

November 2023

# Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 11/30/2023

## Global Overview

November witnessed a month of recovery for global equities and fixed income. The U.S. market remained influenced by the AI boom and mega-cap tech stocks, but recently inflation has been slowing, another driving force to increased returns, especially in small-cap stocks. However, robust market gains at the start of the month were halted due to low demand in 30-year U.S. Treasury bonds. International markets mirrored the U.S. gains, benefitting by the U.S.'s momentum as well as optimism around impending European rate cuts. This positive sentiment propelled the MSCI World Index to a 9.4% gain.

## U.S. Markets & Economy

Domestic equities experienced large gains during the month of November, including value and small-cap indices which have struggled throughout the entirety of 2023. The majority of these gains, particularly in small-caps, took place in the first half of November. The roaring returns were brought about by cooling inflation data released in the beginning of November (and end of October) causing riskier stocks (the Russell 2000 Index) to rise 9.1%, resulting in positive year-to-date returns of 4.2%. Large-cap stocks made similar strides, but were fueled by the ongoing theme of the AI boom and the "Magnificent 7." While growth still outpaced value due to sustained momentum in technology, both styles achieved market gains last month. For instance, the Russell 1000 Value increased 7.5%, and is now out of the red year-to-date with gains of 5.6%. Shifting focus to inflation and price indicators, CPI (Consumer Price Index) data reveals no changes month-over-month, while PPI (Producer Price Index) fell 0.5% month-over-month in October. Both PPI and CPI were influenced by the sharp drop in energy prices, with the month-over-month energy PPI declining by 0.5% vs. consensus expectations of 0.1% growth. Wage growth is also slowing, with Fed Chair Powell acknowledging that wage inflation has "come down significantly" as it has declined three consecutive months, but inched upward to 5.7% in October. Despite cooling wage and unemployment data over the year signaling a slowing economy, Powell remained hawkish sharing that the cooling inflation could be a "head fake" and he is unsure whether the current interest rates are sufficiently restrictive to bring inflation down to 2% over time and will not hesitate to make further hikes. Despite Powell's tone, the Fed Funds futures provide a more optimistic sentiment, predicting no future hikes and 130 basis points in cuts during 2024.

While the equity rally found support in the improving inflation data, the major factor contributing to the end of the hot streak was the U.S. Treasury auction of \$24 billion in 30-year bonds, which had a relatively weak demand compared to prior years. Nevertheless, broad market bond returns remained strong with the Bloomberg U.S. Agg Bond Index up 4.5% in November. The yield curve declined this month with the 10-year Treasury falling from 488 basis points to 437 basis points as a result of the improved inflation outlook and expectations of less restrictive Fed policy in 2024. Another sign pointing to improved economic strength is investment grade credit spreads that tightened from 132 basis points to 111 basis points, marking the lowest spread since the beginning of 2022. As far as sector performance for corporate credit, industrials and utilities outperformed the most compared to U.S. Treasuries, while structured sectors still outperformed, but by a thinner margin.

## International Markets & Economy

Elevated interest rates continue to eat into the Euro Area economy, but strong economic data from the U.S. was able to aid in gains for major European indices. Additionally, the market has priced in interest rate cuts coming in the next couple of months, although ECB (European Central Bank) policymakers are not necessarily influenced by this opinion. ECB President announced that it may take "the next couple of quarters" before any rate hike cuts, which hints that the hiking cycle is over. The Euro Area has felt the effects of high interest rates on production and demand. Manufacturing

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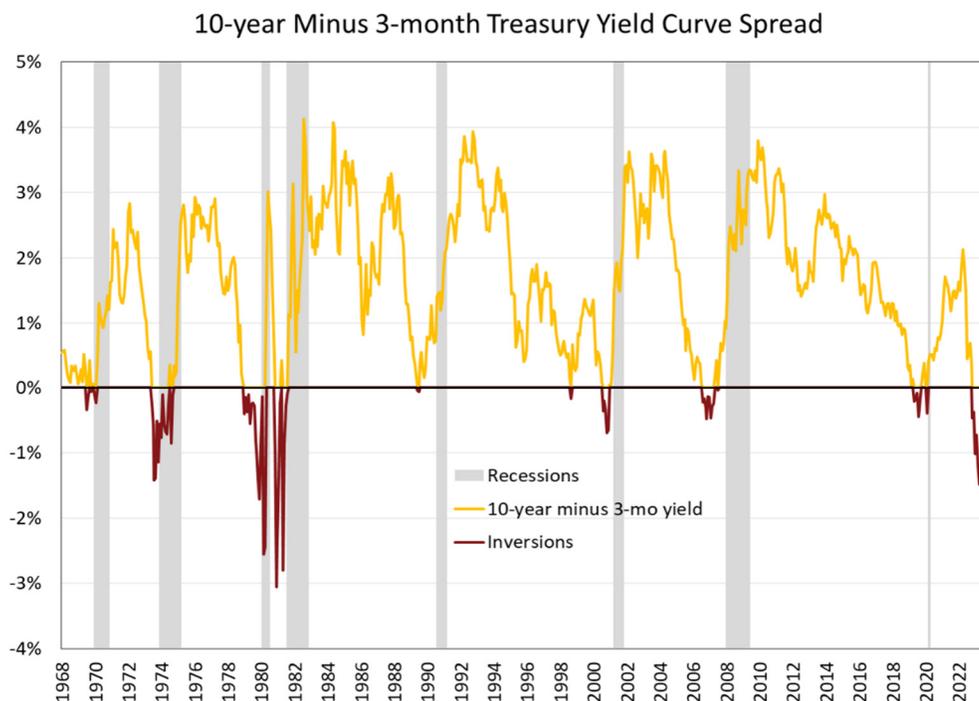
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PMI remains in contraction (<50) at 43.8, and retail sales have witnessed three consecutive month-over-month declines, with a slight increase in October of 0.1%. Also in the face of elevated interest rates, inflation has inched downward to 2.4% while unemployment ticked higher to 6.5%. Despite these pessimistic figures, it led to the market pricing in rate cuts soon and pushed the MSCI Europe up 9.9%. Japan experienced strong market gains as well due to upside earnings surprises but were pulled down because of GDP surprising to the downside, declining 0.5% quarter-over-quarter. The combined strength of the European and Japanese markets contributed to the MSCI EAFE posting a positive return of 9.3%. Even emerging markets captured positive returns as the MSCI Emerging Markets increased 8.0%. China provided little help to this broad index gain, as the MSCI China Index only increased 2.5%. China continues to grapple with the ongoing real estate crisis, dampening its economic growth. Month-over-month inflation turned negative once again in October, prompting China to inject \$1.5 trillion into the banking system to address deflation risks. To the contrary, India's economy boasts strong Composite PMI figures at 58.4, despite experiencing an unexpected drop last month.

## In the News

Consumer and futures market expectations heading into 2024 show a nuanced perspective, diverging somewhat from the views expressed by Fed officials and Powell. While certain indicators suggest a resilient economy, such as robust consumer sales and tight corporate credit conditions, other factors signal potential economic challenges, including a declining PMI and a prolonged inverted yield curve. As seen in the chart below, the present curve has been inverted since October of 2022. This has marked a current inversion duration of 13 months and is one of the longer inversions of the last few decades. Furthermore, when examining negative spreads on the historical 10-Year to 3-Month rates, it took on average 14 months from the first point on inversion before a recession has been declared. Notably, the most recent Fed Beige Book supports the idea of a slowing economy following the lengthy inversion as the report shares that the economic outlook for the next year weakened over the last month. The report cites evidence such as declining sales of discretionary and durable goods, attributed to heightened consumer price sensitivity, along with a decrease in loan demand. This marks the first instance in the Fed's Beige Book of overall economic activity declining in 2023.

## Chart of the Month



Source: FRED

Data as of 10/01/2023

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## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	9.38	1.62	17.99	12.98	7.04	9.97	8.31
	Bloomberg US Agg Bond TR USD	4.53	0.26	1.64	1.18	(4.47)	0.71	1.37
	Russell 3000 TR USD	9.32	1.36	19.61	12.61	8.26	11.77	11.19
	DJ Industrial Average TR USD	9.15	4.10	10.72	6.19	8.85	9.41	10.89
	NASDAQ Composite PR USD	10.70	1.36	35.92	24.05	5.26	14.18	13.36
	MSCI EAFE NR USD	9.28	1.27	12.27	12.36	3.80	5.99	3.89
	FTSE Treasury Bill 3 Mon USD	0.46	1.39	4.77	5.12	2.09	1.86	1.21
	Bloomberg Commodity TR USD	(2.25)	(2.67)	(5.37)	(7.68)	13.60	6.29	(0.72)
Domestic Equities	S&P 500 TR USD	9.13	1.74	20.80	13.84	9.76	12.51	11.82
	S&P MidCap 400 TR	8.51	(2.68)	7.10	1.17	7.36	8.12	8.69
	S&P SmallCap 600 TR USD	8.27	(4.06)	2.89	(4.02)	5.85	5.63	7.51
	Russell 1000 TR USD	9.34	1.68	20.58	13.57	8.72	12.25	11.56
	Russell 1000 Growth TR USD	10.90	3.38	36.63	26.17	8.92	16.36	14.69
	Russell 1000 Value TR USD	7.54	(0.25)	5.61	1.36	8.27	7.52	8.09
	Russell Mid Cap TR USD	10.23	(0.54)	8.82	2.94	4.91	8.72	8.93
	Russell Mid Cap Growth TR USD	12.20	1.29	17.00	9.98	0.43	10.05	10.11
	Russell Mid Cap Value TR USD	9.43	(1.28)	4.57	(0.75)	7.29	7.10	7.74
	Russell 2000 TR USD	9.05	(4.37)	4.20	(2.57)	1.13	4.78	6.13
	Russell 2000 Growth TR USD	9.10	(5.95)	5.97	(0.83)	(4.26)	4.16	6.17
	Russell 2000 Value TR USD	9.00	(2.84)	1.96	(4.73)	6.47	4.72	5.71
International Equities	MSCI ACWI Ex USA NR USD	9.00	1.20	10.09	9.26	1.67	5.06	3.41
	MSCI EAFE NR USD	9.28	1.27	12.27	12.36	3.80	5.99	3.89
	MSCI EAFE Growth NR USD	10.71	0.23	11.21	9.96	(0.00)	6.54	4.74
	MSCI EAFE Value NR USD	7.92	2.30	13.41	14.84	7.43	5.01	2.81
	MSCI Japan NR USD	8.56	1.49	15.29	15.59	0.59	4.55	4.61
	MSCI AC Asia Ex Japan NR USD	6.95	0.05	2.38	2.19	(5.76)	2.41	3.38
	MSCI Europe NR USD	9.87	1.56	14.19	14.20	5.70	7.01	3.85
	MSCI United Kingdom NR USD	6.69	1.39	9.16	8.73	9.09	5.12	2.31
	MSCI EAFE Small Cap NR USD	10.06	(0.99)	5.48	6.61	(0.83)	3.70	4.31
MSCI EM NR USD	8.00	1.09	5.70	4.21	(4.04)	2.34	2.12	
Fixed Income	Bloomberg US Govt/Credit TR USD	4.33	0.44	1.97	1.48	(4.66)	1.06	1.54
	Bloomberg US Govt/Credit Interm TR USD	2.67	1.09	2.86	2.67	(2.31)	1.39	1.43
	Bloomberg US Govt/Credit Long TR USD	9.89	(1.58)	(0.72)	(2.09)	(11.03)	0.32	2.38
	ICE BofA US High Yield TR USD	4.55	2.05	9.42	8.60	1.42	3.99	4.19
	Credit Suisse HY USD	4.49	1.94	9.70	9.12	1.80	4.00	4.13
	Morningstar LSTA US LL Index TR USD	1.22	2.18	11.48	11.94	5.66	4.91	4.29
	FTSE WGBI NonUS USD	5.95	0.68	0.98	1.24	(10.09)	(3.19)	(1.81)
	Bloomberg Gbl Agg Ex USD TR USD	5.52	1.10	1.21	2.53	(7.89)	(1.98)	(1.28)
REITs	FTSE Nareit All REITs TR	11.92	0.53	2.39	(2.83)	3.30	3.60	6.86
	Wilshire US REIT TR USD	10.56	(1.35)	5.36	(0.53)	5.05	3.67	6.74

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

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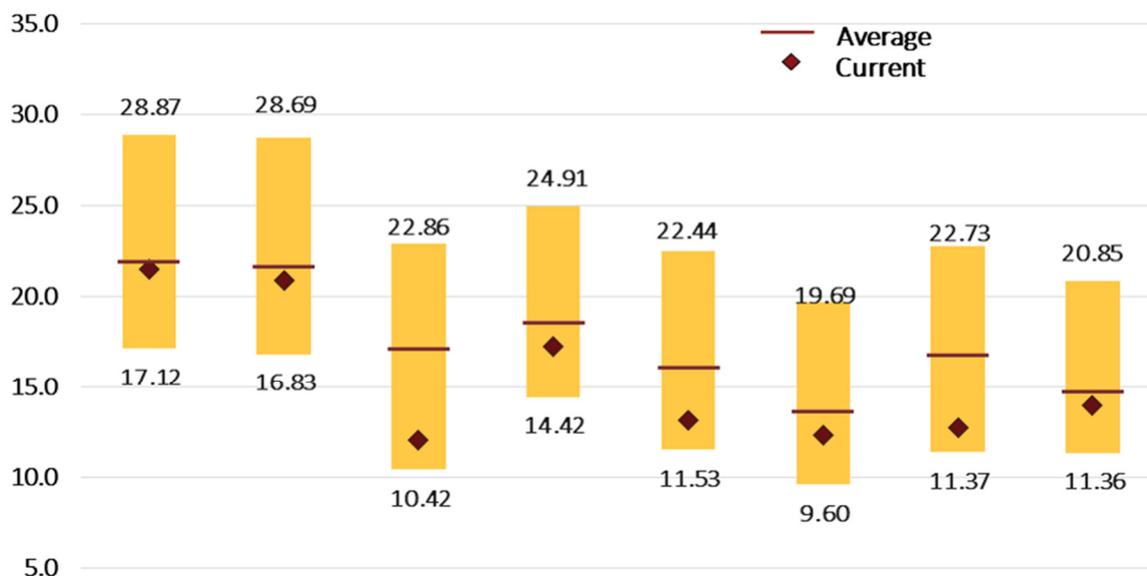
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## Current Trailing P/E vs. Trailing 5-Year High, Low, Average



	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Mar-21	Mar-21	Nov-17	Mar-21	Mar-21	Jan-21	Mar-21	Jan-21
Low Month	Dec-18	Dec-18	Sep-22	Dec-18	Sep-22	Oct-22	Sep-22	Sep-22

Source: Morningstar

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates <sup>3</sup> per US \$		Inflation <sup>2</sup>
	Latest <sup>1</sup>	2023 <sup>1</sup>	2024 <sup>1</sup>	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
<b>United States</b>	5.20	2.40	1.50	3.90	4.35	-	-	4.00
<b>China</b>	1.30	5.20	4.70	5.00	2.71	7.14	7.09	0.60
<b>Japan</b>	-0.50	1.70	1.00	2.50	0.68	147.87	139.31	2.90
<b>United Kingdom</b>	0.00	0.30	0.60	4.20	4.42	1.26	1.20	5.70
<b>Euro Area</b>	-0.10	0.60	0.90	6.50	3.72	1.09	1.03	3.60
<b>Germany</b>	-0.10	-0.10	0.60	5.90	2.48	1.06	1.03	3.80
<b>France</b>	-0.10	0.90	0.80	7.40	3.03	0.95	1.03	4.20
<b>Italy</b>	0.10	0.70	0.70	7.80	4.24	1.06	1.03	3.65
<b>Canada</b>	-0.30	1.20	0.80	5.80	3.55	1.36	1.35	2.70
<b>India</b>	1.90	6.30	6.10	7.10	7.28	83.27	81.68	6.70
<b>Mexico</b>	1.10	3.40	2.50	2.70	9.40	17.38	19.37	5.50
<b>Brazil</b>	0.10	3.00	1.80	7.60	10.89	4.93	5.26	5.55

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

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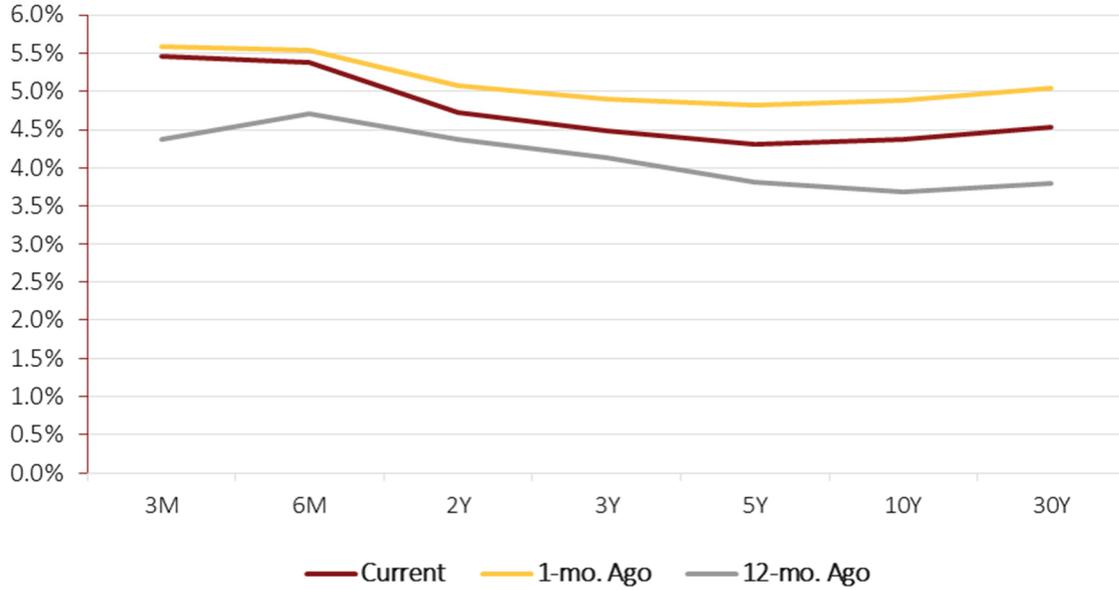
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## U.S. Treasury Yield Curves

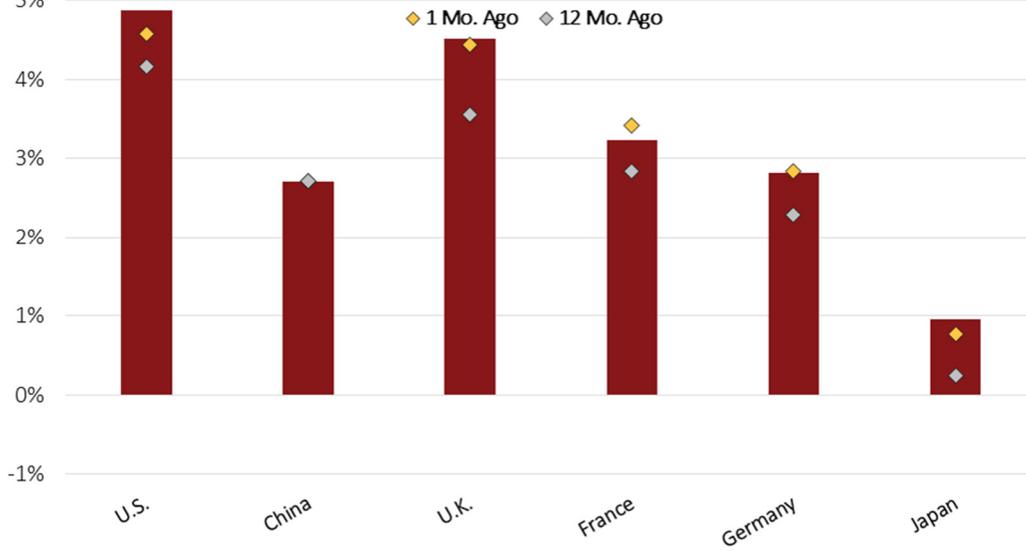
as of 11/30/2023



Source: Federal Reserve Bank

## 10-Year Sovereign Yields

as of 11/30/2023 (most recently available)



Source: Trading Economics

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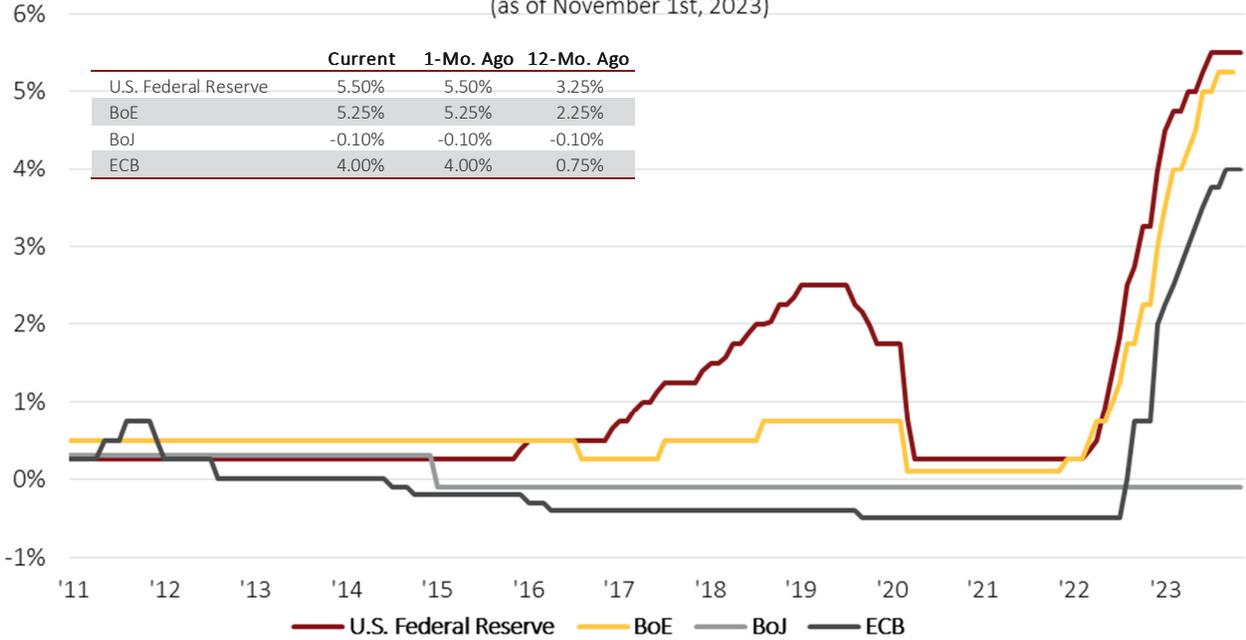
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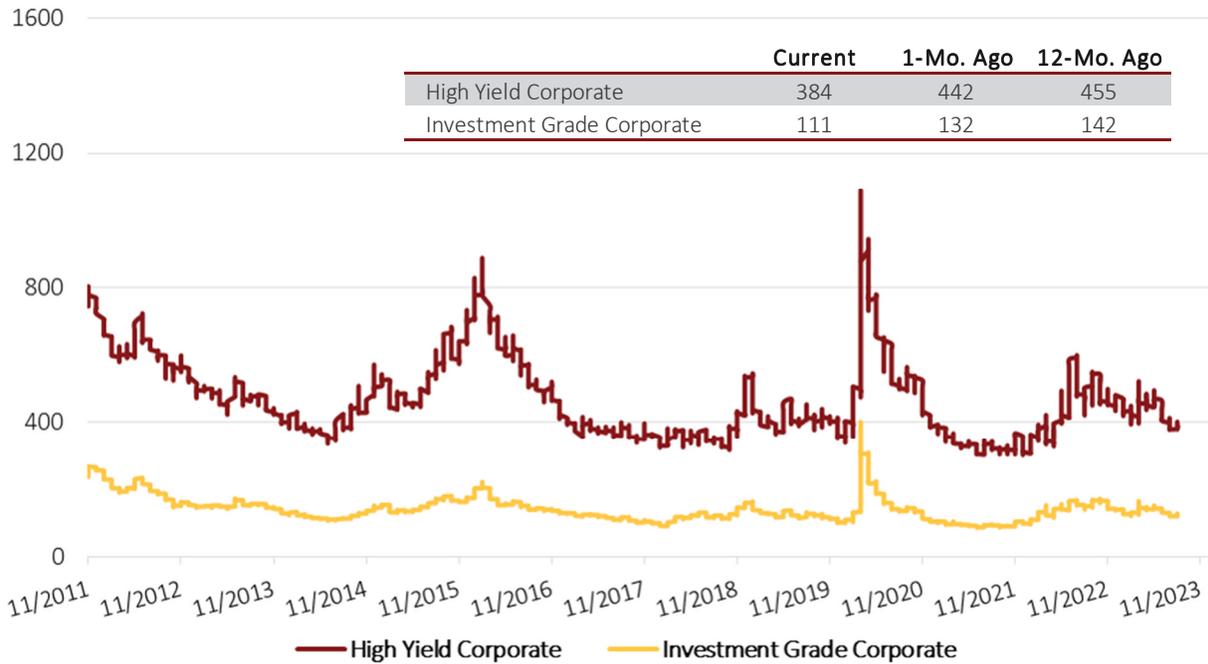
## Central Bank Policy Rates

(as of November 1st, 2023)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

## Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank, Bank of America