Monday November 27, 2023

SUMMARY-

I. *Stocks add to rebound in shortened trading week.*

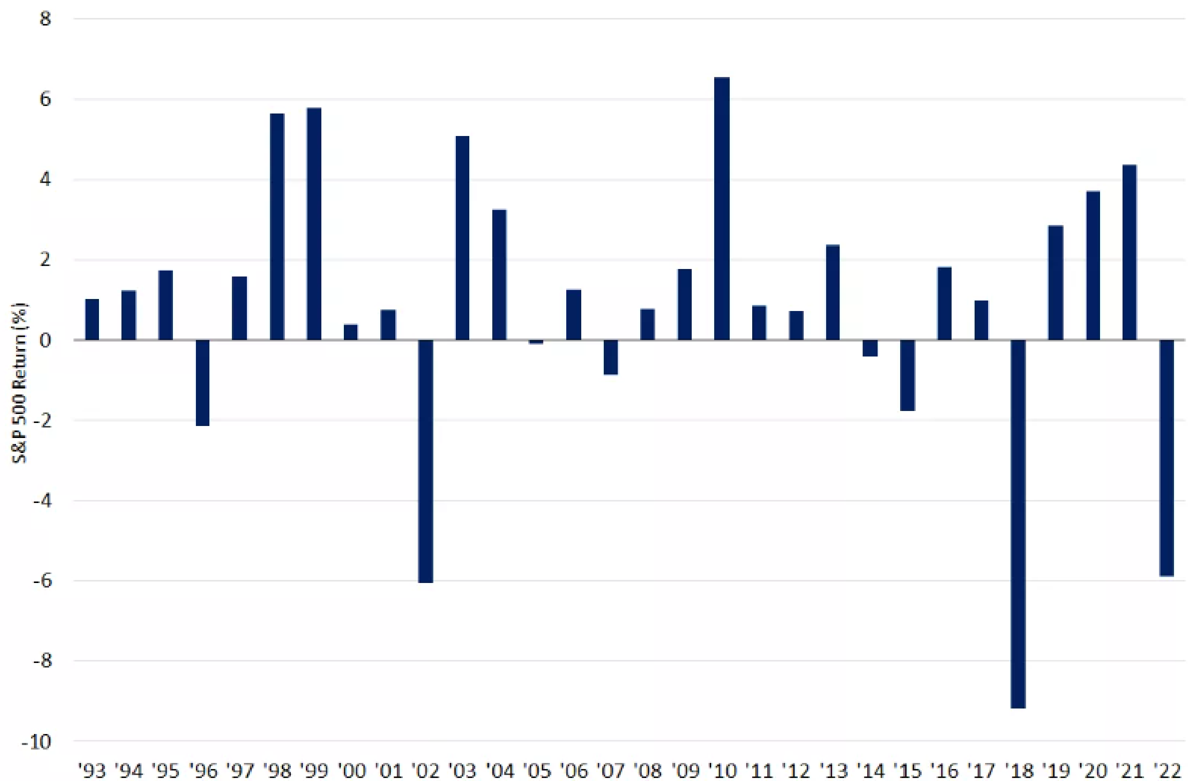
II. *History suggests December could be positive for investors.*

III. *Easing inflation and a gradually cooling economy could align for a better 2024.*

IV. *Remaining RMDs must be taken by year end.*

Good morning:

Markets extended their winning streak in last week's holiday-shortened trading sessions by about 1% on the major equity averages. After an atypical year to date, many are still hopeful for a strong close to 2023 between now and year-end. Historically, the stock market generally does well after Thanksgiving. Over the last 30 years, the average return in December has been roughly 1%, with the market logging a post-holiday gain roughly three-quarters of the time. The best was December 2010 with a rally of 6.5%, followed by 2003, 1999 and 1998, which saw post-Thanksgiving gains of more than 5%. Perhaps more importantly, when the stock market rose between Thanksgiving and year-end, it went on to deliver a positive return the following year 77% of the time, averaging 11%. Therefore, finishing the year on a positive note has been part of a broader move that saw market gains continue. This chart illustrates how often December has been a winning month for investors over the past 30 years.



Source: FactSet. Monthly price return of the S&P 500 Index.

After the correction that pulled much of the market down 10% or more in October, November seems to be on a path of healthy price recovery. Additionally, a number of other factors are aligning favorably for markets to continue their recovery in the coming months. Perhaps chief among them is the steady decline in inflation. Headline October CPI coming in at 3.2% has helped push bond yields lower and keep the Fed on the sidelines. While we may be a ways off from the Fed actually starting to cut short term interest rates, the market has started to adopt the belief that they are done with this long and aggressive tightening cycle.

Contrary to the many calls for an abrupt contraction in economic activity we heard at the start of this year, strong labor and housing markets, along with a very resilient consumer has kept our GDP not only in the black, but remarkably above trend in 2023. Recently, a gradual cooling in the economy is starting to materialize as a welcome alternative to a recession as it could help support a further rally in equities. While the economy has shown some early signs of moderating – lower retail sales, slightly higher jobless claims – we believe this "Goldilocks" pace of slowing (not too hot, not too cold) has been supportive of the recent rebound in stock prices. Some economists now believe household consumption could soften in the months ahead and the labor market may cool, which would cause economic growth to slow, but perhaps the U.S. economy avoids a recession. In this scenario, a slowdown could help keep inflation contained and not require the Fed to hike further. Prices may ease as companies adjust to a slower demand environment, and we may also see wage gains moderate as demand and supply for workers becomes more balanced.

We continue to believe equities will generate superior long-term returns compared to other asset classes. Despite occasional bear markets and frequent corrections, stocks have proven to be the only financial asset to consistently generate significant excess returns above inflation and taxes for investors. However, as we have all seen in the past few years, equities can be quite volatile in *both* directions. Such periods can often test the patience of even long-term investors, many who grow weary and unsure. It is very easy to be tempted to chase the hottest stocks or sectors, especially in a year when all the returns are concentrated in a small number of companies. We strongly caution against this temptation along with abandoning proven market truths, believing

this time is different. History would also suggest not ignoring the protracted period of underperformance of small caps, value sectors, and dividend-paying blue chips we've seen this year. Instead, maintaining a proper portfolio weighting in these unloved areas may prove quite rewarding when momentum shifts, and they are suddenly back in favor.

Similarly, we believe interest rates have peaked for the short term and the inverted yield curve will start to normalize. This should mean reduction in mortgage rates and the anticipated easing of housing inventories. It also means that money market and CD rates have likely peaked at current levels. If we are correct, and the Fed's next moves will be rate *cuts* at some point in 2024, short-term fixed income securities and funds will see a corresponding decline in their yields. With an estimated record $5.7 trillion now in money market mutual funds, more than double the amount four years ago, falling yields could prompt a significant portion of this sum to return to the traditional long-term asset classes of equities and fixed income from where it likely originated.

Source: Investment Company Institute

Between now and the close of the year, untaken Required Minimum Distributions (RMDs) will need to be completed for those impacted. Please feel free to let us know if you have any specific requests pertaining to your distribution or any other portfolio income matter. Remember, new rules require those turning 73 in 2023 to begin taking annually from their taxable IRAs or qualified retirement plans. We can help provide you the exact withdrawal figures and a plan of distribution for all such accounts, both with Raymond James and elsewhere.

Have a great week!

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