MARKET UPDATE

DECEMBER 6, 2023

"And then she went to the porridge of the little, small wee bear, and tasted that. And that was neither too hot nor too cold, but just right; and she liked it so well, that she ate it all up."

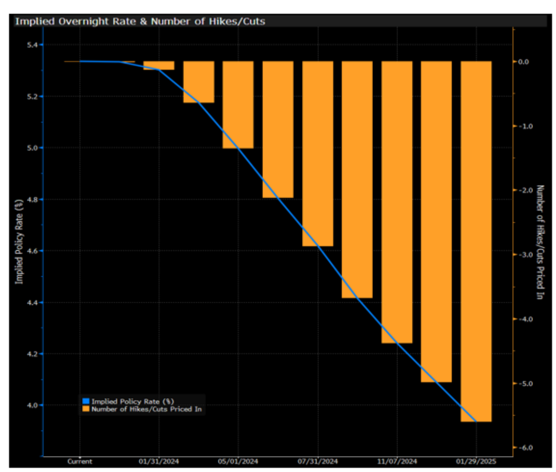
Goldilocks and The Three Bears

It is said, "markets climb a wall of worry," and November 2023 was a prime example. Exiting October markets were dominated by fears of ballooning government deficits, decelerating corporate earnings growth, stubbornly high inflation, and a Federal Reserve content with higher interest rates for longer. But as Goldilocks discovered, all it takes is a series of "just right" economic news to drive a powerful rally across asset classes. The S&P 500 advanced 9.1% in November, accompanied by a 4.5% return for the Bloomberg U.S. Aggregate Bond Index. Whether it was jobless claims, non-farm payrolls, consumer price index, leading economic indicators, durable goods orders or even the Fed's preferred inflation gauge of core personal consumption expenditures, markets broadly interpreted November data as clear evidence of too restrictive interest rate policy driving forecasts for aggressive rate cuts in 2024.

One positive technical note for the stock market in November was more balanced performance than we have seen earlier in the year. November's rally was not driven primarily by the so-called Magnificent Seven stocks (AAPL, AMZN, GOOGL, MSFT, META, NVDA, TSLA.) The equal-weighted index performed exactly in-line with the cap-weighted S&P 500 and even within the Magnificent Seven stocks, median performance was in-line with the benchmark. Fundamentally, with 94% of S&P 500 companies having reported Q3 2023 results, both revenue and earnings growth significantly exceeded expectations according to Factset Research.

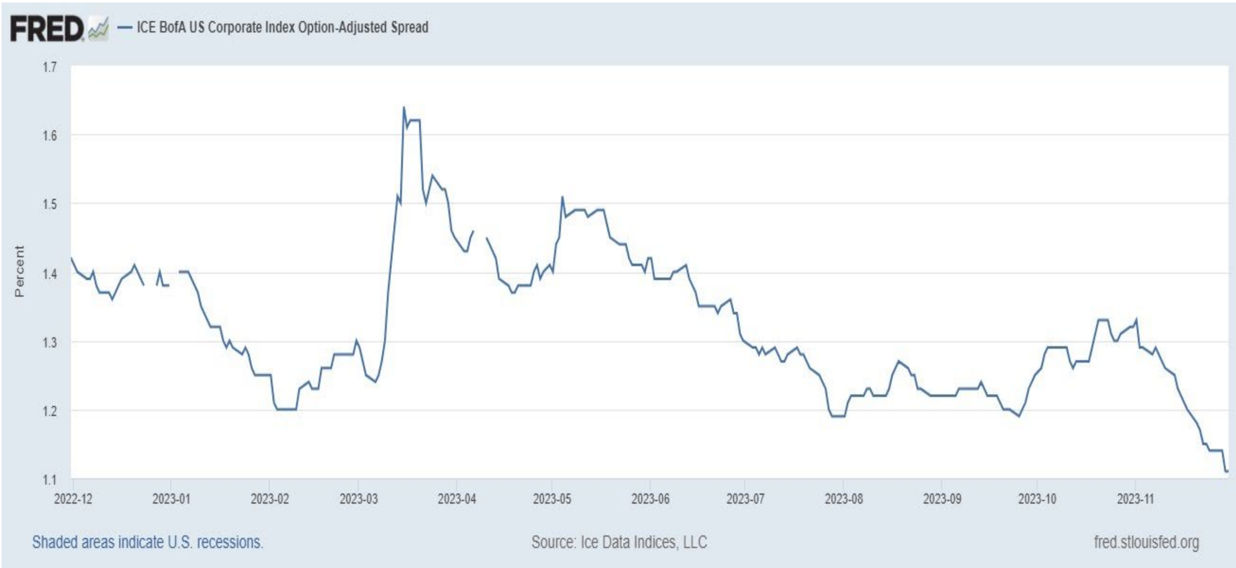
Figure 1a) S&P 500 FY24 EPS Consensus

Figure 1b) Current Forward Fed Funds Curve / Rate Expectations



However, as the graphs above illustrate, despite calls for aggressive rate cuts, estimates for 2024 corporate earnings have not reacted at all to the possibility of a Fed-driven recession next year. In fact, since February of 2023, S&P 500 earnings estimates have held remarkably steady around the $245 level for most of the year. If the U.S. economy is heading for a Fed-driven recession necessitating aggressive rate cuts, is it credible that corporate earnings will emerge unscathed? With the stock market trading at 18.6x current 2024 earnings estimates, we advise caution in concluding the all-clear for risk assets.

In fixed income markets, 2023 continues to be one of the most volatile years in history with five distinct price moves of plus or minus 4% or more. Clearly the bond market has been grappling with a stickier than expected post-pandemic inflationary environment, and the Federal Reserve has remained resolute in the current rate tightening cycle. While market participants have grown accustomed to the Federal Reserve helicoptering liquidity into the market at the first sign of economic weakness, it has become clear that the one policy error current Fed chairman Jerome Powell is not likely to make is cutting the fed funds rate before inflation is at or below the Fed’s 2% target. Our view is to expect higher than normal volatility in the bond market until a clearer view of 2024 economic activity comes into focus.



One last observation on current market contradictions….as the chart above illustrates, corporate bond spreads have narrowed significantly with the rally in fixed income markets in November. Spread narrowing is not something typically seen ahead of economic recessions.

At Seacoast Wealth Management we are pleased that client portfolios performed as expected in November with equities capturing 90% of the increase after only capturing 80% of the prior three-month decline. Our shorter-duration bond positioning continued to generate positive performance and remains well above benchmarks for the year-to-date. Portfolio positioning will remain relatively conservative after November's rally with stocks now priced, as Goldilocks said, "just right." Our view is that something must give to put markets in better balance. Either rates remain higher for longer and the U.S. economy avoids recession, or 2024 earnings estimates come down to reflect declining economic activity. Either way, caution is warranted.

Sources: JP Morgan Asset Management; NASDAQ; FactSet; Bloomberg; Broadridge: *Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City*

Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks.