Exencial Wealth Advisors™

November 2023

Market Update

Make it three in a row. Markets have now fallen three consecutive months with October producing negative returns for every broad asset class. Interest rates rose again and peaked on October 19th with the 10-year treasury reaching 5% for the first time since the Great Financial Crisis in 2007. Rates have since come down, and markets are certainly cheering for rates to fall from their current levels. But the Fed has not indicated that it will begin cutting rates as the market hopes and bond buyers appear to be more sensitive to the amount of debt being issued alongside continually accelerating government spending.

Every broad asset class with the exception of short-term bonds and gold were negative. The S&P 500 fell -2.1%, small caps were down -6.8%, and international stocks were down (-4.1% developed and -3.9% emerging).

The best news in October was the fact that GDP growth reached 4.9% for the third quarter. That amount of growth is impressive especially considering that many expected the U.S. to tip into recession in 2023. Consumers and households are continuing to drive growth. We also are getting 3rd quarter earnings reports and it looks like we are still on track for the S&P 500 to set an earnings record (estimated by S&P to be $218 for 2023), surpassing the $208 it generated in 2021.

On the other hand, the most recent inflation data moved higher to 3.7% and has persisted above the 2% target. That could force the Fed to maintain interest rates at least at current levels. The money supply is also falling, something else the Fed is doing to combat inflation. And as noted above government spending is growing quickly. Since the GFC in 2007, spending at the federal level has grown from 19% of GDP to 25% last year. All of these things taken together point to a slowdown in future GDP growth.

The S&P 500 remains concentrated in its top 10 names at a historical level (31%). This could be because many investors are looking to the megacap companies as a safe place to hold capital should growth falter and the economy tip into recession. This could be what has caused the market to concentrate so forcefully, but the AI goldrush has also played into extremely high prices for certain large companies. As such we are finding it necessary to be extremely disciplined as we sort through companies that appear fairly/attractively valued and those that are simply too expensive to hold.

Our base case is now updated so that GDP and earnings growth will be slightly positive in 2023. Household net worth, boosted by portfolio and home price gains over the last 5 years, and continued demand for workers should keep households in a position to take up some of the slack from companies that begin cutting spending. Inflation should continue receding through the year but may not get to the 2% target. The Fed may slow rate increases and accept a lower but still elevated (3% to 5%) level of inflation as they did in the 1950s following WWII.

Performance Summary - YTD

The S&P 500 is up 10.7% while small caps are down -4.5%. Developed international markets are up 2.7%. Bonds are down -2.8%.

Disclosure

Exencial Wealth Advisors, LLC (EWA) is an investment adviser registered with the Securities & Exchange Commission (SEC). However such registration does not imply a certain level of skill or training and no inference to the contrary should be made. EWA may only transact business in those states in which it is registered, notice filed, or qualifies for an exemption or exclusion from registration or notice filing requirements.

All earnings data comes from Standard and Poors' S&P 500 Earnings and Estimates Report as of 10/31/2023. Asset class performance numbers come from Morningstar as of 10/31/2023.

The S&P 500® is widely regarded as the best single gauge of large cap U.S. Equities There is over USD 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 3.4 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

GDP is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year. GDP growth rate is an important indicator of the economic performance of a country.