Convergence Commentary

November 2023 Market Recap

Quick Hits:

- Inflation progress accelerates.
- Earnings continue to surprise.
- Geopolitical tensions show chances of easing.
- Treasury Yields decline.

Market-Moving Highlights

With the quarter three earnings season largely behind us, 82% of the S&P 500 companies have surpassed the estimates. The number of beats were the most since the third quarter of 2021. Earnings beat by 8.1%, and sales beat by 0.7%. While October earning beats were not rewarded, November was different. As new data surrounding inflation and the labor market increased the chances of a soft landing, investors focused more on corporate earnings, which continued to surprise to the upside.

Good inflation data was one of the main market stories of November. Headline CPI fell from 3.7% to 3.2% year-over-year and 0% month-over-month. The estimates called for a 3.3%, and 0.1%, respectively. Core CPI fell to 4% from 4.1% year-over-year and 0.2% month-over-month. The November FOMC meeting offered no surprise. The minutes said, “Policy should remain restrictive until inflation moves back toward the 2% target over time, and that further tightening may be appropriate if incoming information indicated progress toward the inflation objective was insufficient.” Since the new data showed the progress is currently at a faster pace than anticipated, the consensus is suggesting a very small chance of an additional rate hike, and a higher probability of 50-100 basis points cuts in 2024. Whether the current pace of progress continues is unclear, the recent inflation progress is certainly a positive for the market.

With the help of having an elected speaker, the government was able to pass a bill to maintain current spending for two months, erasing the chances of a government shutdown this year. The full-appropriations bills are now split into two dates: January 19th for some federal agencies and February 2nd for others. As mentioned before, government shutdowns rarely play a material role in the markets, but progress in the divided Congress can increase consumer sentiment.

National gas prices fell by $0.37 to $3.40 per gallon. There are several factors contributing to the decline. First, seasonality is a factor as people tend to stay at home more during winter, hurting the demand. Second, worries over supply have eased as new data showed a rising output from the US. OPEC+ was a wildcard, but a postponement of meetings and subsequent less-than-expected cuts showed some disagreements between the factions. The decrease in gas prices helps the battle against inflation, and more importantly, it allows consumers to have more discretionary spending.

Index Performance

Index	1 Month	YTD	1 Year	5 Year
S&P 500	9.13%	20.80%	13.84%	12.51%
Nasdaq Composite	10.83%	37.00%	25.13%	15.17%
Russell 2000	9.00%	4.20%	(2.56%)	4.78%
MSCI ACWI ex US	9.02%	10.62%	9.84%	5.57%
Bloomberg US Aggregate Bond	4.53%	1.64%	1.18%	0.71%

In our last market commentary, we mentioned that despite the continued strength of the economy, the primary focus has shifted to surging yields and escalating geopolitical tensions. In November, the 10-year treasury declined from 4.85% to 4.35%, driven by inflation progress along with softening labor market conditions. On the international side, there have been some hopes over a potential de-escalation in the Middle East after a short-term truce was called towards the end of the month, and an exchange of hostages took place. Additionally, a meeting between Biden and Xi signaled that both leaders want to work towards cooperating where they can. In Europe, similarly to the US, inflation decreased more than expected.

S&P 500 Sector Highlights & Commentary

Best-Performing Sectors		Worst-Performing Sectors	
Technology	12.90%	Energy	(0.72%)
Real Estate	12.48%	Consumer Staples	4.13%
Consumer Cyclical	10.97%	Utilities	5.14%

Technology continues to be a market leader this year, as investors continue to have an appetite for innovation. Real Estate has been a pleasant surprise after a hard year, as mortgage rates declined from 8% to 7.29%. The resilience of the US consumer was tested during the holiday season. Sales from what is now deemed as the “Cyber week” have increased 7.8% compared to last year. Cyber Monday e-commerce spending in the US totaled $12.4 billion. On the worst-performing front, the energy sector suffered the decrease in oil prices. Defensive sectors, albeit also providing a positive return, continued their underperformance as the chances of a soft landing increased.

What to Watch in December

Click here to read our reference guide for economic indicators.

12/01 – Fed Chair Powell Speech, ISM Manufacturing PMI
After the positive inflation and labor market data, investors will be interested in the central bank's updated view. In the last meeting, Jerome Powell stated the FOMC had not discussed any rate cuts yet, while the focus remains on whether they should implement another rate hike.

The manufacturing sector is expected to continue in the contraction territory for a 12th consecutive reading, with the forecast at 47.2.

12/05 – ISM Services PMI
In the last reading, the ISM Services PMI fell to 51.8, the lowest in five months and below the forecasts of 53. The forecast for the December reading is at 51.5, however, sentiment is mixed, indicating a surprise might happen.

12/08 – Non-Farm Payrolls, Unemployment Rate, Michigan Consumer Sentiment Preliminary
The US economy added 150,000 jobs in October, which was less than the 180,000 expected. The slowdown in jobs created is expected to continue, with the forecast for November reading 100,000. The unemployment rate increased slightly to 3.9% in the last reading and is expected to remain stable.

12/12 – CPI and Core CPI
Inflation remains one of the most important readings of the month, as investors will seek confirmation of the current downtrend. The current forecasts expect annual CPI to decrease to 3.1% from 3.2%, while core CPI is expected to remain stable at 4%.

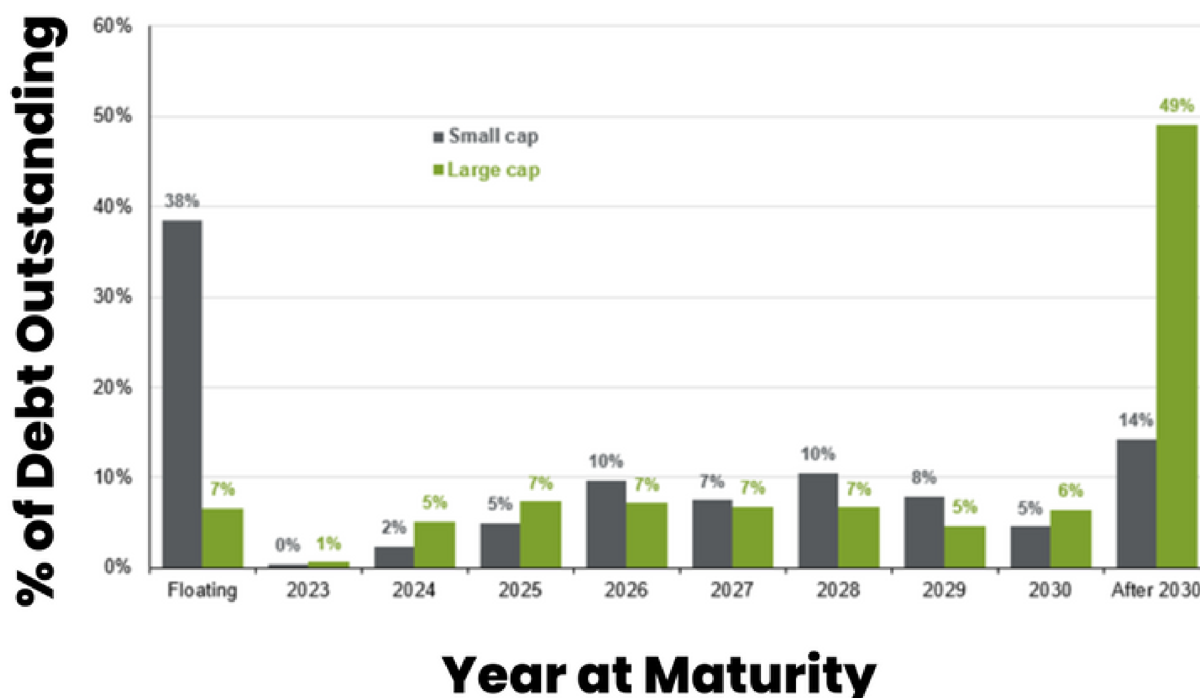
12/13 – Fed Interest Rate Decision
The Federal Reserve will have one more wave of inflation readings before they make their decision. The consensus strongly suggests a pause, giving a meager 4% for another rate hike.

Market Wrap

November marked a happy holiday season for the market. A great earnings season, avoidance of a government shutdown (for now), decreasing inflation, and increased chances of easing geopolitical tensions all contributed to this. Additionally, holiday sales surprised with record numbers. The amount of spending by consumers has been surprising, and some experts are worried that the US consumer is overspending. The amount of U.S. consumer credit card debt is at its peak, at $1.1 Trillion. Other experts say the rise in credit card debt will not have an impact on the economy, and it is just a result of higher-than-average inflation.

The breadth of market expansion was widespread amongst all indexes, including internationals. Small caps have also shown signs of strength towards the end of the month, as interest rates decreased.

The chart below explains why small caps are more sensitive to interest rates. The Y axis shows a percentage of debt outstanding, while the x axis shows the year at which it matures. While 38% of small caps borrow on a floating basis, only 7% of large caps do so. Most large cap companies were able to lock in favorable financing for long periods, with 49% of the debt maturing after 2030.



Sources

When Will Higher Rates Start Hurting Companies | JP Morgan Asset Management

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