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Stocks and bonds both rallied in November. Large cap stocks in the S&P 500 index rose 9.1% for the month resulting in a year-to-date gain of 20.8%. Small cap stocks in the Russell 2000 were also up 9.1% in the month, bringing their year-to-date gain to 4.20%. International stocks in the MSCI EAFE index were up 9.3% in November and are now up 12.3% for the year. Emerging market stocks showed gains as well, up 8.0% for the month and are now up 5.7% for the year. Yields on the Barclays US Aggregate Bond Index declined so the index gained 4.5% in the month and is up 1.6% year-to-date. The yield on the 10-year Treasury bond retreated in November and ended the month at 4.35%.

The US economy continues to perform better than expected in 2023, with 3rd Quarter US real GDP estimated growth being revised higher to 5.2%. This is the strongest growth since Biden took office and is up from 2.1% in the second quarter. The increase in the 3rd quarter reflected increases in consumer spending, investment in private inventories, exports and government spending.

For much of 2023, we have seen a decline in corporate earnings. Since stock prices have moved higher at the same time, we can deduce that the average Price to Earning ratio has gone up. This means that stock investors are optimistic enough about future earnings to bid up P/E ratios. The 3rd quarter is proving to be a little better for earnings growth. The Wall Street Journal reported that S&P 500 earnings are on track to rise 3.7% vs. one year ago.

The inflation picture is also continuing to improve. After a brief rebound in inflation in August and September, the 12-month price change recorded in October was 3.2%. The high of the cycle reached 9.1% in June of 2022 after a sharp rise that began in February of 2021 when inflation was at 1.7%. The Fed wants inflation to stabilize below 2.0% so continued improvement is needed, however, further interest rate hikes may not be necessary to reach their inflation target.

We are still enjoying a strong jobs market; however, we are seeing some signs that the employment picture is beginning to weaken. In the past few months, the unemployment rate has risen from 3.5% to the current rate of 3.9%. This week the Job Openings and Labor Turnover Survey (JOLTS) report was released from the US Bureau of Labor Statistics, surprising the market with a significant decline in job openings. The number of job openings declined by 619,000 jobs to 8.7 million. While the number of job openings remains high, the size of the decline was another sign of a slowing economy.

After a very strong rally in stocks this month, the market is looking to finish the year with solid returns. This may be an attractive time to make gifts of appreciated stock. We continue to encourage investors not to try and time the market by trading in and out and instead invest according to risk tolerance. If you have questions about the strategy for your account, please contact your advisor.

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