Market Perspectives
November 2023

TURTLE CREEK
WEALTH ADVISORS

KEY HIGHLIGHTS

- Performance
- Portfolios Rebound
- Economic Data
- Market Has Pivoted, How About Fed
- Earnings Update – When Does Disinflation Become a Problem?

Diversified portfolios posted their second best month of gains over the last 30 years due to a strong rebound in both stocks and bonds during November's rally.

PERFORMANCE

As painful as September and October were, one might have expected a month of out-sized performance to the upside, but rarely are markets as kind as they were to investors in November. Stock and bond investors were treated to abnormally strong returns during November with the S&P 500 Index climbing 9.1% and the Barclays Aggregate Bond Index gaining 4.5%. Stock and Bond investors were thankful for a number of things during November but none likely more than Fed Governor Christopher Waller's speech late in the month which signaled his belief that further rate hikes aren't needed to achieve the Fed's inflation target.

Outperforming during the month were stocks with high valuation multiples, i.e. the more expensive parts of the market. The Nasdaq Composite gained 10.8% and the Russell 2000 Index which is comprised of smaller company stocks, was up 9.1% for the month. Those indices have gained 37.0% and 4.2% so far this year, respectively.

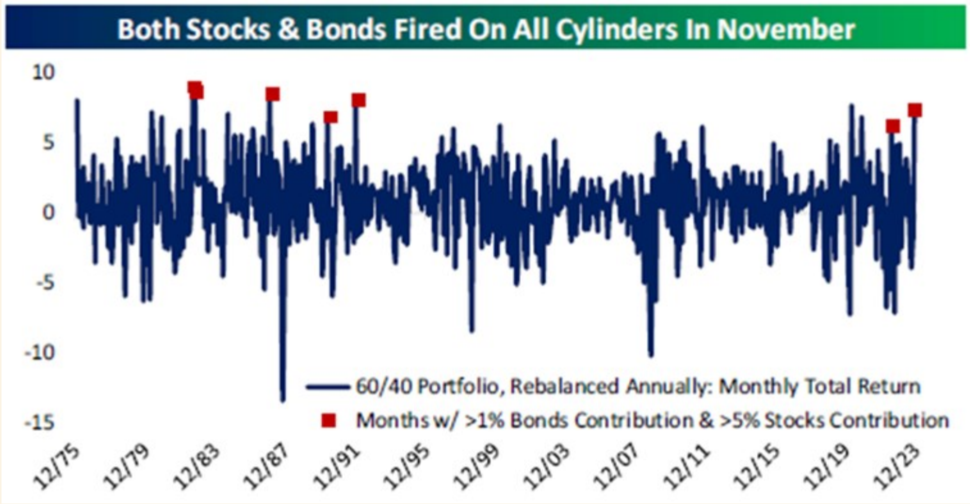
We are all grateful for November's gains and for the strong market results so far this year. It is easy to forget things aren't always that positive. In fact, looking back exactly two years from the market's close on November 30, you might be surprised to know the S&P 500 Index closed at nearly the exact same level. Thus your returns in the U.S. stock market over the trailing two years were flat, and even worse, they were negative when considering the effects of inflation.

PORTFOLIOS REBOUND

With large cap stocks and bonds doing as well as they did in November it's no surprise a hypothetical index portfolio comprised of 60% S&P 500 and 40% Barclays Aggregate Bond index had its second-best monthly return over the last 30 years, gaining over 6% during the month. When stocks and bonds are both so focused on interest rates it's no

Index	MTD	QTD	YTD	1 Year	2022
S&P 500	9.13	6.84	20.80	13.84	-18.11
Dow Jones Industrial Average	9.15	7.78	10.72	6.19	-6.86
Russell 2000	9.05	1.61	4.20	-2.56	-20.44
NASDAQ Composite	10.83	7.78	37.00	25.13	-32.61
Europe, Australia, & Far East (EAFE)	9.30	4.88	12.84	12.96	-14.05
MSCI Emerging Markets	8.02	3.83	6.08	4.65	-19.78
Bloomberg Barclays U.S. Aggregate Bond	4.53	2.88	1.64	1.18	-13.04

As of 11.30.23; Returns in percent



Source: Bespoke Investment Group; As of 12.1.23

wonder their correlations have been growing stronger recently. Historically stocks and bonds exhibit less connection or correlation in terms of their return streams.

Portfolio gains have a good chance of continuing into December if historical trends hold true. Since 1983, December results have been positive 75% of the time and averaged a 1.42% gain.

Less likely is that we'll see another straight-close like we did last Thursday when the S&P 500 Index level closed a price level of 4,567.8. This was only the third time in history the index had a "straight-close" to use a term our card playing readership will appreciate. The first time this happened was back on July 26th of 2001, when the index closed at a price level of 1,234.5.

ECONOMIC DATA

With the numerous headwinds U.S. consumers are facing, you might expect to see something give when it comes to spending trends. Apparently, consumers haven't thrown in the towel just yet based on the first revision to the 3rd quarter GDP which was revised upward to 5.2% from 5.0%. The report showed consumers are still willing to spend on durable goods, or long-lasting, big-ticket items, which rose 4.7% in real terms. Spending on services, which makes up a bigger part of the economy, was still healthy but less robust at 3%. Similar takeaways can be drawn from the October retail sales report which was reported around mid-month. The report showed a smaller than expected decline and the year-over-year growth rate coming in at 2.5%. More recent data from consumer goods, grocers, and retail earnings reports paint a generally healthy picture for middle- and upper-income earners. Lower income earners, however, continue to bear the brunt of inflation. When more money from the budget goes to utilities, gas, and higher food costs, there's less money left to go for non-core items.

To this end there is good news on the inflation front. Seemingly, each consecutive data point on inflation recently comports with the view that inflation is truly returning to a reasonable level. We'll get a refresh on CPI on December 12th when November inflation figures are published. Expectations are for similar readings to last month's 3.2% core inflation rate. Manufacturing and Services data is also pointing to continued cooling and jobs data has been complying with this narrative although the expectation is for a slight step up in job creation to 175k in November from 150k in October. The BLS report is published this coming Friday, December 8th.

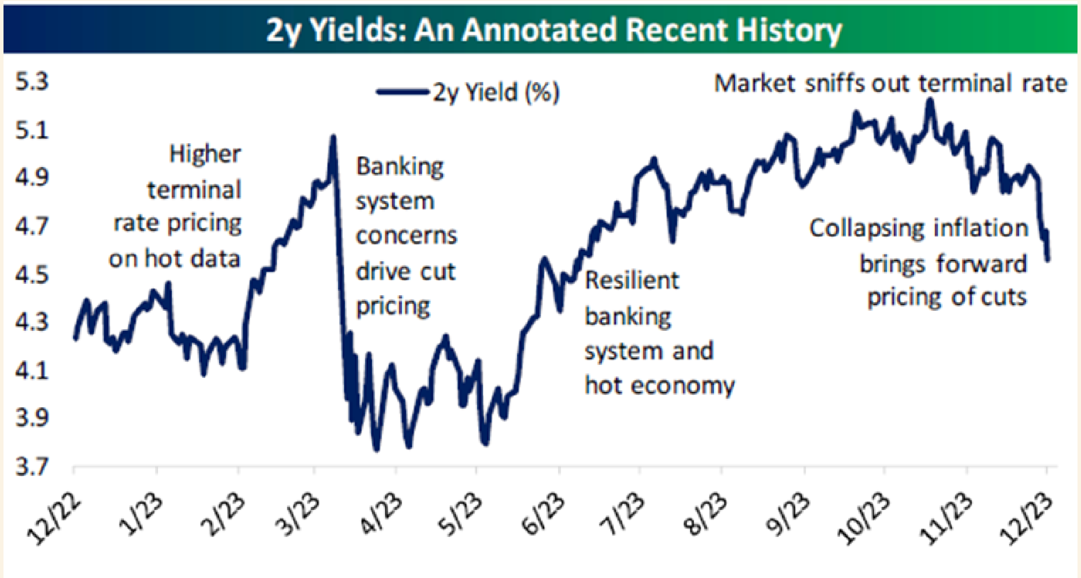
THE MARKET HAS PIVOTED, IS THE FED NEXT?

You will often hear the phase that "the stock market is a discounting mechanism," meaning the market's main goal in life is to forecast potential outcomes and then ascribe a present value to those outcomes vis-à-vis stock prices. This is why markets often bottom out over six months before the economic data signals a recessionary scenario.

True to form the stock market's recent run has been primarily fueled by the belief that the Fed has concluded their rate-hiking spree, and its next move will be to cut rates at some point in the first half of 2024. In just the last 10 days the year-end 2024 Fed Funds rate expectation has dropped to 3.99%. The "Dot" from last quarter's Summary of Economic Expectations, a.k.a. the "Dot Plot," was 5.1% so there is a lot of "daylight" between the two. We expect the updated year-end 2024 "dot" to be revised lower following the latest Dot Plot to be published after the December 13th FOMC meeting, but such a large difference may lead to market volatility if expectations aren't met.

We often look to the 2-Year Treasury yields as an indication of where the market expects the Fed Fund rate to be in a year's time. Looking at the move lower in rates recently is interesting and provides fodder for bulls to write about.

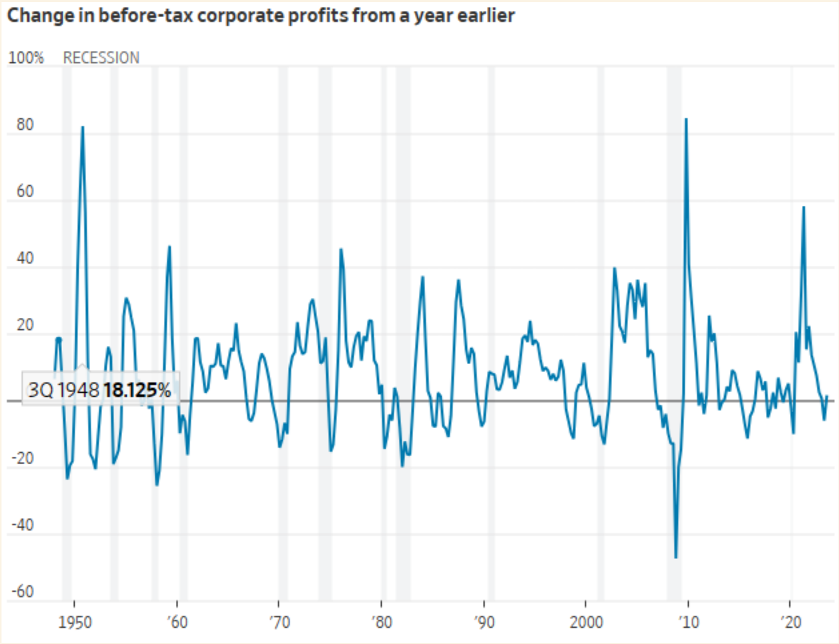
On the positive side, lower 2-year yields have been a function of cooling inflationary data and weaker economic reports, much different and likely longer lasting than the regional banking crisis that drove rates lower in the spring. This time, the collapse is data driven, not fear driven. Case in point, the JOLTS report for October was reported December 5th and showed 8.7mm job openings in the U.S. economy, the lowest since March 2021, and down from 9.3mm job openings last month. This marks the third straight month and five of the last six months of decreased job openings. To the extent the upcoming BLS jobs report and CPI report for November show continued slowing, the Fed will likely have what it needs to confirm no further rate hikes will be required. Accordingly, probabilities of a rate cut before the end of Q1 2024 are rising and currently stand at 63.6% as of Dec. 6th per FactSet.



Source: Bespoke Investment Group; As of 12.1.23

WHEN DOES DISINFLATION BECOME A PROBLEM?

There's an old familiar adage that goes something like "close is only good enough in horseshoes and hand grenades." It turns out it also applies to Monetary Policy. It's certainly an inexact science when it comes to setting interest rate policy. The only certainty is that the Fed will be later to act at both the beginning and the end of a rate hiking cycle. The cycle we are currently in is no different and the market is left now to wonder when the Fed will act to cut and if it will already be too late at that point to avoid a recession.



Source: Commerce Department via St. Louis Fed; As of 12.3.23

The economic data and inflation data have certainly signaled a cooling is taking place. The Fed however has yet to project any rate cuts in 2024. We expect this to change next week following the FOMC meeting. To this point the market has been counterintuitively celebrating lower economic growth and disinflationary data. This feedback loop can only last so long before slower economic growth starts to bleed into earnings growth expectations of companies. This is likely something the market starts to pay more attention to as we transition into 2024.

As it stands, last week the Commerce Department reported that earnings per share at companies in the S&P 500 rose 7.1% vs. the same time last year after slipping 2.8% in the 2nd quarter. Looking into the 4th quarter, analysts are expecting 5.2% earnings growth.

As fundamental investors, we are comforted by the fact that the mid-year weakness in earnings seems to be behind us and that growth has resumed. This increases the chances that any recession to the extent there is one in 2024 will likely be mild. This is due to the fact that if company profits are on the rise, they are less likely to cut headcount thus keeping employment trends healthy. The caveat to the current rebound in earnings is that profits have been lifted more from decreasing expenses than from increasing revenues. Earnings and employment trends bear watching as we move into 2024. We are among those celebrating the decrease in inflation but too much deflation has historically led to weaker growth and weaker profits for Corporate America.

Sources: YCHARTS, Barron's, NDR, Bespoke, CME Group, St. Louis Fed, FRED