Weekly Market Perspectives

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The Bull & Bear Case for Stocks

U.S. stocks finished last week higher, building upon what is shaping up to be a nice little November rally following three consecutive months of declines for the S&P 500 Index and NASDAQ Composite. The S&P 500 finished above 4,400 on Friday (a first since late September) and ended the week above its 100-day moving average. In technical circles, this is a bullish development over the near term, as the broad-based U.S. stock index is now back above all its key moving averages. Along with solid gains across mega-cap Tech last week, the NASDAQ 100 Index saw its best week since May. Information Technology (notably Semiconductors and Software), as well as Communication Services, saw a solid week of gains. Energy, Utilities, and Real Estate were notable laggards. And after a strong November start for the Russell 2000 Index, the small-cap barometer posted its twelfth weekly decline in the last fifteen weeks. The week's decline in the Russell 2000 puts the stock average back into negative territory year-to-date. However, both the NASDAQ and Dow Jones Industrials Average finished last week in the green and are positive on the year, with the NASDAQ stunningly up over +30.0% in 2023.

Although the S&P 500 snapped an eight-day winning streak last week, Thursday was the only trading day the Index finished lower. Investors reacted somewhat negatively to comments made by Fed Chair Powell, suggesting the central bank would not hesitate to hike its fed funds target rate if necessary. But by Friday, the market realized those comments were nothing new and that there was really no change in expectations that the Fed would again hold rates steady when it meets next month. In another rate-related dynamic last week, demand for a $24 billion auction of 30-year U.S. Treasury bonds was rather muted. That said, the auction went off at yields well below the 5.0% plus rates seen in late October. Notably, government bond yields on the short end of the curve climbed higher last week. The 2-year U.S. Treasury yield jumped over 20 basis points to finish back above 5.0%, while the 10-year yield rose only slightly. **Bottom line: Fed comments during the week didn't change the outlook for monetary policy through year-end.** Also, Treasury supply dynamics are well-understood by the market over the near term and, in our view, not a main driver to underlying stock momentum. However, with the long end of the yield curve holding near its lower levels last week, most major stock averages continued to melt higher. Through year-end, stock momentum may continue to be swayed by how yields on the longer end of the curve respond to incoming economic data, particularly data on inflation and labor.

Outside of stocks and bonds, the U.S. Dollar Index rose modestly on the week, while Gold lost roughly 3.0%. West Texas Intermediate (WTI) crude posted its third consecutive week of declines, ending lower by 4.2%. Continued concerns regarding supply and demand dynamics (i.e., a global slowdown) and Middle East tensions remaining contained between Israel and Hamas have kept a governor on oil prices, in our opinion. Nevertheless, a spike in oil prices due to an unexpected supply constraint or escalation in Middle East tensions that disrupt global oil supplies to a larger extent could easily drag down global economic activity and stability. Thus, prudent investors should at least entertain the concept that economic tailwinds from lower energy prices today may not necessarily be a lasting development. And if oil prices continue to fall, it may increasingly become a larger reflection of a demand issue, which, in our view, wouldn't be positive for the global growth outlook.

The bull & bear case

Below are a few bulleted points to help investors easily frame current market conditions:

The optimists would say:

- The Federal Reserve is likely done raising interest rates, and while a higher-for-longer rate environment does pose a risk to the economy, the Fed's next rate move is probably lower. Stocks tend to do well when the Fed is done lifting rates, particularly if a recession is avoided.
- Outside of a handful of stocks, the overall market hasn't really done much this year. Through the end of October, the S&P 500 Index was up an impressive +10.7%. But when the top five stocks by market-cap weight are eliminated, the Index was higher by just +1.8%. And when the top twenty stocks by market-cap weight are excluded, the S&P 500 has lost 2.7% this year through October. **Bottom line: Most of the market already reflects a lot of the negativity, recession worries, and interest rate and inflation dynamics that have weighed on sentiment for most of this year.** If conditions prove better than feared and outlooks improve, the broader stock market has an opportunity to move higher – with wider participation.
- Simply, year-over-year aggregate S&P 500 earnings trends are improving. Companies are still seeing solid demand, controlling costs, and profit margins in aggregate have moved higher in the third quarter. Though 2024 profit expectations may be elevated if the U.S. does enter a recession next year, earnings growth estimates look achievable in a soft-landing scenario and could allow stocks to respond well.

The pessimists would say:

- It remains a stretch to assume the Fed is done raising interest rates with core inflation roughly 2X its target.
- We have not seen the full effects of prior rate hikes. For example, in the latest New York Federal Reserve update on consumer credit trends, the report showed newly delinquent credit card loans doubling since Q4'21 and now sit at their highest levels since 2011. **Bottom line: Higher rates, tighter lending standards, deteriorating credit trends, and slowing demand are just starting to take a bite out of the economy.** Don't assume the U.S. economy can continue to grow at the outsized +4.9% pace seen in Q3.
- Narrow stock leadership this year continues to reflect concerns that the broader market could come under further pressure if a recession develops next year.
- Outsized profit estimate cuts for the fourth quarter may be an early sign that management teams and analysts are worried demand could soften more than expected as growth slows. This would likely put further pressure on profit margins. With the S&P 500 trading at 18X next year's earnings estimates, the overall market isn't cheap, particularly against higher yields on risk-free investments.
- The longer rates remain elevated, the greater the risk that something unforeseen breaks in the economy (e.g., stress in commercial real estate, refinancing risks, or consumer retrenchment). The banking stress in March is a recent example of an unforeseen shock that quickly disrupted markets. Such developments would push back on soft-landing expectations.

Clearly, there are solid arguments to make on each side of the bull and bear case for stocks. In our view, equities could see some favorable seasonal tailwinds heading into the end of the year, particularly if inflation ebbs lower and market rates stabilize around current levels or head even lower. Based on our year-end target ranges for the S&P 500, 4,400 to 4,600 remains a reasonable expectation under our base and favorable scenarios. Notably, with recent stock gains this month, the S&P 500 is just 4.0% away from its 52-week high made at the end of July. Yet, investors are unlikely to find definitive answers over the coming weeks for some of the points made above. Thus, holding a largely balanced view of current market conditions remains prudent, in our view.

The week ahead

This week's calendar is very busy. Tuesday will bring the October Consumer Price Index report, which will be the key update to watch this week. While FactSet estimates show core CPI likely held steady last month, headline inflation is seen dropping based on lower gasoline prices. In addition, the Producer Price Index will be released on Wednesday. Also, on Wednesday, the October retail sales report will draw an outsized focus on the health of the consumer. The headline and ex-auto components are seen falling versus September levels. Across the week, a batch of retail earnings reports put an end cap on the third quarter earnings season, and housing data should show higher rates continue to take a bite out of sentiment and demand. Finally, a U.S. government shutdown again looms over the market this week. The current continuing resolution expires on Nov 17, forcing newly elected House Speaker Mike Johnson into a position that either shuts down the government or wrangles support from House Republicans to vote for another continuing resolution.

Stock Market Recap

Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 4,415	1.4%	5.3%	16.6%	21.9	20.9	1.5	1.6
Dow Jones Industrial Average: 34,283	0.7%	3.8%	5.3%	20.7	19.6	2.1	2.1
Russell 2000 Index: 4,238	-3.1%	2.7%	-1.9%	34.1	35.3	1.6	1.3
NASDAQ Composite: 13,798	2.4%	7.4%	32.8%	38.7	33.6	0.8	0.9
Best Performing Sector (weekly): Info Tech	4.8%	10.1%	48.2%	36.3	27.6	0.8	1.0
Worst Performing Sector (weekly): Energy	-3.8%	-2.2%	-2.4%	8.7	13.3	3.9	3.9

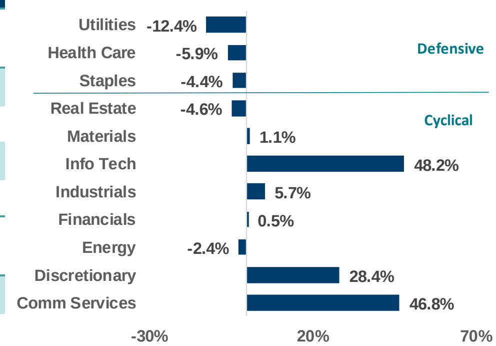
Source: Factset. Data as of 11/10/2023

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-0.3%	2.0%	-0.2%
West Texas Intermediate (WTI) Oil: $77.20	-4.2%	-4.7%	-3.7%
Spot Gold: $1,938.70	-2.7%	-2.2%	6.3%
U.S. Dollar Index: 105.86	0.8%	-0.8%	2.3%
Government Bond Yields	**Yield Chg**		
	Weekly	**MTD**	**YTD**
2-year U.S. Treasury Yield: 5.05%	21 bps chg	-1 bps chg	64 bps chg
10-year U.S. Treasury Yield: 4.61%	4 bps chg	-30 bps chg	75 bps chg

Source: Factset. Data as of 11/10/2023. bps = basis points

YTD Total Returns by S&P 500 Sector



Source: S&P Global, Factset. Data as of 11/10/2023

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There are risks associated with fixed-income investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities

Past performance is not a guarantee of future results.

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

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The Standard & Poor's 500 Index (S&P 500® Index), an unmanaged index of common stocks, is frequently used as a general measure of market performance. The index reflects reinvestment of all distributions and changes in market prices but excludes brokerage commissions or other fees.

The NASDAQ composite index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The Dow Jones Industrial Average (DJIA) is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The Russell 2000 Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the smallest 2000 securities in the Russell 3000.

The US Dollar Index (USDX) indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and major world currencies. This is computed by using rates supplied by approximately 500 banks.

West Texas Intermediate (WTI) is a grade of crude oil commonly used as a benchmark for oil prices. WTI is a light grade with low density and sulfur content.

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