MARKET REVIEW & OUTLOOK

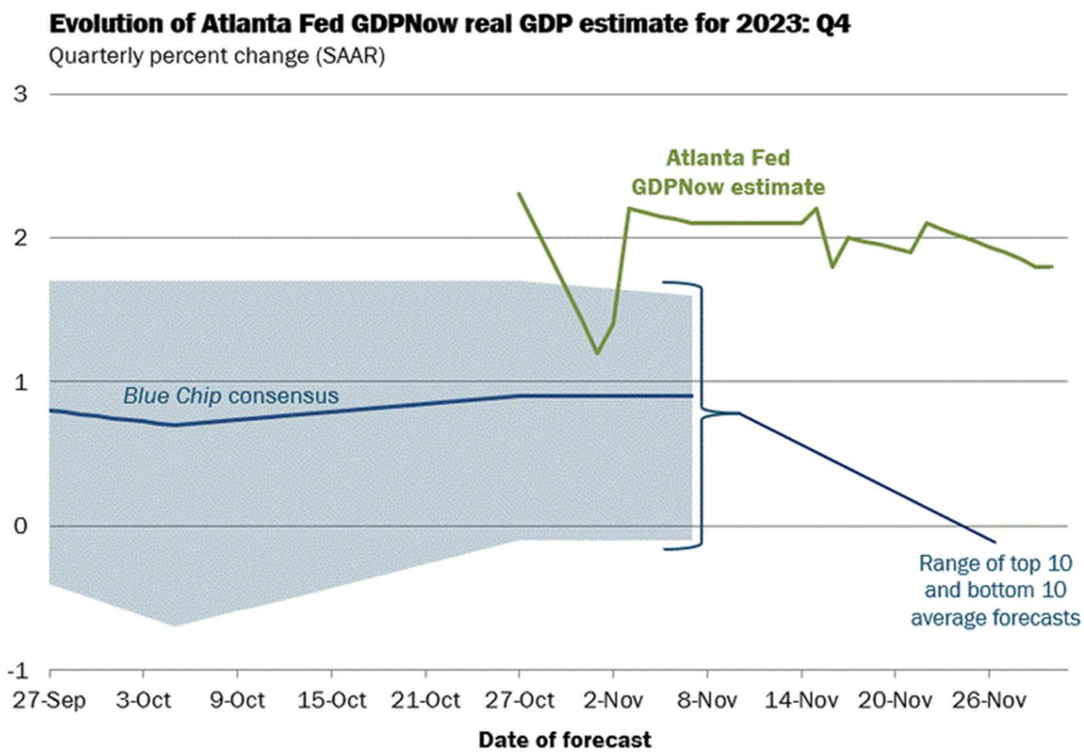
NOVEMBER 2023

KEY TAKEAWAYS

- The late rally, at the end of last month, in equity markets was the start of an incredible rally that lasted through the month.
- The 10-year Treasury Yields stalled near the 5%-mark last month and reversed hard leading to a large rally in bond prices.

The U.S. Economy

The second look at 3rd quarter GDP came in even stronger at 5.2% driven by big spending from the government. Additionally, core PCE, the imbedded inflation measure, dropped to 2.3% from the initially reported 2.4%. Clearly 3rd quarter reported strong growth, but 4th quarter estimates for GDP from GDPNow are hanging around the 2% mark. The Blue-Chip consensus forecast remains just below 1%, as shown in the chart below. Economic activity continues solid though greatly supported by government spending, and the PCE deflator is continuing to signal moderating inflation. The data supports the Fed's stance to hold rates higher for longer, but the market is not expecting the Fed to hold to that commitment.

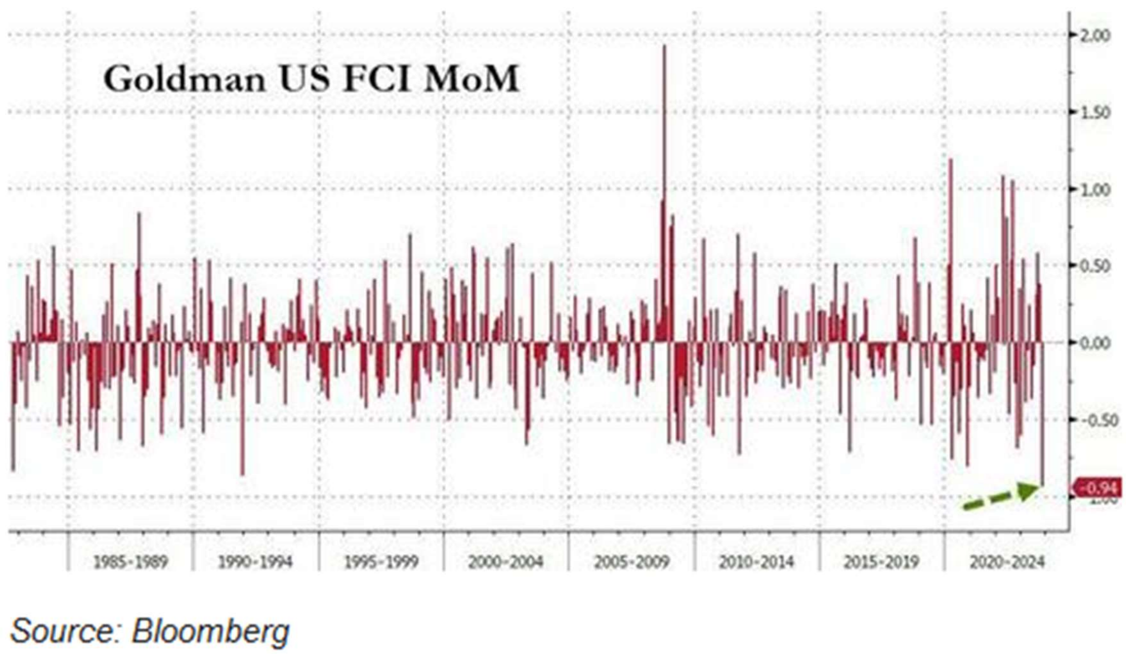


Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Source : https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

10-year U.S. Treasury yields peaked in mid-October near the 5% rate, which was last seen in July 2007. The mid-month pullback in yields really accelerated through November. The Fed met November 1st and Fed Head Powell proudly proclaimed how much work the market was doing for the Fed. Well, the market took that to mean that the Fed was done raising rates, which is what precipitated the sharp drop in yields and the everything rally we saw in November. Please see the chart below, the market eased financial conditions by the largest monthly amount in history, (back to 1982) the equivalent of nearly 4 rate cuts! The latest Fed speak did little to squash the animal spirits that were unleased November 1, and it looks unlikely the December meeting will change that. Additionally, with the election year now upon us, the market is likely right that the Fed is done hiking rates. The big question, is the market right that the Fed will cut during an election year? The Fed generally is more open to lowering rates during an election year than hiking, though that window is usually not unlimited. The economic environment still seems too strong for the Fed to start cutting interest rates soon unless economic activity drops soon and quickly, and inflation continues to show resilience above the Fed's 2% target. The plunge in yields created a massive tailwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF jumped +4.51% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.35%, down significantly from October's close of 4.88%.



Source : https://www.zerohedge.com/markets/movember-marks-best-month-us-bonds-40-years-global-markets-add-over-11-trillion

The Dow Jones Industrial Average jumped +8.77%, the S&P 500 soared +10.52%, and the small cap Russell 2000 popped 8.83%. The international markets traded in line with the U.S. The MSCI EAFE iShares Core International Developed Markets ETF Index popped +8.64%, and the MSCI Emerging Markets iShares Core ETF Index jumped +7.84%.

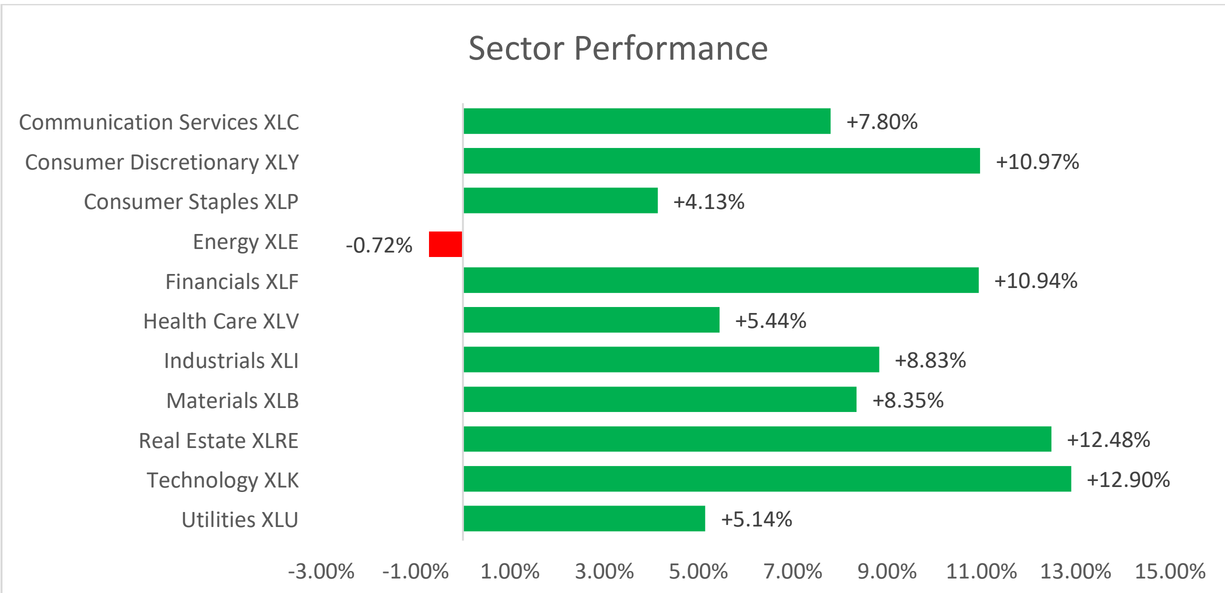
November's performance was nothing short of astonishing, with many sectors deeply in the green.

The best performers were everything! Well not quite…

- Technology: +12.90%
- Real Estate: +12.48%
- Consumer Discretionary: +10.97%

The worst performers were…

- Energy: -0.72%
- Consumer Staples: +4.13%
- Utilities: +5.14%



Source: https://www.morningstar.com

Oil Report

The oil market continued trading weaker during November. Prices were seemingly unaffected by the war between Hamas and Israel, during the fighting or temporary truce. The market seemed more focused on OPEC+ considering and finally agreeing to more voluntary production cuts. Contrary to the earlier conversation about great economic growth and easing financial conditions, the oil industry doesn't seem to have gotten the memo. Most of the month, prices oscillated between $75 and $80. The current NYMEX WTI Crude Oil futures settled at $75.96 posting a loss of over 6% from the prior month's close of $81.02 a barrel. The decrease in crude oil led to additional decreases in RBOB gasoline, which finished with a loss of almost 2% vs October's close. It is worth noting that RBOB gasoline seems to be finding a floor as prices have been relatively stable since early October. The energy complex seems to be at odds with the rest of the market, well at least the equity markets, which are only seeing blue skies.

The Rest of the Data

The October ISM Manufacturing Index decreased to 46.7 from September's reading of 49. Additionally, the ISM Services Index decreased to 51.8 in October, from September's print of 53.6. The prices paid component for Services remained close to elevated and Manufacturing prices firmed from last months' near deflating levels. Any reading below 50 generally indicates deteriorating conditions and any reading above 50 generally indicates improving conditions. Consumer confidence increased to 102.0 in November, which compares to a downwardly revised figure of 99.1 in October. The unemployment rate increased to 3.9%, while the economy added a solid 150,000 jobs in October, though missed expectations of 180,000 jobs. The Consumer Price Index for All Urban Consumers (CPI-U) was flat at +0.0% in October, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate declined to +3.2% on a non-seasonally adjusted basis. The CPI ex Food and Energy eased further to 4.0% over the last year. The economic data remains solid, employment reports are good, and inflationary pressures are trending lower, though higher than the Fed target of 2%. The only real weakness remains in the Manufacturing sector, with pricing soft. The market has given up on any more rate hikes for 2023 and is now eagerly anticipating the start of rate cuts in 2024, currently projected as an 80% probability of occurring in March, with markets also pricing in upwards of 75 bps of cuts by June. We will continue to monitor economic activity along with inflation reports and see how long the game of chicken between the Fed and the market lasts and who cracks first, (The Fed usually doesn't win. 😊).

Summary

The large cap focused U.S. equity markets stopped stair stepping down and jumped on the express evaluator up! Erasing the last 3 months of declines in 1 month, with the Dow Jones 30 very close to hitting an all-time high. The Fixed Income markets, which had generally been a one-way trade lower the last 6 months, rallied hard off the October lows. Earnings reports have generally concluded for the year, the Fed is in their blackout period until December 13, but don't appear to be likely to dampen the party. Other than something from left field, it seems the markets are free to continue the usual seasonal strength into year end.

As always, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/war vs. growth and growing debt, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities. The sharp rebound in equities has resulted in U.S. Mid-cap and International positions transitioning back to 100% Equity exposure, Real Estate remains defensive and allocated to floating rate Treasuries.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

Kevin Churchill, CFA®, CFP®
Chief Investment Officer
WaterRock Global Asset
Management

Institutional Asset Management adapted for Private Wealth™

WaterRock Global Asset Management, LLC
Scottsdale, AZ 85260
(808) 896 – 4957