



Philadelphia, Pennsylvania

WEEK OF DECEMBER 18, 2023

Market Update

Quick Hits

1. **Report releases:** Year-over-year consumer and producer inflation both slowed in November.
2. **Financial market data:** The Federal Reserve (Fed) dot plot indicates potentially three rate cuts in 2024.
3. **Looking ahead:** Housing and consumer confidence will be the primary focus in the week ahead.

Report Releases: December 11–15, 2023

Consumer
Price Index
November
(Tuesday)

Consumer inflation increased modestly in November. However, on a year-over year basis inflation fell from 3.2 percent in October to 3.1 percent in November. Service costs remained high during the month and drove a majority of the year-over-year increase in consumer prices in November.

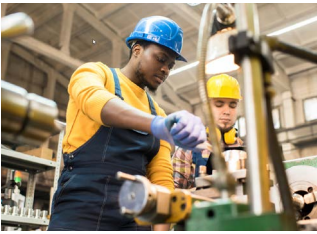
- Prior monthly CPI/core CPI growth: +0.0%/+0.2%
- Expected monthly CPI/core CPI growth: +0.0%/+0.3%
- Actual monthly CPI/core CPI growth: +0.1%/+0.3%
- Prior year-over-year CPI/core CPI growth: +3.2%/+4.0%
- Expected year-over-year CPI/core CPI growth: +3.1%/+4.0%
- Actual year-over-year CPI/core CPI growth: +3.1%/+4.0%



Producer
Price Index
November
(Wednesday)

Producer prices were unchanged in November, following a 0.4 percent decline in October. On a year-over-year basis produce inflation fell to 0.9 percent in November, due in part to falling energy prices during the month.

- Prior monthly PPI/core PPI growth: -0.4%/+0.0%
- Expected monthly PPI/core PPI growth: +0.0%/+0.2%
- Actual monthly PPI/core PPI growth: +0.0%/+0.0%
- Prior year-over-year PPI/core PPI growth: +1.2%/+2.3%
- Expected year-over-year PPI/core PPI growth: +1.0%/+2.2%
- Actual year-over-year PPI/core PPI growth: +0.9%/+2.0%



FOMC
Rate Decision
(Wednesday)

The Federal Reserve left the federal funds rate unchanged at the conclusion of its December meeting, as expected. Fed chair Jerome Powell’s comments in the post-meeting press conference indicated that the Central Bank may start considering the prospect of rate cuts at some point in 2024 provided we see continued progress in the battle against inflation.

- Expected/prior Federal Funds Rate Upper Bound: 5.50%/5.50%
- Actual Federal Funds Rate Upper Bound: 5.50%



S&P Global U.S.
Producer
Manufacturing
Indices (PMIs)
December
(Friday)

Despite weakness in the manufacturing segment of the economy the service segment more than offset this weakness as the composite rose to 51.0. Manufacturing surprised to the downside at 48.2 versus an expectation of 49.5. Service, meanwhile, beat expectations of 50.7 with an actual result of 51.3.

- Expected/prior month composite index: 50.6/50.7
- Actual composite index: 51.0



>> The Takeaway

- Inflation continued to fall particularly on the producer side as falling energy supported the move lower.
- Service costs on the consumer side will be worth watching especially if this translates into lower wage growth and a softer job market moving forward.

Financial Market Data

Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	2.53%	3.39%	24.89%	24.54%
Nasdaq Composite	2.86%	4.16%	42.70%	39.56%
DJIA	2.93%	3.86%	15.00%	15.79%
MSCI EAFE	2.56%	3.23%	15.90%	16.39%
MSCI Emerging Markets	2.69%	1.46%	7.23%	7.30%
Russell 2000	5.60%	9.81%	14.42%	14.37%

Source: Bloomberg, as of December 15, 2023

U.S. equities continued their strong rally this week as the Federal Open Market Committee’s dot plot indicated a median expectation of 4.60 percent for the Federal Funds Rate by the end of 2024. This indicates the expectation of at least three rate cuts in 2024. As a result, we saw a broadened rally with small caps in the Russell 2000 leading the charge. The reduction in the fed-funds rate means a reduction in the cost of capital which supports small-cap stocks that usually raise capital at a higher cost than their larger counterparts.

Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	3.19%	4.88%	2.66%
U.S. Treasury	2.85%	3.54%	1.51%
U.S. Mortgages	3.33%	4.06%	1.61%
Municipal Bond	1.87%	5.93%	5.11%

Source: Bloomberg, as of December 15, 2023

U.S. treasuries also rallied heavily as the indication of rate cuts in 2024 lifted treasury investors’ spirits particularly in the 2- to 10-year range. The idea is that treasury investors believe that inflation would indeed fall which would make bonds more attractive as their coupon payments would face less of a headwind via inflation.

>> The Takeaway

- Value stocks outperformed growth stocks this week as the Fed cut led investors to begin to start taking some gains and dial back recent longer-term risk taking.
- Yields fell significantly this week. It is worth monitoring the impact of this on overall economic activity such as housing and loan demand overall.

Looking Ahead

Housing, consumer confidence, and personal income and spending will be the key points of interest in the week ahead.

- The week will kick off on Monday with the **National Association of Homebuilders Housing Market Index** for December. Home builder confidence is expected to increase modestly yet remain in contractionary territory in December.
- Wednesday will see the release of both **Existing Home Sales** for November and the **Conference Board's Consumer Confidence Index** for December. Sales of existing homes are set to fall for the sixth consecutive month in November due a lack of homes for sale, high prices, and still high mortgage rates. Consumer confidence is expected to increase modestly in December; however, the index is still slated to remain well below recent highs from earlier in the year.
- Finally, Friday will see the release of the **Personal Income** and **Personal Spending** report for November. Personal income and spending are both expected to show signs of improvement in November. If estimates hold this would mark eight straight months with spending growth.





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measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

Authored by the Investment Research team at Commonwealth Financial Network®

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