



NOVEMBER 2023

Capital Markets Commentary

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Market Update

The most impactful economic data released during the month showed that PCE, the Fed's preferred measure of inflation, continued to trend lower. The latest PCE inflation data showed October's year-over-year change declined to 3.0%, matching the lowest level since March 2021. Investors cheered the news and are increasingly confident that inflation will continue trending downward. This bullish sentiment boosted equity prices with increased demand for stocks. Major stock and bond market indices also increased significantly in November. The 10-year U.S. Treasury yield began November at 4.8% and ended at 4.4%.

Wall Street reported strong Q3 earnings results as well. According to FactSet, S&P 500 companies posted a combined year-over-year earnings growth of +4.8%. The outlook also looks bright as holiday shopping is in full swing. The National Retail Federation is forecasting that 2023 sales will increase 3–4% over last year for totals ranging from \$957–\$966 billion, about \$3,000 per person in the U.S.

AS OF NOVEMBER 30, 2023	MONTH	YTD
S&P 500 TR	9.1%	20.8%
S&P MidCap 400 TR	8.5%	7.1%
Russell 2000 TR	9.0%	4.2%
MSCI EM NR USD TR	8.0%	5.7%
MSCI EAFE NR USD TR	9.3%	12.3%
Bloomberg US Agg Bond TR	4.5%	1.6%

SOURCE: MORNINGSTAR

Federal Reserve According to CME FedWatch, the futures market is placing a 64% likelihood that the Fed will cut rates at the March 2024 Fed meeting. Fed Chair Jerome Powell attempted to temper investor expectations with a statement. "It would be premature to conclude with confidence that we have achieved a sufficiently restrictive stance, or to speculate on when policy might ease. We are prepared to tighten policy further if it becomes appropriate to do so."

Interest Rates Falling

The value of the U.S. Dollar declined to a 3-month low as the U.S. Debt to GDP rose to its highest level ever at 129%. Softening economic data also contributed to the decline in value as investors believe the Fed will not raise interest rates again. Higher interest rates continue to pressure the housing sector, as the average 30-year mortgage rate fell to 7.17% in November, retreating from 7.41% a month earlier. These above-average rates contributed to new home sales falling -5.6% or 679,000 in October compared to the previous month.

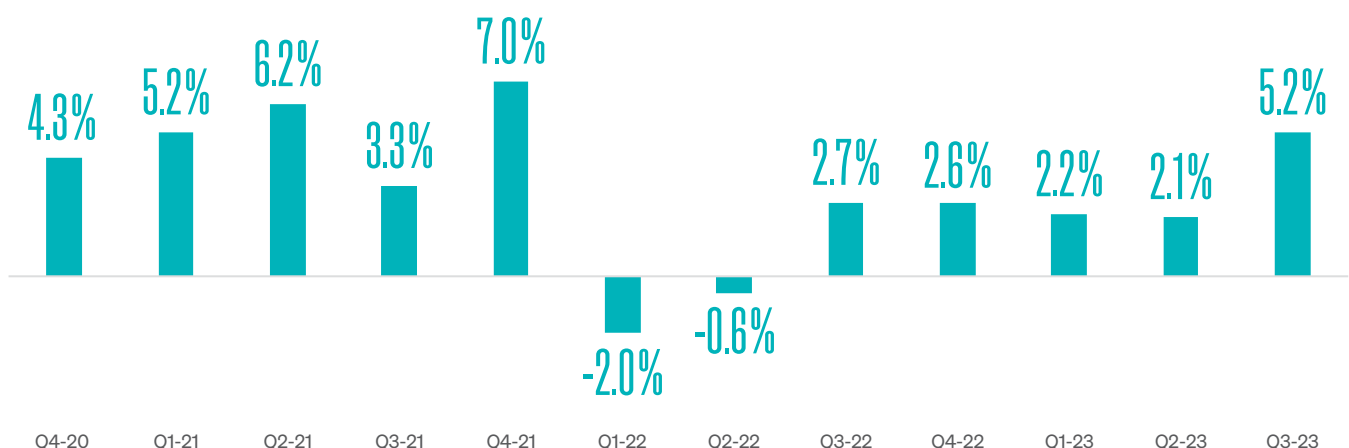
Labor Markets Softening

Labor markets appear to be showing some signs of softening. According to the BLS, the number of job openings in the U.S. declined to 8.7 million, missing expectations of 9.3 million. It was the lowest number of job openings since March 2021. The Bureau of Labor Statistics' November nonfarm payrolls report showed that the U.S. created 199,000 jobs. This level was modestly higher than the 190,000 expected but remained significantly less than the past year's monthly average of 240,000 jobs. The unemployment level also dropped from 3.9% to 3.7%.

Economic Growth Surprises

The first estimate of third-quarter GDP growth showed the U.S. economy expanding by +4.9%. The second estimate for Q3, released at the end of November, climbed even higher to an annualized rate of +5.2%. On the surface, this robust economic growth sounds like great news, but this strength signals that the Fed's monetary tightening on the economy may not be as tight as initially thought. Some investors worry that this boost in strength will give the Fed another justification to continue hiking interest rates. The fear is that the Fed will continue raising interest rates, ultimately pushing the economy into a recession.

GDP ANNUALIZED GROWTH RATE



SOURCE: BLS

November's ISM Manufacturing Index is one part of the U.S. economy showing fragility. This November result was weaker than expected and remained at 46.7, the same as October's. It was the Index's 13th consecutive month below 50, signifying a prolonged contraction in the sector. Service-related businesses saw moderate growth in November as the ISM Services PMI climbed from 51.8 last month to 52.7. A level above 50 indicates that the sector has expanded.



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