KRILOGY

WEEKLY MARKET RECAP | November 13, 2023

Week in Review

Equity Markets:

The S&P 500 continued its rally from the prior week and finished in the green, up 1.4% for the week. The NASDAQ led the way finishing up 2.4%. The Russell 1000 Growth Index rose 3.02% last week, widening its year-to-date spread relative to its value counterpart to 31.68%[1]. The Russell 1000 Growth is up 32.46% year-to-date while the Russell 1000 Value is barely positive on the year, only up 0.78%[1]. The concentration in year-to-date returns is not just in the large-cap space. The Russell 2000, which represents small capitalization companies, fell 3.11% last week following a surge of over 8% in the week prior[1]. The index is down 1.92% year-to-date.

Third Quarter Earning season is 92% complete. So far, 81% of S&P 500 Companies have exceeded earnings expectations and 61% of companies have beaten revenue estimates[2]. The blended earnings growth rate for the quarter currently stands at 6.3%[3], up significantly from the 1.6% growth rate on October 1st. Full year 2023 earnings growth estimates remain positive at 2.3%[3]. This marks a modest improvement from the second quarter, but still lower than the 4.4% growth rate analysts were expecting coming into the year.

Fixed Income Markets:

Fed Chairman Jerome Powell spooked the markets with his comments at the IMF Panel last week. Following two consecutive meetings with no rate hikes, Powell says the Fed is not confident they have tightened enough to bring inflation back to their target of 2%. The more hawkish tone sent yields higher. The 2-year Treasury finished the week above 5% again jumping 20 basis points during the week to 5.04%. The 10-year Treasury was less volatile and ended the week up 4 basis points at 4.61%.

Economic:

Credit card balances rose $154 billion dollars from a year ago, and total credit card debt is now $1.08 trillion. The large jump last month accompanied strong consumer spending and strong GDP growth. The preliminary University of Michigan Consumer Sentiment Index fell for the fourth straight month. Inflation expectations were a drag on the index as the outlook for inflation rose to 4.4%; marking the third consecutive month of increased worries about inflation. The war in the Middle East also weighed on sentiment. Weekly unemployment claims came in line with expectations at 217,000.

Looking Ahead

Equity Markets:

Sentiment remains negative and with seasonal tailwinds for the market, a strong finish to the year would not be surprising. Companies have proven their resilience and continue to surprise to the upside on earnings reports. The net profit margin of 12.1% for the S&P 500 remains at historic levels[2]. When accounting for the strength in the consumer, they align with a resilient market. Despite a challenging inflation environment, the consumer continues to spend. Nearly 68% of the US's GDP is personal consumption, i.e. consumer spending[4]. Until weakness in the consumer arrives, we anticipate the market to remain on solid footing. However, this does not mean we do not anticipate continued volatility. The macro environment is still challenging and geopolitical events still represent downside risks to the markets.

The S&P 500 is up 16.60% year-to-date. Most investors probably have not had this experience due to the high concentration of companies that have contributed to the positive performance. The large majority of the S&P's return can be attributed to the "Magnificent Seven". The equal weight S&P 500, represented by the ETF RSP, is only up 1.02%[5]. Diversification can be a challenge to remain committed to, especially when market breadth is low. As long-term investors, we believe taking a multi-year view and position allocations to capture returns through a full market cycle will help investors capture market pivots. These style pivots are very often unseen and happen in the face of bad headlines and/or negative sentiment.

Fixed Income Market

We will hear from multiple members of the Federal Reserve this week. We believe Chairman Powell set the tone for the Fed last week with his hawkish comments. Fed Fund's futures still have an 85% probability that the policymakers will not raise rates again at their December meeting[6]. Inflation has come down significantly, but we believe it is too early for the Fed to claim victory. This is because a major component of inflation is the consumers expectation of inflation. We do not see the Fed raising rates again, but their hawkish stance is likely to remain for an extended period.

Economic:

Multiple members of the Federal Reserve will be speaking this week. Chairman Powell's comments last week about the policy outlook concerned investors which makes the inflation reports being released this week very important. The Consumer Price Index will be released on Tuesday followed by the Producer Price Index on Wednesday. Forecasts for Core CPI, which excludes food and energy, are for an annual increase of 4.1% and a monthly increase of 0.3%. Other notable reports for the week are the Retail Sales Report, Housing Market Index, and Housing starts.

**** *See Important Disclosures on following page*

Sources:

1)JP Morgan
https://am.jpmorgan.com/content/dam/jpm-am-aem/americas/us/en/insights/market-insights/wmr/weekly_market_recap.pdf

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4) Federal Reserve Bank of St. Louis, FRED
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Important Disclosures: