

## November 20, 2023 – Investment Commentary

### Market Moves

Last week, both stocks and bonds (price up / yield down) were up. The MSCI EAFE non-US developed and MSCI Emerging Markets indices outperformed the S&P 500. Across U.S. Russell style & market cap indices, small cap value did the best, and the smaller size factor led more broadly. In local currency terms, the pan-European STOXX Europe 600 Index ended 2.8% higher as financial markets increased conviction on central banks cutting interest rates soon. Major stock indexes also rose sharply. Germany's DAX climbed 4.5%, Italy's FTSE MIB gained 3.5%, and France's CAC 40 Index added 2.7%. The UK's FTSE 100 Index advanced 1.9%.

As for fixed income, the U.S. 10 year treasury yield fell 17 bps on the week to 4.44% and the 2 year – 10 year treasury yield spread flattened to -46 bps. The best performing parts of the bond market included investment grade corporates and mortgage backed securities (MBS).

### What We Are Monitoring Includes...

Inflation is coming down, keeping an eye on initial jobless claims, and non-U.S. economic data appears mixed. We are particularly interested in the shelter index increased +0.3% month-over-month (down from +0.6% last month), but still +6.7% year-over-year and accounting for over 70% of the total increase in core CPI. We continue to see the shelter index declining over 2024 as the lagged bizarre calculation methodology will catch up with more timely indicators. Zillow's national house price index is only up +1.8% year-over-year through October.

The jobs market seems to be softening as initial jobless claims ticked up. The jobs market has been the firmest pillar of the U.S. economy. The Fed has a dual mandate and has been focused on inflation. However, the full employment component may be more of a focus next year. As Powell said at the November Fed meeting, "The risk of doing too much versus the risk of doing too little are getting closer to balanced."

Credit card and auto loan delinquencies are increasing (now above pre-Covid levels), despite near record-low unemployment. These changes will be worth monitoring as the labor market weakens into 2024.

During 2023, the markets have incorrectly forecasted six different times Fed cuts. Currently, the markets are forecasting a 25bps cut around the first quarter of 2024. During this time, investors have generally treated "bad news" as "good news" where the belief is that a slowing economy will motivate the Fed to start an interest rate-cutting cycle.

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