



## MARKET VIEW WEEKLY

December 25<sup>th</sup>, 2023



### ECONOMIC REVIEW<sup>1</sup>

- The Personal Consumption Expenditures Price Index (PCE), a key measure of inflation that is closely monitored by the Federal Reserve (Fed), saw its November data released, which came in lower than the consensus expectations.
- Headline PCE shrank -0.1% on a month-over-month basis, marking the first contraction since the first quarter of 2020.
- On a year-over-year basis, headline PCE rose 2.6%, and core PCE, which excludes the volatile food and energy prices, rose 3.2%, the lowest readings since February, and April of 2021, respectively.
  - Core PCE is often regarded as the Fed's favorite measure to gauge the future path of inflation.
- This particularly soft reading was buoyed by a drop in goods inflation, which read -0.7% in the most recent report.
  - This suggests that while the prices of services still remain elevated, the prices of goods are beginning to fall.
  - Another key data point in this report was the movement of energy prices, which fell -2.7% on a month-over-month basis in November.
    - This comes on the back of lower oil prices, as crude prices remained depressed in November.
- In addition to PCE, the final reading of the third quarter's Gross Domestic Product (GDP) was released.
- Q3 GDP grew at an annualized rate of 4.9%, which was down slightly from the previous estimate of 5.2%.
  - 2.98 of the 4.85 percentage points were attributed to growth within the private services sector of the economy.<sup>2</sup>
    - Gains were particularly strong in the retail trade and information sectors.

#### How do the Fed, GDP, and inflation data impact you?

- Inflation readings continue to moderate as now all three major inflation gauges 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.
- Ultimately, the speed at which inflation falls is one of the major points in determining how fast rate cuts will materialize in 2024.
  - Interest rate levels have a significant impacts on not only consumer trends, but also corporate earnings, and financial market performance as a whole.



### A LOOK FORWARD<sup>1</sup>

- Next week will be quieter in terms of economic releases, but analysts will focus on the House Price Index, as well as the S&P Case Shiller Index, both of which measure the prices of housing.

#### How do housing prices impact you?

- The largest addition to inflation is the shelter index. In order to see inflation fall into next year, home price indices like these will need to see a meaningful drop.
- Housing affordability has begun to ease as mortgage rates have fallen below 7% for the first time since August.
  - Affordability in the housing market may spur an increase in activity from homebuilders and homebuyers alike.



## MARKET UPDATE<sup>3</sup>

| Market Index Returns as of 12/22/2023 | WTD    | QTD    | YTD    | 1 YR   | 3 YR   | 5 YR   |
|---------------------------------------|--------|--------|--------|--------|--------|--------|
| S&P 500                               | 0.77%  | 11.31% | 25.85% | 25.72% | 10.54% | 16.47% |
| NASDAQ                                | 1.22%  | 13.63% | 44.44% | 44.04% | 6.32%  | 19.84% |
| Dow Jones Industrial Average          | 0.22%  | 12.18% | 15.25% | 15.05% | 9.67%  | 13.16% |
| Russell Mid-Cap                       | 1.08%  | 12.46% | 16.85% | 16.79% | 5.86%  | 13.37% |
| Russell 2000 (Small Cap)              | 2.47%  | 14.35% | 17.25% | 17.35% | 1.78%  | 11.00% |
| MSCI EAFE (International)             | 0.84%  | 9.15%  | 16.88% | 16.95% | 4.19%  | 8.10%  |
| MSCI Emerging Markets                 | -0.79% | 4.48%  | 6.39%  | 6.71%  | -5.23% | 3.25%  |
| Bloomberg US Agg Bond                 | 0.14%  | 6.30%  | 5.02%  | 4.34%  | -3.36% | 1.10%  |
| Bloomberg High Yield Corp             | 0.67%  | 6.74%  | 13.00% | 11.94% | 2.04%  | 5.34%  |
| Bloomberg Global Agg                  | 0.53%  | 7.58%  | 5.20%  | 4.85%  | -5.48% | -0.29% |



## OBSERVATIONS

- Market returns were broadly positive as the end of year rally continued into the last week of the year.
- The NASDAQ was the leader of the three major U.S. indices, rising 1.22% on the week, the S&P 500 returned 0.77%, and the Dow followed suit, notching a 0.22% gain.
- Small caps led the way yet again, posting an impressive 2.47% weekly return.
- Developed International was positive, up 0.84%, while Emerging Markets were the only negative performer, falling -0.79%.
- The U.S. Aggregate Bond Index was up 0.14%, and both corporate credit and global bonds rose as well.



## BY THE NUMBERS

- **Short Sellers Lost Close to \$178 Billion in 2023:** It has been a difficult year for those betting against stocks. Despite the average Bloomberg analyst projection for 2023 forecasting the first negative yearly return on the S&P 500, broad equity markets rebounded from their 2022 losses, and the index rose over 25% year-to-date in 2023 in a market that was defined by narrow returns from a few large-cap technology names deemed as the “Magnificent 7” (AAPL, TSLA, MSFT, GOOGL, NVDA, META, AMZN). As to be expected, many of the short positions that cost investors the most were those same seven names that posted large returns throughout the year. Short positions on the Magnificent 7 alone cost investors \$45.5 billion. In addition to those names, other tech companies like Coinbase, Uber, and Broadcom also caused significant losses for investors who took a short position.<sup>4</sup>
- **Angola Quits OPEC After Clashes with Saudi Arabia:** Angola is the second largest producer of oil in Africa, producing about 1.2 million barrels per day. Their production accounts for only around 2% of the total OPEC+ capacity, so the blow is unlikely to have significant implications on OPEC’s ability to influence market prices. In June, Saudi Arabia attempted to lower Angola’s production baseline, which is the starting point for calculating each country’s production quota. A lower baseline within the cartel means a lower share of the total oil produced by OPEC. Angola, who has attempted to expand their production capabilities left the cartel in order to pursue a higher level of output and realize increased revenues from the valuable export.<sup>5</sup>

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## 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).

**GDP:** Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

## 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.

### Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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<sup>1</sup> Data obtained from Bloomberg as of 12/22/2023.

<sup>2</sup> [Gross Domestic Product \(Third Estimate\), Corporate Profits \(Revised Estimate\), and GDP by Industry, Third Quarter 2023 | U.S. Bureau of Economic Analysis \(BEA\)](#)

<sup>3</sup> Data obtained from Morningstar as of 12/22/2023.

<sup>4</sup> [Short sellers lost close to \\$178 billion in 2023 \(yahoo.com\)](#)

<sup>5</sup> [Angola quits Opec after clashes with Saudi Arabia](#)



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