November 20, 2023

Weekly Viewpoint

Cooling Inflation Heats up Stocks

Performance for Week Ending 11/17/2023

The Dow Jones Industrial Average (Dow) finished up 1.94 percent, the Standard & Poor's 500 Index (S&P 500) added 2.24 percent and the Nasdaq Composite Index (NASDAQ) gained 2.37 percent. Sector breadth was positive with all 11 S&P sector groups finishing higher. The Real Estate (+4.46%) sector was the best performer while the Consumer Staples (+0.57%) sector was the laggard.

Index*	Closing Price 11/17/2023	Percentage Change for Week Ending 11/17/2023	Year-to-Date Percentage Change Through 11/17/2023
Dow	34947.28	+1.94%	+5.43%
S&P 500	4514.02	+2.24%	+17.57%
Nasdaq	14125.48	+2.37%	+34.96%

Market Observations: 11/13/23 – 11/17/23

The major market indices finished higher for a third straight week as data showing easing inflation pressure raised bets that the Federal Reserve (Fed) is done raising rates and may achieve a "soft landing" for the economy. According to Bloomberg's World Interest Rate Probability tool, futures markets are now ruling out any possibility of further rate hikes from the Fed and a 25-basis point (bp) rate cut is almost fully priced in for early May next year. The Fed is then expected to proceed cautiously, with an additional 75bps of cuts by the end of the year. That would translate into a cumulative decline of about 100bps for next year, taking rates back down to 4.4 percent by December. Last week's rally was broad-based with all eleven of the S&P sector groups finishing the week higher. The market also showed some signs that performance may be starting to broaden out with solid gains from both the small cap Russell 2000 Index (+5.42%) and the S&P 400 Mid Cap Index (+3.98%). Since bottoming on October 27, the S&P 500 has gained 9.63 percent while the Nasdaq Composite has tacked on 11.73 percent.

Economic Roundup: The Commerce Department reported that headline consumer inflation during October slowed to just 3.2 percent from last year, down from the 3.7 percent pace in September, while core pressures eased to a fresh two-year low of 4 percent. Both figures were better than expected. Meanwhile, prices paid to US producers unexpectedly declined in October by the most since April 2020, adding more evidence of abating inflationary pressures across the economy. The producer price index (PPI) decreased 0.5 percent from a month earlier, a sharp slowdown that's largely reflective of a decline in gasoline prices. Excluding food and energy, the so-called core PPI was unchanged. From a year ago, the overall measure was up 1.3 percent, while the core gauge posted the smallest annual increase since the start of 2021. Elsewhere, retail sales slowed in October, but prior months were revised higher, suggesting some resiliency going into the holiday season. The value of retail purchases, unadjusted for inflation, decreased 0.1. The so-called control group sales — which are used to calculate gross domestic product (GDP) and exclude food services, auto dealers, building materials stores and gasoline stations — rose 0.2 percent, suggesting the current quarter is off to a decent start. Looking at the Atlanta Fed's GDP Now tracking model, it is currently indicating Q4 growth of 2 percent.

Q3 Earnings Season – That's a Wrap: With nearly 95 percent of the S&P 500 members already reporting Q3 results, earnings season is quickly coming to an end. While there have been several high-profile earnings disappointments, the overall quarter remains on pace to generate better than feared results. Through Friday, 471 members of the S&P 500 have reported results with over 82 percent beating expectations. As pointed out by FactSet, the quarter's 'beat' rate is solidly above the 5-year average of 77 percent and the 10-year average of 74 percent. Aggregate earnings for the group are up 2.75 percent, but still ahead of the flattish results the Bloomberg consensus was forecasting at the start of reporting season. On the sector front, Consumer Discretionary and Communication Services sectors have delivered the strongest growth while Energy and Health Care the weakest. According to Bloomberg data, the earnings environment is set to improve in the coming year with 2024 S&P 500 earnings growth estimated at 11.1 percent for the year followed by 11.7 percent during 2025.

The Week Ahead: The holiday interrupted week is expected to be quiet as many investors are likely to be out of the office during the latter part of the week. Although relatively light, the data calendar will take center stage. Economic reports of interest include the Leading Economic Indicators report, Existing Home Sales data, and Durable Goods Orders. The Fed speaking calendar will be quiet, although the Fed is set to release the November FOMC meeting minutes on Tuesday. Ten members of the S&P 500 are scheduled to release results during the week with all eyes likely to be focused on A.I. darling Nvidia on Tuesday.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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