D|A|DAVIDSON WEALTH MANAGEMENT

The Weekly Market Update – 11/27/23: Did Santa Arrive Early?

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,559.34	1.00%	6.33%	18.75%	17.75%	4,796.56	5.2%
Dow Jones Industrial Average	35,390.15	1.27%	5.62%	6.77%	8.12%	36,799.65	4.0%
NASDAQ Composite	14,250.86	0.89%	7.80%	36.16%	29.69%	16,057.44	12.7%
Russell 2000	1,807.50	0.54%	1.25%	2.63%	-2.13%	2,442.74	35.1%
MSCI EAFE (USD)	2,122.13	1.01%	4.47%	9.17%	21.26%	2,398.71	13.0%
MSCI Emerging Markets (USD)	980.33	0.39%	2.89%	2.50%	15.58%	1,444.93	47.4%
Bloomberg Commodity Index	101.42	-0.49%	-3.26%	-10.09%	-10.53%	237.95	134.6%
Barclays U.S. Aggregate Bond	87.47	-0.08%	1.32%	-1.59%	1.25%	112.07	28.1%

Source: FactSet

Equity investors enjoy strong November gains. The widely followed, large-company S&P 500 equity index gained +1.0% (not including dividends) last week, marking the fourth consecutive weekly gain since setting a 2023 closing low index price on 10/27/23. Through 11/24/23, the S&P 500's November gain was +8.7%. With four trading days remaining, this represented the strongest monthly equity gain of the year (well above +6.5% and +6.2% in June and January, respectively). Sentiment has flipped from negative to positive this month and sets up the potential for further gains in December, and a question: will we have a Santa Claus rally? This reflects a late-year rally that can take hold before and after Christmas on the theory that trading volume is light, and that investors prepare portfolios for the year ahead. We compared historical average monthly returns in the months of the fourth calendar quarter, and found that the month of December has generated the weakest returns while November has generated the strongest. Over the 25-year period 1999 to 2023 (through 2022 for November and December), the average monthly return for November was +1.8%, +1.6% for October, and +0.8% for December (we used monthly closing prices for the S&P 500 provided by FactSet). In December, since 1999, the monthly gain was positive 16 times and negative 8 times. While this indicates a positive bias, many Decembers were negative, including a -5.9% decline in December 2022. Since 1999, December was only the 6th best month on average. Perhaps the Santa Claus rally arrived in November this year as investors reacted positively to a move lower in interest rates, a resumption of S&P 500 year-over-year (Y/Y) quarterly earnings growth, and continued jobs gains (as reported by the Bureau of Labor Statistics). This could mean a market pause, or at least more muted gains, in December 2023, with the S&P 500 remaining below its all-time closing high of 4,796 set nearly two years ago in January 2022.

U.S. interest rates remain well below October highs as investors react positively to improved inflation trends and a view that the Federal Reserve Bank (Fed) will limit hikes to its rate targets. As of 11/27/23, the U.S. 2-year Treasury yield (a proxy for short-term interest rates) was 4.93% and the 10-year Treasury yield (a proxy for U.S. long-term interest rates) was 4.42%, both well below late October levels of 5.21% and 4.99%, respectively. Lower interest rates were helped by consumer inflation (consumer price index as reported by the Bureau of Labor Statistics) that increased +3.2% Y/Y in October, and +4.0% Y/Y excluding food & energy, reflecting "core CPI". While still above the Fed's +2.0% inflation target, the core CPI was the lowest in nearly two years. The Fed uses its overnight bank lending fed funds target to influence short-term interest rates and combat inflation pressures (since March 2022, its fed funds target was raised to 5.25% to 5.50% from 0.00% to 0.25%). But since May 2023, the fed funds target was raised just once, by 0.25%, and the target remained unchanged at 3 of the past 4 Fed meetings (there are 8 scheduled meetings annually). When the Fed next meets on 12/13/23, we expect another pause, which could indicate the Fed's rate hiking cycle has ended.

With the holiday season officially underway, we are watching consumer activity to gauge the health of the U.S. consumer. Data will flow in for "Black Friday" and "Cyber Monday" as consumers shop both online and in retail stores. On 11/30/23, the Bureau of Economic Analysis will report income and spending for October, as well as the personal consumption expenditure (PCE) price index, another measure of consumer inflation watched closely by the Fed. The October PCE price index consensus estimate (FactSet) is +3.1%, and the core PCE price index estimate is +3.5% (both Y/Y).

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