

# THE CAPITAL MARKETS

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The Dow Jones Industrial Average (DJIA) finished November at 35,951, up +8.77% for the month, up +8.46% so far for the year. The S&P 500 closed November at 4,561, up +8.92% for the month, up +18.97% year to date. The NASDAQ Composite gained +10.70% in November, up +35.92% so far in 2023. Small-company stocks as measured by the Russell 2000, ended November up +8.83% for the month, up +2.71% so far year to date. Technology (+13.25%) was the best-performing sector in November.

***“The S&P 500’s weekly winning streak is its longest since 2017, underscoring the depth of Wall Street’s optimism right now. Stocks began rallying in late October, in large part due to growing hopes that the Federal Reserve will be able to pull off a ‘soft landing’...”***

(The Wall Street Journal, Sam Goldfarb, Dec. 18, 2023)

## MARKETS EXPECTING A RARE SOFT LANDING AS STOCKS SURGE

The Dow Jones Industrial Average is now at an all-time high, and the S&P 500 is close to one, as 2023 comes to an end. Market participants are exuberant in their anticipation that the Federal Reserve may be set to accomplish one of the rarest of feats — an economic soft landing. A soft landing in this context refers to an outcome where the Fed manages to bring inflation down to a sustainable level, while avoiding recessionary conditions such as high unemployment and negative GDP growth, which typically accompany the cooling off of a too-hot economy. While it is rare to see this outcome, some observers consider it more likely in this instance because so much of the current cycle has been driven by pandemic-induced economic shocks, rather than the playing out of a typical business cycle.

## END-OF-YEAR ECONOMIC UPDATE

The revised estimate for third-quarter GDP came in at a better than expected 5.2%, and the Federal Reserve’s current estimate for full-year GDP growth in 2023 is a healthy 2.6%. The unemployment rate ticked down to 3.7% in December, while a healthy 199,000 jobs were added. Markets welcomed the news that November Consumer Price Inflation came in at 3.1% year over year, while the stickier core CPI came in at 4%. Both readings show a continuing deceleration in inflationary pressures. While the healthy economic readings and decelerating inflation data have given markets optimism that a rare soft landing may be in sight for the Fed and the economy, much remains yet to be determined and could change. The final leg lower on inflation to the 2-2.5% target is expected to be the most difficult leg to achieve.

## LOOKING AHEAD TO 2024

Whether we are ultimately headed for a soft landing in 2024, however, may be secondary at this point to what markets are expecting and have now priced into valuations. By many analysts’ estimations, the S&P 500 at current levels is around what the data suggests may be a fair value price for the index at year-end 2024, given current earnings estimates. With earnings estimates already fairly optimistic, the market is going to require more and more good news to continue its march higher, and is positioned in our view for sharp volatility if the soft-landing outcome becomes less likely. It’s not uncommon for markets to get seemingly a bit ahead of themselves, and we’ve seen a few different instances over the last few years. For investors, remaining focused on the evidence-based fundamentals to investing remains critical, especially when short-term fluctuations are volatile. With the S&P 500 up around +12% over the past month and a half, it may be a good time for investors to consider replenishing any cash reserves to cover cash needs over the next 12-18 months.

We'd encourage investors to ensure any stock investments are in accounts with time horizons of 5-7+ years, as the near-to-medium term could see volatility. For shorter-term accounts, we'd remind investors that income investments and money markets remain attractive, with yields around their highest in a decade.

We'd like to thank you for another year of readership, and offer our prayers and best wishes for a blessed Christmas and Happy New Year to you, your families, and communities.



## MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 10/31/2023	CLOSE AS OF 11/30/2023	CHANGE PREVIOUS MONTH END	2023 YTD % CHANGE
Dow Jones Industrial Average	33,052.87	35,950.89	+2,898.02	8.46%
S&P 500	4,193.80	4,567.80	+374.00	18.97%
NASDAQ Composite	12,851.24	14,226.22	+1,374.98	35.92%
RUSSELL 2000	1,662.28	1,809.02	+146.74	2.71%
Fed Funds Rate	5.25% - 5.50%	5.25% - 5.50%	UNCHANGED	
2-Year Treasury	5.07%	4.73%	-0.34%	
10-Year Treasury	4.88%	4.37%	-0.51%	
Crude Oil \$ per Barrel	\$81.02	\$75.96	-\$9.77	-5.36%
Gold \$ per Troy oz.	\$1,994.30	\$2,057.20	+\$128.2	12.65%
UK Pound in U.S. \$	\$1.2135US=1£	\$1.266US=1£	\$ WEAKER	5.24%
Euro in U.S. \$	\$1.057US=1€	\$1.0911US=1€	\$ WEAKER	2.23%
Canada \$ per U.S. \$	\$1.38825C=\$1.00US	\$1.35585C=\$1.00US	\$ WEAKER	0.07%
Japan Yen per U.S. \$	151.445¥=\$1.00US	147.835¥=\$1.00US	\$ WEAKER	12.04%