

Global Market Commentary: 4th Quarter 2023

Markets Have Great Fourth Quarter

Global equity markets had a terrific fourth quarter – and the gains were generally across the board as the tech-names, large-caps, mega-caps and small caps all advanced by more than 10%.

There were a lot of milestones to cheer this quarter, but the one that is garnering a lot of attention is that the final 2/3 of the quarter saw 9 consecutive winning weeks for the S&P 500, DJIA and NASDAQ – something that hasn't happened in unison since 1985.

More encouraging to investors is that this 9-week rally was very strong. In fact, since the streak started on October 30th, NASDAQ is up about 17% and the S&P 500 and DJIA are up about 15% each. And the Russell 2000 – which did post a losing week since October 30th – is up a staggering 23%.

For the fourth quarter of 2023:

- The DJIA advanced 12.7%;
- The S&P 500 gained 11.2%;
- NASDAQ jumped 12.8%; and
- The Russell 2000 leapt 15.4%.

The themes that drove market performance in the fourth quarter continued to center around inflation, the Fed, the housing market, good corporate earnings, and the labor market, with recent economic data suggesting that inflation is easing as the Fed paused its rate-hiking trend. Now Wall Street's collective chatter is centering on how quickly and how often the Fed might cut rates in 2024.

Further, we saw that:

- Volatility, as measured by the VIX, trended down this quarter, beginning the quarter at 17.5 and ending at 12.5, although there was a spike toward the end of October, followed by a very steady decline.
- West Texas Intermediate crude trended down significantly for the fourth quarter, losing over \$17/barrel and ending the year at \$71.33. For comparison, this time last year, crude prices were about \$5 more per barrel.

Market Performance Around the World

Investors were happy with the quarterly performance around the world too, as all 36 developed markets tracked by MSCI were green for the fourth quarter of 2023, with the gains of 34 of the 36 in double-digits. And for the 40 developing markets tracked by MSCI, 37 were positive, with the two indices representing Eastern Europe jumped over 28%.

Index Returns	Q42023
MSCI EAFE	+10.09%
MSCI EURO	+12.60%
MSCI FAR EAST	+7.36%
MSCI G7 INDEX	+10.05%
MSCI NORTH AMERICA	+11.44%
MSCI PACIFIC	+8.93%
MSCI PACIFIC EX-JAPAN	+10.71%
MSCI WORLD	+11.07%
MSCI WORLD EX-USA	+10.14%

Source: MSCI. Past performance cannot guarantee future results

Sector Performance Rotated in Q42023

The overall sector performance for the fourth quarter was very good, In fact, only one sector declined (Energy) whereas the other 11 all jumped markedly relative to the third quarter. And interestingly, the last three quarters have seen a mini-pattern that investors are hopeful is not repeated – as 9 sectors were green in the 2nd quarter, 10 were red in the 3rd quarter and 10 were green in the 4th quarter. Let's hope that Q12024 ends that trend.

Not surprisingly, with the exception of the Energy sector, the other 10 sectors all saw relative performance improve dramatically from the previous quarter, with a few sizeable advances – like Information Technology going from +20% (2Q) to -6% (3Q) to +17% (4Q).

Here are the sector returns for the fourth and third quarters of 2023:

S&P 500 Sector	3Q2023	4Q2023
Information Technology	-5.55%	+17.38%
Energy	+12.27%	-9.62%
Health Care	-2.65%	+5.13%
Real Estate	-8.90%	+18.07%
Consumer Staples	-6.60%	+4.54%
Consumer Discretionary	-5.06%	+12.79%
Industrials	-5.16%	+11.83%
Financials	-1.13%	+12.43%
Materials	-4.76%	+8.87%
Communication Services	+1.05%	+9.90%
Utilities	-9.25%	+7.82%

Source: FMR

Reviewing the sector returns for just the 4th quarter of 2023, we saw that:

- 10 of the 11 sectors were painted green, with only the Energy sector declining as oil prices retreated during the quarter;
- The interest-rate sensitive sectors (think Real Estate and Financials) performed very well as rates moderated;

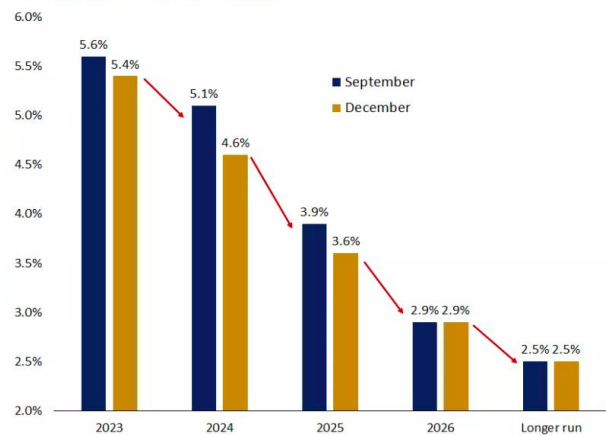
- Information Technology saw an especially huge swing, but so did the other 10 sectors; and
- The differences between the best (+17%) performing and worst (-10%) performing sectors in the fourth quarter was massive.

The Federal Reserve

The next Federal Open Market Committee meeting will be held in late January of 2024 and many expect the Fed to hold rates steady at a target of 5.25%-5.50% and hope that there might be several rate cuts in 2024 as inflation eases.

The FOMC raised interest rates to 5.25%–5.50% at its July 2023 meeting, then marking 11 rate hikes in an effort aimed at curbing stubbornly high inflation. But the FOMC did hold rates steady during their most recent meeting in December 2023, as well as the prior September and November meetings.

Fed projections for policy rate (median)

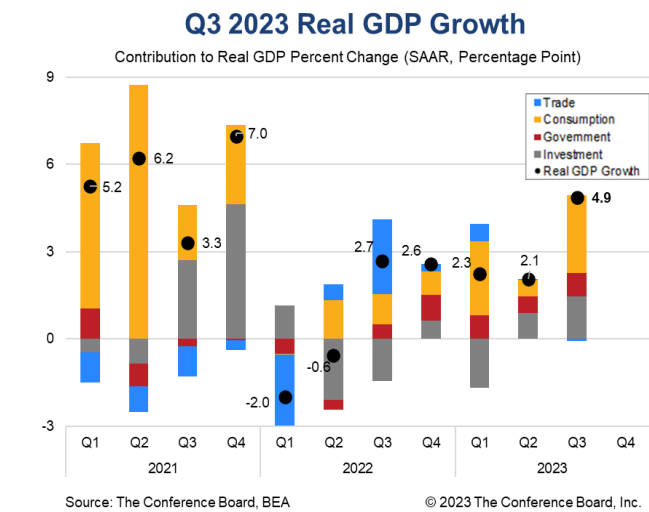


Source: FOMC projections.

GDP Up 4.9% in Q3

Late in the quarter, the Bureau of Economic Analysis reported that real gross domestic product (GDP) increased an annual rate of 4.9% in the third quarter of 2023 according to its "third" estimate. In the second quarter, real GDP increased 2.1%.

The increase in real GDP reflected increases in consumer spending, private inventory investment, exports, state and local government spending, federal government spending, residential fixed investment, and nonresidential fixed investment. Imports increased.



Compared to the second quarter, the acceleration in real GDP in the third quarter primarily reflected an upturn in exports and accelerations in consumer spending and private inventory investment that were partly offset by a deceleration in nonresidential fixed investment. Imports turned up.

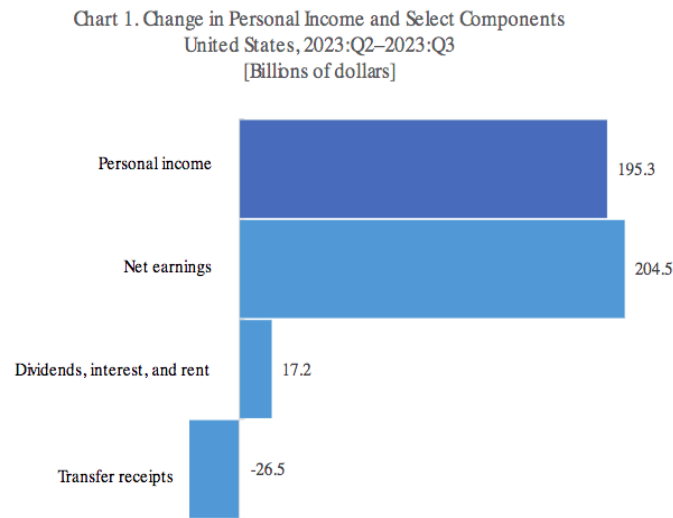
- Current-dollar GDP increased 8.3% at an annual rate, or \$547.1 billion, in the third quarter to a level of \$27.61 trillion, a downward revision of \$34.3 billion from the previous estimate.
- The price index for gross domestic purchases increased 2.9% in the third quarter.
- The personal consumption expenditures price index increased 2.6%, a downward revision of 0.2 percentage point. Excluding food and energy prices, the PCE price index increased 2.0%, a downward revision of 0.3 percentage point.

Personal Income

Current-dollar personal income increased \$196.2 billion in the third quarter. The increase in the third quarter primarily reflected increases in compensation (led by private wages and salaries), nonfarm proprietors' income, and personal interest income that were partly offset by a decrease in personal current transfer receipts.

Disposable personal income increased \$143.5 billion, or 2.9%, in the third quarter. Real disposable personal income increased 0.3%.

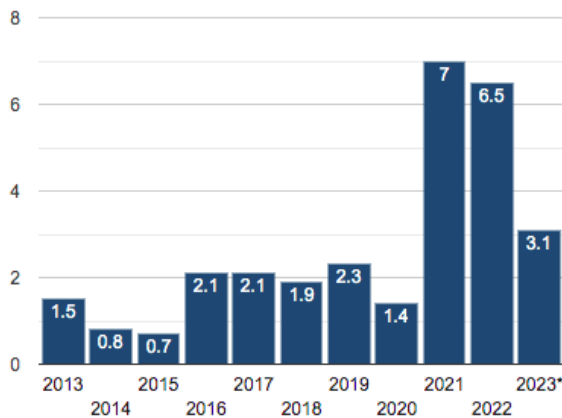
Personal saving was \$851.2 billion in the third quarter, an upward revision of \$35.9 billion from the previous estimate. The personal saving rate – personal saving as a percentage of disposable personal income – was 4.2% in the third quarter.



Inflation Moderates

According to U.S. Labor Department data published on Dec. 12th, the annual inflation rate for the United States was 3.1% for the 12 months ended November, compared to 3.2% previously.

Chart: United States Annual Inflation Rates (2013 to 2023)



The next update on inflation is scheduled for release on Jan. 11th and will provide information on the rate of inflation for the 12 months ended December 2023.

Corporate Earnings

Research firm FactSet compiled a few key metrics of earnings for the S&P 500 companies, including that:

- For Q4 2023, the estimated (year-over-year) earnings growth rate for the S&P 500 is 2.4%. If 2.4% is the actual growth rate for the quarter, it will mark the second straight quarter of year-over-year earnings growth for the index.
- For Q4 2023, 72 S&P 500 companies have issued negative EPS guidance and 39 S&P 500 companies have issued positive EPS guidance.
- The forward 12-month P/E ratio for the S&P 500 is 19.3. This P/E ratio is above the 5-year average (18.8) and above the 10-year average (17.6).

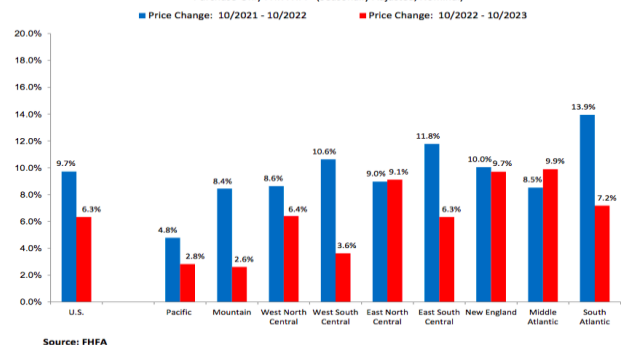
House Prices Rise

The Federal Housing Finance Agency reported that U.S. house prices rose in October, up 0.3% from September. House prices rose 6.3% from October 2022 to October 2023. The previously reported 0.6% price increase in September was revised to a 0.7% increase.

For the nine census divisions, seasonally adjusted monthly price changes from September 2023 to October 2023 ranged from -0.3 percent in the New England division to +1.1 percent in the Middle Atlantic division. The 12-month changes ranged from +2.6 percent in the Mountain division to +9.9 percent in the Middle Atlantic division.

“U.S. house price gains remained strong over the last 12 months.” said Dr. Nataliya Polkovnichenko, Supervisory Economist in FHFA’s Division of Research and Statistics. “On a monthly basis, price appreciation moderated in October, with four divisions exhibiting slowdowns from the previous month.”

Twelve-Month House Price Changes – Prior Year vs. Most Recent Year
Purchase-Only FHFA HPI[®] (Seasonally Adjusted, Nominal)

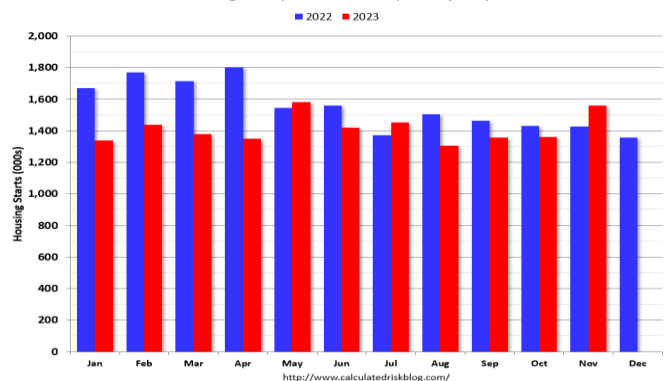


Source: FHFA

Single-Family Housing Starts Jump

The U.S. Census Bureau reported that privately-owned housing starts leapt 14.8% in November to 1.56 million units while single-family housing starts surged 18.0% in November. In addition, it was reported that building permits declined 2.5% and housing completions rose 5.0%.

Housing Starts, 2022 and 2023, SAAR (000s)



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Building Permits

Privately-owned housing units authorized by building permits in November were at a seasonally adjusted annual rate of 1,460,000.

- This is 2.5% below the revised October rate of 1,498,000.
- This is 4.1% above the November 2022 rate of 1,402,000.

Single-family authorizations in November were at a rate of 976,000

- This is 0.7% above the revised October figure of 969,000.
- Authorizations of units in buildings with five units or more were at a rate of 435,000 in November.

Housing Starts

Privately-owned housing starts in November were at a seasonally adjusted annual rate of 1,560,000.

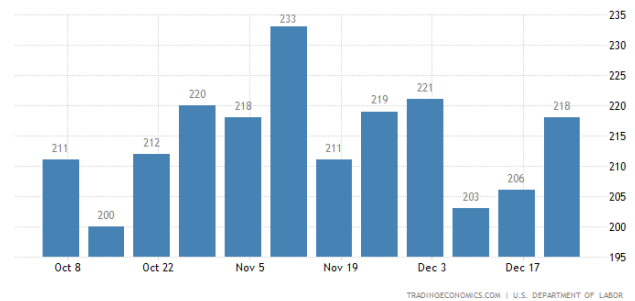
- This is 14.8% above the revised October estimate of 1,359,000.
- This is 9.3% above the November 2022 rate of 1,427,000.

Single-family housing starts in November were at a rate of 1,143,000.

- This is 18.0% above the revised October figure of 969,000.
- The November rate for units in buildings with five units or more was 404,000.

Job Openings Fewest Since March 2021

The number of job openings decreased to 8.7 million according to the U.S. Bureau of Labor Statistics reported. In addition, the number of Americans filing for unemployment benefits rose by 12,000 to 218,000 on the week ending December 23rd, suggesting some softening in the US labor market before the end of the year. The result was consistent with growing expectations that the Federal Reserve is likely to start its cutting cycle in the first quarter of 2024.



Sources: bls.gov; census.gov; factset.com; fidelity.com; msci.com; nasdaq.com; wsj.com; morningstar.com; census.gov