Joppa Mill Advisors Ltd.

Changing Seasons ?

November 2023

October presented more challenges to navigating the investment markets.

- Stocks posted negative returns with smaller-capitalization stocks bearing the brunt of the selling. Fixed-income market were modestly positive. Large-cap technology and communication services stocks reasserted their dominance, further widening the year-to-date performance dispersion among the broad market indices.[i]
- Geo-political conflicts spread from Eastern Europe to Asia (China/Taiwan), and the Middle-East with the Israel-Palestine conflict heating up. Traditionally a geo-political tinderbox, public protests of the Israel-Palestinian war manifested globally, including here in the U.S. with sporadic episodes of violence and antisemitic backlash, heightening political tensions.
- The seeming inability of Congress to set aside their deeply embedded political agendas compelled the resignation of the Speaker of the House, leading to legislative gridlock and forcing the implementation of a short-term, stop-gap funding measure which expires next week. Undoubtedly another short-term funding measure will be necessary. Moreover, this political posturing resulted in Moody's credit rating service placing the U.S. on a negative outlook.
- The Federal Budget deficit and future funding needs are weighing heavily on the fixed-income markets. It is anticipated that the Federal deficit will equal roughly 6.5% of our Gross Domestic Product ("GDP"). Federal spending has risen from 19% of GDP in 2007 to 25% of GDP in 2023.[ii]
- Stock and bond markets are reacting to every move in interest rates which are gyrating wildly with every comment and innuendo from the Federal Reserve and economic releases. Markets are pricing in interest rate cuts in 2024 which are far from assured given the stickiness of inflation and continuing strength of the employment markets.
- Consumer spending accounts for nearly 70% of the U.S. economy, so the wherewithal of the consumer to keep spending in support of the economy is a major focus. Whether, when, and the extent of any economic recession is major overhang. Recent economic data suggest that the economy is slowing, which is an obvious outcome of the substantially higher interest rate environment.
- Third quarter corporate earnings season saw many companies lower their guidance for future earnings, and their stocks were unmercifully punished.[iii]
- Traditional "defensive" stocks such as Consumer Staples stocks such as Pepsi, Coca Cola, Mc Donald's, and Mondelez were crushed by market participants extrapolating that the phenomenal success of the GLP-1 weight-loss drugs will result in consumers curtailing their purchases of soda and snack foods. Never mind that the availability of the drug is greatly constrained, that one has to remain on the drug indefinitely, and there is virtually no evaluation of potential long-term health effects. As usual, emotional reaction overwhelms rationality.
- Utility stocks, also traditionally "defensive" , have been the worst performing sector this year. They rebounded slightly as interest rates have begun to stabilize.

- With fixed-income and credit markets offering yields of 5% +, this offers attractive returns relative to equity market risk given the economic situation and geo-political uncertainties.
- Seasonal tendencies are constructive going into the end of the year; however, the Federal budget overhang and political wrangling are turning our attention to next year's Presidential election.

After near-term lows during the last week of October, both stock and bond markets have turned higher in November, rebounding from over-sold conditions. There is cautious optimism that this trend may be sustained; however, the expectation of interest rate cuts is likely to be prove disappointing; the heavy issuance by the Treasury to fund the ever-growing deficit, especially at higher interest rates, overhangs the bond market; and the ultimate impact of slowing economic growth and inflation on consumer spending are all mitigating variables. Regardless, nothing will move in straight line!

Worthy of note, the 2024 contribution limits for individual retirement accounts (IRAs) and for 401k plans will increase to $7,000 for IRAs and $23,000 for 401ks, not including catch-up contributions.)

Wishing you a Happy Thanksgiving!

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[i] FIRST TRUST ADVISORS L.P., *TALKING POINTS* October 2023

[ii] FIRST TRUST ADVISORS L.P., *MONDAY MORNING OUTLOOK* October 9, 2023

[iii] https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_111023.pdf Page 13.