The Weekly Market Update – 11/6/23: Jobs Miss But Lower Interest Rates Elevate Investor Sentiment

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,358.34	5.85%	1.64%	13.51%	12.56%	4,796.56	10.1%
Dow Jones Industrial Average	34,061.32	5.07%	1.65%	2.76%	4.06%	36,799.65	8.0%
NASDAQ Composite	13,478.28	6.61%	1.96%	28.78%	22.66%	16,057.44	19.1%
Russell 2000	1,760.71	7.56%	-1.37%	-0.03%	-4.67%	2,442.74	38.7%
MSCI EAFE (USD)	2,031.06	4.41%	-0.01%	4.48%	16.06%	2,398.71	18.1%
MSCI Emerging Markets (USD)	948.26	3.10%	-0.47%	-0.85%	11.80%	1,444.93	52.4%
Bloomberg Commodity Index	105.23	-0.38%	0.37%	-6.72%	-7.17%	237.95	126.1%
Barclays U.S. Aggregate Bond	86.64	1.88%	0.37%	-2.52%	0.29%	112.07	29.4%

Source: FactSet

October jobs growth was below expectations, driving interest rates lower and extending equity gains for the first time in four weeks. October nonfarm payrolls (jobs, as reported by the Bureau of Labor Statistics, or BLS) increased by +150 thousand (K), which was below the 180K FactSet consensus estimate. This was the second lowest monthly jobs increase of 2023 (June increased +105K), and the previously reported payroll gains in August and September were revised lower as well. The unemployment rate ticked higher to 3.9% (from 3.8% in September) and was at its highest level since January 2022 (4.0%). In many ways, the October jobs report was a reversal from September, when jobs surged +336K (now revised lower) and gains were spread broadly across industry sectors. In October, over two-thirds of the gains were from government and healthcare, while jobs decreased month-to-month in manufacturing, transportation and warehousing, and information. While a one-month data reversal does not confirm a trend, a slowing labor market could relieve wage growth demands and eventually create challenges for consumer spending. The report was cheered by bond investors, driving bond prices higher and interest rates lower. The yield on the U.S. 10-year Treasury bond (which we view as a proxy for long-term interest rates) moved to 4.52% on 11/3/23 from 4.90% three days prior, relieving the consistent upward rate pressure over the prior three months. The drop in long-term interest rates started early last week as the U.S. Federal Reserve Bank (Fed) ended its November Open Market Committee meeting with no change to its overnight bank lending fed funds interest rate target range (the Fed has now paused rate hikes at 3 of the past 4 meetings, going back to June 2023). Fed policy is effective at controlling short-term rates, but market forces are more dominant on longer-dated maturities. In addition, 10-year Treasury yields dropped as the U.S. Treasury released below-expected government borrowing needs in the fourth quarter (4Q23), indicating that the supply of Treasury issuance will be lower than in 3Q23. Despite slowing jobs, equity markets rallied as the widely followed, large-company S&P 500 gained +5.9% on the week. In October, many investors worried that the surge in yields would create economic hardship on consumers, businesses, and the government budget. While economic headwinds remain in place, lower rates led to a surge in investor sentiment.

After five days of gains, the S&P 500 surged to its best week of the year. In fact, this was the best weekly gain for the index since the week ended 11/11/22 (also +5.9%) and highlights that market surges often arrive when least expected, and that important gains can be made in short time periods. We only recently discussed that from 7/31/23 to 10/27/23, a nearly 3-month period, the S&P 500 declined -10.2%, representing the largest percentage pullback of the index this year. Over a five-day period last week, more than half of that decline was recovered. We are staunch advocates of remaining invested during difficult periods in equity markets as funds must be "in the market" to benefit from the market's best days. While changes can and should be made to improve diversification, upgrade quality, and rebalance allocations, it is difficult to correctly predict market tops and bottoms, and attempting to do so can detract from long-term performance.

Investors continue to digest 3Q23 earnings reports, the flow of economic data, and ongoing market reaction to last week's move lower in interest rates. With more than 81% of the S&P 500 constituents' 3Q23 financial reports completed, earnings have increased +3.3% from the prior year, running ahead of estimates. Despite U.S. economic growth of +4.9% in 3Q23 (Commerce Department data), the FactSet consensus estimate for 4Q23 growth is +0.6%, indicating that reported data is expected to slow.

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