MONTHLY
MARKET REVIEW

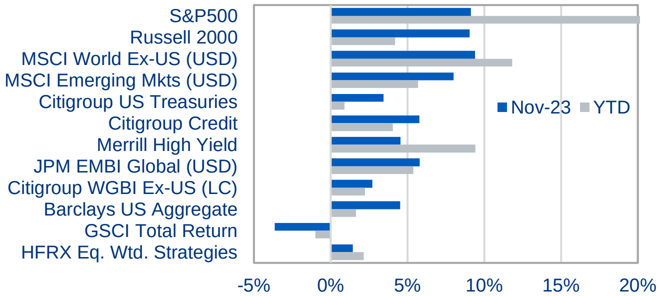
11 2023

Global Market Review

Global equities soared in November as most advanced and emerging markets enjoyed strong gains. The U.S. equity market rally was dominated by the same handful of mega-cap tech stocks that have been the prominent driver of market moves both up and down so far this year. The bond markets of the U.S. and other advanced economies also rallied impressively as yields plunged, especially at the long end of the curve. In the U.S. Treasury market, real yields accounted for the bulk of the decline, although inflation expectations also eased. Buoyed by strong rallies across equity and bond markets, November was a splendid month for 60:40 portfolios. Slowing inflation and expectations that central bank policy rates had peaked in the U.S. and Europe were the main catalysts of these gains. Commodity prices, in contrast, fell led by a further sharp drop in oil prices. With yields expected to fall further, the U.S. dollar declined against most major currencies. Gold prices hovered near all-time highs.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



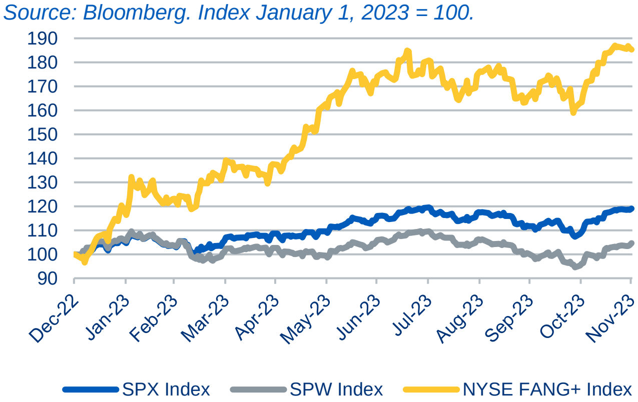
Global equities and bonds soar as inflation eases.

U.S. Equity Market Breaks 3-Month Losing Streak

November's 9.1% jump in the S&P 500 pushed its gain so far this year to 20.8%. The index now stands within 3% of its all-time high in July. November's rally, like much of the market dynamics in 2023, was driven by a few mega-cap stocks in the tech sector represented by the NYFANG index which is up 85.3% so far this year. Given the dominance of a few very large stocks, U.S. equity market concentration is at multi-decade highs. Moreover, the equal- and cap-weighted S&P 500 indices have diverged significantly, with the former up only 4.6% in the first 11 months of the year versus the cap-weighted's gain of 20.8% (Exhibit 1).

Exhibit 1. U.S. Stocks Remain Unbalanced and Overpriced

Source: Bloomberg. Index January 1, 2023 = 100.



Both growth (up 10.2%) and value stocks (up 7.6%) surged in November. For the year as a whole, however, growth stocks have outpaced value by a wide margin, gaining 34.8% versus value's return of 5.4%. Sectoral divergences have also been stark. Tech stocks have led all other sectors in 2023, rising 48.2%. Utilities have been the chief laggards, losing 11.6% so far this year in the face of rising interest rates. In light of the unbalanced nature of this year's market dynamics, large cap stocks (up 20.6%) have handily outpaced small (up 4.2%).

U.S. Equity market volatility remains quite low, despite continued uncertainty about the future path of economic activity and interest rates, the high level of equity market valuation and concentration, and the volatile geopolitical environment. In contrast, volatility in the bond market remains

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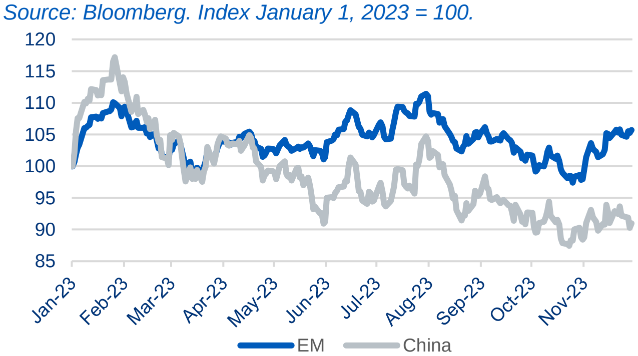
high, reflecting wide yield swings and erratic expectations for growth, inflation, and the path of monetary policy.

Global Equity Markets Also Rebound

The MSCI World ex-U.S. index of advanced equity markets rebounded strongly in November, surging 9.4%, after three successive months of declines. Both European and Japanese markets contributed to the rally, rising 9.9% and 8.6%, respectively. Hopes that easing inflationary pressure would allow the ECB to relax its tight policy stance pushed European bourses higher, despite signs of continued economic contraction.

Exhibit 2. China Weighs Heavily on EM Equity Returns

Source: Bloomberg. Index January 1, 2023 = 100.



Emerging equity markets also benefitted from the global rally in risk assets. The MSCI emerging equity market index rose 8.0% in November and is now up 5.7% for the year (Exhibit 2). Chinese equities lagged the broader index, but nevertheless posted a gain of 2.5%, notwithstanding intensifying concerns over financial sector stability in light of high debt levels, an overbuilt and overextended property sector, and increasing borrower distress. Subpar economic growth, anxious consumers, and erratic policies further cloud the outlook for the Chinese economy. So far this year, Chinese equities have fallen 9.0% and weighed heavily on the performance of the broader emerging equity market index.

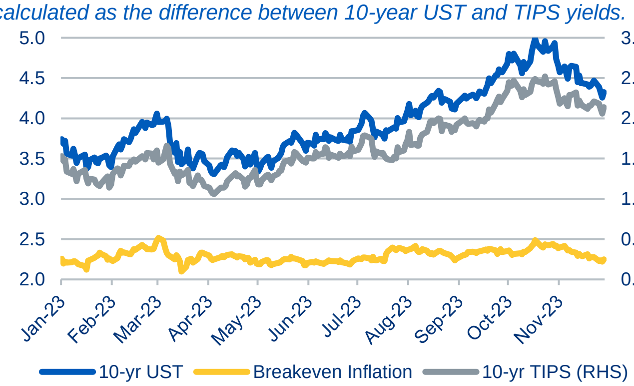
Bonds Rally after Six Successive Losing Months

Bond markets have been especially volatile this year, reflecting pervasive uncertainty about the future path of the economy, inflation, and central bank policy. November saw a positive swing in the pendulum after a long string of monthly declines. U.S. Treasuries in aggregate rose 3.4% in November, while bonds with maturities of 10+ years jumped 8.8% as investors priced in expectations that the Fed would pivot to looser monetary policy in the face of falling inflation. Real yields led the decline in U.S. Treasuries, although implied inflation expectations also fell (Exhibit 3). Following November's rally, U.S. Treasuries in aggregate are up slightly for the year, although those with long maturities remain down 4.9%.

U.S. credit markets also rallied in November, with both investment grade and high yield bonds gaining 4.6%. Reflecting the sharp decline in yields at the long end of the maturity spectrum, investment grade credit with maturities of 10+ years jumped 10.6%. Bond markets outside of the U.S. were also buoyed by the tide of hope for an end to the tightening cycle. Advanced economy sovereign bonds rose 6.0% in November, while emerging market sovereigns returned 5.8%.

Exhibit 3. Easing Inflation, Falling Yields

Source: Bloomberg. Nominal and real yields in percent. Breakeven inflation is the average expected inflation over the next 10 years calculated as the difference between 10-year UST and TIPS yields.

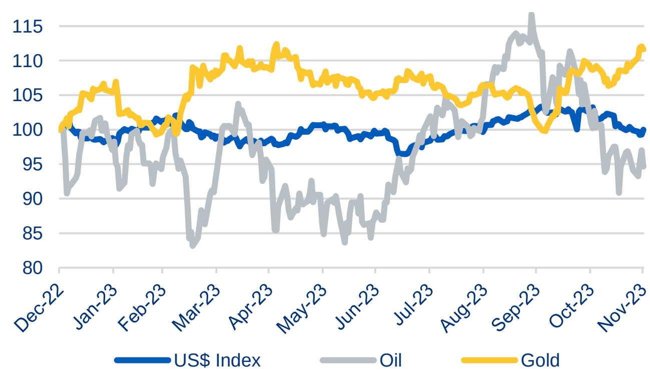


Gold Hovers Near All-Time Highs

November's decline in real U.S. Treasury yields, heightened geopolitical risk, and central bank purchases pushed the price of gold to near all-time highs. So far this year, gold has gained 11.6% while the U.S. dollar is little changed and oil prices have tumbled (Exhibit 4). Broad commodity indices are down so far this year, largely reflecting the 5.4% decline in crude prices.

Exhibit 4. Geopolitical Risks Send Gold Prices Higher

Source: Bloomberg. Index January 1, 2023 =100.



Performance of Major Market Indices through 11-30-2023

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	9.1%	6.8%	20.8%	13.8%	9.8%	12.5%
Russell 2000	9.1%	1.6%	4.2%	-2.6%	1.1%	4.8%
MSCI World Ex-US (USD)	9.4%	4.8%	11.8%	11.3%	4.1%	6.2%
MSCI Emerging Mkts (USD)	8.0%	3.8%	5.7%	4.2%	-4.0%	2.3%
Citigroup US Treasuries	3.4%	2.2%	0.9%	0.2%	-4.9%	0.3%
Citigroup Credit	5.8%	3.8%	4.0%	3.6%	-4.5%	2.0%
Merrill High Yield	4.5%	3.3%	9.4%	8.6%	1.4%	4.0%
JPM EMBI Global (USD)	5.8%	4.3%	5.4%	5.8%	-4.1%	1.3%
Citigroup WGBI Ex-US (LC)	2.7%	2.4%	2.2%	-1.1%	-5.3%	-1.3%
Barclays US Aggregate	4.5%	2.9%	1.6%	1.2%	-4.5%	0.7%
GSCI Total Return	-3.6%	-7.7%	-1.0%	-2.4%	22.9%	7.7%
HFRX Eq. Wtd. Strategies	1.4%	0.5%	2.1%	2.3%	1.0%	2.1%