

November 6, 2023

Weekly Viewpoint

Risk On (For Now)

Performance for Week Ending 11/3/2023

The Dow Jones Industrial Average (Dow) finished up 5.07 percent, the Standard & Poor's 500 Index (S&P 500) added 5.85 percent and the Nasdaq Composite Index (NASDAQ) gained 6.61 percent. Sector breadth was positive with all 11 of the S&P sector groups closing higher. The Real Estate (+8.54%) sector led the way higher followed by Financials (+7.35%) and Consumer Discretionary (+7.21%).

| Index* | Closing Price 11/3/2023 | Percentage Change for Week Ending 11/3/2023 | Year-to-Date Percentage Change Through 11/3/2023 |
|---------|----------------------------|--|---|
| Dow | 34061.32 | +5.07% | +2.76% |
| S&P 500 | 4358.34 | +5.85% | +13.51% |
| Nasdaq | 13478.28 | +6.61% | +28.78% |

Market Observations: 10/30/23 – 11/3/23

Stocks finished the week solidly higher following a sharp pullback in interest rates, a decline in oil prices, and building speculation the Fed is done hiking rates on signs labor market conditions continue to soften. The yield on the benchmark 10-year Treasury note fell 26 basis points to 4.57 percent and is now well off intraday high of 5.02% reached on October 23. The pullback in rates was due in part to the Treasury's refunding announcement that showed planned sales of longer-term securities was slightly less than most major dealers expected. The Treasury said it will sell \$112 billion of longer-term securities at its so-called quarterly refunding auctions this week, which span 3-, 10- and 30-year Treasuries. Many major dealers had predicted a \$114 billion number.

October Jobs Report: The Labor Department reported that nonfarm payrolls rose by a weaker than expected 150K in October and job gains for August and September were revised lower by a cumulative 101K. As expected, the United Auto Workers strike drove a decline in manufacturing employment of 35K, although those workers will be back on payrolls in the November report. Elsewhere, job growth weakened in most sectors apart from construction and health and education, where hiring continues to be robust. The

unemployment rate rose from 3.8 percent to 3.9 percent, reflecting both a sharp decline in the number of employed in the household survey and a rise in the number of unemployed. Average hourly earnings rose 0.2 percent month over month in October, less than expected. On a year-over-year, earnings rose 4.1 percent. Other measures of wage growth, including our wage tracker, are more elevated. Annual wage gains by most measures will need to converge around 3.5 percent to be consistent with the Fed's 2 percent inflation target. All in all, the jobs report and other labor market releases during the week, provided plenty of evidence that labor market conditions are softening and in turn, should allow the Fed to keep policy on hold as it monitors its progress toward returning inflation to 2 percent. According to Bloomberg's World Interest Rate Probability (WIRP) tool, the fed funds futures market expects the Fed to remain on hold until the June FOMC meeting where they are expected to reduce rates by 25 basis point. All in all, WIRP is showing a total of four cuts during the second half of the year.

FOMC Meeting: As expected, last week's FOMC meeting ended with the Fed leaving its benchmark rate unchanged at a range of 5.25-5.50 percent. While the Fed held rates steady, it left the door open to a further increase with the after-meeting policy statement acknowledging the U.S. economy's surprising strength but nodded to tighter financial conditions being faced by businesses and consumers. According to the post-meeting statement "tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation.

During the follow-on press conference, Fed Chair Powell said that central bank officials are focused on whether or not the Fed needs to raise rates more—not about when rates will eventually start coming down. "The Committee is not thinking about rate cuts at all, not talking about rate cuts," Powell said, adding "we will keep policy restrictive until we are confident that inflation is on a sustainable path down to 2 percent." Powell also noted that, while the Fed may not be able to precisely identify a neutral policy rate, officials are convinced that policy is firmly in restrictive territory, and they will give that policy stance and tighter financial conditions more time to feed through to economic activity. Powell acknowledged that higher rates and tighter financial are weighing on housing activity and business investment. Powell restated a point he and other Fed officials have been making more frequently – that given the amount of policy tightening that has occurred to date, risks to the economy from Fed actions are becoming increasingly two-sided.

Economic Roundup: A measure of US factory activity fell to a three-month low amid weakening orders and limited production growth. The ISM's manufacturing gauge fell 2.3 points, the biggest monthly decrease in more than a year, to 46.7. While the pullback likely reflected the impact of a strike at the nation's automakers that idled many vehicle plants, 13 industries reported contracting activity and just two indicated expansion. The forward-looking new orders index dropped to a five-month low of 45.5 in October, suggesting demand is shrinking at a faster pace. Meanwhile, labor productivity advanced by the most in three years, helping to alleviate the inflationary impact of recent wage growth. Productivity, or nonfarm business employee output per hour, rose at a 4.7 percent annualized rate in 3Q after climbing 3.6 percent in the prior period. Unit labor costs, or what a business pays employees to produce one unit of output, decreased at a 0.8 percent rate after climbing 3.2 percent in the second quarter. It marked the first decline since late 2022. US job openings

unexpectedly climbed in September for a second month, underscoring the persistent strength of labor demand in various pockets of the economy. The so-called quits rate, which measures voluntary job leavers as a share of total employment, held steady at 2.3 percent for a third month, the lowest since the start of 2021. A more moderate level of quits implies Americans are less confident in their ability to find another job in the current market.

Q3 Earnings Season: Despite some high-profile earnings disappointments, third quarter earnings are still tracking at a better than feared pace. Through Friday, 404 members of the S&P 500 have reported results with over 81 percent beating expectations. Aggregate earnings for the group are up 2.2 percent, but still ahead of the 0.7% decline that the Bloomberg consensus was forecasting at the start of reporting season. On the sector front, Consumer Discretionary has delivered the strongest growth while the Energy sector has delivered 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 11.7 percent for the year followed by 12.59 percent during 2025.

The Week Ahead: It will be a quiet week on the data front, which is typical in the week that follows the monthly payroll report. Notable data releases include the University of Michigan's consumer survey on Friday as well as the trade balance and consumer credit data on Wednesday. Investors are also expected to keep an eye on the Fed's Senior Loan Officer Opinion Survey released on Monday to gauge the tightness of bank lending conditions. The Fed speaking calendar will be busy with 8 events scheduled, including Fed Chair Powell who will be participating in a panel discussion at the IMF conference. Earnings season continues to wind down with 50 members of the S&P 500 scheduled to release results. Amongst this group will be Dow-component Walt Disney on Wednesday.

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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