The Weekly Market Update – 12/11/23: Jobs Data Satisfies 'Soft Landing' Bulls

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,604.37	0.21%	7.38%	19.92%	12.85%	4,796.56	4.2%
Dow Jones Industrial Average	36,247.87	0.01%	8.18%	9.35%	4.79%	36,799.65	1.5%
NASDAQ Composite	14,403.97	0.69%	8.96%	37.62%	25.60%	16,057.44	11.5%
Russell 2000	1,880.82	0.98%	5.36%	6.79%	-0.31%	2,442.74	29.9%
MSCI EAFE (USD)	2,138.43	0.37%	5.28%	10.01%	10.00%	2,398.71	12.2%
MSCI Emerging Markets (USD)	975.01	-0.73%	2.33%	1.95%	0.28%	1,444.93	48.2%
Bloomberg Commodity Index	97.86	-3.55%	-6.65%	-13.25%	-15.67%	237.95	143.1%
Barclays U.S. Aggregate Bond	89.25	0.11%	3.39%	0.42%	-0.24%	112.07	25.6%

Source: FactSet

Equities rallied following the release of November jobs data. According to the Bureau of Labor Statistics (BLS), nonfarm payrolls (jobs) increased by 199 thousand (K) in November, an upside surprise to the 175K FactSet consensus estimate. Gains exceeded the +150K jobs in October but trailed September's +262K (after a downward revision). In addition, the average monthly jobs gain over the latest three months was below the three-month average through September. U.S. equities moved higher on the news as the widely followed, large-company S&P 500 index increased +0.4% on Friday, 12/8/23, to 4,604, its highest closing price of 2023 (and first close above 4,600 since March 2022). The jobs report did little to halt the recent surge in positive investor sentiment that has led to the S&P 500 closing higher for six consecutive weekly gains and to a fourth quarter 2023 price return (not including dividends) of +7.4% (through 12/8/23). We attribute investor bullishness to expectations for an economic "soft landing" (slowing growth but no recession), along with continued improvement (lower) in year-over-year (Y/Y) inflation data (the consumer price index, CPI, from the BLS measures consumer inflation). This environment could include lower interest rates, along with Y/Y corporate earnings growth, both supporting ongoing equity market gains. November jobs gains were paced by health care (+77K), government (+49K), and manufacturing (+28K), although manufacturing was bolstered by the return of striking auto workers and Hollywood actors. Bars and restaurants increased +40K, while retail trade dipped -38K. This makes sense as consumer spending (Bureau of Economic Analysis) patterns have favored spending on services more than goods. Overall consumer spending surged in 3Q23 (both Y/Y and vs. the prior quarter), but we expect the pace ahead to slow. November's jobs data (gains at a slowing rate) supports that view. The unemployment rate dropped to 3.7% from 3.9% as job seekers returned to the workforce and Y/Y wage gains (average hourly earnings) increased +4.0%.

The Federal Reserve Bank's (Fed) Open Market Committee (FOMC) meets for the final time in 2023. We expect no change (a "pause") to the Fed's overnight bank lending fed funds interest rate target range at the upcoming meeting ending 12/13/23. With a pause, the range remains at 5.25% to 5.50%, unchanged since 7/26/23. The Fed has effectively managed market expectations for its interest rate decisions (at least in the short-term) so a pause this week appears likely. More uncertainty prevails regarding the Fed view for 2024 rates, and we expect informed discussion at the post-meeting press conference, as well as from the Fed's published Summary of Economic Projections (SEP), which was last updated in September. The SEP compiles individual estimates from FOMC participants, giving a range and median estimate for the group. As of 9/20/23, the SEP median estimate for the 2024 year-end fed funds target was 5.10%, suggesting perhaps just one 0.25% rate cut next year. Market expectations have moved below that view, with the fed funds futures market (CME Group) pricing in cuts of 100 basis points or more. We believe that the Fed will reiterate its "higher rates for longer" stance to more fully suppress inflation expectations.

While the mid-week FOMC meeting takes center stage this week, we are also watching CPI and retail sales data. November CPI is due on 12/12/23 and is expected to show Y/Y CPI inflation of 3.1% and core CPI (excludes food & energy) of 4.0%. While a headline number of 3.1% will be cheered, core CPI of 4.0% remains well above the Fed's 2.0% target. Retail sales, a key component of consumer spending, is expected to slow modestly from October, but still reflect Y/Y growth and spending resiliency.

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

Important Disclosure: The information contained herein has been obtained by sources we consider reliable, but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of data available to us at the time of the original publication of the report. Assumptions, opinions, and estimates constitute our judgment as of the date of this report and are subject to change without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return and yield, as well as broader market and macroeconomic fluctuations and unforeseen changes in the fundamentals or business trends affecting the securities referred to in this report. Investors should also remember that past performance is not indicative of future performance and D.A. Davidson & Co. makes no guarantee, express or implied, as to future performance. The information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor. It is not a representation by us, or an offer, or the solicitation of an offer, to sell or buy any security. Further, a security described in a report may not be eligible for solicitation in the states in which a client resides. D.A. Davidson & Co. does not provide tax advice and investors should consult with their tax professional before investing. Further information and elaboration is available upon request.

Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.