

Equities Rebound in November, Ending a Three-Month Slide

A monthlong feast, November had a dish to suit nearly every taste. The four-week rally sent major market indices to near or beyond the year-to-date peaks reached at the end of the second quarter.

What summoned this cornucopia? The right mix of good data and “bad” data. The good data: The Consumer Price Index tallied the inflation rate to be 3.2%, well off its recent high of over 9% in June 2022. The “bad” data: softer than expected economic performance, which led the S&P 500 to record eight consecutive days of gains, its longest streak since 2021. This was taken as an indicator that the Federal Reserve (Fed) would decline to raise its benchmark interest rate another tick, as had been expected by many investors.

“We believe this interest rate tightening cycle is at an end,” Raymond James Chief Investment Officer Larry Adam said. “The next move will likely be to cut rates. However, we do not expect cuts until later in 2024.”

Equity gains were felt broadly — not just among the rarefied club of large technology companies with lines of business in AI — as small-cap and international equities posted strong returns for the month.

The fixed income markets had a seat at the table, too, with the Bloomberg Aggregate Bond Index erasing year-to-date losses and sidestepping, at least temporarily, three consecutive years of negative performance. The yield on the 10-year Treasury settled around the 4.29% mark after briefly touching 5% in late October.

Before we explore deeper, let’s review where we are as we get ready to close out the calendar year:

	12/30/22 Close	11/30/23 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	33,147.25	35,950.89	+2,803.64	+8.46%
NASDAQ	10,466.48	14,226.22	+3,759.74	+35.92%
S&P 500	3,839.50	4,567.80	+728.30	+18.97%
MSCI EAFE	1,943.93	2,123.17	+179.24	+9.22%
Russell 2000	1,761.25	1,809.02	+47.77	+2.71%
Bloomberg Aggregate Bond	2,048.73	2,089.92	+41.19	+2.01%

*Performance reflects index values as of market close on Nov. 30, 2023. Bloomberg Aggregate Bond and MSCI EAFE reflect Nov. 29 closing values.

Jobs, manufacturing foretell weakening economy

Nonfarm employment increased by 150,000 jobs in October, less than half of September's 336,000, and the unemployment rate ticked up from 3.8% in September to 3.9%. Meanwhile, key manufacturing indicators showed declining performance in October and the Leading Economic Index, a proxy for the future performance of the U.S. economy, decreased for the 19th consecutive month.

An international sigh of relief

November saw the easing of a number of fears that had driven international markets to retreat in October. Inflationary pressures decreased broadly, suggesting central bankers' "higher-for-longer" interest rate strategies may be slackened earlier rather than later. In the Middle East, the Israel-Hamas conflict has not snowballed across the region, which seemed a distinct possibility last month, and oil prices have not spiked as a result of the conflict. And a meeting between President Joe Biden and President Xi Jinping in San Francisco helped reduce tension between the two superpowers. Taken together, this helped support equity rallies across the international markets.

With oil, it's now "value over volume"

U.S. oil production returned to record levels in October, exceeding pre-COVID numbers. As oil prices are finishing their second year averaging more than \$80 a barrel, it may be surprising it took producers this long to get back up to speed. However, this is a trend in oil production globally, a strategy sometimes referred to as "value over volume" as it emphasizes shareholder returns rather than production growth, which had been the goal for the prior two decades.

U.S. government shutdown averted as deadlines moved into early 2024

Speaker of the House Mike Johnson shepherded a "clean" continuing resolution bill through the House to fund the U.S. government into next year, beating the November deadline and, thus far, avoiding the blowback that had cost his predecessor his position. January 19, 2024 is the new deadline to pass four of 12 spending bills, and February 2 is the deadline for the remaining eight. Near-term attention will be focused on the National Defense Authorization Act, a "must-pass" defense funding bill that could intersect with the market on potential technology and trade restrictions.

Equity rally more than AI

With some notable sector exceptions, the past three months was a story of seven exceptionally performing large-cap technology stocks and everybody else. November's rally, however, came for nearly everyone, as the S&P 500 soared 8.92% and small-cap stocks followed with an 8.83% gain for the Russell 2000. Smaller companies particularly benefited from lower yields, being particularly susceptible to the cost of borrowing.

Fixed income sentiment relaxes

Fixed income markets entered November in a volatile state, but by the end of the month the general investor attitude shifted to taking comfort in the idea that the Fed has put a lid on its tightening program. This saw intermediate- to long-range yields lower by roughly 50 basis points compared to October. Investment-grade A and BBB corporate spreads and high-yield spreads narrowed to a yearly low, and municipal yields as a percentage of Treasury yields also narrowed significantly.

The bottom line

While November's gains were a welcome sight after three months of steady declines, rising stocks and falling bond yields contribute to the inflationary heat the Fed has worked to cool. This means that while the Fed seemingly called off a final interest rate hike for the year, one could expect a response if inflation turns around. As long as that threat looms, the markets will likely remain volatile.

As we enter the final month of sometimes exhilarating and sometimes challenging 2023, we would like to reiterate our gratefulness for your continuing trust in our guidance. This is a time of year when financial anxiety is high for many people, so our goal is to help our clients feel confident in the strength of their plan so they can focus on the things they value most.

If you have any questions about the markets, your financial plan, or anything, please feel free to reach out at your earliest convenience.

We wish you a warm and cheerful holiday.

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