STAYING ALIGNED

BY JAMES H. DRYDEN

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PRIVATE WEALTH MANAGEMENT

Welcome to December! 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.

November was an excellent month for the financial markets, marked by the S&P 500's impressive 9.3% advance, its strongest monthly surge in three years. From its low point on October 27th to last month's close, the major market index surged by nearly 11%, a noteworthy advance observed only a handful of times since 1990[1].

However, amidst the celebration of November's gains lies a tale of uneven distribution. The year 2023 continues to revolve around a select few stocks - termed the "Magnificent 7", the seven largest tech stocks in the S&P 500. Their collective gains are an astonishing 80% year-to-date, overshadowing the mere 4% growth of the remaining 493 companies in the index[2]. While it's not uncommon for market leadership to be somewhat concentrated, this level of dominance raises concerns as it consolidates market control, potentially amplifying any future downturns.

Furthermore, we should point out that November's big rally left stocks edging toward overbought levels. While last month fueled optimism driven by favorable inflation readings and lower interest rates, the surge in stocks spun around the narrative that the Federal Reserve is finished raising interest rates and has engineered – at least for now – the elusive "soft landing". This sets the bar of expectation quite high.

The focal point for investors now pivots to when – not if - the Federal Reserve will begin to lower rates. We'll be the first to admit that we have no clue when that may happen, and neither does anyone else if they're being honest, but we do have historical trends as a guide. Going back to 1963, the period of time between the last rate hike to the first cut has averaged seven months but has ranged from one month to 20. Importantly, that same data highlights that when rates have remained higher for longer, the financial markets have struggled, with the S&P 500 declining 3% during that time[3].

So our current strategy leans towards staying aligned with what's working and remembering that we have the strength of the season on our side as Decembers are historically a robust month for the markets. Over nearly a century, the S&P 500 has risen 73.2% of the time in December, with a median growth of 1.6%[4]. The month ahead should be intriguing to witness indeed.

Although we are addressing short-term perspectives and immediate market movements here, we want to remind our readers that the essence of successful investing extends far beyond this month or next. Investing, by its nature, relies on long-term vision and strategic planning and is measured in years rather than months. While this piece focuses on the frequently asked question "what's happening in the markets?", the real answer lies in the enduring principles that drive sustainable growth in the long run. Stay tuned.

As the end of another year draws near, we want to express our sincere gratitude to our clients for your continuing trust and loyalty. Your choice in us humbles and motivates us. We wish you a joyous Holiday season and a Happy and Prosperous New Year!

[1]Thomson Reuters [2]Kobeissi Letter [3]Birinyi Associates [4]Ned Davis Research

200 N. Westlake Blvd., Suite 202 · Westlake Village, CA 91362 · 818.436.6800 · www.WestlakePWM.com