



Weekly Focus – Think About It

"You can only predict things after they have happened."

—Eugene Ionesco, playwright

THE MARKETS

WILL THERE BE A YEAR-END RALLY?

Last week, there was a lot of speculation about whether the United States will see a year-end stock market rally. Some say yes, and some say no.

For example, at Bank of America, "Chief investment strategist Michael Hartnett broke from his usual bearish view to say technicals no longer stand in the way of a year-end rally for the S&P 500 Index. Savita Subramanian, head of U.S. equity and quantitative strategy and an optimist on stocks this year...[said] a contrarian indicator from the bank is also close to offering a buy signal..." reported Alexandra Semenova and Farah Elbahrawy of *Bloomberg*.

In contrast, Morgan Stanley's Chief U.S. Equity Strategist Mike Wilson thinks a fourth-quarter rally is unlikely. One bearish sign is that some higher-quality mega-cap growth stocks traded lower even after reporting strong earnings. In addition, "given the significant weaknesses already apparent in the average company earnings and the average household finances, we think it will be very difficult for these mega-cap companies to avoid these headwinds too...Finally, with interest rates so much higher than almost anyone predicted six months ago, the market is starting to call into question the big valuations at which these large cap winners trade."

The bottom line is no one knows with any certainty what the future will bring.

Instead of trying to predict market lows and highs, we help investors manage risk by building well-allocated and diversified portfolios that are designed to help them meet their financial goals. These portfolios typically include a mix of stocks, bonds and other assets. By holding a variety of assets that respond differently to market conditions, investment portfolios may provide more consistent and less volatile returns over time. It's important to remember, though, that while diversification is a valuable tool, it does not ensure a profit or prevent a loss.

After three months of weakness, investors cheered last week’s gains in U.S. stock and bond markets. Major U.S. stock indices moved higher over the week, and yields on U.S. Treasuries moved lower.

Data as of 11/3/23	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	3.2%	13.5%	17.2%	9.0%	9.7%	9.4%
Dow Jones Global ex-U.S.	3.3	2.9	13.9	0.8	1.6	0.8
10-year Treasury Note (Yield Only)	4.6	N/A	4.2	0.9	3.2	2.6
Gold (per ounce)	0.3	10.1	22.5	1.5	10.1	4.2
Bloomberg Commodity Index	-0.6	-6.7	-7.4	13.4	4.6	-1.6

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

PREDICTIONS VS. REALITY

It is notoriously difficult to predict the future, but that doesn’t stop people from trying. In 1904, a banker advised Horace Rackham not to invest in the new Ford Motor Company because, “The horse is here to stay, but the automobile is only a novelty — a fad.” Fortunately for Rackham, he was persuaded otherwise.

In 1950, the *New York Time’s* science reporter predicted a revolution in house cleaning by 2000. Since everything in a home would be made of synthetic fibers, cleaning would require a hose, some detergent, and a few well-placed drains. While many things in homes are made of synthetic materials, hosing down the interior is not a practical method for cleaning.

One problem with predicting the future is that forecasts are based on current knowledge – and unexpected things happen all the time. For example, during the past three years, we’ve experienced a few unexpected events:

- A pandemic that caused economies to lockdown around the world,
- A war in Ukraine that caused a sharp increase in energy prices,
- Aggressive central bank tightening in many countries,
- A war in Israel that could expand into the Middle East, and
- Harry Styles on the cover of *Better Homes & Gardens*.

To get an idea of how difficult forecasting is, let’s step back in time to 2020. In January 2020, the Congressional Budget Office (CBO) released *The Budget and Economic Outlook: 2020 to 2030*. The CBO forecast the U.S. economy would grow 2.2 percent in 2020, and unemployment would be 3.5 percent. Then the COVID-19 pandemic arrived, and the economy went on

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lockdown. By the end of 2020, the economy had shrunk by 2.2 percent, and unemployment had risen to 8.1 percent.

CBO Projections vs. Reality

	2020 forecast for 2020	2020 actual	2023 forecast for 2023	2023 actual
Real Economic Growth (GDP)	2.2 percent	-2.2 percent	0.3 percent	2.2 percent (1Q) 2.1 percent (2Q) 4.9 percent (3Q)
Inflation (CPI)	2.4 percent	1.4 percent	4.8 percent	3.7 percent
Unemployment Rate (12 Months)	3.5 percent	6.7 percent	4.7 percent	3.9 percent
10-Year Treasury Rate	1.9 percent	0.93 percent	3.9 percent	4.6 percent

Notes: The table includes the latest data available for 2023. Inflation shows the 12 months through December for 2020 and through September for 2023. Unemployment shows data for December 2020 and October 2023. The 2020 10-year U.S. Treasury rate is as of December 31, 2020. The 2023 10-year U.S. Treasury rate is as of November 3, 2023

Forecasting proved to be challenging in 2023, too, as the table shows. At the start of the year, the CBO expected economic growth to be very weak (0.3 percent), following aggressive Federal Reserve rate hikes. Instead, as the table shows, economic growth exceeded expectations largely because of strong consumer spending. In addition, inflation and unemployment were lower than forecast and the 10-year Treasury rate was higher.

While many organizations, teams, and individuals try to predict the direction of markets and economies, it's not an easy thing to do.

Best regards,
Marilyn Suey

P.S. Please feel free to forward this commentary to family, friends or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

Sources:

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), <https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM>.

* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.

* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.

* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

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* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.

* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

* Asset allocation does not ensure a profit or protect against a loss.

* Consult your financial professional before making any investment decision.

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