



MARKET VIEW WEEKLY

December 15th, 2023



ECONOMIC REVIEW¹

- The Federal Reserve (Fed) elected not to raise the federal funds rate during their December 2023 meeting.
- For the third consecutive meeting, the central bank has chosen to hold interest rates steady.
- The federal funds rate target range remains 5.25%-5.50% and the Fed's cumulative total increase sits at 525% since March 2022, with a total increase of 1.00% occurring in 2023.
- Inflation cooled in November, with headline and core (excluding food and energy) Consumer Price Index (CPI) readings coming in as expected.
 - The headline figure for CPI dropped to 3.1% year-over-year while core CPI was flat at 4.0%. Compared to last month, headline and core prices increased 0.1% and 0.3%, respectively.
- The Producer Price Index (PPI) was flat month-over-month, lower than the expected 0.1% increase. On a year-over-year basis headline PPI decelerated from 1.2% in October to 0.9% in November, below the forecast of 1.0%.
 - Core PPI (excluding food and energy) was unchanged from last month, lower than the expected 0.2% increase. On a year-over-year basis, core PPI decelerated to 2.0% year-over-year from last month's 2.3% yearly increase and was below the forecast of 2.2%. This is the lowest level for core PPI since January 2021.
- Retail Sales were up 0.3% in November from the previous month, and up 4.1% from November 2022.

How do the Fed, inflation data, and retail sales impact you?

- Inflation readings continue to moderate as both CPI and PPI readings are at their lowest levels since 2021.
- With inflation forecasted to fall further in December and as we move into 2024, this has been a major factor in the Fed's decision to forecast 0.75% of rate cuts in 2024.
- Retail sales data came in better than expected, which was a welcome sign that consumer spending accounts for 70% of economic activity. Two notable numbers in the November report were encouraging. Gas station sales dropped 2.9% while food service sales increased 1.6%. Lower prices at the pump put more money back in the pockets of consumers and this excess cash can go towards things like holiday meals and gifts.



A LOOK FORWARD¹

- We have a busy week of data coming up; housing numbers, consumer confidence readings, and the Fed's preferred measure of inflation (Personal Consumption Expenditures, PCE).

How do housing numbers, consumer confidence readings, and PCE impact you?

- Prospective home buyers continue to experience another difficult month due to the persistent lack of housing inventory and the highest mortgage rates in a generation. An increase in existing or new home sales can indirectly stimulate economic activity with increased consumer spending on new furnishings and appliances, etc.
- Consumer confidence numbers can also be a positive reinforcement that economic activity can continue to be strong into 2024.



MARKET UPDATE²

Market Index Returns as of 12/15/2023	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	2.53	10.45	24.89	24.54	10.16	14.61
NASDAQ	2.86	12.26	42.70	39.56	6.21	17.49
Dow Jones Industrial Average	2.93	11.94	15.00	15.79	9.56	11.52
Russell Mid-Cap	4.26	11.25	15.60	15.61	5.85	11.43
Russell 2000 (Small Cap)	5.60	11.59	14.42	14.37	1.89	8.54
MSCI EAFE (International)	2.56	8.24	15.90	16.39	3.74	7.35
MSCI Emerging Markets	2.69	5.32	7.23	7.30	-5.10	3.11
Bloomberg US Agg Bond	2.16	6.16	4.88	2.66	-3.42	1.16
Bloomberg High Yield Corp	1.92	6.03	12.24	10.70	1.86	4.70
Bloomberg Global Agg	2.44	7.02	4.65	3.44	-5.67	-0.23



OBSERVATIONS

- The major equity indices notched their seventh consecutive positive week.
- The S&P 500 notched a new high for 2023 while rising +2.53% on the week, the Dow was also positive, returning 2.93%, while the NASDAQ pushed higher up +2.86%%
- Small-caps recorded another strong week, up 5.60%, while Mid-Caps were also positive +4.26%.
- Developed International was positive, up +2.56%, while Emerging Markets rebounded up 2.69%
- The U.S. Aggregate Bond Index was up a solid 2.16%, and both corporate credit and global bonds rose as well.



BY THE NUMBERS

- **Shohei Ohtani's Dodgers Contract Features Jerome Powell as MVP:** At first glance, it seems like financial magic: The Los Angeles Dodgers have somehow figured out a way to pay the two-way superstar Shohei Ohtani \$700 million, while also kind of only paying him \$460 million, at least as far as Major League Baseball's luxury tax rules are concerned. But what the team is doing relies on some pretty familiar financial math. Here are the basics: The Dodgers are benefiting from the fact that a dollar today isn't worth the same as one tomorrow, or what is known as the time value of money. Yes, the team will, over time, write checks to Ohtani totaling \$700 million: \$2 million will be paid annually over the 10 seasons of his playing contract, then \$680 million between 2034 and 2043. But \$700 million dribbled out until 2043 is the financial equivalent of earning \$460 million over 10 years, and then putting that money into a 10-year fixed-rate investment. The so-called discount rate assumption being used to get from \$700 million back to \$460 million is 4.43. This is all thanks to the Fed's historic interest rate hikes.³
- **Stock Market Returns after a 20% Up Year:** The U.S. stock market has more 20% up years than negative years since the 1920s. It's true. Since 1928, there have been 34 calendar years where the S&P 500 has finished up 20% or more against 26 total down years. The average return following a 20% up year was 8.9%. The average gain was +18.8% in up years. The average loss was -9.1% in the down years. While we cannot know for sure, we do know that a big positive year does not automatically infer reversion to the mean the following year.⁴

Economic Definitions

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Producer Prices - PPI (headline and core): Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

University of Michigan Consumer Sentiment Index: Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

Conference Board Consumer Confidence Index: The Consumer Confidence Survey® reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectation for inflation, stock prices and interest rates. Data are data available by age, income, region and top 8 states.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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¹ Data obtained from Bloomberg as of 12/15/2023.

² Data obtained from Morningstar as of 12/15/2023.

³ <https://www.wsj.com/sports/baseball/shohei-ohtanis-dodgers-contract-features-jerome-powell-as-mvp-319ec475>

⁴ <https://awealthofcommonsense.com/2023/12/what-happens-after-a-20-up-year-in-the-stock-market/>



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