Despite Volatility, It's a Range-Bound Market

Major Equity Indices (Price Returns)	Value (11/3/23)	2023 YTD (through 11/3)	October 2023	3 Months (7/31 to 10/31)	% below AT high	date of AT high
NASDAQ Composite	13,478.28	28.8%	-2.8%	-10.2%	-16.1%	11/18/21
S&P 500	4,358.34	13.5%	-2.2%	-8.6%	-9.1%	1/3/22
Dow Jones Industrial Average	34,061.32	2.8%	-1.4%	-7.1%	-7.4%	1/4/22
S&P 500 Equal-Weight	5,744.60	0.1%	-4.2%	-12.3%	-13.8%	1/4/22
Russell 2000	1,760.70	-0.3%	-6.9%	-17.0%	-27.9%	11/8/21

Data Source: FactSet as of 11/3/23

Price Return does not inlcude dividends. Calculations use closing prices. 'AT' high is the all-time closing price high of the index.

October weakness gives way to a November rally. The S&P 500 ended October lower for the third consecutive month. The closing price of 4,117 on 10/27/23 was at the lowest level since late May, and investor sentiment had turned negative as hope for a fourth quarter (4Q23) equity rally was fading. However, a combination of lower interest rates, positive 3Q23 S&P 500 earnings reports, and oversold equity index conditions, in our opinion, provided support for a near-term rally with the S&P 500 index surging +5.9% over the 5 days ended 11/3/23. The one-week rally was broad-based as all 11 S&P 500 GICS sectors moved meaningfully higher, bank stocks participated in gains, and even small-company equities (as represented by the Russell 2000 index) rallied. A return of equity market bulls could extend near-term gains, especially given the seasonal strength of fourth quarter equity index returns. Since 2000 (24 years), the S&P 500 index has gained an average of +4.4% in the fourth quarter, reflecting the strongest average quarterly return of any quarter (the next best is the second quarter, with an average quarterly return of +2.0%). In addition, since 2000, there were seven years when the S&P 500 price return exceeded +10% through the end of the third quarter (in 2023, the S&P 500 gained +11.7% through the end of September); in those seven years, the fourth quarter index return averaged +7.3%. While admittedly a small sample size, it highlights that investor sentiment often rises in the fourth quarter and that early-year gains are often extended as investors add to equity positions.

What has caused the volatility? Through the end of July this year, the S&P 500 YTD gain (not including dividends) was +19.5%. The strong index performance, in our view, was driven by markets recovering from 2022 lows, better-than-expected U.S. economic growth, and a view that the U.S. Federal Reserve Bank (Fed) would soon end its short-term interest rate hiking policy (the Fed sets a target range for the overnight bank lending fed funds rate), potentially paving the way for lower interest rates in future periods. Beginning in late July, the yield on the 10-year U.S. Treasury bond (which we consider a proxy for long-term interest rates) began moving steadily higher over the next three months as the yield surged from 3.74% on 7/19/23 to 4.99% on 10/19/23, its highest level since July 2007. The surge in interest rates correlated with lower equity prices as from 7/31/23 to 10/31/23, the S&P 500 declined -8.6%. While many factors often contribute to changes in equity prices, we believe that the level of long-term interest rates has been a key element of movement in recent months due to Fed commentary that it prefers to see interest rates remain elevated to fight inflation, causing investor concern that the higher rates would ultimately create spending challenges for U.S. consumers (as mortgage, credit card, and car loan payments surge higher). In November, however, bond prices have rallied, dropping the U.S. 10-year Treasury yield to 4.52% (11/3/23) and correlating with the aforementioned near-term rally in equities. Fluctuating interest rates create another source of expected equity market volatility (along with corporate earnings, federal budget debates and elections, and geopolitical risks).

There remains an active debate about causes of the 2023 surge, and recent drop, in long-term interest rates, with implications for near- and mid-term equity prices. Over the first half of 2023, the U.S. 10-year Treasury yield remained below 4.0% as, in our view, investors believed that the Fed's policy of hiking its fed funds target would cause the U.S. economy to slow, potentially into recession, ultimately leading the Fed to reverse policy and lower rates. However, 2023 U.S economic growth through September exceeded expectations, with gross domestic product (GDP) increasing +2.2%, +2.1%, and +4.9% in 1Q23, 2Q23 and 3Q23, respectively. This led to increased support for a no-recession economic view and likely contributed to higher long-term interest rates throughout the summer. Pushing back against that positive reason for higher rates were several, more negative factors: the U.S. Treasury in August disclosed that its 3Q23 borrowing needs (Treasury issuance) were much higher than previously expected, the fiscal 2023 Federal deficit was running well above 2022 despite the strong economy, and Congress was unable to pass spending legislation necessary to keep parts of the Federal government operational. The bond rally and lower rates in early November coincided with the latest Treasury borrowing update (10/30/23) of lower 4Q23 bond issuance compared to the surprise high levels in 3Q23. For now, less issuance supply can relieve pressure on rates, although this could prove temporary as future borrowing needs will likely remain elevated.

S&P 500 Price: 11/3/2018 - 11/3/2023

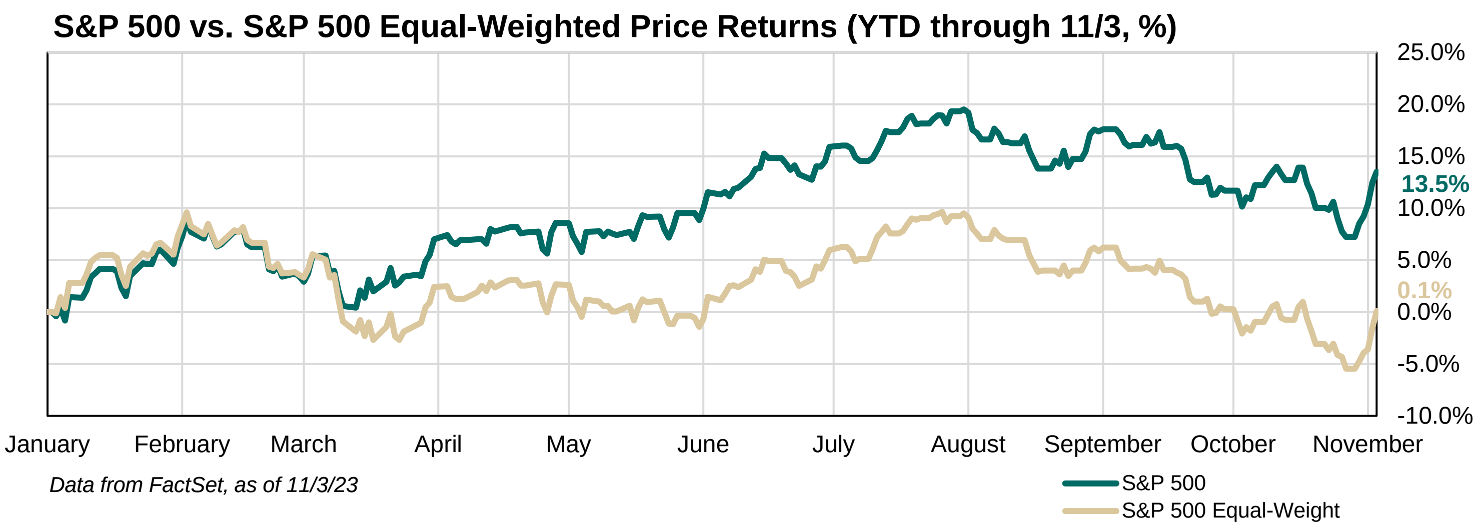
Data from FactSet, as of 11/3/23

US 10-Year Treasury Yields

Data from FactSet, as of 11/3/23

It's still a range-bound market. In 2023, the S&P 500 has traded in a range of 3,800 (closing low of 3,808 on 1/5/23) to nearly 4,600 (closing high of 4,589 on 7/31/23). With the early-November rally moving the index to 4,358 (11/3/23), the S&P 500 is again above the 4,200 mid-point of the year-to-date (YTD) trading range. Moving through the often seasonally strong fourth quarter, along with the positive equity market reaction to last week's cooling of interest rates, we could see the S&P 500 moving in the high end of that range. But we believe moving above that range is likely to be challenging due to uncertainty about 2024 S&P 500 earnings growth (the FactSet consensus 2024 earnings growth estimate was +12%, a number that we believe is too high) and upward pressure on long-term interest rates (mostly due to Treasury issuance supply). Both factors are likely to temper investor sentiment until visibility improves. On the flip side, should the S&P 500 again trade below that 4,200 mid-point of the range (we saw 4,117 on 10/17/23), we see potential buying interest as equity investors look to add quality companies to portfolios at lower prices. Our S&P 500 fair value estimate remains at 4,200, within a range of 3,900 to 4,500. Upside to our fair value range would come from 10-year interest rates continuing to move lower (closer to 4.0% than 5.0%) and improved visibility for sustained S&P 500 earnings growth in 2024. While possible, we still see upward pressure on 10-year yields, and the potential for 2024 earnings estimates to be revised lower as economic growth slows.

YTD returns remain relatively narrow. Despite the headline-grabbing news that the S&P 500 gained +13.5% (not including dividends) in 2023 YTD, as of 11/3/23 (and the Nasdaq Composite index's YTD increase was +28.8%), not all indices and/or sectors have fared as well. The Dow Jones Industrial Average gained just +2.8% YTD through 11/3/23 and the small-company Russell 2000 index declined -0.3%. Within the S&P 500's 11 GICS sectors, just three sectors - Communications Services, Information Technology, and Consumer Discretionary - provided percentage gains greater than the overall index, and five sectors were down YTD. A comparison of the S&P 500 index (which is weighted by market capitalization, giving the largest companies by market value a large share of the index) to the Equal Weight S&P 500 (computes the index with all 500+ constituents having an equal weight) shows a large YTD performance discrepancy this year. Through 11/3/23, the Equal Weight S&P 500 gained just +0.1% (basically flat) YTD, compared to +13.5% for the published index. This tells us that the "average" stock has not produced strong gains this year, and many stocks are even down YTD. While we expect stock leadership to broaden over time, driving improved relative performance for the equal weight index, the timing is uncertain and factors such as expected slowing GDP growth (late in the economic cycle) and high interest rates (hurting borrowers, thus favoring companies with low debt levels and positive free cash flow) create an environment where the large-capitalization, technology-centric leaders can continue to outperform. For long-term investors, however, we advocate stock and sector diversification and close monitoring of portfolios to rebalance positions as needed.



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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members--the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and in this way alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. The U.S. Bureau of Economic Analysis reports inflation adjusted (real) GDP as annualized percentage growth from the previous quarter. The BEA also reports data on a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months;" and also looks at the depth, diffusion, and duration of the downturn.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet Consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury bonds, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury bonds are widely followed barometers of the current U.S. interest rate environment. Treasury bond data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

S&P 500 earnings growth reflect the year over year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

Volatility is how much and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices is often a sign of rising uncertainty.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

The U.S. Treasury regularly issues press releases to provide updates on its borrowing needs in the months ahead. The 7/31/23 release is linked. https://home.treasury.gov/news/press-releases/jy1662.

Congressional Budget Office. Since 1975, CBO has produced independent analyses of budgetary and economic issues to support the Congressional budget process. Each year, the agency's economists and budget analysts produce dozens of reports and hundreds of cost estimates for proposed legislation. The May 2023 update to 10-year budget projections: https://www.cbo.gov/data/budget-economic-data#3.

The U.S. Treasury final monthly Treasury Statement for fiscal 2023 receipts and outlays: https://www.fiscal.treasury.gov/files/reports-statements/mts/mts0923.pdf