Weekly market wrap

Published Dec. 1, 2023

Craig Fehr

‹ Weekly market wrap

November to Remember

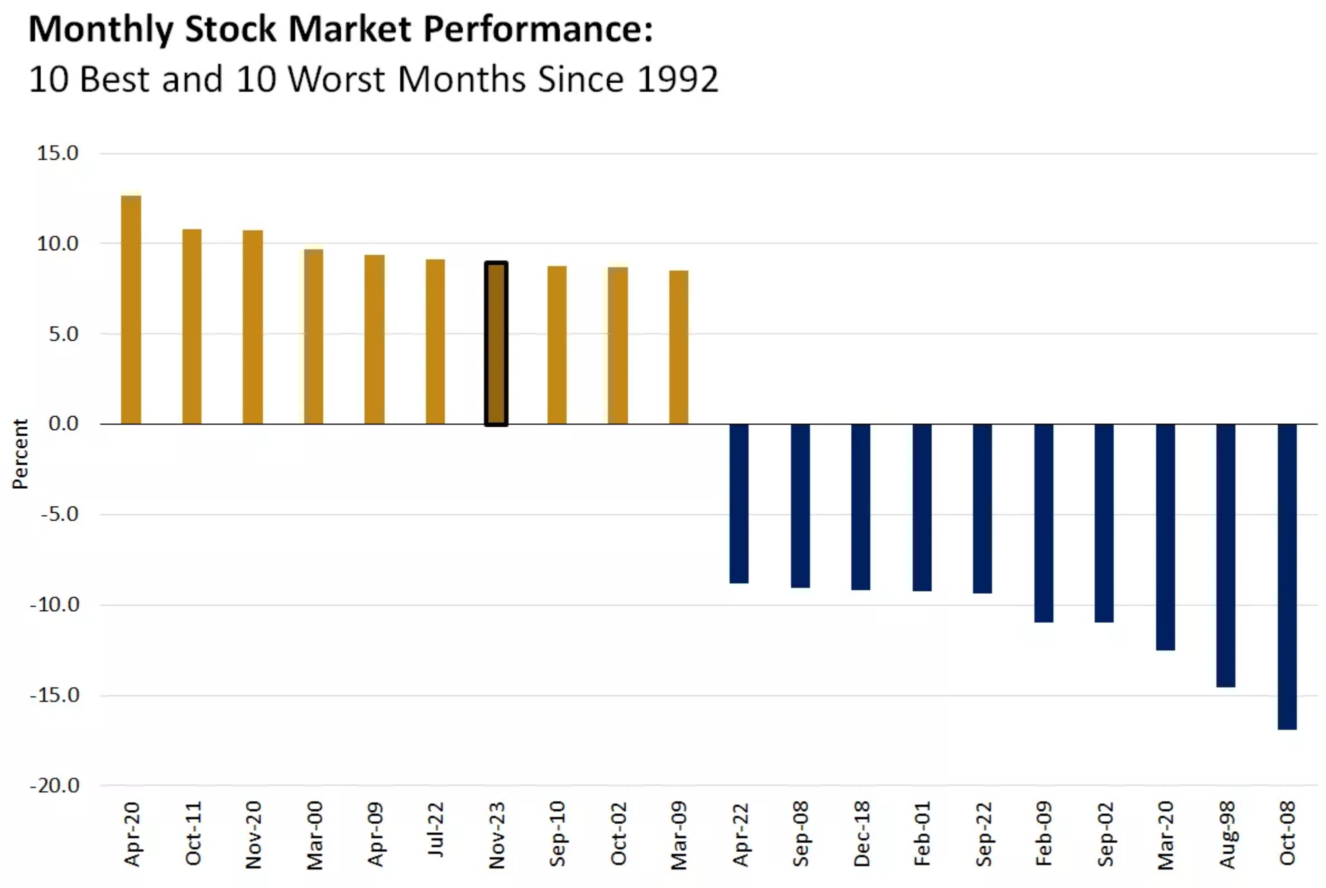
Stocks have been on their comeback tour in 2023, mounting a nearly-20% gain so far this year after a lousy 2022. The latest leg of that tour has been particularly enthusiastic, with the market having just closed the books on a banner November. Stocks capped off the month with another gain last week, adding to the weekly winning streak that helped the S&P 500 post its first monthly gain since July.[1]

The strong November run was supported by favorable news in all the right spots: inflation continued to trend lower, the Fed signaled that it doesn't have to keep tightening policy from here, the economy continued to defy the gravity of high interest rates, and corporate earnings came in better than expected. In other words, the November rally has a backbone. That doesn't mean the market won't slouch occasionally as we turn the corner to 2024, but with stocks now near their highs for the year, we're closing out 2023 with some pep, and we think the market can maintain good posture next year.

November performance was in elite company

- U.S. stocks gained 9% in November, the best month in nearly a year and a half, and the seventh-best monthly return in the last 30 years. This was the second-best November performance during those three decades. The S&P 500 is up nearly 12% since the October 27 low.[1]

Stocks just had one of their best months in three decades.

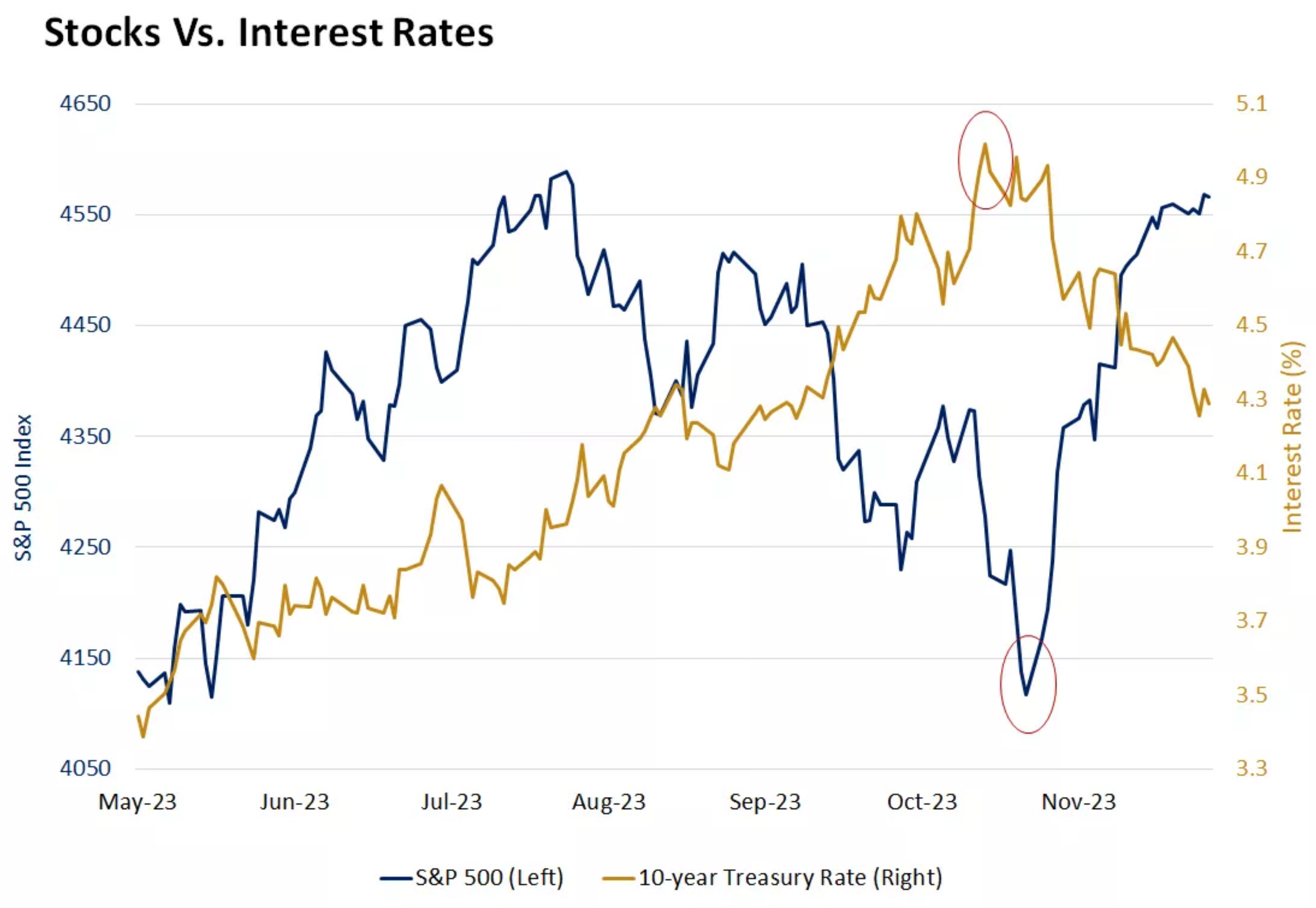


Source: Bloomberg, S&P 500 Index monthly price return.

Chart description

- This erased the weakness experienced from August through October, when resurfacing interest-rate worries prompted a 10% correction. November's rally propelled the S&P 500 to a new high for 2023 and offers another reminder that pullbacks can create opportunities for disciplined investors.
- We noted in our Weekly Market Wrap in late-October that we believed rates could be peaking, which we believed would be a catalyst for a rally. One month an investment journey does not make, and we'll see if December can keep the momentum going. But the forces that have supported the recent gains do have the potential to keep a wind at the market's back as we close out 2023.

The peak in rates jumpstarted the November rally.



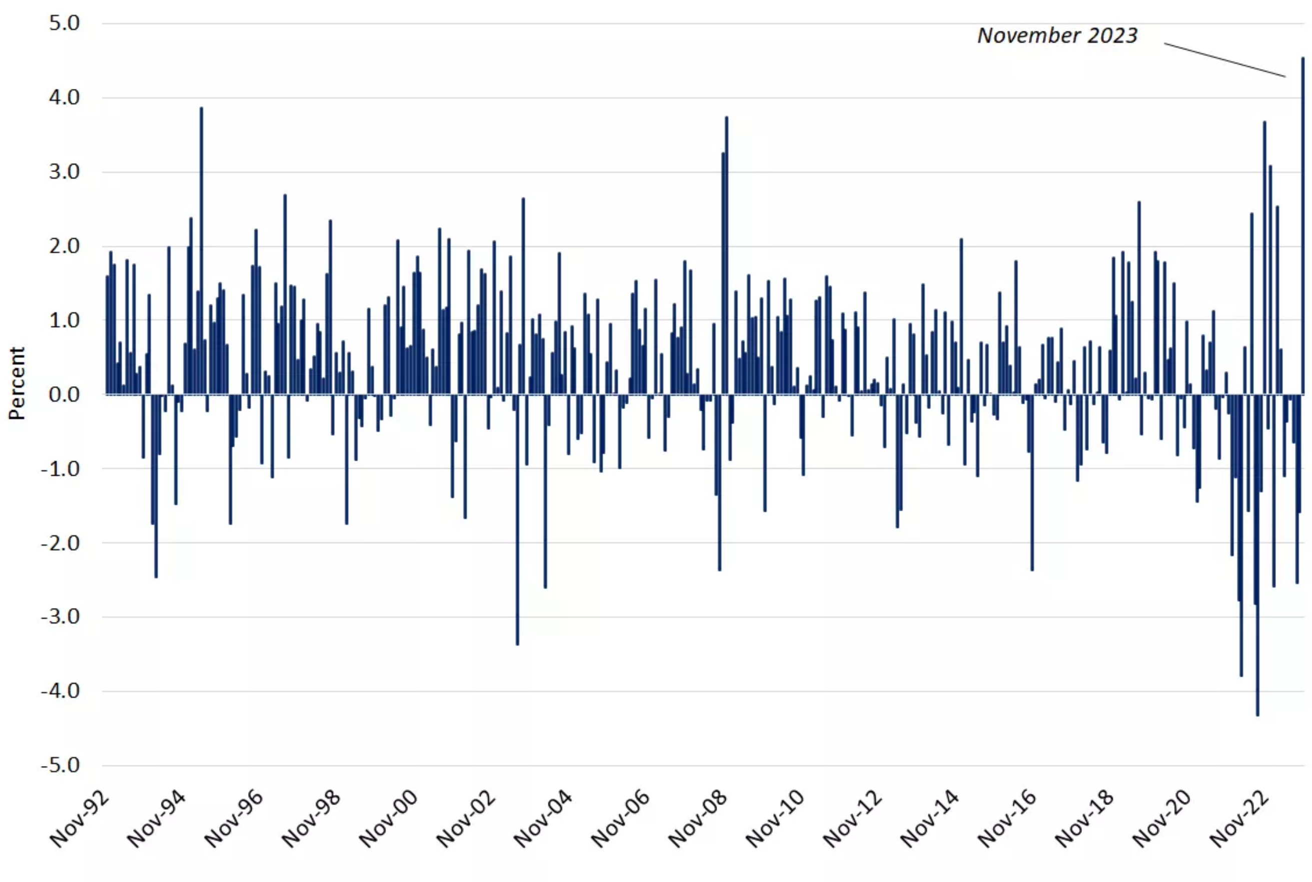
Source: Bloomberg, S&P 500 Index and 10-year U.S. Treasury yield.

Chart description

- It wasn't only stocks that were invited to the party. In fact, investment-grade bonds (as measured by the Bloomberg Aggregate Bond index) logged their best monthly return in the last 30 years. It should not be ignored that bonds had their worst month during that period last September, but this underscores the fact that the pain in the bond market doesn't have to persist indefinitely, and it is consistent with our view that interest rates should continue to moderate through next year, supporting the case for improved bond returns.

Bonds also rallied sharply in November, benefiting from an outlook for a less restrictive Fed.

Monthly Performance for Bonds



Source: Bloomberg, Bloomberg U.S. Aggregate Bond Index monthly price return.

Chart description

- Leadership has come from cyclical areas of the market, as well as those areas most sensitive to the drop in interest rates. Small-cap stocks have outperformed, gaining more than 13% since late October, including a sharp gain on Friday to close out last week. Leadership also came from the financial services and consumer discretionary sectors, as well as technology and real estate, with the former reflecting a favorable outlook for the economy, while the latter benefited from relief on the rising-rate front. All four of those sectors rose more than 10% over the last month.[2]

A Run at New Highs?

- With equities having touched a year-to-date high last week, the S&P 500 is now within 5% of the all-time high in January 2022.[1]
- We think the year ahead will bring some challenges (shifting Fed policy expectations, a potential economic growth scare, political and geopolitical uncertainties) that will spark periodic pullbacks, but a return to new highs is like the cards as we advance. The upshot: Looking back at the recoveries since 1980 when the market finally reaches the previous peak, stocks have typically gone on to

deliver a double-digit return in the ensuing year, reflecting, in our view, the progression of renewed economic, monetary-policy and earnings cycles.

Market Peak	Bear Market Decline	# of Days to Return to All-Time High (From Previous Peak)	1-Year Return After Reaching New High
November 28, 1980	-27%	487	20%
August 25, 1987	-34%	485	9%
July 16, 1990	-20%	148	36%
March 23, 2000	-49%	1805	-7%
October 9, 2007	-57%	1366	20%
February 19, 2020	-34%	126	32%
January 3, 2022	**-25%**	**? (currently 481)**	**?**

Source: Bloomberg, performance measured by the S&P 500 Index.

Chart description

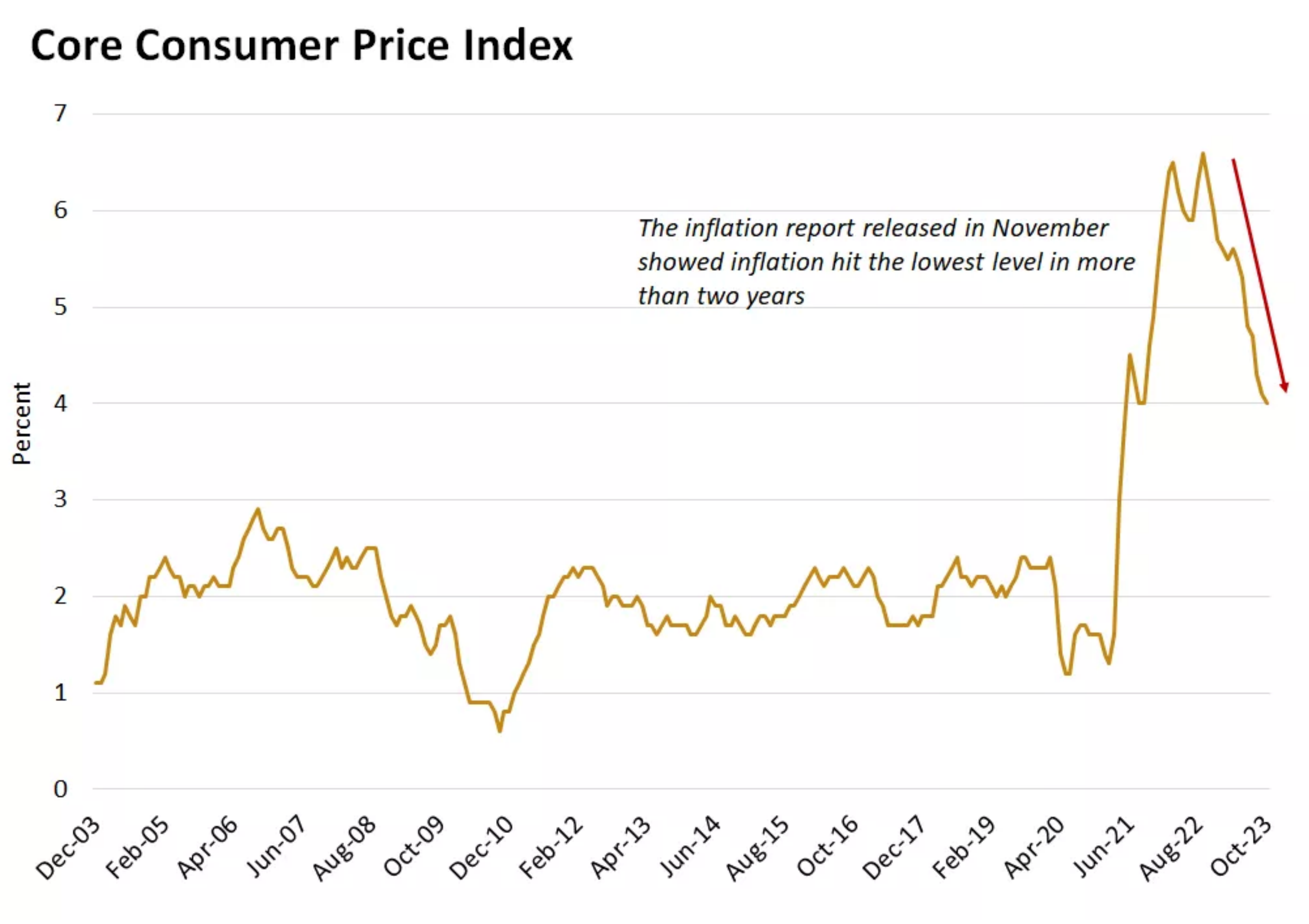
- Interest rates have come down markedly from their October peak, though, unlike stocks, they're not approaching a round trip. When stocks hit their all-time high in January 2022, the 10-year yield was 1.6%. We think equities can and will eclipse their previous peak as we advance in the coming year. However, while we expect interest rates to trend lower, we don't expect them to approach the level that accompanied the last all-time high for stocks.

Looking at the Encore

- So what does history tell us about what follows historically strong months? Looking back at the other top-10 monthly gains featured in the chart above, the market rose again in the following month more than two-thirds of the time, logging an average gain of 2.7%. Over the following three months, the stock market averaged a gain of 5.3%.[3]
- The complexion of market recoveries is often affected by the factors that induced the bear market. Thus, the current march toward previous highs will, in our view, be directed by the path ahead for inflation, which will set the stage for Fed interest-rate decisions, ultimately influencing the health of the economy.
    - Inflation is headed in the right direction – The heart of the November rally the latest consumer price index reading, which showed inflation remains i downtrend, even as the economy has shown some resilience. Of particular

note was the first real signal that pressure from shelter prices is beginning to abate. Though we may get a hiccup in any given month, we think inflation will continue to move lower, which will support extended market strength.

Data out in November showed inflation continued its downward trend.

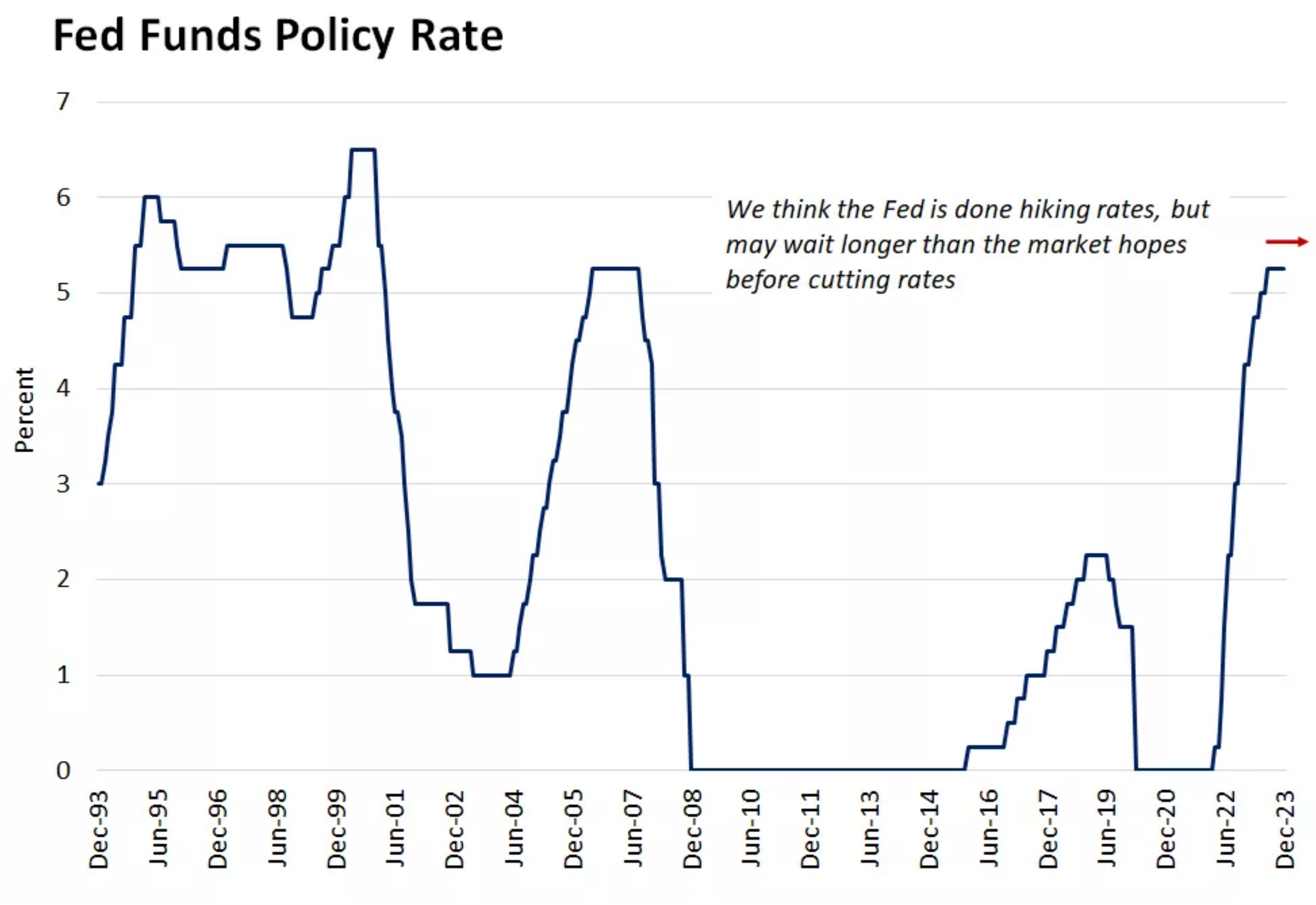


Source: Bloomberg, year-over-year change in U.S. Core CPI (excluding food and energy).

Chart description

- The Fed gave the market an early gift – On the back of the encouraging inflation data, the Fed's November meeting was the other powerful catalyst behind last month's gain, with officials holding rates steady and signaling that they are willing to forgo additional tightening as incoming data warrant. We think the Fed is done hiking rates, but we don’t think it's done talking tough on inflation, which means policymakers may look to sap some of the enthusiasm around upcoming rate cuts if the markets get too far ahead of themselves and financial conditions loosen too much.

We expect the Fed to keep its policy rate on hold before cutting rates later in 2024.

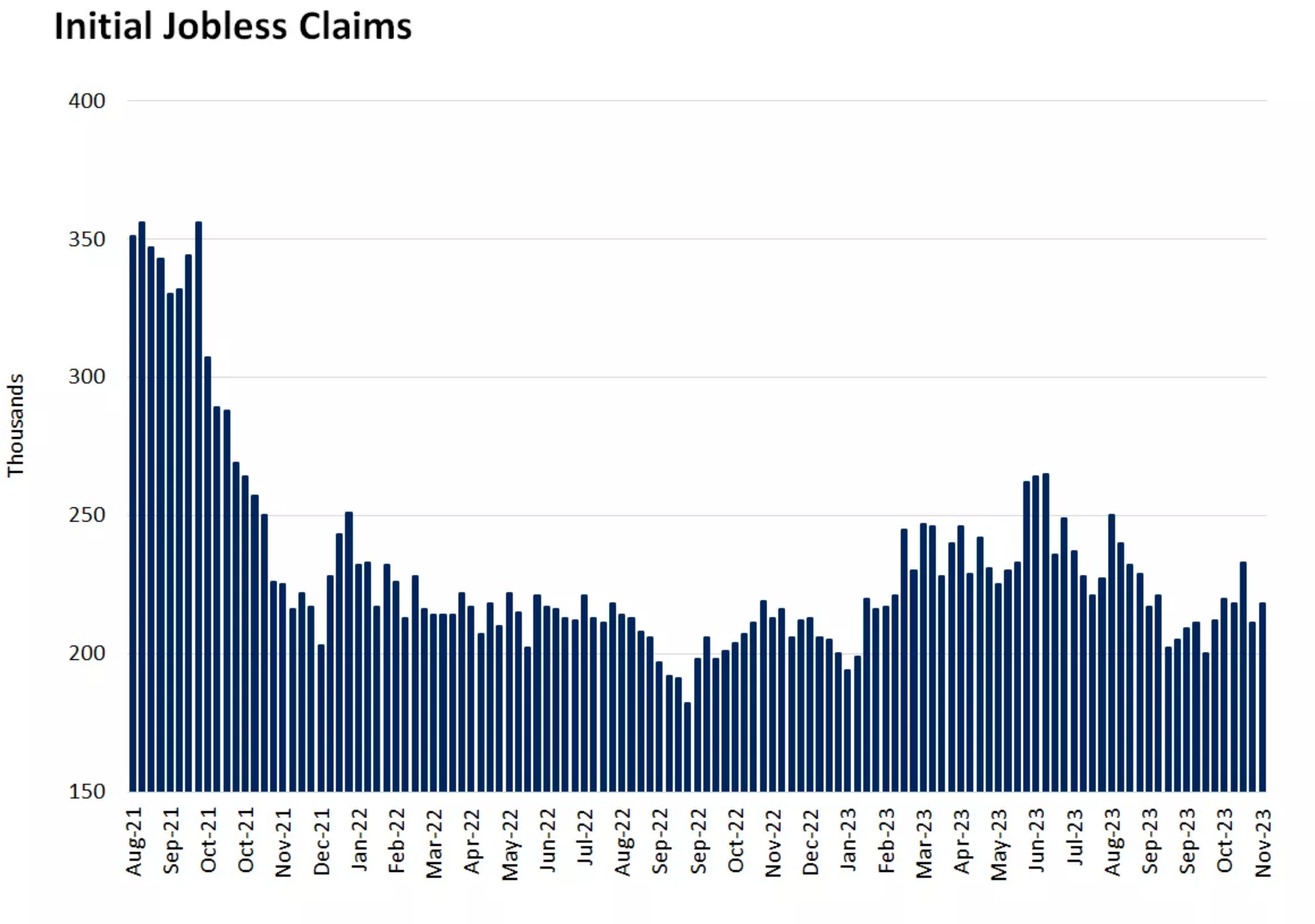


Source: Bloomberg.

Chart description

- The labor market remains a source of support – We think the economy will slow in the quarters ahead, but the starting point of the labor market should, in our view, soften any blow to the consumer and prevent a sharp recession. To us, the labor market is showing broad-based signs of softening while still remaining in healthy shape. Initial jobless claims, a measure we believe offers reliable forward-looking signals, remain historically low (as does the unemployment rate). But claims have risen recently, and they are 15% above those seen in the fall of 2022. We think some of the lagged effects of tight Fed policy have yet to fully show up in the overall output, but we think the economy will find a second wind as we advance through the latter half of 2024.

The labor market is showing some early signs of softening, but remains historically healthy.



Source: Bloomberg. U.S. weekly initial jobless claims.

Chart description

Craig Fehr, CFA
Investment Strategist

Sources: 1. Bloomberg, S&P 500 Index. 2. Bloomberg, Russell 2000 Index and S&P 500 GICs level 1 sector performance. 3. Bloomberg, Edward Jones. Monthly price performance of the S&P 500 Index.

Weekly market stats

INDEX	CLOSE	WEEK	YTD
Dow Jones Industrial Average	36,246	2.4%	9.3%
S&P 500 Index	4,595	0.8%	19.7%
NASDAQ	14,305	0.4%	36.7%
MSCI EAFE*	2,125	0.1%	9.3%

INDEX	CLOSE	WEEK	YTD
10-yr Treasury Yield	4.21%	-0.3%	0.3%
Oil ($/bbl)	$74.24	-1.7%	-7.5%
Bonds	$96.80	1.7%	1.9%

*Source: FactSet, 12/1/2023. Bonds represented by the iShares Core U.S. Aggregate Bond ETF. Past performance does not guarantee future results. *4-day performance ending on Thursday.*

The week ahead

Important economic data being released this week includes the October JOLTS report and November unemployment rate.

Review last week's weekly market update.

Craig Fehr

Principal, Investment Strategy
CFA®

Read Full Bio >

Navigate market uncertainty with certainty.

Stay focused and look ahead to your future with the help of these 7 strategies.

Start Learning Now

Are you on track to meet your financial goals?

Match with Financial Advisors personalized for you. Consultations are complimentary.

Take the quiz

Search for a Financial Advisor

Search By:

- (•) City, State or ZIP
- ( ) Financial Advisor Name

City, State or Zip

Search

Market Compass video series

Our investment strategists discuss the latest market and economic developments, and offer investing tips you can use today.

Learn more

Get a Stock Quote

Get instant quotes for your favorite companies and mutual funds.

Search Symbol or Company

Search a symbol or company

Get Started

Your Watch List

Personalize your stock watch list and track up to 10 stocks and mutual funds.

Create Watch List

Important Information:

The Weekly Market Update is published every Friday, after market close.

Market Data

DJIA 36,245.50 ↑ (+294.61)

S&P 500 4,594.63 ↑ (+26.83)

NASDAQ 14,305.03 (0.00)

Client Resource Center

Follow us to stay up to date

Feedback

Privacy and Security Center

Revenue Sharing (pdf)

Accessibility

Terms of Use