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WEEKLY MARKET RECAP | December 4, 2023

Week in Review

Equity Markets:

The S&P 500 notched its fifth consecutive positive week in a row, ending up 0.8%. This brings its year-to-date return to 21.5%. A slight style shift has started to occur over the past couple of weeks. Large Cap Value has started to build momentum, leading its Growth counterpart last week with a return of 2% against Growth's return of 0.4%[1]. The year-to-date gap has closed but remains largely in favor of Large Cap Growth. The Russell 1000 Growth Index is up 37.2% while the Russell 1000 Value is up 6.81%[1].

98% of S&P 500 companies have reported earnings so far this quarter. 82% have beaten earnings estimates and 62% have beaten revenue estimates[2]. Third-quarter earnings are expected to grow 4.8% year-over-year; a significant improvement when compared to the expected decline of 0.3% on September 30[2]. Downward earnings revisions continue to be pushed out further on the calendar. Fourth quarter earnings growth estimates now sit at 5.2%, almost half of the 11% expectations on October 1[3].

Fixed Income Markets:

Bond prices rallied last week, with the 10-year Treasury Yield ending the week 0.25% lower at 4.22%. Treasury yields have dropped significantly as the market hopes for rate cuts by the Fed to occur sooner than originally anticipated. The 10-year Treasury Yield has dropped nearly 0.8% since the intraday high of 5% on October 19. The yield curve also began to steepen again last week. The 2-year Treasury yield fell 0.36% to finish the week at 4.56%. The 2's/10's spread narrowed to -0.34%.

Economic:

The Fed's preferred inflation gauge, the Personal Consumption Expenditures Index (PCE), showed that inflation continues its downward trajectory. Headline PCE was flat for the month of October and rose 3% on an annual basis, in line with expectations. Core PCE, which excludes food and energy, rose 0.2% in October and 3.5% on an annual basis. The core reading was also in line with expectations. The economy grew 5.2% year-over-year as the second GDP estimate for the third quarter showed. This is above the initial estimate of 4.9% and is over double the growth rate in the second quarter. Consumers have started to slow spending. The consumer spending report showed a modest increase in October of 0.2%. The unemployment report showed continuing unemployment claims rose by 86,000 marking the highest level since November 2021[4].

Looking Ahead

Equity Markets:

With third-quarter earnings results nearly complete, we are paying close attention to pre-announcements and guidance from companies. We have seen an increase in negative preannouncements from companies. 64% of preannouncements have been negative and 30% have been positive[3]. The S&P 500 is trading at a forward four-quarter P/E of 19.3x. We still believe that for a sustainable market rally, earnings will need to continue to surprise to the upside. The 19.3x multiple is not one we consider extremely overvalued, but with the current rate structure and concerns about future earnings, it should be looked at with a cautious view.

The markets have shrugged off the negative sentiment all year and are closing in on another double-digit return year. Which was seen as highly unlikely coming into the year when sentiment was at extreme lows. We have a similar stance when the market is trading at extreme optimism as we do when it is trading at extreme pessimism. Long-term investors should remain focused on the compounding potential of the markets, and not the interim noise. Sentiment shifts occur often, and many times, with little notice or reasoning. Rigid commitment to strategic allocations is a supreme strategy, in our opinion, for investors to navigate the ever-changing market environment.

Fixed Income Market

Just as quickly as yields jumped to 5%, the bond market has rallied back with yields falling rapidly. The sharp rally has been a welcomed sight for investors, but we believe the fixed-income market is likely to settle down in the near term. We see the 10-year yield remaining in the 4.25-4.5% range through the end of the year as there is essentially a 100% probability priced into the market that the Fed will hold rates steady again at their next policy meeting[5].

The recent rally is in large part due to the market's anticipation of rate cuts coming earlier than expected. The Fed Fund's Futures have a 45% probability of a rate cut as early as May of next year[5]. The probability has increased significantly over the past month. In mid-November, the probability of a cut in May was only 30%[5].

Economic:

This week there will be a focus on the labor market as we see multiple key reports being released. On Tuesday, the Job Openings and Labor Turnover Survey (JOLTS) Report will be. Over the past few weeks, softening has started to show up in the employment numbers and the markets will likely pay close attention to the release. ISM will release their Services PMI on Tuesday as well. ADP will release their National Employment Report on Wednesday followed by the Non-Farm Payrolls report on Friday. Other notable reports include Consumer Credit on Thursday and the preliminary University of Michigan Consumer Sentiment Index on Friday.

**** *See Important Disclosures on the 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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3)LSEG I/B/E/S
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