RAYMOND JAMES®

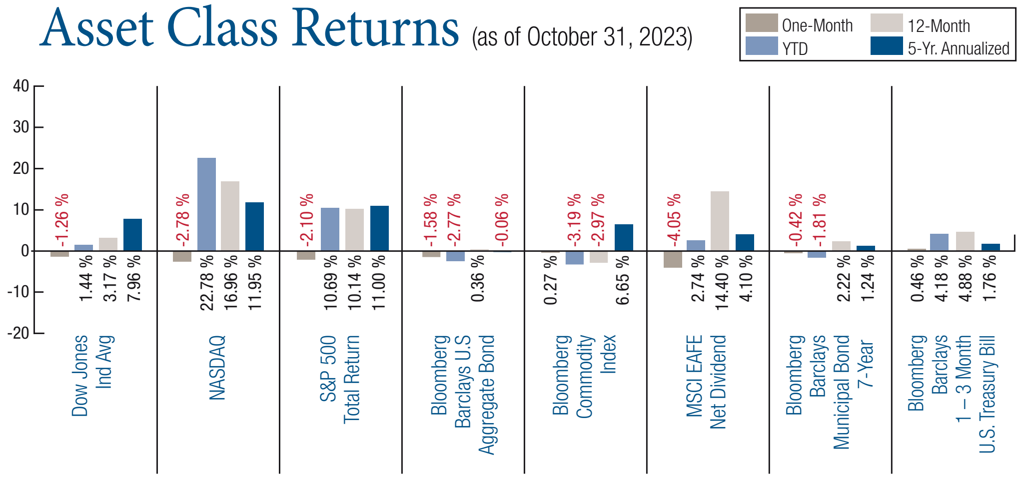
market update

NOVEMBER | 2023

From the Office of Jeff Sgroi, CFP®

"Look deep into nature, and then you will understand everything better."
– *Albert Einstein*

Asset Class Returns (as of October 31, 2023)



Market & Economic Synopsis

- Home prices rise to all-time high in August, and economy continues to grow, as Fed's efforts to cool the U.S. economy are met with limited success.
- Sam Bankman-Fried, founder of failed crypto firm FTX, testifies in trial, claiming poor management decisions, and not criminal activity, led to the exchange firm's downfall.
- Fighting between Israelis and Hamas in Gaza continues into fourth week, with no signs of diplomacy or negotiations on the horizon.
- United Auto Workers (UAW) union scores major victory with 25% raises for Ford workers.
- U.S. dollar touches eleven-month high, tightening financial conditions and disincentivizing demand for U.S. exports.
- Long-term interest rates rise, flattening the rate curve, and potentially "normalizing" the interest rate environment going into 2024.
- Unemployment figures tick slightly higher toward the end of October, but strength in labor market remains stubbornly ubiquitous.
- Through October 30, 78% of companies reporting earnings beat EPS estimates, further confirming economic strength.

Market Outlook

As we have discussed with clients over the years, markets do not see absolutes; as in, are economic conditions and other metrics "good" or "bad"? Markets see shades; that is, are conditions and opportunities "improving" or "deteriorating"? Financial markets are forward looking, too, of course.

Given current conditions and recent global events, there are obvious reasons for investor concern – two sizeable battlefronts in Ukraine/Russia and Israel/Gaza, which could easily expand beyond those regions, a burgeoning U.S. federal deficit and debt, and persistently high inflation, to name a few. Although markets have taken notice to the aforementioned situations, it can, and will, climb the proverbial "wall of worry" in due time, for the following reasons.

Fed Rate Hike Cycle Is Nearing the End, If Not Complete

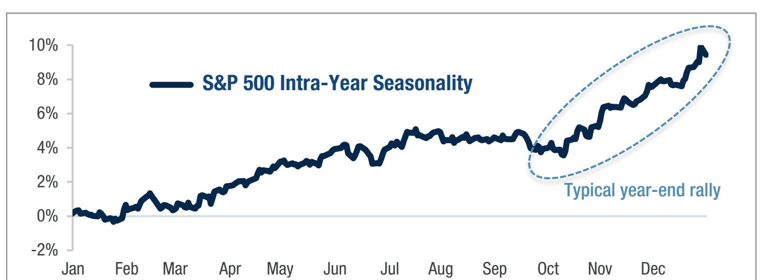
The Federal Reserve has attempted to slow the U.S. economy, if not create a recession, by hiking short-term interest rates at a meteoric rate since early 2022. Certainly, Jerome Powell and his colleagues may raise rates again, but backward-looking inflation data indicates that most of their heavy lifting is over – shipping costs, wages, input prices, and rents are trending favorably. Additionally, the impact of higher rates takes many quarters before effects are fully felt throughout the economy. Even if the Fed pauses before reversing course and lowering rates, equity markets have historically celebrated the end of interest rate cycle hikes by rewarding investors handsomely. In the past, the S&P 500 typically gains 14% after the Fed's final rate hike, according to Larry Adam, Chief Investment Officer at Raymond James.

Some Stability in Washington

**** *Full disclaimer* – We do not claim Washington is healthy and fully functional! **** With the recent election of Louisiana Representative Mike Johnson to the Speaker of House position, and avoiding a federal government shut down due to debt-ceiling limitations, policy and politics can move ahead from its recent stalemate position. In fact, word from close sources in the DC beltway indicate that a continuing resolution (which maintains federal funding) is likely through early 2024. Again, certainly not an indication of perfection, but simply trending positively.

Seasonality Improvement

We are shifting from the often uninspiring (for investors) late summer/early autumn months into traditionally strong year-end months. Some call it the "Santa Claus rally", while others credit year-end strength to bonus $$ and other assets being repositioned into the equity markets. Nonetheless, year-end strength is real.



Source: Weekly Headings

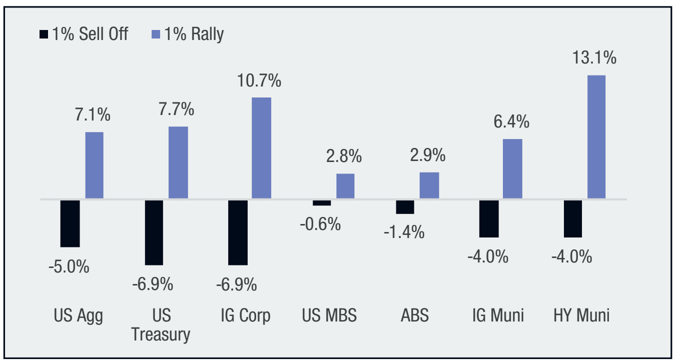
Corporate Earnings Have Stopped Falling

Again, this is not necessarily a net positive metric, but corporate earnings, after having dropped consistently for the previous six quarters, appear to be on the rebound as of 3Q 2023. Raymond James analysts fully expect S&P 500 earnings to climb from 2023 to 2024, and again from 2024 to 2025. If earnings can remain resilient, not drop, and post even modest gains year-over-year for the next few quarters, it is reasonable to expect an upward pop in the markets.

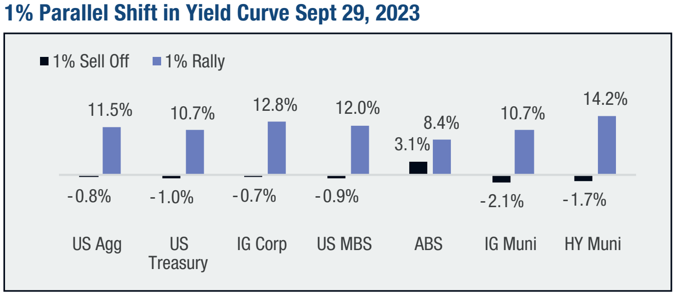
Opportunity With Fixed Income

The 40-year bond bull market came to a screeching halt in 2022. After a decent return the first half of 2023, rates pushed higher and neutralized most gains recognized earlier in the year. Opportunity in the bond market looks better now than it has for years, though. With the 10-year U.S. Treasury currently yielding approximately 5%, our expectation is an annualized average return around a 5% level for the next decade. Furthermore, risk/reward appears to heavily favor those loading up on fixed income now.

1% Parallel Shift in Yield Curve July 31, 2020



1% Parallel Shift in Yield Curve Sept 29, 2023



Source: Barclays Live and Goldman Sachs Asset Management as of 9/29/2023.

As we interpret the chart and opportunity, the path of least resistance is to the upside rather than the downside in bond markets today. Not a lot has to go right for highly-rewarding returns. Some things can go wrong, and enough yield is built into rates that investors can still profit.

In a world where much is wrong, our focus is what can go right, and the opportunity for you as investors. We see many instances where your patience is likely to be rewarded. Please contact our office if you would like to delve into our viewpoints further – we welcome the discussion!

From the Homefront

It was great to visit my brother in Jackson, Wyoming twice this autumn. The first trip was with my girls and included a trip to the rodeo. We were treated to backstage access and met the rodeo organizers, and a number of cowboys and cowgirls. Jackson knows how to put on a rodeo – great competitors, a lively crowd, and pretty decent burgers. Tracy, Lily, and Hannah all had the opportunity to "ride" a bull as the animals were being prepped for the real thing. All the girls managed eight-second rides!

The second trip to Jackson was to support my brother's opportunity to present at Silicon Couloir. Silicon Couloir is Jackson's version of the CNBC show *Shark Tank*. Robb was one of five creators/business owners who presented to a panel of six, and an audience of hundreds, pitching their product or invention. My brother's passion for environmental stewardship has led to years of developing, building, testing, and now manufacturing and distributing a bear-proof home composter. He won the Community Caretaker Award and $5K to keep his project moving along. It was great to see years of challenging work culminate into positive recognition for his idea and ingenuity. His hope is to scale up the distribution across communities that have high levels of human and bear interface, and at the same time divert waste away from landfills.

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