OBSERVATIONS: *S&P 500 rises, from the 'magnificent seven' to the 'magnificent duo', and credit card debt at a new record.*

- The S&P 500 broke its recent string of eight consecutive positive days last week but still ended the week modestly higher by +1.4%. Small cap stocks (Russell 2000) declined -3.1%, while the 10-Year US treasury yield rose +7bps to finish the week at 4.64%.[1]
- The combined weight of Microsoft and Apple (the magnificent duo) in the S&P 500 reached 14.5% last week. This is the highest share for two companies in the index and exceeds the prior peak of a 9.0% combined weight of the then largest two companies in the S&P 500 in 1999, Microsoft and GE.[2]
- Americans' credit card debt swelled by +$154 billion year-over-year (YoY) to a record $1.08 trillion in Q3, according to the Federal Reserve Bank of New York, which is the largest YoY increase since it began tracking household debt in 1999. The average credit card balance is over $6,000, while the average credit card interest rate is over 20%, an all-time high.[3]
- Foreign Direct Investment (FDI) into China turned negative in Q3 for the first time on record to -$11.1bn. Shifting expectations for China's role in the global economy, sluggish economic prospects, embroiled property sector, and re-shoring or de-risking from China have been likely contributors.[4]
- The most recent survey of senior loan officers—SLOOS survey—showed that that most banks had tightened lending standards, particularly for commercial real estate, home equity lines of credit, and most consumer loans, and most reported demand had weakened across the board for new business and household loans.[1]
- The University of Michigan Consumer Sentiment Index declined in November for the fourth straight month, landing at 60.4, which is well below its 45-year average of 85. Inflation expectations for 1-year ahead and 5 to 10-years ahead rose to +4.4% and +3.2%, respectively—both higher than expectations.[1]

EXPECTATIONS: *Government attempts to avert a November 17 shutdown, and downward earnings revisions for Q4.*

- The US Government stop-gap funding measure that Congress passed at the 11th hour on September 30th expires at midnight of this Friday (11/17/2023) and chances are mounting that the government shutdown we anticipated in early October may come to pass this coming weekend. So far, House Republicans—while slightly more unified amongst themselves than in past months—do not seem inclined to pass any spending bills this week that could pass in the Democratically controlled Senate. While a last-minute compromise is always possible, a partial or full government shutdown this weekend seems a more likely scenario.[1]
- 92% of all S&P 500 companies have now reported earnings. 81% of which have reported earnings better than expectations, above the 5-year and 10-year averages, and the growth rate for earnings in Q3 is expected to reach +4.1% on a YoY basis. Meanwhile, downward revisions for earnings growth have taken expectations for Q4 earnings growth down to +3.2% YoY from +8.0% YoY as of 9/30/2023.[5]

ONE MORE THOUGHT: *Markets think the Fed is done.*[6]

There are a few signals in markets that suggest that the Fed may be near, if not at, the end of the recent historic rate hiking cycle. Fed fund futures are currently looking for nearly 100bps of declines in the Fed Funds rate by the end of 2024, in part informed by inflation measures which continue to trend lower. This doesn't necessarily contradict our ongoing view of 'higher for longer' as a decline of 100bps in Fed Funds would still leave the measure

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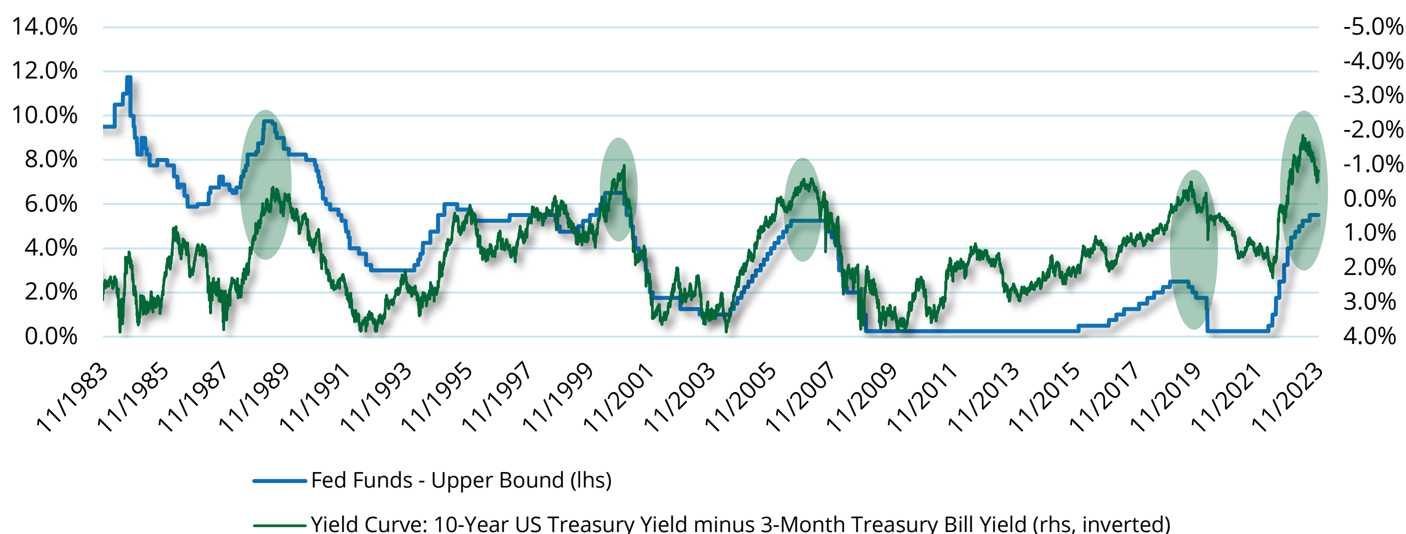
[1] *Bloomberg LP*
[2] *Strategas, Bloomberg LP, Statista*
[3] *Bloomberg LP, Federal Reserve Bank of St. Louis – FRED, https://www.cnbc.com/2023/11/09/average-credit-card-balances-top-6000-a-10-year-high.html*
[4] *https://www.axios.com/2023/11/07/china-economy-negative-foreign-investments*
[5] *Factset Earnings Insight, 11/10/2023*
[6] *Bloomberg LP, CFRA Research*

at 4.5%, somewhat similar to the 1990s. To contrast, by decade Fed Funds has averaged: 8.2% in the 1980s, 5.1% in the 1990s, 3.0% in the 2000s, 0.75% in the 2010s, and 1.8% thus far in the 2020s. Similarly in support of the argument, the recent shift in the yield curve may be hinting that this rate hiking cycle may be closing in on the end (Chart of the Week). The recent flattening/steepening of the yield curve, here defined as the difference between the 10-Year US Treasury yield and the 3-Month US Treasury yield, has been coincident with other turning points in monetary policy. Looking at the 1990s again, during the rate hiking cycle that began in 1994, the Fed raised interest rates and kept them higher as the central bank managed the rarely observed soft landing. The Fed would then keep the Fed Funds rate higher generally through the remainder of that decade, eventually having to slash interest rates during the dotcom bust. For now, markets are left having to deal with the dueling narratives of potential negative impacts of higher for longer on the economy, while balancing that equities have tended to perform well following a peak in Fed Funds—the S&P 500 has gained an average of 13.0% from the time of the last rate hike to the time of the first rate cut. Clearly, the general risk to the 'Fed is done' narrative is the path for inflation, which as of right now appears to be trending in the right direction.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 11/7/2023

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