MONTHLY MARKET UPDATE
November 2023

OPAL WEALTH ADVISORS

November broke a streak of four consecutive down months in the stock market and six consecutive down months in the bond market in what was essentially an 'everything rally.' Overall easing financial conditions in November were the primary driver behind the risk asset rally. Bond yields, oil prices, credit spreads, and the U.S. dollar all fell sharply during the month alongside rallying global equity prices. Markets embraced the 'peak Fed' narrative with open arms meaning no more hikes but rather a series of rate cuts in 2024. The Fed's QT policy has reduced the size of the Fed's balance sheet from $8.42t in April to $7.18t by the end of November. Declining utilization of the NY Fed Reverse Repo Facility has partially offset some of QT's liquidity impact, however the backdrop for the financial markets remains highly liquid. The 'soft landing' economic narrative gained traction in November where we saw disinflationary trends continue with headline CPI falling to 3.1% (PCE 3%) and the labor market, while still very robust, showing subtle signs of cooling down with moving averages of unemployment claims rising and job creation slowing. Survey measures of manufacturing and service activity continued to show the former in contraction and the latter cooling but still in expansionary territory.

The S&P 500 advanced 8.2% in its best show since July 2022 and among the ten best months on record. The bond market's much needed 4.53% gain was its best month since May 1985 given it had been on track for one of its worst years on record following 2022's worst year on record. The blend of strong equity and bond market returns in November translated to the second-best month in over 30 years for a simple 60/40 portfolio. Developed non-U.S. equity markets performed in line with the U.S., returning 9.3%, while emerging markets rallied 8%, both assisted by a weakening US dollar which fell 3% on the month.

The bond market saw yields falling across the curve. The 10-year Treasury yield plummeted 0.61%, following six consecutive months of rising rates, closing the month at 4.37%. Three-month yields declined 0.14% but remained anchored by Fed policy while 2-year yields fell 0.43%, leading the slope to a more inverted position during November. Investment grade and high yield credit spreads tightened substantially with IG falling to new 2023 lows of 1.11% and high yield spreads falling well below the 4% level to 3.84%.

Market Anecdotes

- For just the seventh time ever, stocks and bonds both contributed 5%+ and 1%+, respectively, to a 60/40 portfolio.
- Third quarter earnings season wrapped with a healthy earnings growth rate of 4.3% YoY totaling $487.1b in aggregate. The beat rate (LT average) 81.9% (66%), miss rate 13.7% (20%), and magnitude 7.3% (4.1%) all compared favorably relative to their respective long-term averages.
- Smaller companies, being more susceptible to higher interest rates, have seen both earnings and sales declines since the FOMC began raising rates.
- Fed open market activities, now fully in QT mode, show the Fed as a clear net seller of Treasuries and a Treasury department leaning heavily into the front end of the curve.
- The resilient U.S. consumer has been a key growth driver over the past two years which begs a credit health check in addition to consumer 'balance sheet' narratives heading into 2024.
- The NY Fed Consumer Credit report showed a sharp rise in delinquencies with credit card loans now above 8%, well up from the 4% low in Q4 2021.
- The recent Biden-Xi summit went relatively well but, even more so than U.S. elections, Chinese geopolitical risk is centered around the January 13th Taiwan elections and whether a pro-mainland government will assume power.
- A Preqin report on private credit highlighted the significant growth of the asset class to roughly $1.6t in AUM and nearly $500b of dry powder across various types of private credit strategies.

Economic Release Highlights

- The November Jobs Report showed 199,000 new jobs, slightly better than the 180,000 consensus estimate. The unemployment rate fell from 3.9% to 3.7%. The participation rate increased to 62.8% and average hourly earnings of 0.4% MoM and 4% YoY were in line with forecasts.
- Headline (core) PCE inflation registered 3.0% (3.5%) YoY alongside MoM readings of 0% (0.2%), both generally in line with consensus forecasts. Personal Consumption and Personal Income were both in line with forecasts at 0.2% MoM growth.
- Headline and core CPI rose 3.1% and 4.0% with MoM readings 0.1% and 0.3% respectively, all in line with their consensus forecasts.
- Retail Sales declined 0.1%, slightly better than the expected -0.3% decline. Ex-Vehicles (0.1% vs -0.1%) and Ex-Vehicles & Gas (0.1% vs 0.2%) were also generally in line with consensus.
- The JOLT Survey reported 8.733M job openings, well under the consensus 9.4M expected.
- The second estimate of 3Q GDP reflected an upward revision from 4.9% to 5.2% but Personal Consumption was revised lower from 4.0% to 3.6%.
- Durable Goods Orders contracted 5.4%, below the low end of the (-4.4% - 2.8%) range and consensus spot forecast of 3.2%.
- U.S. PMI for November registered a composite reading of 50.7 with Manufacturing (49.4 vs 49.9) and Services (50.8 vs 50.5) both generally in line with their respective consensus forecasts.
- November ISM Manufacturing Index came in below the spot consensus forecast (46.7 vs 47.5) and toward the bottom end of the forecast range. ISM Services Index registered 52.7, slightly higher than consensus forecast of 52.4 and an improvement relative to October's 51.8.
- The Consumer Confidence Index for November registered 102.0, an improvement versus the prior month and slightly above the spot consensus forecast of 101.5.
- Consumer Sentiment registered 60.4, well under consensus forecast of 63.7 and a notable decrease versus the prior month reading of 67.9. Longer-term inflation expectations increased to 3.2%.
- The NFIB Small Business Optimism Index registered 90.7, slightly above consensus 90.5 and within the forecast range.
- The NAHB/Wells Fargo Housing Market Index fell a fourth consecutive month to 34.0. The Case-Shiller Home Price Index grew 0.7% MoM and 3.9% YoY, generally in line with the consensus forecast.
- Housing Starts (1.372mm) and Permits (1.487mm) rose slightly in October versus the prior month reading.
- New Home Sales of 679k came in short of the spot consensus (725k) but within the forecast range of 650k-750k. Pending Home Sales fell 1.5%, slightly less than the -2% forecast. Existing Home Sales declined 4.1% MoM in October to 3.79M, down 14.6% YoY.

Outlook

The short-term risk asset rally and technical resistance in bond yields we spoke to in October materialized in full force. November's sharp reversal in both stock and bond markets is a result of an exceptional liquidity backdrop, rapid improvement in financial conditions, a premise of soft economic landing, overtly dovish Fed policy expectations, and also perhaps some component of favorable seasonal tailwinds. Our view, certainly in this seasonal period, continues to be neutral with regard to risk assets in the short term but more cautious when looking out over our 12-24 month forecast horizon as we still see a likelihood for trend growth and economic conditions to deteriorate by the later half of 2024 due to higher interest rates and persistent inflation pressures.

Start-stop conditions should continue favoring periodic tactical (0-6 months) asset allocation shifts and rebalancing/profit taking, particularly on the back of such sharp risk asset rallies as seen in November. We are not anchored to a decided pro-growth or defensive investment posture and remain neutral on the growth/value style dimension, reflecting our view that we are nearing the end of an economic cycle. From a geography perspective, we are favoring quality U.S. markets over non-U.S. due to currency and relative growth dynamics. Recommended fixed income positioning is neutral from a duration perspective and underweight below investment grade fixed income and bank loan markets over our forecast horizon.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	35951	9.15	4.10	10.72	6.19	8.85
NASDAQ	14226	10.83	1.57	37.00	25.13	6.08
S&P 500	4568	9.13	1.74	20.80	13.84	9.76
Russell 1000 Growth		10.90	3.38	36.63	26.17	8.92
Russell 1000 Value		7.54	(0.25)	5.61	1.36	8.27
Russell 2000		9.05	(4.37)	4.20	(2.57)	1.13
Russell 3000		9.32	1.36	19.61	12.61	8.26
MSCI EAFE		9.30	1.34	12.84	12.96	4.32
MSCI Emg Mkts		8.02	1.16	6.08	4.65	(3.66)
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.65	(0.30)	(0.07)	0.26	0.63	0.63
High Yield	6.02	(0.28)	0.05	(0.04)	0.91	1.20
Municipal	2.17	(0.10)	0.12	0.30	0.52	0.39

Commodities	11/30/23	9/30/23	6/30/23	3/31/23
Oil (WTI)	72.73	90.77	70.66	75.68
Gold	2035.50	1870.50	1912.30	1979.70

Currencies	11/30/23	9/30/23	6/30/23	3/31/23
USD/Euro ($/€)	1.09	1.06	1.09	1.09
USD/GBP ($/£)	1.26	1.22	1.27	1.24
Yen/USD (¥/$)	147.87	149.43	144.47	132.75

Treasury Rates	11/30/23	9/30/23	6/30/23	3/31/23
3 Month	5.45	5.55	5.43	4.85
2 Year	4.73	5.03	4.87	4.06
5 Year	4.31	4.60	4.13	3.60
10 Year	4.37	4.59	3.81	3.48
30 Year	4.54	4.73	3.85	3.67

Style Returns

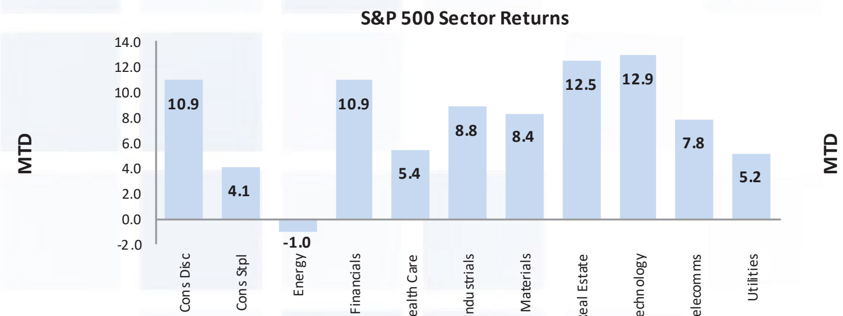
MTD

	V	B	G
L	7.54	9.34	10.90
M	9.43	10.23	12.20
S	9.00	9.05	9.10

YTD

	V	B	G
L	5.61	20.58	36.63
M	4.57	8.82	17.00
S	1.96	4.20	5.97

S&P 500 Sector Returns



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