WALLS OF WORRY

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NOVEMBER 2023

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Welcome to November! Every month, we like to impart some perspective on the financial markets or shed light on a current headline or two, all in an attempt to help our clients sift through the noise and become slightly more educated investors. We welcome your comments and suggestions, and as always, we invite you to share this piece with anyone you believe may find it of interest.

In the sometimes-illogical world of finance, it is often said that the markets climb walls of worry. In 2023, and perhaps more acutely in October, that old Wall Street adage has never rung more true. We've been doing this for many years and we're hard pressed to recall a time when investors were faced with so much to worry about, and all of it simultaneously. If it wasn't inflation it was rising interest rates or the war in Ukraine or the breakdown of the commercial real estate market or concerns over potential dysfunction in Congress and the downgrade of the U.S. credit rating. And let's not forget the unsettling backdrop of October's horrific terrorist attacks on Israel.

What's remarkable though - despite the litany of worries that have beset 2023, investors have seemingly brushed it all off and propelled the S&P 500 by +10% and the NASDAQ by a whopping +24% through the end of October[1]. The metaphorical wall of worry has not only been climbed; it's been conquered.

Yet as these worries persist, our outlook for stocks remains cautiously optimistic, at least for the time being. Looking ahead to 2024, the big picture fundamentals appear to deteriorate somewhat and we believe that the delayed effects of Fed tightening may finally catch up with the economy, casting doubt on the sustainability of any near-term rallies. But from where we sit, a market advance into year-end would not surprise us in the slightest.

For starters, the July-October pullback largely wiped-out investor confidence, with bearish sentiment in the American Association of Individual Investors' (AAII) survey jumping to a five-month high. From a contrarian perspective, this is a positive development and suggests that better days may lie ahead. A recent study by Ned Davis Research supports this notion, revealing that after five consecutive months of gains (March to July) followed by three consecutive months of losses (August to October), history has shown a resurgence in the upward trend. This unusual round trip has occurred only seven times since 1930, but in six of those instances, the S&P 500 was higher one month later, and by an average of 3.7%.

Furthermore, we're entering the season that's typically favorable for stocks. Going back to 1950, November ties with April as the second-best month of the year, with the S&P 500 historically gaining an average of 1.5% during the month, according to the Stock Trader's Almanac. And December has consistently been the best month of the year, adding an average of 1.7% to the index.

But as we mentioned, there are macroeconomic concerns that give us pause when considering the longer-term outlook and call into question what the markets have in store for us in 2024. We'll be keeping a close eye on market trends during any rallies to decipher whether the August-October pullback was merely a seasonal hiccup or the groundwork for a more prolonged market shift. Should stocks rally into year-end with positive breadth, we could see support for the argument of a sustained bull market into next year. Otherwise, the lagged effects of Fed rate hikes, rising interest rates, reduced fiscal stimulus, the end of disinflation, and challenging corporate earnings comparisons may prove too much for the markets to overcome.

On a very personal note, as we enter Thanksgiving and the Holiday season, we want to pause and express our gratitude for the continued trust and loyalty you have placed in us. The honor of being entrusted with our clients' success is why we do what we do, and there aren't words to express how thankful we are for the opportunity. We wish for you and your families a wonderful, happy Holiday season ahead.

[1]Thomson Reuters

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