Weekly Investment Insights

November 27, 2023

Key Takeaways:

- Leading indicators fall for 19th straight month.
- Fed does not see rate cuts in the near future.
- Consumer sentiment remains low; inflation expectations rise.
- Global equities rally as Treasury yields fall.
- Treasury yields fall after FOMC minutes.
- OPEC+ unable to come to agreement on production levels.

Weekly Economic Recap –

Fed Sees Economic Growth Slowing, No Rate Cuts in Near Future

The Leading Economic Indicators Index fell for the 19th consecutive month in October. Deteriorating consumer expectations for business conditions and lower ISM new orders were the main conrtibutors to the index remaining in negative territory.

Sales of previously owned homes fell 4.1% in October, running at an annualized rate of 3.79 million units, the slowest pace since August 2010. A lack of inventory and high mortgage rates remain the leading causes of poor home sales.

The FOMC released the minutes from their late-October meeting which indicated participants have no desire to cut interest rates any time soon. “Monetary policy [should] be kept sufficiently restrictive to return inflation to the 2% objective over time,” the statement said. Participants also noted that they expect economic growth in the fourth quarter to “slow markedly” as they see risks to economic growth skewed to the downside.

The final reading on the University of Michigan Consumer Sentiment Index indicated sentiment fell for the fourth consecutive month. Factors leading the decline in sentiment included deterioration in expected business consditions. In addition, one year-ahead inflation expectations increased to 4.5%, its highest reading since April, while long-run inflation expectations increased to 3.2%, its highest reading since 2011.

Weekly Market Recap –

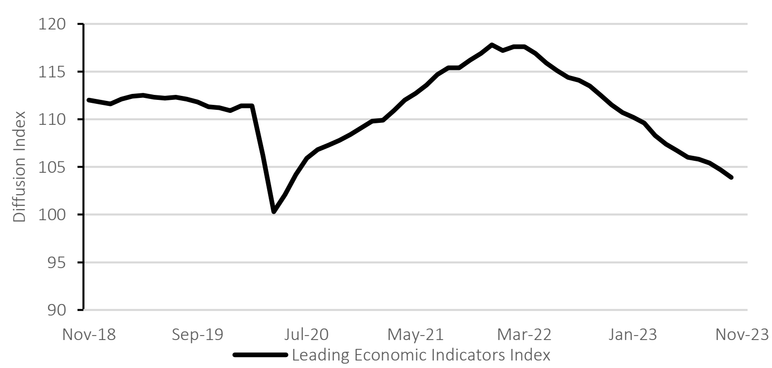
Equities Hopeful Fed is Done

Equities: The MSCI AC World Index was higher for the fourth straight week as investors continue to expect the Fed’s rate hiking cycle to be over as inflationary pressures ease. Major U.S. averages notched their fourth straight week of gains despite a shortened trading week due to the Thanksgiving holiday. Large cap stocks led the U.S. performance with the Dow Jones the best performing index for the week.

Fixed Income: The Bloomberg Barclays Aggregate Index was modestly lower last week as Treasury yields ended the week higher after the release of the FOMC October meeting minutes. Fixed income sector performance was mixed with EM debt (USD) and municipal bonds leading the gains while Treasuries and TIPS were the largest underperformer.

Commodities/FX: The Bloomberg Commodity Index was lower for the fourth time in five weeks. Crude oil was slightly higher as OPEC+ announced its producers were unable to come to an agreement on additional production cuts. Gold prices were higher for the second straight week as the US Dollar fell on expectations the Fed is finished with their tightening cycle.

Leading Indicators Index Falls to Lowest Level since May 2020



Footnotes: Data is as of October 2023.

Sources: Bloomberg Finance LP, Verdence Capital Advisors.

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Past performance is not indicative of future returns

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Key Takeaways:

- Inflation data continuing to improve, but still work to be done.
- Fed keeps rates unchanged.
- Global equities on pace to post best monthly performance in three years.
- Falling yields push bond index higher for first time in seven months.
- Commodities fall on demand fears.

November Market Recap: Equities Surge as Treasuries Fall

Weak economic data and persistent geopolitical turmoil has done little to derail the global equity rally this month. Through Friday (11/24), the MSCI AC World Index is on pace to post its best monthly performance since November 2020. Investors have looked beyond the slowing economy and are focusing on the idea that the Federal Reserve tightening cycle may be coming to an end. Treasury yields also reflected this view with all maturity ranges seeing yields drop, led by long term Treasuries. This week, we analyze November performance thus far from an economic and asset class perspective.

- **Inflation continuing to improve:** Headline inflation as tracked by the Consumer Price Index increased at a 3.2% annualized pace, which was less than expected for the month. Core CPI, which strips out volatile food and energy prices, increased at the slowest annual pace in two years.

- **Labor market shows signs of cooling:** The U.S. economy added fewer jobs than expected during the month and the unemployment rate increased to its highest level since January 2022 (3.9%). In addition, both jobless claims and continuing claims are accelerating.

- **Fed keeps rates unchanged:** The Federal Reserve decided to keep interest rates steady at 5.25% - 5.50% during their most recent meeting but kept the possibility of additional hikes on the table and stressed the committee's data dependency.

- **Consumer confidence deteriorates:** Confidence among consumers deteriorated to a five-month low, according to the Conference Board. The University of Michigan survey reiterated these findings and reported long-run inflation expectations increased to the highest level since 2011.

Global Equities Rally: Both developed and emerging market equities are on pace to post strong gains for the month as investors anticipate global central banks may be nearing the end of their tightening cycles.

- **Global equities set to post best performance in three years:** The MSCI AC World Index is on pace to post its best monthly performance since November 2020. Both developed and emerging markets are on pace to post their best monthly performance of the year, with developed markets set to outperform emerging markets for the second straight month.

- **U.S. equities on pace for best monthly performance of the year:** All major U.S. averages are on pace to post their best monthly performance of the year, driven by a surge in growth and tech related sectors due to falling Treasury yields.

Fixed Income – Yields Plummet: The Bloomberg Barclays Aggregate Index is on pace to post its first monthly gain in seven months are Treasury yields fell on slowing inflation and bets the Fed has finished raising interest rates.

- **Investment grade corporates lead rally:** IG corporates are set to post their best monthly performance in a year and post a gain for the first time since July.

- **Short duration lag:** Floating rate instruments and short-term Treasury bills rallied but at the slowest pace of all the sectors.

Commodities Weaker on Demand Fears: The Bloomberg Commodity Index is on pace to fall for the third time in the past four months. Energy is leading the weakness. Natural gas is in bear market territory (drop below 20%) and crude oil prices are on pace to decline for the second consecutive month.

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