Fourth Street Performance Partners
Independent Investment Consultants

November 2023: Market Review

After three consecutive months of market weakness, investor confidence returned in November as fresh economic data signaled higher probability of a “soft landing” for the economy. Cooling inflation and slower job growth sparked a rally in financial assets as both stock and bond investors began to price in, not only the end of rate increases, but additional rate cuts next year from the Federal Reserve. The S&P 500 Index added +9.1% in the month, the Dow Jones Industrial Average was up +9.2%, and the tech-heavy NASDAQ Composite Index climbed +10.8%. Despite concerns of growth stalling in 2024, global equity markets have returned to levels just shy of all-time highs. The Federal Funds policy rate was left unchanged at 5.25% to 5.50% during the most recent meeting and expectations for December’s meeting is the Fed will remain at the current level. The Fed’s primary gauge of inflation, the Personal Consumption Expenditures (PCE) Price Index was flat in October, resulting in the lowest year-over-year change (+3.0%) since March of 2021. Wage growth remained modest, yet the labor market showed signs of demand for workers easing. Fourth quarter GDP estimates show expectations of approximately +1% real growth, down sharply from the revised +5.2% reading in the third quarter.

All domestic equity market segments recorded strong returns in November. Growth outperformed value in all capitalization sizes. The Russell 1000 Growth Index gained +10.9% versus the Russell 1000 Value Index’s gain of +7.5%. The Russell Mid Cap Growth Index (+12.2%) led the Russell Midcap Value Index (+9.4%) and the Russell 2000 Growth Index (+9.1%) modestly outperformed the Russell 2000 Value Index (+9.0%). Gold fared well in the month too, ending at $2,056 per ounce (+3.4% this month). WTI crude oil dropped -6.0% to $76 a barrel at month-end.

Developed international equities rose similarly as U.S. equities aided by a decline in the U.S. dollar in the month. The MSCI EAFE Index appreciated +9.3%, which outgained the MSCI ACWI ex USA Index (+9.0%) due to developed international equities outperforming emerging markets. The MSCI Emerging Markets Index gained +8.0% in November. Germany (+12.8%) was the largest country contributer to international gains in November.

U.S. fixed income markets also experienced a strong month in November as bond investors, similarly to equity investors, began to price in that the Federal Reserve has made its last rate hike this cycle. The ten year U.S. treasury yield fell from 4.9% last month to end November at 4.3%, sending bond prices higher. The Bloomberg Aggregate Bond Index gained +4.5% in November, more than covering all the losses seen year-to-date. The Bloomberg U.S. High Yield Corporate Bond Index (+4.5%) performed in-line with the Aggregate Index while the Bloomberg Investment Grade Corporate Index surged +5.6% in the month. The inverted spread between the 2- and 10-year U.S. Treasury notes widened approximately 17 basis points over the month to -0.36%. Longer duration bonds outperformed shorter duration bonds in November as the Bloomberg U.S. Treasury 20+ Year Index appreciated +10.0%.

Global financial markets rallied throughout November on the back of strong economic data, softer inflation readings, and a general consensus that the Fed is done raising interest rates. Despite the euphoria sending equity prices near their all-time highs, financial markets have likely entered a more perilous path forward as a slowing economy will put significant expectations of interest rate cuts from a Federal Reserve that may not be prepared to shift gears from their inflation-fighting mindset. Investors will continue to closely monitor inflation, employment, and consumer spending as these data points will likely dictate the tone from the Federal Reserve in 2024. In addition, the large supply of U.S. treasuries brought to the market, and importantly the perceived demand for U.S. treasuries, will remain a focal point and could amplify volatility in the coming months.

See footnotes on the following page.

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