Weekly market wrap

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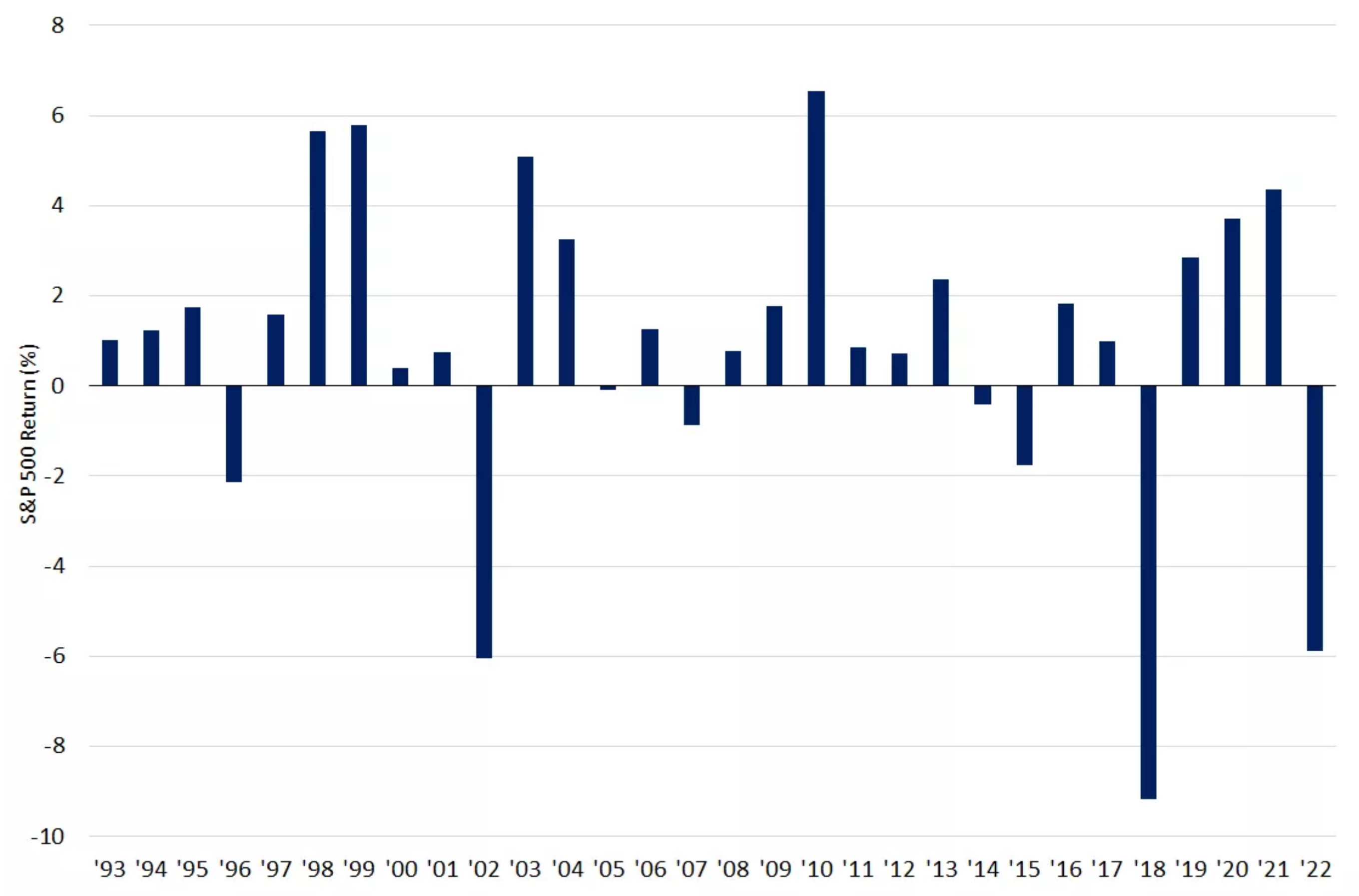
Five Turkey-Time Takes on the Market

This past week brought our holiday opportunity to focus on the things we're thankful for. With Thanksgiving 2022 coming as stocks were down 16% on the year, 2023 has brought a market more worthy of investors' thanks. Thanksgiving also marks a turn into the homestretch for the year. Therefore, we've dished up a few holiday perspectives on market performance that may help set the table for the year ahead:

1. Post-turkey track record:

- The stock market has historically done well after Thanksgiving. Over the last 30 years, the average return in December has been roughly 1%, with the market logging a post-holiday gain roughly three-quarters of the time. The best was December 2010 with a rally of 6.5%, followed by 2003, 1999 and 1998, which saw post-Thanksgiving gains of more than 5%.[1]
- When the market rose between Thanksgiving and year-end, it went on to deliver a positive return the next year 77% of the time, with an average return the following year of 11%. In other words, finishing the year on an up note has most often been part of a broader move that saw market gains continue.
- The stock market comes into Thanksgiving this year on an upswing, adding to a strong year-to-date gain. Looking back to 1950, the market has come into the holiday season with a year-to-date gain of 20% or more 19 times. The average return in the following year was 17%.[1]

December Stock Market Performance



Source: FactSet. Monthly price return of the S&P 500 Index.

Chart description

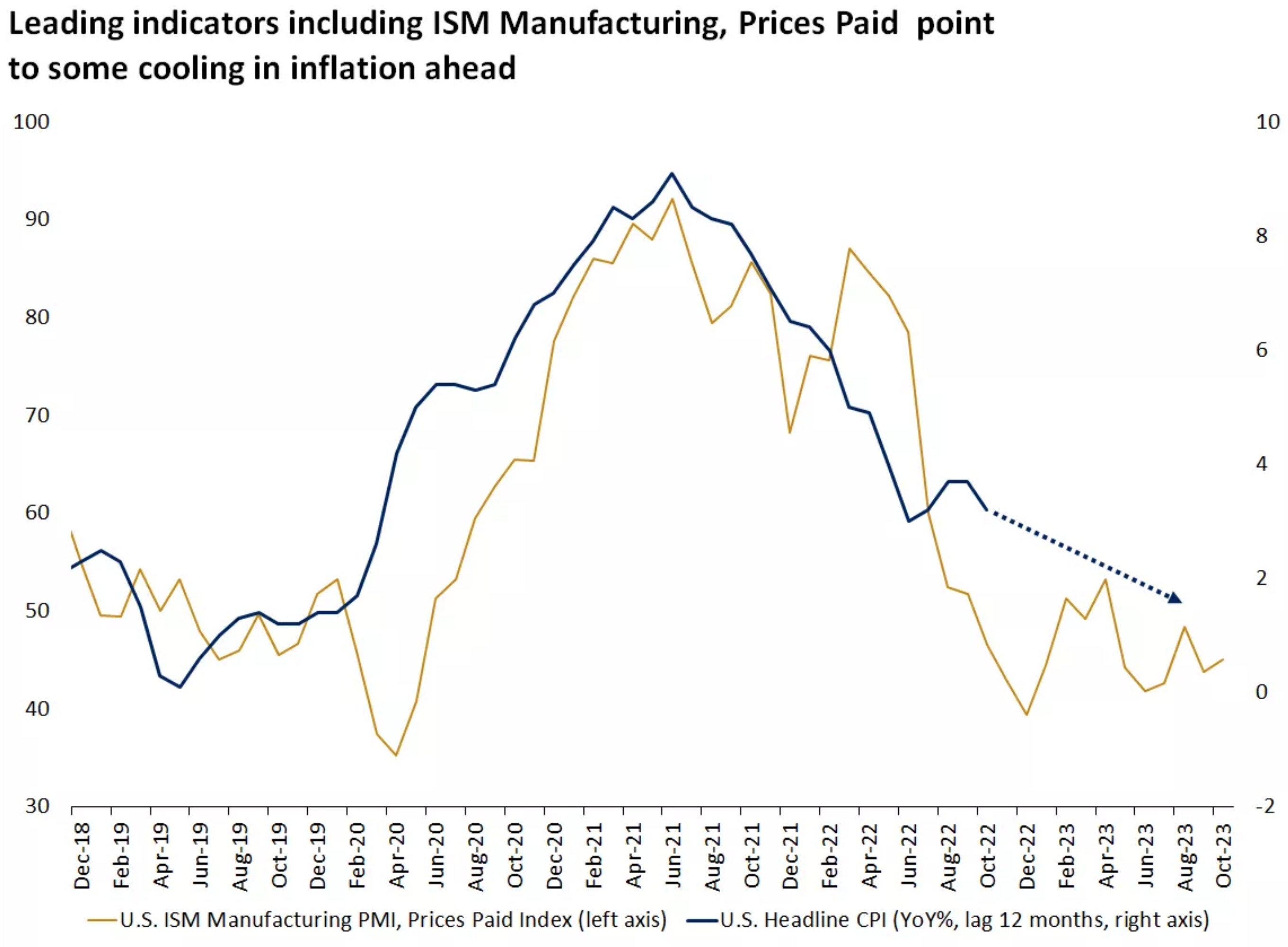
2. A recipe to sustain the stock-market rally:

After a 10% correction in the S&P 500 through October, the month of November has bee favorable for stock markets. In fact, the S&P 500 is up over 7% for the month thus far, the Nasdaq is up over 9%, and even the Russell 2000 (small-cap stock index) has rebounded over 6%. As we prepare our favorite Thanksgiving recipes, we also highlight three key ingredients that we think could help sustain the market rally through the typically seasonally stronger fourth quarter:

- **Ongoing moderation in inflation:** Perhaps one of the key ingredients to the rally thus far has been a consistent trend of lower inflation. Headline consumer price index (CPI) inflation for October came down to 3.2% year-over-year, while core inflation moderated to 4.0%. At the end of the month, investors will get the October reading of personal consumption expenditures (PCE) and core PCE inflation, the Fed's preferred inflation measures, both of which are expected to move lower as well. In our view, the recent surprises lower in inflation have helped pushed Treasury bond yields lower and have given the market a catalyst to move higher. And we see headline and core inflation continuing to moderate in the months ahead, though perhaps not in a straight line lower. We believe the shelter and rent components of core inflation, as well as wage gains and services inflation, will all gradually move lower.

- **A Fed that is stepping to the sidelines:** Along with a healthy dash of moderating inflation, the second key ingredient for an ongoing rally is a Federal Reserve that continues to remain on-hold with rate hikes. At the November FOMC meeting, Fed Chair Jerome Powell struck a more moderate tone, highlighting that the risk of overtightening was more balanced with the risk of doing too little on rate hikes. And after the lower inflation readings for the month of October, the market probability of a rate hike at the December meeting has fallen to close to zero. Markets have embraced the idea that the Fed may be done (for now), and that both inflation and rates could be normalizing over time. In our view, the Fed is likely on hold until we get more credibly toward 2.0% core inflation, and then it could start signaling a gradual reduction of interest rates to get to a less restrictive policy stance. Assuming the economy is not in a deep downturn, markets should welcome a pivot to lower rates by the Fed in the months ahead.
- **A pinch of cooling in economic growth:** And this brings us to our final key ingredient in the recipe for a rally: a gradual cooling in the economy. While the economy has shown some early signs of moderating – lower retail sales, slightly higher jobless claims – we believe this goldilocks pace of slowing (not too hot, not too cold) has been supportive of the recent rally. In our view, household consumption could soften in the months ahead and the labor market may cool, which would cause economic growth to slow, but perhaps the U.S. economy avoids a recession. In this scenario, a slowdown could help keep inflation contained and keep the Fed on the sidelines with rate hikes. Prices may ease as companies adjust to a slower demand environment, and we may also see wage gains moderate as demand and supply for workers becomes more balanced. Thus, we would view a gradual economic slowdown as the perfect seasoning to our rally recipe.

A key ingredient to the rally has been easing inflation, which may continue to moderate.



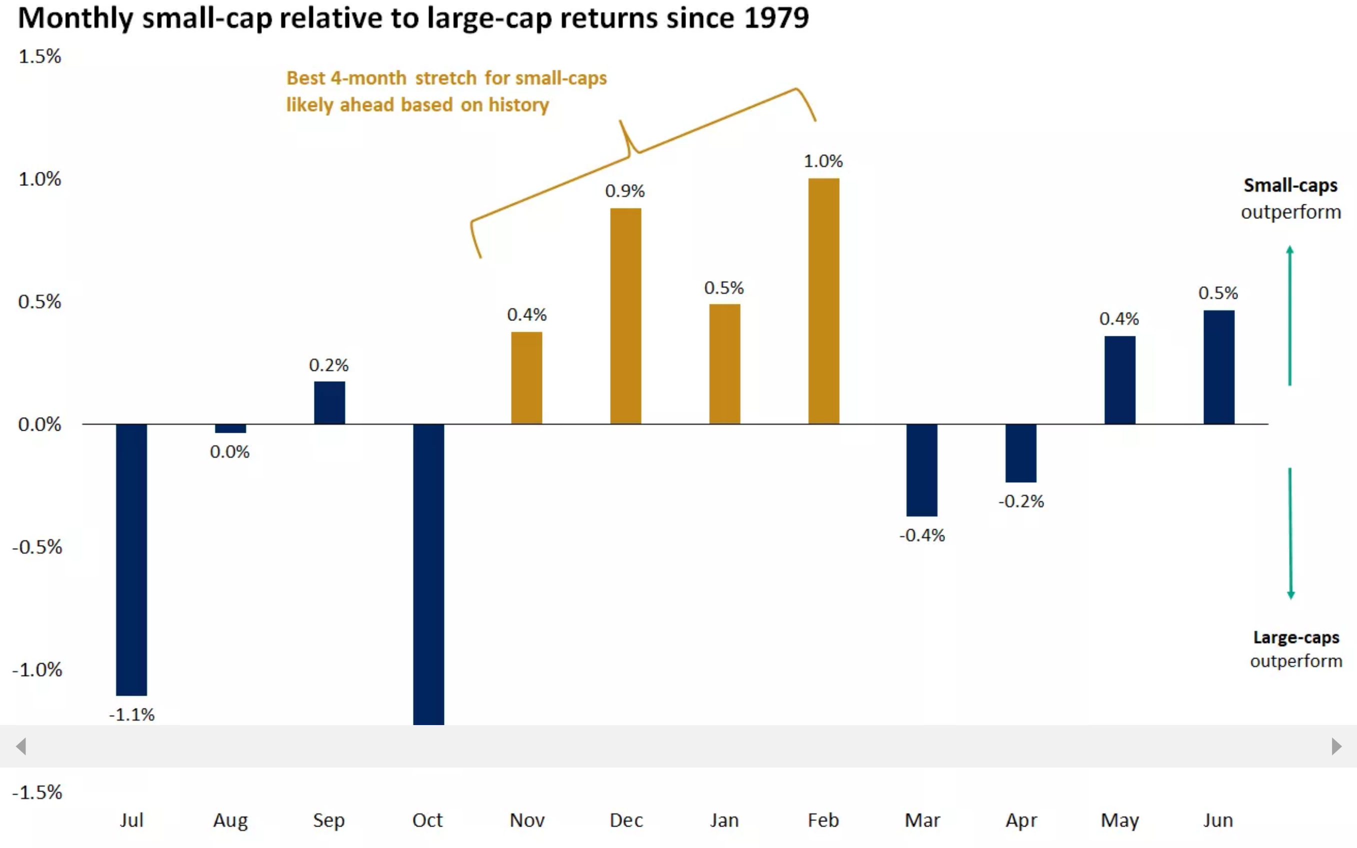
Source: FactSet.

Chart description

3. Underperforming small-caps: A Thanksgiving comeback story?

- 2023 has been a notable year so far for small-cap stocks, but for the wrong reasons. The Russell 2000, a proxy for U.S. small-caps, is on pace to trail the S&P 500 by about 15%, the widest margin in a calendar year since 1998[2]. Worries about an economic slowdown and high interest rates on the back of aggressive Fed tightening have been the main culprits for the underperformance. Smaller companies have less pricing power to offset inflationary pressures and lean more on financing to run their businesses than their large counterparts. As a result, and because the Russell 2000 has a smaller technology component (12.7% vs. 29.1% for the S&P 500), earnings growth has lagged.[2]
- But could this underperformance present an opportunity as we turn the page on 2023? While growth is slowing, the economy has proven resilient, inflation has fallen by about two-thirds, and the Fed is preparing to end its tightening campaign. Rates will likely stay elevated compared with history, but as the headwind of rising

yields subsides, small-caps could play catch-up. Seasonal patterns also support better performance ahead. Since 1979, the four-month stretch between November and February has been the strongest of the year, favoring small-cap over large-cap returns.[2]



Source: Morningstar Direct, Bloomberg, Edward Jones. Russell 2000 and S&P 500 index.

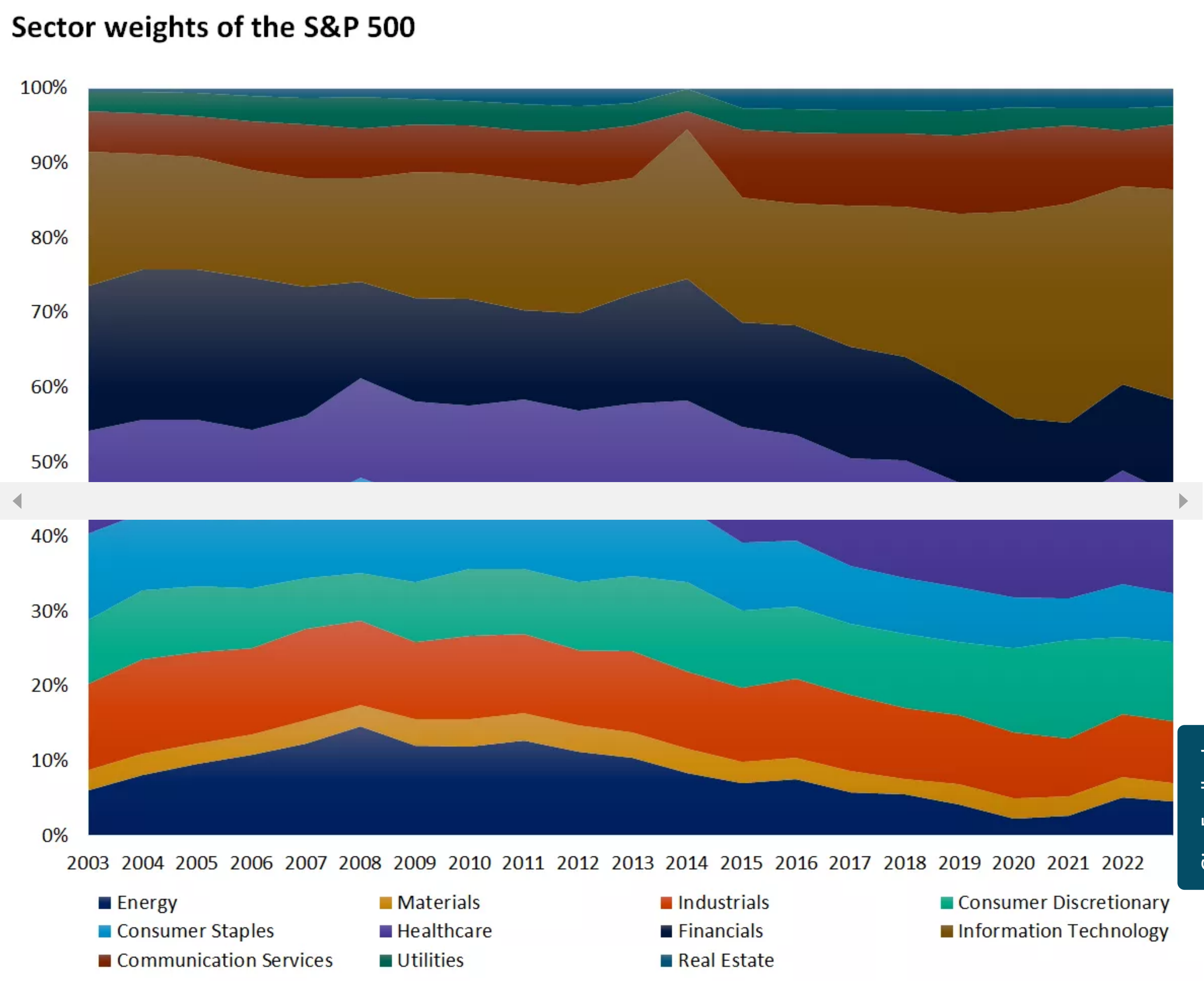
Chart description

Give Feedback

4. Weight check: S&P 500 overindulged on largest sectors?

- The narrow leadership of the S&P 500 this year can raise questions about the value of diversification. The S&P 500 index has risen by over 15% year-to-date, while the S&P 500 equal-weighted index has seen a more modest 4% rise, highlighting that much of this year's gain has been driven by the indexes' largest companies.[3] Today, the top three sectors of the S&P 500 comprise over 50% of the index, and the 10 largest stocks account for over 30%.[4] However, market leadership can change over time. In 2008 the energy sector accounted for a larger portion of the S&P 500 than the information technology sector. Today, Apple alone is nearly double the size of the entire energy sector.

- We'd acknowledge that the higher weights of the indexes' largest companies and sectors reflect the strong outlook for these businesses, and they certainly have a place as part of a broader diversified portfolio. However, as we saw this past March with the collapse of Silicon Valley Bank, market sentiment can change in a hurry. It's impossible to predict which stocks or sectors will be the best performers, which is why we suggest investors build well-diversified portfolios to help spread out risk.



Source: Morningstar Direct, Edward Jones. GICS sectors of the S&P 500.

Chart description

5. Baking with bonds has gotten sweeter

Bond-market performance has left a sour taste in the mouths of investors, an unwelcomed experience at any Thanksgiving table. Interest rates moved sharply higher this year, continuing a three-year upward trend in yields. With rates rising significantly over a relatively short period, the decline in bond prices has been painful and unprecedented.

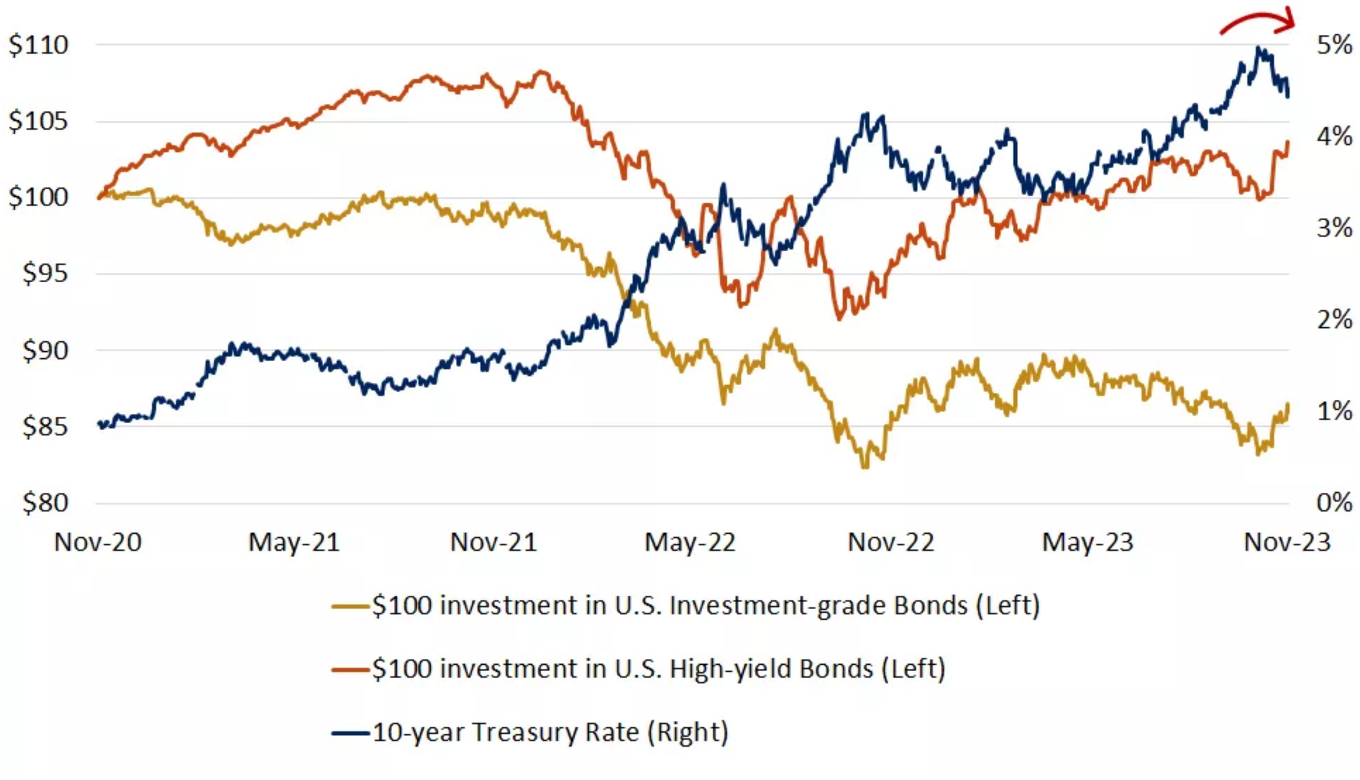
Pressure from rising yields has caused an investment in U.S. investment-grade bonds to lose about 13% in value over the three-year period. With credit spreads contained, high-yield bonds have fared better. U.S. high-yield bonds are up about 4% over the same period, highlighting the benefits of diversification.[5]

More recently, however, interest rates have retreated on signs of moderating inflation and economic growth, a welcome sign that the sour aftertaste may be washing away. Following the drop in yields, U.S. investment-grade bonds are up about 1% from a year ago.[5] What's more, even after their recent decline, interest rates are still at their highest that we've seen in over a decade, which sweetens fixed-income market opportunities, particularly for disciplined, forward-looking investors.

As you review the recipe for your portfolio, consider whether making some adjustments to the bond ingredients makes sense for your circumstances. We recommend these adjustments:

- **Consider more ingredients.** Since interest rates move differently across regions and bond markets, complementing your portfolio with appropriate allocations to international bonds, emerging-market debt, and high-yield bonds may enhance your diversification.
- **Enhance the quality.** If economic growth cools as we expect, credit spreads, which have remained rather contained thus far, are likely to widen. Therefore, consider tilting more toward shorter-maturity corporate bonds over longer-maturity corporate bonds, which can help you manage credit risk in this environment.
- **Lengthen the duration.** As inflation and growth continues to moderate through 2024, interest rates are likely to drift lower. In this environment, consider taking on more interest-rate risk by slightly favoring high-quality, long-term bonds, if appropriate in your portfolio.

Rising Rates Have Pressured Bonds, But Higher Rates May Improve Forward Returns



Source: Morningstar, Edward Jones. U.S. Investment-grade Bonds represented by the Bloomberg Aggregate Bond index. U.S. High-yield Bonds represented by the Bloomberg U.S. HY 2% Issuer Cap Index.

Chart description

Edward Jones Investment Strategy Team

Sources: 1. Bloomberg, performance of the S&P 500 index. 2. Bloomberg, Edward Jones 3. Morningstar Direct, Edward Jones. 4, FactSet 5. Morningstar.

Weekly market stats

INDEX	CLOSE	WEEK	YTD
Dow Jones Industrial Average	35,390	1.3%	6.8%
S&P 500 Index	4,559	1.0%	18.7%
NASDAQ	14,251	0.9%	36.2%
MSCI EAFE*	2,101	0.0%	8.1%

INDEX	CLOSE	WEEK	YTD
10-yr Treasury Yield	4.47%	0.0%	0.6%
Oil ($/bbl)	$75.81	-0.3%	-5.5%
Bonds	$95.15	-0.1%	1.2%

The week ahead

Important economic data being released this week includes PCE inflation data and the November ISM manufacturing report.

Review last week's weekly market update.

Give Feedback

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Dividends may be increased, decreased or eliminated at any time without notice.

Special risks are inherent in international investing, including those related to currency fluctuations and foreign political and economic events.

Market Data

DJIA 35,390.15 ↑ (+117.12)

S&P 500 4,559.34 ↑ (+2.72)

NASDAQ 14,250.86 ↓ (-15.00)