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Weekly Market Commentary
November 20, 2023

The Markets

Is it done? (We're not talking about the turkey.)

Last week, investors enthusiastically embraced the idea that the Federal Reserve (Fed) could be done raising rates – and that it might even begin to lower them. As conviction about the possibility of rate cuts increased, stock and bond markets rallied, reported Koh Gui Qing and Dhara Ranasinghe of Reuters.

The catalyst was easing inflation.

Last week, the Consumer Price Index indicated that inflation in the United States was flat from September to October, and 3.2 percent for the preceding 12-month period. Core inflation, which excludes volatile food and energy prices, also slowed, up 0.2 percent month-to-month and 4 percent year-over-year.

The change in headline inflation was largely due to lower energy prices, which were down 2.5 percent in October and down 4.5 percent for the preceding 12-month period. In addition, the prices of gasoline and fuel oil dropped. The cost of shelter also grew more slowly – up 0.3 percent in October compared to up 0.6 percent in September – but it was 6.7 percent higher year-over-year.

There were other signs the U.S. economy may be softening, too. Earlier in the month, the October employment report saw the unemployment rate rise and hiring slow. Last week, the number of people filing unemployment claims increased more than expected, and continuing claims rose to the highest level since 2021, according to Angela Palumbo of *Barron's*.

The market rallies lost some steam after Boston Fed President Susan Collins indicated she wasn't yet ready to call the inflation fight by ruling out additional rate increases, reported Reuters. It was an important reminder. While a slower pace of overall price increases is great news, inflation remains well above the Fed's two percent target.

Last week, major U.S. stock indices moved higher with the Standard & Poor's 500 Index gaining 2.2 percent, the Dow Jones Industrial Average advancing 1.9 percent, and the Nasdaq Composite up 2.4 percent, according to Jacob Sonenshine of *Barron's*. Treasury yields moved lower across all maturities.

Data as of 11/17/23	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	2.2%	17.6%	14.4%	7.7%	10.9%	9.7%
Dow Jones Global ex-U.S. Index	3.9	6.2	7.8	-1.0	2.4	1.0
10-year Treasury Note (yield only)	4.4	N/A	3.8	0.9	3.1	2.7
Gold (per ounce)	2.0	9.3	13.7	1.6	10.2	4.4

Bloomberg Commodity Index	0.3	-9.7	-11.5	11.3	3.7	-1.9

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WHAT IS THE LONG-TERM AVERAGE ANNUAL RETURN FOR U.S. STOCKS? Theodore Roosevelt is credited with saying, “The more you know about the past, the better prepared you are for the future.” That’s often true when it comes to investing. Investors who have a longer-term perspective on financial markets tend to be less likely to make impulsive decisions that are driven by short-term market volatility and could negatively affect longer-term performance.

Here’s an interesting piece of investment trivia from the *Credit Suisse Global Investment Returns Yearbook 2023 (2023 Yearbook)*.

- In 1899, the United Kingdom’s stock market was the largest in the world.* It comprised about 24 percent of world capitalization. The next largest markets were the United States (15 percent), Germany (13 percent), France (11 percent), Russia (6 percent), and Austria (5 percent).

- By 2023, the United States boasted the world’s largest stock market with about 58 percent of world capitalization. The next largest markets were Japan (6 percent), the U.K. (4 percent), China (4 percent), France (3 percent), and Canada (3 percent).

Market data is valuable because it can help investors understand what has happened in the past and use the knowledge to set realistic expectations for the future. What is your estimate for the long-term average annual return of U.S. stocks?

The 2023 Yearbook provided us with the data. From 1900 through the end of 2022, the average annual return for U.S. stocks before inflation was 9.5 percent. After adjusting for inflation, U.S. stocks returned about 6.4 percent per year. The inflation-adjusted return for stocks outside the United States was 4.3 percent in U.S.-dollar terms.

Over the same period, from 1900 through 2022, U.S. bonds returned 4.7 percent per year before inflation, on average, and 1.7 percent per year after inflation, on average. Bills, which are very short-term investments, had an average annual return of 3.4 percent before inflation and 0.4 percent after inflation.

Over the long term, “[Stocks] were the best-performing asset class everywhere. Furthermore, bonds outperformed bills in every country except Portugal. This overall pattern, of [stocks] outperforming bonds and bonds beating bills, is what we would expect over the long haul since [stocks] are riskier than bonds, while bonds are riskier than cash,” reported Elroy Dimson, Paul Marsh and Mike Staunton who authored the 2023 Yearbook.

**Size was determined using the free-float market capitalizations of the countries in the FTSE All-World index.*

Weekly Focus – Think About It

"Although it's easy to forget sometimes, a share is not a lottery ticket...it's part-ownership of a business."

—Peter Lynch, asset manager

Best Regards,

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.

* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* You cannot invest directly in an index.
* Stock investing involves risk including loss of principal.
* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.
* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.
* Asset allocation does not ensure a profit or protect against a loss.
* Consult your financial professional before making any investment decision.
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Sources:
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