Week Ending 11/3/2023

WEEK IN **PERSPECTIVE**

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Stocks rally on sharp drop in rates

The stock market registered sizable gains on the heaviest week of earnings reporting for this Q3 season.

The calendar featured results from Apple, which didn't live up to the market's high expectations and languished following its report. Earnings news was generally met with a positive reaction, helped in large part by the significant drop in market rates.

The 10-yr note yield declined 31 basis points this week to 4.51% and the 2-yr note yield fell 17 basis points this week to 4.86%. Those moves were partially a reaction to the following factors:

- The Bank of Japan's tweak to its yield curve control policy was not as hawkish as feared, tempering concerns about the possibility of a destabilizing unwinding of carry trades.

- The Treasury reduced its Q4 borrowing estimate by $76 billion to $776 billion.

- The Treasury said its Q4 refunding would involve larger issuance and auction sizes for 2-, 3-, 5-, and 7-yr maturities than 10-, 20-, and 30-yr maturities.

- Short sellers covered their positions.

Another important factor driving activity in the Treasury market was the FOMC meeting. The committee voted unanimously to leave the target range for the fed funds rate unchanged at 5.25-5.50% and Fed Chair Powell's press conference was deemed less-hawkish than feared. Mr. Powell noted that the Fed has come very far with its rate-hike cycle and that policy decisions have gotten more two-sided.

The Bank of England also left its key rate unchanged, although the vote was 6-3 with three voters favoring a 25 basis points rate hike.

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Some of the key economic releases this week all worked in favor of the market's thinking that the Fed could be done raising rates. The ISM Manufacturing Index contracted at a faster pace in October (actual 46.7%; expected 49.0%; prior 49.0%), Q3 unit labor costs declined 0.8% on the back of the strongest productivity increase (4.7%) since the third quarter of 2020, and the October jobs report showed slower payroll growth, rising unemployment, and slower wage growth.

The fed funds futures market isn't pricing in any more rate hikes over the next 12-month horizon; in fact, it is pricing in at least two rate cuts over the next 12 months, according to the CME FedWatch Tool.

The sharp drop in rates acted as a springboard for stocks, aided by short-covering activity and a fear of missing out on further gains in a seasonally strong period for the market. Last week brought the S&P 500 into technical correction territory, but this week's rally brought the S&P 500 back above both its 200-day and 50-day moving averages.

The rate-sensitive real estate sector was the best performer, up 8.6%, followed by the financial (+7.4%), consumer discretionary (+7.2%), and information technology (+6.8%) sectors. The "worst" performing sector was energy, which still climbed 2.3% this week.

The US dollar was weaker this week due to the thinking that the Fed might be done raising rates. The US Dollar Index fell 1.4% to 105.04.

- Nasdaq Composite: +6.6% for the week / +28.8% YTD
- S&P 500: +5.9% for the week / +13.5% YTD
- Dow Jones Industrial Average: +5.1% for the week / +2.8% YTD
- S&P Midcap 400: +6.5% for the week / +2.0% YTD
- Russell 2000: +7.6% for the week / -0.03% YTD