December 11, 2023

Beacon Weekly Investment Insights

The first full trading week of December saw equity markets off to a more tepid start, after very strong returns in November. The S&P 500 did manage to finish the week in slightly positive territory up 0.21%, capping off a 6-week winning streak. The Dow Jones Industrial Average ticked up fractionally, with the Nasdaq leading and closing the week up 0.70%. Small-cap stocks have also been participating in the rally as of late and outpaced their large-cap counterparts last week, with the Russell 2000 index up 0.97% for the week. Interest rates steadied a bit, with the 10-year treasury yield moving up slightly to 4.23%, from 4.22% to start the week. Part and parcel to the strong rally we have seen in equity markets, the 10-year treasury yield has dropped significantly in a short period of time, from levels as high as 4.9% at the end of October.

Given the very strong returns we saw in November, and as we move towards the end of the year, the likelihood of a "Santa Claus Rally" has been on many investors minds. This refers to the historical tendency of markets to go up by 1%-2% on average over a short period of time that encompasses the last 5 trading days of the year, and the first two trading days of the next year. Historically, strong returns in November don't necessarily mean that markets do not experience the "Santa Claus Rally." While very weak returns in November have typically portended above average returns in December (the weakest decile of returns in November has historically led to returns of roughly 2.5% in December), there is historically very little difference in returns for December based on whether November was an average month or a very strong month return wise. Past is of course not always prologue. However, based on what has occurred historically, the fact that we had a very strong month of returns in November does not necessarily steal from the aforementioned 1%-2% rally.

Last week saw the release of several key economic reports, with the U.S. Employment report released on Friday being the focal point for markets. The job openings report showed signs of cooling, falling to 8.7 million from 9.4 million in September, with expectations for job openings to have remained level. The U.S. Employment report came in stronger than expected, with 199,000 jobs added in November, up from 150,000 in the prior month and ahead of the expected 190,000 figure. It is important to note that about 30,000 of the jobs created were related to the return of striking workers. In another sign of strength for the economy, the unemployment rate moved down to 3.7% from 3.9%, with expectations being for unemployment to stay level at 3.9%. Average hourly earnings did move up by 0.4% for the month from 0.2% in the prior month, and ahead of expectations for 0.3% growth, with wage growth up 4% year-over-year. The labor force participation rate ticked up to 62.8%, slightly higher than the 62.7% expected. All in all, the report showed a gradual cooling of a still strong labor market, which is supportive of the "soft landing" narrative for the economy.

The ISM Services sector report released last week was also supportive of this theme having come in stronger than expected and moving up from last month's reading, after having gradually declined in the prior month. The report showed a rebound to 52.7% in November, up from 51.8% in the prior month, and relative to expectations for 52.4%. The University of Michigan consumer sentiment index report was also released last week. The report showed a strong rebound in consumer sentiment, coming in well ahead of expectations with a reading of 69.4 after four months of declines, up from the prior reading of 61.3.

With the Q3 2023 earnings season essentially in the books, S&P 500 earnings growth came in well ahead of expectations at 4.8%. Expectations headed into the quarter were for earnings to be flat to slightly negative. Looking ahead to the fourth quarter, there has been an above average level of downward revisions to estimates for earnings growth. At present, expectations are for S&P 500 earnings growth to slow to 2.7% for the fourth quarter. Looking ahead to next year, the earnings picture is expected to improve, with current estimates for earnings growth in the low double digits.

This week will be an eventful one from an economic data standpoint. Inflation data is due out with the CPI (consumer price index) report due out on Tuesday and the PPI (producer price index report) set to be released on Wednesday. Markets will be focused on the upcoming FOMC interest-rate decision on Wednesday, followed by Chair Powell's press conference. Markets are pricing in a virtual certainty that the Fed will keep interest rates at current levels, with a 98% probability that the Fed will hold steady as of this time of this writing. Markets are currently pricing in four interest rate cuts next year, and investors will be listening closely to language used in Chair Powell's press conference to try to determine if a shift in these expectations is warranted. U.S. retails sales data is also due out this week.

Market Scorecard:	**12/8/2023**	**YTD Price Change**
Dow Jones Industrial Average	36,247.87	9.35%
S&P 500 Index	4,604.37	19.92%
NASDAQ Composite	14,403.97	37.62%
Russell 1000 Growth Index	2,956.37	36.98%
Russell 1000 Value Index	1,558.92	4.13%
Russell 2000 Small Cap Index	1,880.82	6.79%
MSCI EAFE Index	2,138.43	10.01%
US 10 Year Treasury Yield	4.23%	35 basis points
WTI Crude Oil	$71.23	-11.25%
Gold $/Oz.	$2,014.50	10.31%

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