The Weekly Market Update – 1/2/24: Equities Higher, Completing a Bounce-Back Year

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,769.83	0.32%	11.24%	24.23%	24.23%	4,796.56	0.6%
Dow Jones Industrial Average	37,689.54	0.81%	12.48%	13.70%	13.70%	37,710.10	0.1%
NASDAQ Composite	15,011.35	0.12%	13.56%	43.42%	43.42%	16,057.44	7.0%
Russell 2000	2,027.07	-0.34%	13.56%	15.09%	15.09%	2,442.74	20.5%
MSCI EAFE (USD)	2,236.16	1.13%	10.09%	15.03%	15.03%	2,398.71	7.3%
MSCI Emerging Markets (USD)	1,023.74	3.17%	7.45%	7.04%	7.04%	1,444.93	41.1%
Bloomberg Commodity Index	98.65	-0.71%	-5.91%	-12.55%	-12.55%	237.95	141.2%
Barclays U.S. Aggregate Bond	91.70	0.41%	6.23%	3.17%	3.17%	112.07	22.2%

Source: FactSet

2023 was a strong year for equities as major indices mostly recovered the 2022 declines. The widely followed, large-company S&P 500 closed at 4,770 in 2023, up +24.2% on a price basis (and +26.3% total return, including dividends). The range of gains among popular indices was very wide, however. The Nasdaq Composite (large cap, technology- and growth-centric) index increased +43.4% in 2023, the Dow Jones Industrials (large-company, less growth exposure) gained +13.7%, and the Russell 2000 index's price return was +15.1%. We attribute variability of index returns to market concentration as full-year gains were dominated by a limited number of sectors and companies. Within the S&P 500, all constituents are categorized into one of eleven macro GICS sectors (global industry classification standards by MSCI). Each sector, based on member companies and market capitalization (cap) size, has a different weighting in the index. In 2023, eight of the eleven sectors generated a positive price return, and only three of those showed a price return above the S&P 500. Leading the way were Information Technology +56.4%, Communications Services +54.4%, and Consumer Discretionary +41.0%. Combined, these three sectors comprised 48% (as of 12/31/23) of the total S&P 500 market cap, contributing to the index's strong return. Perhaps, it is surprising that three sectors declined in a strong year. Utilities were down -10.2%, Energy -4.8%, and Consumer Staples -2.2%. Those three sectors, combined, comprised 12% of the S&P 500 capitalization; while each detracted from index performance, the total impact was mild. We estimate that the ten largest companies by market cap generated 69% of the 2023 S&P 500 total return. Another way to view the concentration is to compare the return of the S&P 500 Equal-Weight index, which gives each company the same weighting, and helps to evaluate the performance of the "average" stock. The Equal-Weight S&P 500 gained +11.6% for the year. As the S&P 500 surged in November and December, driving a 4Q23 S&P 500 gain of +11.2%, sector and company participation broadened, with 10 of the 11 GICS sectors higher. We believe that the trend of improved relative performance of the average stock can continue, but also raises questions about overall equity market upside in 2024 if the largest companies by market capitalization cool off.

The S&P 500 equity index eked out a modest gain to end 2023, extending its winning streak to nine consecutive weeks. On 10/27/23, the S&P 500 index closed at 4,117, which was the lowest closing price of 2023 and was down -10.2% from the 7/31/23 high. Since that Friday in October, the index closed higher every week as it moved up +15.9%. Nine weeks of consecutive gains is rare (the last 9-week positive streak for the S&P 500 was 2004) and reflected a positive change in investor sentiment due to relatively solid economic data, lower-than-expected inflation, and a view that the Federal Reserve Bank (Fed) will soon move to begin lowering short-term interest rates following two years of raising rates to restrict credit conditions. The Fed's current target range for its fed funds (overnight bank lending) reference rate is 5.25% to 5.50%. This compares to the yield of the U.S. 2-year Treasury of 4.34%, which appears to suggest that the Fed could lower its target by 100 basis points.

Equities have traded lower on Tuesday as 2024 begins. A market pullback should not be a surprise given the nearly uninterrupted gains of November and December. With 4Q23 earnings season and a January Fed meeting still a few weeks away, investors will focus on economic data that will shed light on late-year trends. This week includes jobs data from the Bureau of Labor Statistics; job openings on 1/3/24 and nonfarm payrolls on 1/5/24.

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

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