OBSERVATIONS: *Labor market softens modestly, but remains in good shape.*

- Markets largely moved sideways last week, but managed to record some minor gains. The S&P 500 gained +0.2%, the NASDAQ gained +0.7%, and small caps (Russell 2000 Index) gained +1.0%.[1]
- Durable goods contracted by -5.4% month-over-month (MoM) in November, but excluding the volatile transportation sector, durable goods orders were flat MoM (+0.0%) in November.[1]
- ISM Services (PMI) Index improved to 52.7 in November—better than expectations—and up from October's 51.8 figure—any number over 50 signals expanding economic activity—which suggests the US service sector has continued to grow steadily in the first two-thirds of Q4-2023.[1]
- Oil prices slid below $70 a barrel (West Texas Intermediate crude) last week amid strong US production and soft global demand. The decline in global oil prices comes despite recent efforts by OPEC countries to curtail supply in the face of slower growth in China and portions of east Asia.[1]
- A variety of private-sector data providers—Zillow, ApartmentList.com, and Realtor.com—indicate that rental prices for apartments started declining this past summer and as of November apartment rents are down approximately -1% on a year-over-year basis, which should help ease inflationary pressures in 2024.[1]
- The Jobs Openings and Labor Turnover (JOLTs) survey showed that the number of job openings declined to 8.7 million in October—the most recent figure—from September's 9.3 million figure. The estimated number of quits was 3.6 million—which has been largely unchanged for the past four months and on par with the quit numbers seen before the Covid pandemic, suggesting the labor market continues to normalize towards its pre-pandemic characteristics.[1]
- Meanwhile layoffs remain relatively muted. Initial unemployment claims were 220k last week a rise of just 1,000 over the previous week's figure and show no material signs of weakness in the labor market.[1]
- Solid job creation continued in November with the US economy adding 199k new jobs. The unemployment rate fell to 3.7% and the participation rate inched up to 62.8%. While the pace of job creation has slowed throughout the past year, most labor market statistics signal that the US economy is at full employment.[1]
- The Michigan Consumer Sentiment Survey improved in November with an almost 10-point jump and consumers' outlook for inflation 1-year from fell to 3.1% from October's 4.1% figure.[1]

EXPECTATIONS: *Volatility in the bond market continues.*

- Moody's downgraded its outlook for Chinese sovereign debt to negative amid growing global concern about the level of debt in the Chinese economy and slowdown in economic activity which has been spurred in part by the widespread deleveraging taking place in its real estate sector.[1] Chinese leaders have a series of economic meetings scheduled for December and more policy support is expected to be announced.[1]
- It was another volatile week in the bond market. The yield on a 10-year Treasury after briefly moving higher to almost 4.3% on Monday of last week, then fell for three straight days to 4.1% before moving back up on Friday ending the week at 4.23%, while the Fed Fund Futures have priced in four -25 basis-point Fed cuts rates by the end of 2024.[1] These moves come just ahead of the Fed' meeting this week in which it will issue its new "dot plot" projection that will provide the Fed's expectation for the number of cuts it anticipates next year—expect more volatility in the bond market.

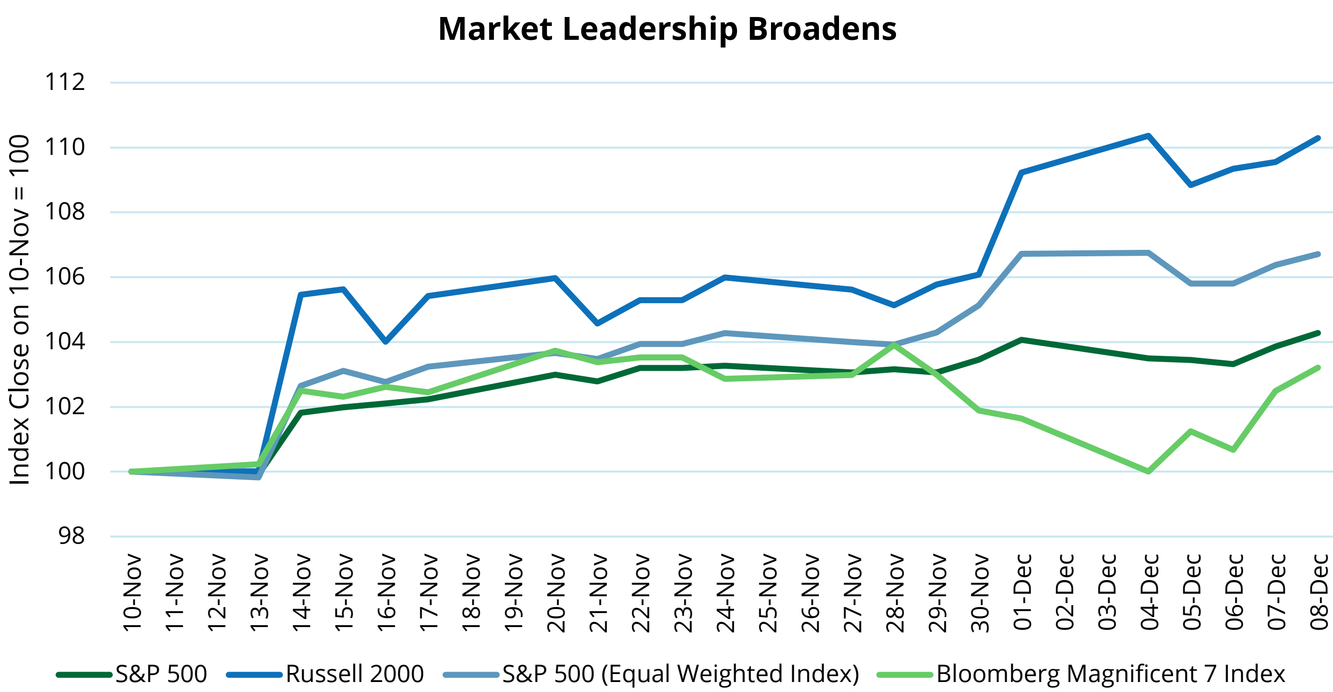
ONE MORE THOUGHT: *Market leadership is gradually broadening out.[1]*

While a lot of ink has been spilled on the Magnificent 7 this year—Apple, Microsoft, Alphabet (Google), NVIDIA, Amazon, Tesla, and Meta (Facebook)—leadership in US equity markets is slowly broadening out. Over the past four

[1] *Bloomberg LP, 12/8/2023*

weeks (see Chart of the Week) the average S&P 500 stock (S&P 500 Equal Weighted Index) has gained over +6.7%, while the Magnificent 7 collectively have gained on +3.2%. Similarly, while through the first 45 weeks of the year ending on November 10th, the S&P 500 gained +20.2% while small caps (Russell 2000 Index) fell -2.0%. But since then the Russell 2000 Index has gained +10.3%, while the S&P 500—weighed down by the lackluster gains in the Magnificent 7—gained only +4.3%. At the end of October only about 10% of the S&P 500 companies were trading at a price above their 50-day moving, but the equity rally which begin in early November has resulted in about 80% of the S&P 500 trading at a price above their 50-day moving average. All this suggests that after accounting for over 80% of the gains in the S&P 500 through the end of October, the Magnificent 7 have collectively begun to underperform on a relative basis with much of the rest of the US equity universe. This is a welcome development. While the speed of the gains in equity markets over the past several weeks may suggest choppier trading ahead in the final weeks of December, the growing breadth in number of equities trading higher is a welcome sign for equities as we look forward to 2024.

CHART OF THE WEEK



Source: Clearstead, Bloomberg as of 12/8/2023

Aneet Deshpande, CFA
Chief Strategist
Clearstead

Dan Meges
Senior Managing Director of Equity
Clearstead