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December Market Update

Hope you are doing well! With such a dramatic shift in market sentiment in just one month, We are reaching out with a quick overview of what you need to know about key market and economic events in November. Take a look below.

Major Stock Indexes

November was a great one for long-term investors in U.S. stocks—essentially the polar opposite of October.

For the month of November, the S&P 500 added a whopping 8.92%, the Nasdaq 100 tacked on 10.67%, and the Dow Jones Industrial Average rose by 8.77%.

Fed Rate Decision

During November, market bulls were cheering the prospects of a more accommodating Federal Reserve (Fed), hopeful for rate cuts as early as May 2024. Are their expectations too lofty? Let's dig in.

The fresh month kicked off with the Fed policy meeting on November 1st, as the Fed left interest rates unchanged in line with market expectations.

There were no surprises in the Fed decision, and market participants turned decidedly optimistic that the Fed has finished raising rates, even though the Fed has not made an explicit statement containing this declaration.

Market watchers could be overly optimistic concerning the Fed, with some even pricing in the Fed's first rate cut in May of 2024.

In the near term, markets expect no change in rates at the December 13th meeting, indicating a 97.1% probability of no change in rates as of market close on November 30, according to the CME FedWatch Tool.

Cooler Jobs Market

The most recent October non-farm payrolls data showed a slightly softer labor market with 150,000 jobs created versus expectations of 170,000, a steep drop from September data, which showed 297,000 jobs created.

United Auto Workers (UAW) auto strikes factored into the data, contributing to a decline in the manufacturing sector. Healthcare, government, social assistance, and construction jobs were areas of strength.

The softer jobs data was cheered by market bulls, potentially indicating that Fed tightening is showing its intended effects by cooling the economy. But we don't want things to cool too much! Think Goldilocks — we want it to be "just right."

Consumer Inflation Decelerated in November

To the delight of market bulls, the declining consumer inflation trend continued in November.

Monthly government Consumer Price Index (CPI) data released on November 14th sparked a stock market rally, as the Consumer Price Index showed a 3.2% rise year-over-year in October—below Dow Jones estimates of 3.3%.

Core inflation, which strips food and energy from the metric, fell to the slowest annual pace since September of 2021, at 4%. This was also below analyst expectations of 4.1%.

Falling energy prices helped the headline figure, with oil and gas prices dropping in October.

Decelerating inflation helped set the tone for November, encouraging market bulls that the worst of rising prices could be in the rearview mirror.

Consumer Health

After three straight monthly declines, consumer confidence increased in November, indicating expectations for easier times ahead for consumers.

Retail sales fell less than expected in October, although the figure showed its first decline in seven months. The consumer has remained remarkably resilient throughout the interest rate hiking cycle and inflationary pressures.

And while retail sales fell in October, November could be a different story once the complete Black Friday and Cyber Monday data becomes available.

We, the consumer, drive the economy at the end of the day! It is easy to lose sight of this fact with so many headlines and market noise. Again, the consumer has been unbelievably resilient for a prolonged period.

Treasury Yields – and Mortgage Rates – Fall

Inflation loosening, employment growth declining, major equity indexes up, and lower government bond yields were the prevailing components of the market in November.

The widely monitored 10-Year Treasury Note Yield declined sharply, closing the month at a yield near 4.351% versus October's closing level near 4.874%. This represented a decline of over 50 basis points month-over-month.

The dip in rates is good news for sidelined prospective mortgage borrowers and great news for long-term investors in U.S. equities. Remember, major U.S. stock indexes and Treasury yields have an inverse relationship.

Relaxed Markets

Short-term market volatility subsided impressively in November, with the CBOE S&P 500 Volatility Index falling to levels not seen since pre-COVID days.

When S&P 500 Volatility falls, it translates to investor fear leaving the marketplace, along with the price of S&P 500 put options declining. Many portfolio managers use S&P 500 put options to hedge market risk, and the appetite for them was weak throughout November, indicating market confidence.

Some investors also watch the CNN Fear and Greed Index to gauge investor sentiment.

As long-term investors, market sentiment in the short term is not a major deciding factor for most of us. However, it can be helpful for those employing dollar cost-averaging techniques.

Unquestionably, investor sentiment did a proverbial “180” from October to November.

The Takeaway

November featured a complete reversal in sentiment from October, courtesy of declining interest rates, continuing signs of softening inflation, and the job market cooling.

Though it might seem counterintuitive at first, the deceleration in inflation and weaker employment data is ultimately good news, as it indicates the Fed’s rate hikes are having the intended effect.

Headwinds remain, but you wouldn't know it by glancing at the major stock market averages. Long-term investing continues to be the ticket.

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