The Weekly Market Update – 12/18/23: Fed Optimism Drives Markets Higher

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,719.19	2.49%	10.05%	22.91%	15.66%	4,796.56	1.6%
Dow Jones Industrial Average	37,305.16	2.92%	11.33%	12.54%	7.85%	37,305.16	0.0%
NASDAQ Composite	14,813.92	2.85%	12.06%	41.54%	29.18%	16,057.44	8.4%
Russell 2000	1,985.13	5.55%	11.21%	12.71%	5.22%	2,442.74	23.1%
MSCI EAFE (USD)	2,192.98	2.55%	7.96%	12.81%	12.81%	2,398.71	9.4%
MSCI Emerging Markets (USD)	1,000.89	2.65%	5.05%	4.65%	2.94%	1,444.93	44.4%
Bloomberg Commodity Index	98.90	1.06%	-5.67%	-12.33%	-14.78%	237.95	140.6%
Barclays U.S. Aggregate Bond	91.21	2.19%	5.66%	2.62%	1.95%	112.07	22.9%

Source: FactSet

Both equities and bond prices surged higher following the Federal Reserve Bank's (Fed) December meeting as markets priced in lower interest rates. For the week ended 12/15/23, the widely followed, large-company S&P 500 equity index increased +2.5%, and the U.S. 2-year Treasury yield (we consider it a proxy for U.S. short-term interest rates) dropped to 4.41% from 4.73% one week earlier. In addition, the 10-year Treasury yield (a measure of long-term interest rates) at 3.90%, closed below 4.0% for the first time since July. As expected, the Fed's Open Market Committee (FOMC) voted to keep its interest rate target range at 5.25% to 5.50% (the Fed sets a target range for the overnight bank lending fed funds rate), unchanged for the 3rd consecutive meeting since July of this year. However, post-meeting comments from Fed Chair Jerome Powell, along with changes to the Summary of Economic Projections (SEP), reflected a sea change for Fed policy. For the first time since March 2022, when the Fed first implemented higher interest rates, the Fed appears to support both the end to further interest rate hikes and the start of rate cuts beginning in 2024. While Fed Chair Jerome Powell did not definitively say that rate hikes are over, he indicated many committee members believe that interest rates are high enough, substantial progress has been made on inflation, and economic growth has been much better than they expected. The SEP, which compiles individual estimates from FOMC participants, showed a median estimate for the fed funds level at year-end 2024 of 4.6%. From the 5.4% current mid-point of the range, this suggests a view of 0.75% of cuts to the fed funds target in 2024. Mr. Powell also said that those rate cuts would likely begin before consumer inflation (the Fed's preferred consumer inflation survey is the personal consumption expenditures, PCE, price index) gets to 2.0%. While interest rates were moving lower for several weeks prior to the Fed meeting, last week's surge in markets indicates, in our view, that investors agree with the Fed that efforts to fight inflation and balance economic growth has exceeded expectations.

The S&P 500 has posted gains for seven consecutive weeks. This is the longest stretch of consecutive weekly index gains since an eight-week period in late 2017 (September & October). In the current period, 10/27/23 to 12/15/23, the S&P 500 price increase was +14.6% (not including dividends). In the fourth quarter (4Q23), including a decline in October, the S&P 500's gain was +10.1%, which if it holds will be the best quarter of 2023. While year-to-date (YTD) equity gains are mostly concentrated in a relatively narrow group of large-company, technology-centric industry leaders, market gains over the past seven weeks have broadened significantly. We have compared the S&P 500 index (we estimate the 10 largest constituents comprise 30% of the index total capitalization) to the S&P 500 Equal Weight index (which weights all 503 stocks equally, showing performance of the "average stock"). Through 10/27/23, the S&P 500 YTD price change was +8.8%, while the Equal Weight was down -6.6%. Since then, 10/27/23 to 12/15/23, the S&P 500 increased +14.6% while the Equal Weight gained +16.6%. Over the past seven weeks, the large-cap leaders have continued to perform well, but the average stock performed even better, narrowing the YTD concentration that still exists.

Ahead of the Christmas holiday next week, we are watching key economic data later this week, including the November personal income and spending report (Bureau of Economic Analysis) due on Friday. The FactSet consensus estimate for growth of 4Q23 U.S. gross domestic product (GDP) is +1.0% (12/15/23), although reported data so far appears ahead of that estimate. November retail sales (U.S. Census), reported last week, were better than expected.

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

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