



The Weekly Market Update – 12/26/23: Market Gains & Lower Inflation Bring Christmas Cheer

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,754.63	0.75%	10.88%	23.83%	16.53%	4,796.56	0.9%
Dow Jones Industrial Average	37,385.97	0.22%	11.57%	12.79%	8.08%	37,557.92	0.5%
NASDAQ Composite	14,992.97	1.21%	13.42%	43.25%	30.74%	16,057.44	7.1%
Russell 2000	2,033.96	2.46%	13.94%	15.48%	7.81%	2,442.74	20.1%
MSCI EAFE (USD)	2,211.19	0.83%	8.86%	13.75%	13.74%	2,398.71	8.5%
MSCI Emerging Markets (USD)	992.28	-0.86%	4.15%	3.75%	2.06%	1,444.93	45.6%
Bloomberg Commodity Index	99.35	0.46%	-5.23%	-11.92%	-14.39%	237.95	139.5%
Barclays U.S. Aggregate Bond	91.33	0.13%	5.80%	2.76%	2.09%	112.07	22.7%

Source: FactSet

An equity market surge in November and December has driven healthy gains, making the fourth quarter (4Q23) the strongest quarter of 2023. The widely followed, large-company S&P 500 equity index increased +0.8% (not including dividends) for the week ended 12/22/23, marking the eighth consecutive weekly gain for the index. Since closing at 4,194 on 10/27/23 (the lowest closing price of 2023), the index has rallied +15.5%, all the way to 4,755 on 12/22/23. While October was a down month for major equity indices, the eight-week rally since then has driven the S&P 500 4Q23 gain (as of 12/22) to +10.9%, surpassing the +8.3% price increase in 2Q23. Ten of eleven GICS (global industry classification standards, from MSCI) sectors are higher in 4Q23 (only Energy is lower). Six of those sectors have exceeded the gain of the broader index, led by Real Estate +17.0%, Technology +16.6%, Consumer Discretionary +12.7%, and Financials +12.6%. Diversified sector gains reflect broad participation in equities as investor sentiment has surged; a positive reaction to improving (lower) inflation data, lower interest rates, and solid economic trends. Market optimism extends to earnings expectations as well as the 2024 FactSet (bottom-up from Wall Street analysts) consensus earnings per share (EPS) estimates reflect annual year-over-year (Y/Y) growth of +11.7%. After three quarters (4Q22, 1Q23, 2Q23) of negative Y/Y EPS growth, quarterly Y/Y growth resumed in 3Q23 when S&P 500 EPS grew +5.8%. Growth is expected to continue in 4Q23 (consensus estimates +1.7%) and accelerate in 2024. For the S&P 500 index as a whole, 2024 EPS estimates have changed little since 6/30/23, suggesting that market gains have come from expanded valuations. As a multiple of weighted average earnings estimates (using the price-to-earnings, or P/E, multiple), the index trades at 19.5x that 2024 estimate. The valuation is above the 16.4x average over the past 24 years (2000 to 2023). In general, we believe that lower interest rates support higher equity market valuations (lower rates make the present value of future cash flows higher).

Income and spending report includes more positive inflation trends. November personal income and outlays data (reported 12/22/23 by the Bureau of Economic Analysis, BEA) showed continued growth (vs. the prior month) in both consumer income and spending. For the second consecutive month, spending grew less than income which, in our view, shows both spending moderation and healthy jobs and wages. Included in the report was the November personal consumption expenditure (PCE) price index, a measure of consumer inflation (like the BLS' consumer price index, CPI) that is closely watched by the Federal Reserve Bank (Fed). The PCE price index increased just +2.6% Y/Y in November, an improvement from +2.9% and +3.4% in October and September, respectively. The core PCE price index, which excludes more volatile food and energy prices, increased +3.2% in November, down from +3.4% the prior month. In our view, this gives the Fed more evidence that inflation trends continue to improve and validate market expectations that have taken U.S. Treasury yields (interest rates) substantially lower over the past two months. We believe that U.S. short-term (2 years and less) interest rates are poised to move lower in 2024.

As 2024 comes to a close this week, we wish everyone a healthy and happy New Year. In a four-day trading week following Monday's Christmas day holiday, the last trading day of the year will be Friday, 12/29/23. Both equity and bond investors will look to hold on to strong fourth quarter gains. Major equity indices have recovered much of the 2022 declines in 2023, but most remain below all-time highs. Narrow gains for most of 2023 have broadened late in the year, providing wide investor optimism in 2024, despite challenges ahead.

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