First Trust

# Weekly Market Commentary

Week Ended December 15, 2023

## US Economy and Credit Markets

Yields and Weekly Changes:

| | | | |
|---|---|---|---|
| 3 Mo. T-Bill: | 5.377 (0.5 bps) | Bond Buyer 40 Yield: | 4.52 (-12 bps) |
| 6 Mo. T-Bill: | 5.319 (-5.9 bps) | Crude Oil Futures: | 71.43 (0.20) |
| 1 Yr. T-Bill: | 4.934 (-18.4 bps) | Gold Spot: | 2,019.62 (14.95) |
| 2 Yr. T-Note: | 4.443 (-27.8 bps) | Merrill Lynch High Yield Indices: | |
| 3 Yr. T-Note: | 4.120 (-33.7 bps) | U.S. High Yield: | 7.98 (-45 bps) |
| 5 Yr. T-Note: | 3.909 (-33.0 bps) | BB: | 6.55 (-39 bps) |
| 10 Yr. T-Note: | 3.911 (-31.5 bps) | B: | 8.13 (-48 bps) |
| 30 Yr. T-Bond: | 4.008 (-29.6 bps) | | |

Treasury yields dropped significantly over the course of the week as the Federal Reserve Bank signaled a more dovish tone and the market is pricing in more aggressive rate cuts in 2024. Treasury yields started the week mostly flat on Monday and Tuesday as the November Consumer Price Index rose 0.1% MoM compared to consensus expectations of 0.0% MoM, and rose 3.1% YoY, matching expectations. Investors speculated that this slightly hotter than expected inflation reading, along with a recent strong job market, may put a damper on aggressive rate cut expectations from the Fed. However, Wednesday's Fed statements encouraged investors that the Fed would be more dovish than expected and Treasury yields rose significantly. The Fed's dot plot was updated to show an expected 75-basis-point cut in interest rates in 2024, which was sharper than the previous reading in September. Fed Chairman Jerome Powell said that it was good news that inflation was easing without an unemployment spike and suggested that Fed policy had become restrictive. After dropping significantly on Wednesday, the 10-year Treasury yield dropped below 4% for the first time since July as investors took a risk-on approach in equities. On Friday, New York Fed President John Williams said it was premature to think about a March rate cut, but investors continued to shrug this off and priced in a significant chance. The market implied probability of an interest rate cut by the March 2024 meeting rose from 47.4% at the beginning of the week to 76.8% by the end of the week. The market implied rate after the December 2024 meeting dropped from 4.219 to 3.912 as well. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Tuesday: November Housing Starts (1360k, 1372k); Wednesday: December 15 MBA Mortgage Applications (n/a, 7.4%), November Existing Home Sales (3.77m, 3.79m), December Conf. Board Consumer Confidence (103.7, 102.0); Thursday: 3Q GDP Annualized QoQ Third Reading (5.2%, 5.2%), December 16 Initial Jobless Claims (215k, 202k), November Leading Index (-0.4%, -0.8%); Friday: November Personal Income (0.4%, 0.2%), November Personal Spending (0.2%, 0.2%), November Prelim. Durable Goods Orders (2.2%, -5.4%), November New Home Sales (689k, 679k), December Final U. of Michigan Sentiment (69.4, 69.4).

## US Equities

| Weekly Index Performance: | | Market Indicators: | |
|---|---|---|---|
| The Dow® | 37,305 (2.93%) | Strong Sectors: | Real Estate, Materials, Industrials |
| S&P 500® | 4,719.19 (2.52%) | | |
| S&P MidCap 400® | 2,745.60 (4.38%) | Weak Sectors: | Communication Services, Utilities, Health Care |
| S&P SmallCap 600® | 1,290.88 (5.83%) | | |
| Nasdaq Composite® | 14,813.92 (2.87%) | NYSE Advance/Decline: | 2,314 / 649 |
| Russell 2000® | 1,985.13 (5.60%) | NYSE New Highs/New Lows: | 482 / 71 |
| | | AAII Bulls/Bears: | 51.3% / 19.3% |

The S&P 500 rose over 2.5% last week after a dovish pivot by the Federal Reserve signaled the central bank's hiking cycle is coming to an end. On Wednesday the Fed kept rates steady at 5.25-5.5% and Chairman Powell stated that interest rates are "likely at or near the peak of this tightening cycle". This announcement surprised many investors who had positioned themselves for a more extended rate-hiking cycle. In response to the news, stocks rallied nearly 1.4%, continuing the upward trend through Thursday. Rate-sensitive Real Estate stocks led the S&P 500 for the week, gaining 5.6%. Companies like **CBRE Group** and **Prologis**, operating in commercial and industrial real estate, respectively, boosted the group and reached fresh 52-week highs. Following the rate decision, solar companies **Enphase**, **SolarEdge**, and **First Solar** posted gains after trailing the market for most of the year. In the broader market, debt-laden stocks rallied on Thursday as the looming 'debt wall' seemed more navigable, with potential cuts anticipated in 2024. On Friday, tech stocks took the lead, propelling the Nasdaq 100 to close at an all-time high for the first time in two years. Both the S&P 500 and Nasdaq 100 indexes notched seven consecutive weeks of gains. However, the daily rally came to an end on Friday as a record $5.4 trillion worth of options expired. Despite the expiration of a significant amount of options, markets remained flat on Friday. Looking ahead to next week, economic releases on personal consumption, housing, and jobs will guide investors into the Christmas holiday.