The Weekly Market Update – 11/13/23: Equity Rally, Narrow Leadership, Earnings Upside

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,415.24	1.31%	2.97%	15.00%	14.03%	4,796.56	8.6%
Dow Jones Industrial Average	34,283.10	0.65%	2.31%	3.43%	4.74%	36,799.65	7.3%
NASDAQ Composite	13,798.11	2.37%	4.38%	31.83%	25.57%	16,057.44	16.4%
Russell 2000	1,705.33	-3.15%	-4.47%	-3.18%	-7.66%	2,442.74	43.2%
MSCI EAFE (USD)	2,011.90	-0.94%	-0.95%	3.50%	14.97%	2,398.71	19.2%
MSCI Emerging Markets (USD)	948.32	0.01%	-0.47%	-0.84%	11.81%	1,444.93	52.4%
Bloomberg Commodity Index	101.61	-3.44%	-3.08%	-9.93%	-10.36%	237.95	134.2%
Barclays U.S. Aggregate Bond	86.37	-0.31%	0.05%	-2.82%	-0.02%	112.07	29.8%

Source: FactSet

November gains for U.S. equity indices have partially reversed declines over the prior three months, but leadership remains relatively concentrated. On 11/10/23, the widely followed, large-company S&P 500 equity index closed above 4,400 for the first time since late September, and was up +5.3% (price return, no dividends) in November. While still below the 2023 closing high level of 4,589 set on 7/31/23, the early November gains are welcome after lower S&P 500 values at the end of August, September, and October. On the surface, the November gains appear promising as 10 of the 11 macro sectors (global industry classification standards, or GICS, as developed by MSCI) were positive for the month (only Energy was lower), signifying broad participation in market gains. At the same time, just three S&P 500 sectors, Technology (+10.0% in November), Communication Services (+6.5%), and Consumer Discretionary (+6.1%), generated returns above the index, continuing a disparity that has existed throughout the year. We look to the Equal Weight S&P 500 (EW S&P) to gauge the performance of the "average" stock in the index as that index assigns an equal weight to all 500 stocks (about 0.2%), whereas the S&P 500 is weighted by market capitalization, and the largest companies dominate the value of the index. The EW S&P's +3.6% November gain through 11/10/23 trailed the S&P 500 (+5.3%) by 170 basis points (bp) and has extended throughout the year. This reveals that although the "average" stock has rallied in November, the gains have still trailed the broader market. On a year-to-date (YTD) basis (also through 11/10/23), the EW S&P price return was negative, at -0.5%, vs. +15.0% for the S&P 500. While calendar 2023 has seven weeks remaining, the 1,550 bp (15.5%) disparity between the S&P 500 and EW S&P is the largest since 2009 when the EW S&P outgained the index by 19.8%. The last time the S&P 500, in a calendar year, beat the EW S&P by a larger margin than 2023 was a 16.3% outperformance in 1999. While the timing of improved relative performance from the EW S&P is uncertain, we believe it will happen; over the past 15 years (2008 to 2022), the EW S&P average annual price return was 145 bp (annually) above that of the S&P 500.

The S&P 500's +3.1% year-over-year (Y/Y) reported earnings growth is better than it looks. Through 11/10/23, with 8% of S&P 500 constituents still to report third quarter (3Q23) financial results, earnings have increased +3.1%, which is above the FactSet consensus estimate of -0.7% on 9/30/23. Eight of the 11 GICS sectors posted Y/Y earnings growth, while earnings were lower for Energy, Health Care, and Materials (down Y/Y -37%, -21%, and -20%, respectively). Each of these sectors have faced specific challenges that are likely to reverse in 2024, in our view, including Energy and Materials both seeing lower 2023 commodities prices vs. supply chain inflation in 2022. And 3Q23 S&P 500 Health Care earnings had tough comparisons to 2022's large COVID-19 vaccine and therapeutics sales. Excluding the drag from Energy and Health Care, 3Q23 earnings have increased +10.8%, which makes more sense given that U.S. gross domestic product (GDP, as reported by the Bureau of Economic Analysis) grew +4.9% (annualized rate adjusted for inflation) in 3Q23. We continue to believe that the current FactSet consensus estimate for 2024 full-year S&P 500 earnings growth of +12% appears optimistic, but we acknowledge that recent data has turned positive.

The week ahead includes October data on inflation (consumer price index, CPI) and retail sales. The October CPI (from the Bureau of Labor Statistics) is expected to show a Y/Y increase of +3.3% (vs. +3.7% in September), with core CPI (ex-food and energy) steady at +4.1%. Retail sales (from the U.S. Census) are expected to show spending moderation, down slightly from September.

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