Monday December 4, 2023

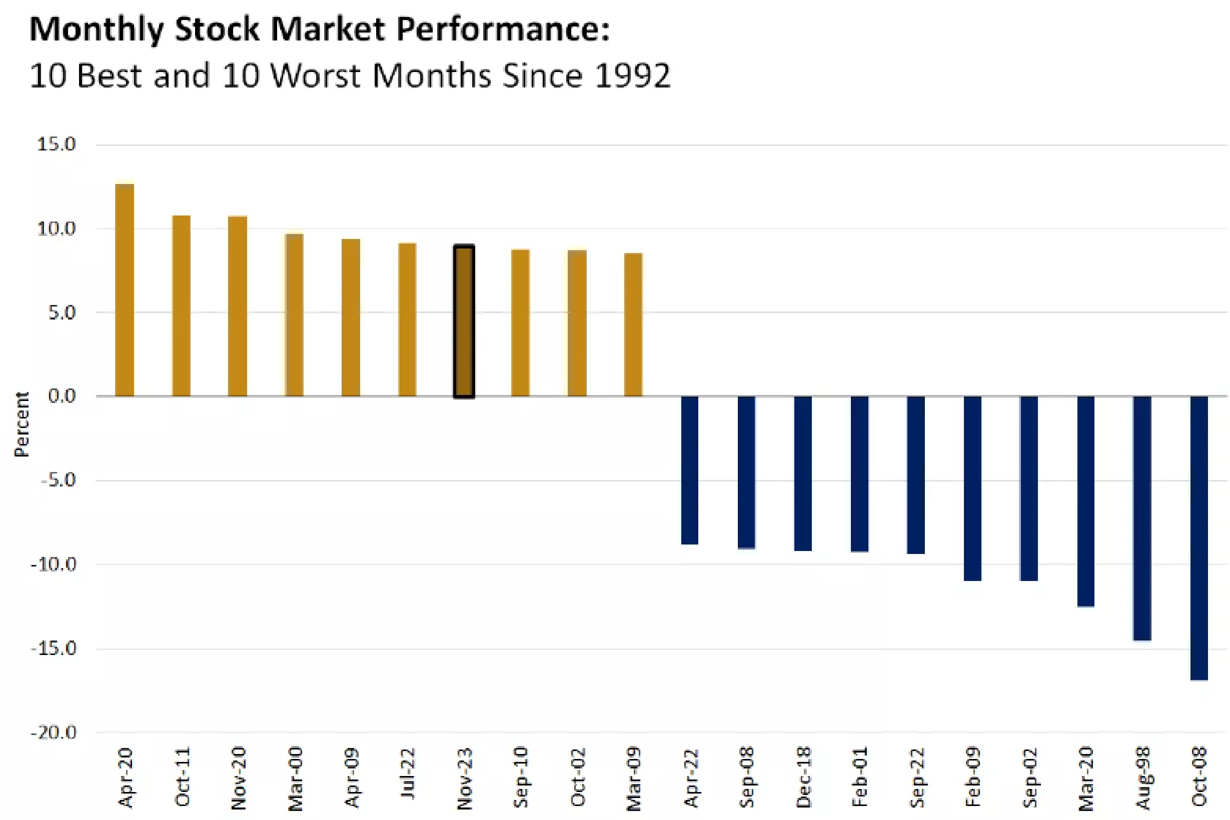
SUMMARY-

I. November delivers first monthly equity gains since July.
II. Patience rewards stock investors with one of the best months in the past 30 years.
III. Declining yields juice bond returns and support equity rally.
IV. Improving fundamentals could keep market momentum intact.

Good morning:

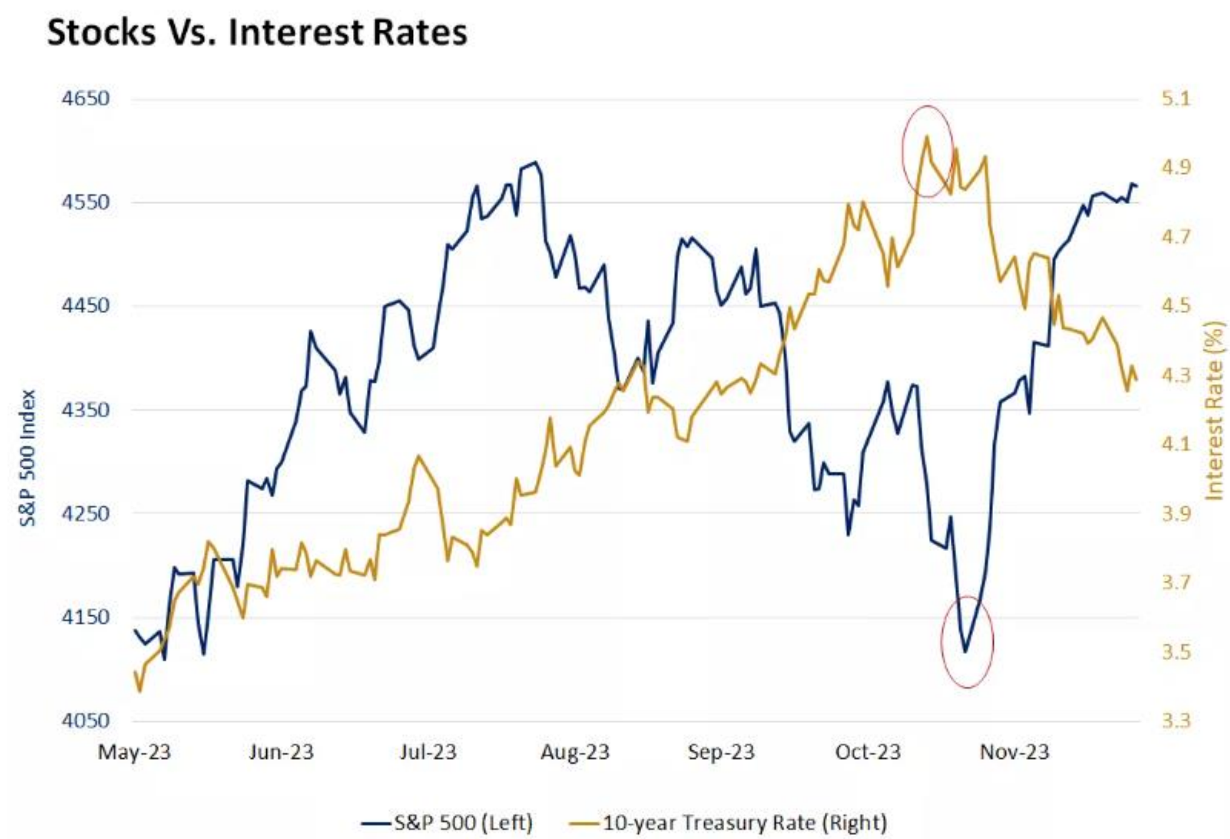
After the correction that saw markets post losses for August, September and October, the S&P 500 came roaring back in November with a nearly 9% gain for the month. The strong showing came on the heels of several supporting factors: inflation continued its decline, the Fed remained on hold, the economy continued to show its resiliency despite higher interest rates, and corporate earnings generally came in better than expected. In other words, there are real fundamental reasons justifying this rebound. This positive momentum and improving economic conditions bode well for continued strength into year-end and early 2024.

We often remind investors of the difficulty of successfully jumping in and out of the stock market despite how easy it may appear in hindsight. Instead, the adage that, “It’s not about timing the market but rather *time in* the market,” that leads to success comes to mind now. November’s strong showing was actually the 7th best month in the past 30 years! Some investors with cash parked in money market funds may even be starting to experience FOMO (fear of missing out) after such a strong month.




*Source: Bloomberg, S&P 500 Index monthly price return.*

Stocks weren't the only asset class that came roaring back in November. In fact, investment-grade bonds (as measured by the Bloomberg Aggregate Bond Index) posted their best monthly results in the past 30 years. Follow two losing months in September and October, bonds benefited from the belief that the Fed will be less restrictive and may not need to hike rates further in this cycle. Remember, bond values move directly, but *inversely* with prevailing interest rates. The sharp decline of 10-year Treasury bond rates from nearly 5% to just under 4.25% in only the past couple weeks provided much of November's strong fixed income returns. Although interest rates have a long way to go, especially on the short end of the yield curve, before borrowing costs will feel less prohibitive and the curve normalizes, November's sharp reversal was yet another catalyst for equity investors to buy stocks.




*Source: Bloomberg, S&P 500 Index and 10-year U.S. Treasury yield.*

Also worth noting was the beginning of the long-awaited broadening out of market sector performance in November. After a year of large tech stocks, particularly the so-called “Magnificent 7,” delivering much of the market’s big returns (while nearly everything else idled), other benchmarks like the Dow Jones Industrial Average and the small-cap Russell 2000 Index finally posted equally strong gains in November. This was particularly evident last week with Dow gaining 2.4% and the Russell 2000 adding 3.4% while the NASDAQ gained a mere 0.4% on the week.

So, will this strength hold up through December? History records that more than two-thirds of the months immediately following one of the top-ten historical months in the chart above were also positive, averaging a gain of 2.7%. Since the primary cause of last year’s bear market and this year’s narrow recovery has been the aggressive rate tightening by the Fed, inflation may be the key to any extended move higher from here. After keeping zero interest rates in place during the pandemic far too long, the widespread inflation that resulted necessitated the rate hikes we experienced since early last year. Fortunately, and despite the odds, they have successfully brought inflation down significantly without toppling the economy, at least as of now. With the normal lag in economic consequences, the real proof will be how resilient the consumer and the economy remain during 2024. Although it would be normal for both stocks and bonds to take a pause somewhere along the way, we believe inflation will continue to move lower, enabling the Fed to start *cutting* rates in 2024. This thesis further supports market strength and broadening participation on Wall Street as we start December.

New York’s recently famous “*Fearless Girl*” bronze statue currently stands resolutely facing the stock exchange in an interesting juxtaposition. In addition to her original intent of calling attention to career empowerment for women, she also seems to symbolize the resiliency and determination of *all* small investors to be patient and successful despite market intimidation and frequent volatility.


*Photographer: Brendan Loftus*

Have a great week!

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The Dow Jones Industrial Average (DJIA), commonly known as “The Dow” is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.

The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US

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