



The Weekly Market Update – 11/20/23: Inflation Data to Keep the Fed at Bay

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,514.02	2.24%	5.27%	17.57%	16.58%	4,796.56	6.3%
Dow Jones Industrial Average	34,947.28	1.94%	4.30%	5.43%	6.76%	36,799.65	5.3%
NASDAQ Composite	14,125.48	2.37%	6.85%	34.96%	28.55%	16,057.44	13.7%
Russell 2000	1,797.77	5.42%	0.71%	2.07%	-2.66%	2,442.74	35.9%
MSCI EAFE (USD)	2,100.88	4.42%	3.43%	8.07%	20.05%	2,398.71	14.2%
MSCI Emerging Markets (USD)	976.52	2.97%	2.49%	2.11%	15.13%	1,444.93	48.0%
Bloomberg Commodity Index	101.92	0.31%	-2.78%	-9.65%	-10.09%	237.95	133.5%
Barclays U.S. Aggregate Bond	87.54	1.35%	1.40%	-1.51%	1.33%	112.07	28.0%

Source: FactSet

Improving trends (lower) for a key October consumer inflation report, stoked investor sentiment, and validated recent Federal Reserve Bank (Fed) interest rate policy. The October consumer price index, or CPI (as reported by the Bureau of Labor Statistics, BLS), increased +3.2% year-over-year (Y/Y), matching July's Y/Y increase after a +3.7% Y/Y increase most recently in August and September. In addition, core CPI, which excludes price changes for food and energy, increased +4.0% Y/Y, the sixth consecutive lower monthly increase, and a level not seen since September 2021. Both numbers were better than consensus (FactSet) expectations. The October month-to-month (M/M) data was positive as well, with headline CPI unchanged (+0%) from September, and core CPI up +0.2%. While Y/Y inflation levels remain above the Fed's +2.0% target over time, investor reaction to the inflation data was immediately positive as the widely followed, large-company S&P 500 equity index surged +1.9% on the day of the report (11/14/23), matching the index's best one-day return since January. This also paced the S&P 500 to its third consecutive weekly gain (for the week ended 11/17/23, +2.2%). Improving inflation trends are encouraging on many levels as consumer confidence can improve when price trends slow, companies are better able to manage cost pressures, and potential lower interest rates are more conducive to economic growth. U.S. interest rates did not change much following the CPI report but held at levels that have moved lower over the past several weeks. The U.S. 10-year Treasury yield (a proxy for long-term interest rates, in our view) closed at 4.44% on 11/17/23, after hitting 4.99% in late October. The Fed exerts control on short-term interest rates by setting a target range for its overnight bank lending fed funds rate; its range currently sits at 5.25% to 5.50% (since July 2023). We believe that positive inflation trends reduce the odds of additional fed funds hikes from the Fed (its next meeting ends on 12/13/23) as investors look for continued lower readings in the months ahead. At the same time, the Fed is unlikely to lower its fed funds target until inflation holds steady closer to the Fed's +2% desired level.

Are equities poised for a year-end rally? As of 11/17/23, the S&P 500 fourth quarter-to-date (4Q23) gain was +5.3% (not including dividends). This was after a decline in October, which was the first month of the quarter, and since 10/27/23, the index has rallied +9.6%. Since 10/27/23, 10 of 11 macro sectors (as measured by MSCI's global industry classification standard, GICS) were positive (Energy was down less than -1%) and five sectors rallied more than +11.0%. Given positive earnings trends (3Q23 S&P 500 Y/Y earnings growth +3.2%, per FactSet on 11/20/23) and economic growth (the Atlanta Federal Reserve Bank's 4Q23 model points to +2.0% U.S. economic growth, using data already reported), investor sentiment is likely to remain high over the next several weeks, in our view. This could manifest in continued gains. As of 11/17/23, the S&P 500, at the 4,514 price level, traded at 18.5x the 2024 FactSet consensus earnings estimate of \$244. We view this as a fairly valued level, with upside possible if earnings estimates move higher and/or interest rates move lower.

A holiday-shortened week will include the winding down of earnings season and the unofficial start to the holiday shopping season. Markets are closed Thursday for the Thanksgiving holiday with an early close scheduled for Friday, also known as Black Friday, as consumers gear up for the gift season. Just 11 S&P 500 companies report financial results this week, but at least a few are high-profile companies that will garner substantial investor interest. Companies that report results through October give investors an early read on calendar 4Q trends.

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

Important Disclosure: The information contained herein has been obtained by sources we consider reliable, but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of data available to us at the time of the original publication of the report. Assumptions, opinions, and estimates constitute our judgment as of the date of this report and are subject to change without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return and yield, as well as broader market and macroeconomic fluctuations and unforeseen changes in the fundamentals or business trends affecting the securities referred to in this report. Investors should also remember that past performance is not indicative of future performance and D.A. Davidson & Co. makes no guarantee, express or implied, as to future performance. The information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor. It is not a representation by us, or an offer, or the solicitation of an offer, to sell or buy any security. Further, a security described in a report may not be eligible for solicitation in the states in which a client resides. D.A. Davidson & Co. does not provide tax advice and investors should consult with their tax professional before investing. Further information and elaboration is available upon request.

Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between \$200 million and \$5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.