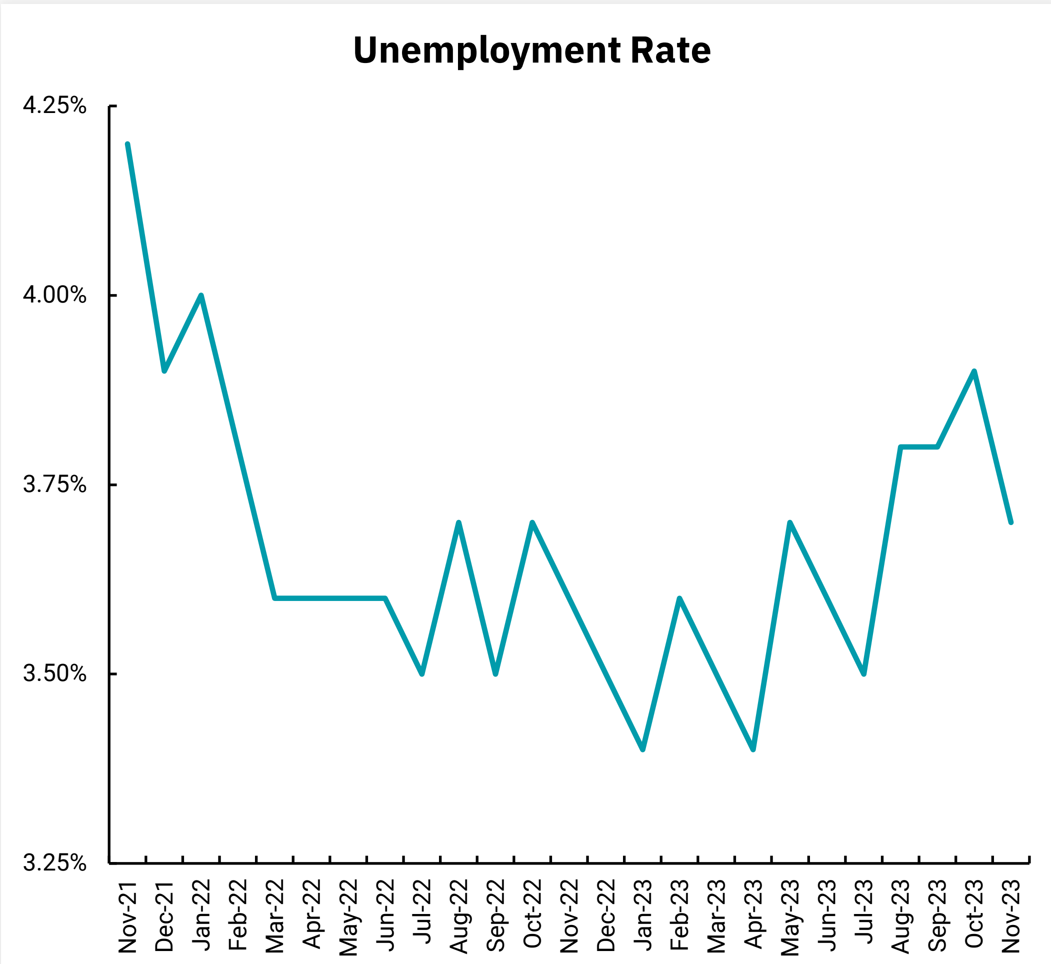
INVESTMENT MANAGEMENT

Weekly market update

Chart of the week (Dec. 08, 2023)



Our outlook for U.S. economic growth largely hinges on the job market, which makes sense from the standpoint that most of our economy is driven by consumer spending. In the third quarter of 2023, consumers were responsible for 68% of the positive 5.2% growth we saw. The labor market is also a key part of what drives the outlook for Federal monetary policy as the unemployment rate, and particularly wages, play a key role in the outlook for longer-term inflation. Hence, the monthly report from the Department of Labor (DOL) is, at present, the most important economic data point for the capital markets.

When the Federal Reserve began raising rates in response to inflation in March 2022, Fed Chair Jay Powell indicated the Fed's actions would eventually cause some level of "pain." The "pain" of which he spoke was the expectation for higher unemployment, as higher rates would increase the cost of borrowing, which would slow consumer spending and eventually corporate revenues, leading to companies announcing layoffs. Higher unemployment in turn reduces consumer demand and leads to lower inflation. Historically, that is how higher rates lead to lower inflation.

The uncomfortable part of that equation is that, in effect, the Fed's policies are designed to put people out of work. Based on the size of the U.S. workforce, every 1% increase in unemployment means 1.6 million jobs lost.

The good news is, at least to date, the Fed's interest rate increases have NOT led to a material increase in the unemployment rate. In March 2022, when the Fed began raising rates, the headline unemployment rate was 3.6%. It fell to as low as 3.4% before rising to 3.9% in October of this year. Based on the November report released Dec. 8, it is back to 3.7%. That is a mere 0.1% increase since the start of the rate-hiking cycle, despite rates being 5% higher now. Within the data, we also saw wage growth, a measure of the imbalance between the demand and supply of labor, fall to 4% year-over-year rate. That’s still above the Fed's 2% target but the lowest year-over-year rate since June 2021.

Meanwhile, inflation is moving in the right direction, even as the labor market continues to help support the U.S. consumer and provide the basis for positive economic growth into 2024. The Fed's insistence on getting inflation back to 2% and having it stay there could mean we might still see unemployment have to go up from here. And we do expect the Fed to be slow to lower rates, but in their Dec. 13 announcement, expect them to keep rates the same as they provide an update to their economic and rate outlook for 2024.

Source: Federal Reserve Bank of St. Louis.

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Commentary (Dec. 08, 2023)

Domestic Equities

- Stocks continued to rise in the first week of December, led again by AI, a major driver of returns all year. AMD rose sharply after announcing several major players are in the process of adopting its new AI chips. Alphabet was also up after unveiling its new AI system, which will become widely available next year.
- A stronger-than-expected jobs report brought mixed reactions on Friday. Healthy job growth and an increase in participation shows that the labor market is progressing despite rising costs, which supports a “soft landing.” However, this strength casts doubts on the expectation of four or more rate cuts next year, which could lead to near-term anxiety.
- Small-cap stocks, which had negative year-to-date returns as of the end of October, have picked up momentum and are up over 10% from that point. The “soft landing” narrative is helping drive the rally.

Bonds

- U.S. Treasury bonds rose in price mid-week as the 10-year yield approached the lowest level over the last three months. However, a strong jobs report on Friday reversed the price gains as the 10-year Treasury yield rose on Friday, ending the week in line with the beginning of the week.
- High-yield bonds gained as spreads tightened during the week.
- Rates on 30-year, fixed-rate mortgages declined during the week, ending the week at 7.0%.
- The Federal Open Market Committee will meet on Tuesday and Wednesday, and market expectations indicate a high likelihood of no change in the Fed Funds rate. The Bank of England and the European Central Bank will meet on Thursday.

International Equities

- Global investor sentiment subsided this week as traders wondered if the market was getting ahead of itself after five consecutive weeks of gains. Investors remain focused on central bank policy changes going into 2024.
- Foreign developed markets yielded mixed results this week as several key markets across Europe moved higher while others faltered. German stocks were higher this week despite new data showing the country’s factory orders unexpectedly fell in October, suggesting further economic weakness in Europe’s largest economy.
- Emerging markets ran into turbulence this week as many markets across Asia, Latin America and Europe fell. Chinese stocks continue to face headwinds after Moody’s Investors Service cut its outlook for Chinese sovereign bonds to negative, underscoring deepening concerns about the debt levels in the world’s second-largest economy.

Economics

- The Bureau of Labor Statistics (BLS) reported total nonfarm payroll employment increased by 199,000, up from the prior month of 150,000, and the unemployment rate (U-3) declined to 3.7%, lower by 0.2%. Most job gains occurred in health care and state and local governments.
- Additionally, the BLS Job Openings and Labor Turnover Survey (JOLTS) indicated the number of open jobs totaled 8.7 million as of the last business day in October, a decline of 617,000 from the prior month. Separations totaled 5.6 million.
- The Bureau of Economic Analysis reported exports declined to $259 billion, while imports increased to $323 billion in September, leading to a monthly trade deficit of $64 billion.
- The Consumer Price Index will be released on Tuesday.

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Weekly Market Update

For Week Ending December 08, 2023

Markets

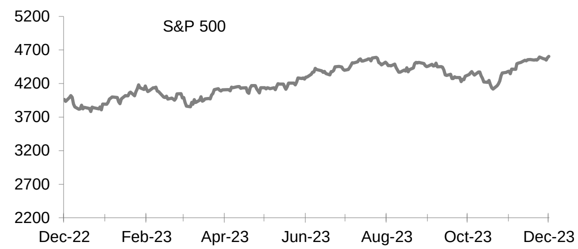
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	36,247.87	0.0%	11.7%	9.6%
S&P 500 Index	4,604.37	0.2%	21.8%	18.1%
NASDAQ	14,403.97	0.7%	38.7%	31.1%
S&P 400 Midcap Index	2,632.09	0.3%	10.0%	7.3%
S&P 600 Smallcap Index	1,220.21	1.3%	7.3%	3.7%
MSCI EAFE	7,439.59	0.4%	13.0%	12.0%
MSCI Emerging Markets	507.55	-0.7%	4.4%	3.3%
Bloomberg US Agg	2,103.25	0.1%	2.7%	0.7%
Bloomberg Municipal 5 Yr	483.96	0.4%	3.3%	3.0%
Bloomberg US Corporate	3,121.70	0.2%	5.2%	2.5%
Bloomberg Glb Agg ex US Hdg	553.91	0.4%	6.2%	3.5%
Bloomberg High Yield	2,407.40	0.4%	10.1%	8.8%
MSCI US REIT Index	2,015.97	0.2%	5.3%	1.7%
Bloomberg Commodity Index	223.94	-3.5%	-8.9%	-7.4%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.50%	4.50%	4.00%
3-Month Treasury	5.37%	5.35%	4.34%	4.24%
1-Year Treasury	5.12%	5.00%	4.69%	4.65%
2-Year Treasury	4.72%	4.54%	4.43%	4.31%
5-Year Treasury	4.24%	4.12%	4.00%	3.71%
7-Year Treasury	4.27%	4.20%	3.97%	3.62%
10-Year Treasury	4.23%	4.20%	3.87%	3.48%
30-Year Treasury	4.30%	4.39%	3.96%	3.43%
Consumer Rates				
30-Year Mortgage	7.45%	7.48%	6.66%	5.83%
Prime Rate	9.25%	9.25%	8.25%	7.75%
SOFR	5.32%	5.39%	4.77%	3.80%
Commodities				
Gold	2,004.67	2,072.22	1,824.02	1,789.14
Crude Oil (WTI)	71.23	74.07	80.26	71.10
Gasoline	3.17	3.25	3.21	3.32
Natural Gas	2.58	2.81	4.48	5.83
Copper	3.83	3.93	3.81	3.86

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	19.93	20.22	4.65	1.97
S&P 500	20.69	21.14	4.32	1.53
S&P 500 Value	18.05	18.12	2.87	1.93
S&P 500 Growth	23.57	24.37	7.37	1.20
NASDAQ	30.31	35.40	5.77	0.82
S&P Midcap 400	15.73	15.11	2.29	2.04
S&P Smallcap 600	15.29	13.39	1.70	1.82
MSCI EAFE	13.55	13.43	1.68	3.31
MSCI Emerging Markets	13.24	13.74	1.53	3.23

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	6.47	5.28	4.30
Mid	9.31	8.24	7.31
Small	9.96	9.39	8.77

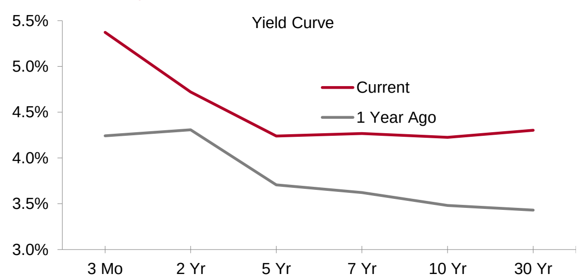
> 10%
0% - 10%
<0%

Year to Date*

	Value	Core	Growth
Large	16.97	21.79	26.26
Mid	8.11	10.01	11.87
Small	6.21	7.27	8.26

*S&P Indices

Fixed Income Style



1 Month*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	0.76	1.30	5.30
Corp	1.15	2.46	7.23
HY	1.92	2.76	6.10

> 10%
0% - 10%
<0%

Year to Date*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	3.25	2.48	-2.07
Corp	4.21	4.78	5.89
HY	10.05	10.13	10.86

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.2%	7.7%
CPI Core Inflation	4.0%	6.3%
Personal Consumption Exp (PCE) Core	3.5%	5.3%
Jobs		
Unemployment Rate (U3)	3.7%	3.6%
Broader Unemployment Rate (U6)	7.0%	6.7%
JOLT Survey (in millions)	8.73	10.47
Jobless Claims (000's)	220	216
Change in Non-Farm Payroll (000's)	199	290
Average Hourly Earnings (Y/Y % Change)	4.0%	5.0%
Consumer & Spending		
Consumer Confidence (Conf Board)	102.0	101.4
Consumer Spending ($ Bil)	18,865	17,915
Consumer Credit ($ Bil)	4,990	4,842
Retail Sales ($ Bil)	705	688
Housing		
Housing Starts (000's)	1,372	1,432
Case-Shiller Home Price Index	312.31	300.50
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	22,506	21,851
Quarter over Quarter Change	5.2%	2.7%
Year Over Year Change	3.0%	1.7%
ISM Manufacturing	46.70	49.00
Capacity Utilization	78.90	80.64
Markit US Composite PMI	50.70	46.40
U.S. General		
Leading Economic Indicators	103.9	112.5
Trade Weighted Dollar Index	120.4	122.0
EUR / USD	1.08	1.06
JPY / USD	144.95	136.67
CAD / USD	0.74	0.74
AUD / USD	0.66	0.68

S&P 500 Sector Returns

	1 Month	YTD
Information Technology	5.80%	53.40%
Communication Services	3.85%	50.41%
Consumer Discretionary	6.89%	37.51%
Industrials	7.59%	12.42%
Financials	7.33%	7.11%
Materials	6.25%	7.03%
Real Estate	9.77%	5.21%
Health Care	3.11%	-1.55%
Consumer Staples	1.88%	-2.90%
Energy	-0.82%	-4.01%
Utilities	4.32%	-7.88%

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