

# November Rewards Many Investors

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Markets have enjoyed a very strong November with the major indexes recording their best monthly performance in more than a year. The S&P 500 is up over 8% for the month while the Nasdaq Composite notched gains over 11%, both driven by strong earnings and falling inflation.

Stocks sold off from late July through October on fears that stubborn inflation would force the Federal Reserve to leave interest rates higher for longer. This sentiment reversed in November as a broad slowdown in inflation appeared to end the Federal Reserve's historic rates increases, raising hopes for lower rates next year.

through September, the government reported, upgrading its previous estimate of 4.9%.

Unfortunately, much of the good news appears to be factored into prices already and bond yields now offer stiff competition to stocks, leaving less room for the usual Christmas rally. The S&P 500 is now trading at 18.7 times earnings, still above its historical average.

And, warning signs abound. Consumer spending grew at a brisk 4% annual rate in the third quarter, but much of the growth was from savings, which had been buttressed by pandemic-era stimulus programs. The saving rate fell to 3.4% in September from 5.3% in May.

Early warning signs also are developing in the labor market. The unemployment rate is up half a percentage point since April. An increase of this magnitude usually

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A soft landing to the economy is now seen as increasingly likely with the economy expected to weaken considerably but never actually contract. Investors seem prepared to declare victory. Futures markets put the probability that the Fed will begin cutting interest rates by May at roughly 65%, according to CME Group data.

The growth in the economy also encouraged investors. America's consumers continued spending and helped the economy to a strong 5.2% annual pace from July

signals a recession – which may not happen – but a significant slowdown is highly likely.

With borrowing costs double their levels from just two years ago, many small businesses are pulling back, another sign higher interest rates cooling the economy. Higher interest rates will weigh on the economy and equity markets for the foreseeable future. During the fourth quarter, economists expect growth to slow sharply from the cumulative effects of higher borrowing rates on consumer and business spending.

Overseas markets are not helping the U.S. either. China's deepening economic woes are adding to the headwinds facing the global economy, which is being buffeted by war in Ukraine and the Middle East and a sharp rise in borrowing costs.

Looking forward, volatility appears likely to decline, but it's certainly not disappearing. Investors are focused on rates which are expected to recede, but a reversal of sentiment appears highly possible as inevitable poor data from various sources revives recession concerns. Widespread international unrest and the U.S. coming elections present plenty of opportunity for unwelcome future surprises. The recent strong market performance is likely to give way to pullbacks and volatility in 2024. This year has gone well for many investors with the S&P 500 up nearly 20% without dividends, but plenty of factors continue to present challenges.

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