Oxford Harriman Market Commentary

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Equities Trade Higher as Treasury Yields Decline

The most significant impact on financial asset prices during November was the decline in interest rates, with the 10-year Treasury yield falling to 4.35% from over 5% in October. For context, this decline ranks among the biggest 1-month drops since December 2008, when the Federal Reserve cut interest rates by 0.75%. Declining Treasury yields provided relief to bonds, which had traded lower as the Federal Reserve hiked rates. The Bloomberg U.S. Bond Aggregate Index, which tracks a broad index of U.S. bonds, produced a 4.6% monthly total return; the first monthly gain in seven months and its largest since 1985.

The decline in yields helped the stock market rebound after trading lower for three consecutive months. The S&P 500 recorded its biggest monthly gain (9%) since July 2022 and currently trades less than 5% below its all-time closing high. The NASDAQ 100 Index gained more than 10% for the month as mega-cap growth technology stocks traded toward new all-time highs. Technology was also the top-performing S&P 500 sector. Real Estate followed close behind, benefiting from falling interest rates that provided relief to property owners. Defensive sectors, including Consumer Staples, Utilities, and Health Care, lagged as the market traded higher.

Market's Demonstrated Resilience to Higher Interest Rates

Investors seem optimistic as the U.S. economy continues to exceed expectations. Third-quarter GDP growth was recently revised higher to 5.2%, the strongest since the fourth quarter of 2021. While unemployment sits at a 21-month high of 3.9%, it remains low by historical standards, and has defied expectations for a sharp increase.

Additionally, the pending home sales index recently fell to the lowest level since 2001, but the decline appears to be linked to limited supply rather than weak demand. As we have mentioned in past commentaries, it appears many existing homeowners are refusing to sell their current home and upsize due to higher interest rates. This lack of supply has helped to offset the lack in demand due to buyers being priced out of the market as a result of higher mortgage payments.

The S&P 500's earnings grew year-over-year during the third quarter, the first time since Q3 2022. We continue to monitor market valuations noting the S&P 500 growth index trades at 32 times trailing earnings, with next year's earnings growth forecasted to be 14.3%. However, the value index trades at 14 times earnings with next year's profit forecasted to increase 11.4%. These statistics, which exclude results from unprofitable companies, illustrate that perhaps there are still interesting opportunities in the year ahead.

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Meanwhile, inflation pressures have eased significantly, and investors are starting to discuss the potential of interest rate cuts in 2024. There is a growing sense that the Federal Reserve has accomplished its mission of lowering inflation without tipping the economy into a recession.

We will be watching the markets and economic data closely to see if the strength carries into 2024.

Have a good week,

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