected to stabilize in the third quarter, after a sharp decline in the second quarter.

But anxiety is in the air. On Tuesday, a measure of consumer sentiment sank further than forecast for the second month in a row, coinciding with the S&P 500’s worst day of the week, in which the index fell 1.5 percent.

“The market only a few months ago was worry free amid the belief that the Fed could engineer a soft landing,” said Carol Schleif, the chief investment officer at BMO Family Office, “and now the market’s worry closet door is wide open as investors raise questions about the economic outlook.”

Joe Rennison writes about financial markets, a beat that ranges from chronicling the vagaries of the stock market to explaining the often-inscrutable trading decisions of Wall Street insiders. More about Joe Rennison

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