NOVEMBER: BIG RALLY FOR STOCKS & BONDS
PERSPECTIVE: THE GLOBAL ECONOMY

Figure 1: 11/30/2023 Returns (source: Bloomberg)
Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	YTD	1YR	vs. 52-wk High	vs. 52-wk Low
US Aggregate Fixed Income	AGG	4.6%	1.9%	1.0%	-4.8%	5.1%
Investment Grade Corp Bonds	LQD	7.6%	4.3%	2.7%	-5.5%	8.2%
U.S. Treasury Bonds	GOVT	3.5%	0.9%	0.2%	-5.2%	3.9%
U.S. 20+ YR Treasuries	TLT	9.9%	-5.4%	-7.9%	-16.5%	11.1%
Muni Bonds	MUB	5.7%	3.2%	3.0%	-2.0%	5.7%
US High Yield	HYG	4.9%	8.1%	6.2%	-2.1%	5.6%
Non-US Corp Bonds	IBND	5.8%	6.1%	6.3%	-2.4%	8.2%
Emerging Markets Bond LC	EMLC	5.6%	8.1%	9.1%	-4.7%	7.7%
Global Equity						
ACWI Global Equity	ACWI	8.9%	16.7%	11.3%	-1.5%	17.3%
ACWI Global Equity ex US	ACWX	8.3%	10.2%	7.6%	-3.9%	9.8%
International Developed	EFA	8.2%	12.4%	10.3%	-3.1%	11.3%
Emerging Markets	EEM	7.8%	5.2%	2.4%	-7.0%	8.8%
Global Equity by Region						
United States	VTI	9.4%	19.7%	12.7%	-1.2%	20.7%
Europe	IEUR	9.7%	13.5%	11.8%	-3.8%	12.2%
Asia ex-Japan	AAXJ	6.5%	1.6%	-0.2%	-10.2%	7.4%
China	MCHI	2.1%	-9.3%	-7.0%	-23.9%	5.3%
Japan	BBJP	6.0%	16.2%	13.7%	-2.3%	18.7%
Latin America	ILF	12.9%	24.5%	17.8%	-2.0%	28.7%
US Equity						
US S&P 500	IVV	9.2%	20.7%	13.8%	-0.7%	21.8%
NASDAQ 100 QQQ	QQQ	10.8%	46.7%	33.4%	-1.3%	49.7%
US Large Growth	IWF	11.0%	36.5%	26.1%	-0.9%	39.0%
US Large Value	IWD	7.6%	5.5%	1.3%	-4.1%	9.9%
US Eqwt S&P 500	RSP	9.2%	6.4%	1.4%	-4.8%	11.2%
US Mid Cap	IJH	8.5%	7.1%	1.2%	-6.5%	10.6%
US Small Cap	VTWO	9.1%	4.3%	-2.4%	-9.7%	11.0%

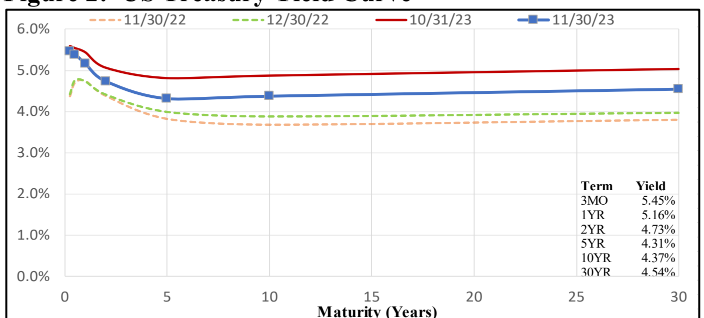
After three consecutive months of market weakness, stocks and bonds surged in November as milder economic data (lower inflation, decelerating jobs growth) and another pause by the Federal Reserve (Fed) calmed investors' fears regarding the need for further interest rate increases. Performance highlights are below.

- Bonds: The US Aggregate index (AGG) rose 4.6% (+1.9% YTD) as yields fell. (Note: Bond prices rise as interest rates fall.) Long-term Treasuries (TLT) are highly sensitive to interest rates, rising 9.9% (-5.4% YTD). Corporate bonds (LQD) gained 7.6% (+4.3% YTD), while high yield (HYG) rose 4.9% (+8.1% YTD). Emerging markets bonds continue to out-perform due to higher yields, stable currencies and credit spreads.
- Global equity (ACWI): +8.9% in November (+16.7% YTD).
- US Equity: The broad market (VTI) rose 9.4% (+19.7% YTD). The S&P 500 (IVV) was up 9.2% (+20.7% YTD); the average stock in the S&P 500 (RSP) gained 9.2% and is now up 6.4% YTD. At the sector level, stocks were led higher by gains of more than 10% in technology (XLK), real estate (XLRE), consumer discretionary (XLY) and financials (XLF); energy stocks (XLE) were down slightly as oil prices fell to $76 per barrel for WTI crude. Small (VTWO) and mid cap (IJH) stocks were strong in November but continue to under-perform YTD.
- Non-US Equity: Developed markets (EFA) rose 8.2% this month (+12.4% YTD), led by gains in Europe (IEUR +9.7%, +13.5% YTD). Emerging markets stocks (EEM) rose 7.8% (+5.2% YTD); Latin American stocks (ILF) gained 12.9% (+24.5% YTD) with roughly 15% gains in Brazil and Mexico.

Interest Rates and the Economy

The yield curve (Figure 2) plots the yields (vertical axis) for various U.S. Treasury maturities (horizontal axis). Interest rates reversed course, declining in November as lower inflation (headline CPI now 3.2% year/year), a slightly softer job market (slowing job creation, unemployment increased to 3.9%) and another Fed pause led investors to believe that the rate-hike cycle is over, with rate cuts likely in 2024. The inverted yield curve (short-term rates > long-term yields) continues to warn of an economic slowdown or recession. The 10-year US Treasury now yields 4.37%.

Figure 2: US Treasury Yield Curve

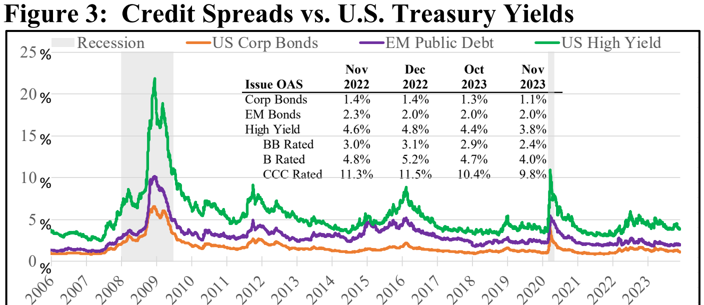


Source: Board of Governers of the Federal Reserve System via St. Louis Fed (FRED)

For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism, while high or rising spreads signal fear. Spreads narrowed in November and remain at or near historically low levels.

- Investment grade corporate bond spreads narrowed to +1.1% this month and are below year-ago spreads of +1.4%.
- High yield (non-investment grade) spreads narrowed to +3.8%, down from +4.8% this year. The riskiest bonds (rated CCC & below) declined to +9.8% over Treasuries and are down from +11.5% this year and +11.3% spreads one year ago.
- Emerging market spreads held steady at +2.0% and have been relatively stable all year. Emerging market credit has out-performed US bonds due to higher yields and stable currencies.

Figure 3: Credit Spreads vs. U.S. Treasury Yields



Source: Ice Data Indices, LLC via St. Louis Fed (FRED)

Global Perspective

As US investors, we tend to focus most of our attention on US markets and the domestic economy. Occasionally, it is helpful to take a step back and seek a broader perspective. Our economy remains the largest in the world, with a $25 trillion annual GDP (Gross Domestic Product, the value of all final goods and services produced), but this is just a quarter of the $100 trillion global economy. Figure 4 lists the ten largest countries by GDP, together representing over two-thirds of global economic activity.

Figure 4: Top 10 Countries by GDP (2022 data)

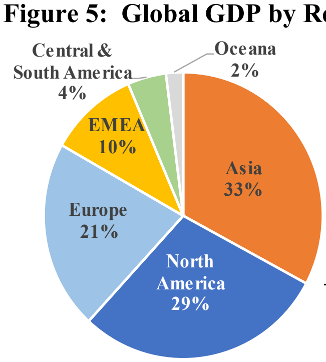
Country	Region	2022 GDP $Trillions	Global %GDP
United States	North America	$ 25.46	25.4%
China	Asia	$ 17.89	17.9%
Japan	Asia	$ 4.24	4.2%
Germany	Europe	$ 4.09	4.1%
India	Asia	$ 3.39	3.4%
United Kingdom	Europe	$ 3.08	3.1%
France	Europe	$ 2.78	2.8%
Russia	EMEA	$ 2.24	2.2%
Canada	North America	$ 2.14	2.1%
Italy	Europe	$ 2.01	2.0%
Total		**$ 67.32**	**67.2%**

Source: International Monetary Fund (IMF)

No other country contributes more than 2% to global GDP; in fact there are only eight other countries that account for more than 1% (in descending order: Brazil, Australia, South Korea, Mexico, Spain, Indonesia, Saudi Arabia and the Netherlands). These 18 countries represent nearly 80% of global economic activity.

The global economy is increasingly inter-connected through technology and trade, but regional alliances are prevalent due to geographic proximity. Figure 5 illustrates the global GDP by region.

Figure 5: Global GDP by Region



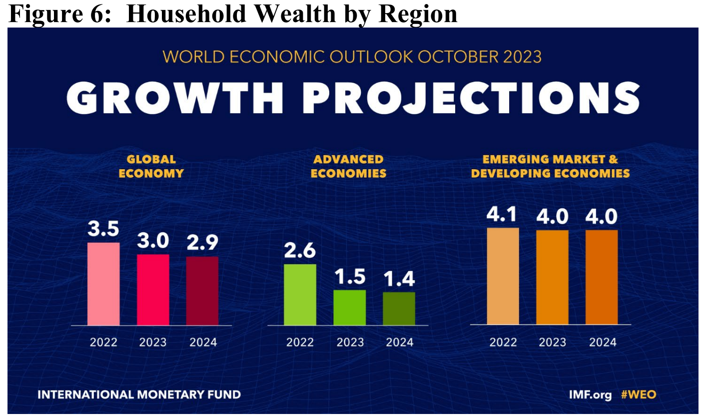
Region	GDP $Trillions	Global %GDP
Asia	$ 32.87	33%
North America	$ 29.07	29%
Europe	$ 21.35	21%
EMEA	$ 10.37	10%
Central & South America	$ 4.47	4%
Oceana	$ 1.99	2%
Total	**$100.11**	**100%**

Source: International Monetary Fund (IMF)

- Asia: Dominated by the economies of China, Japan, India and South Korea, Asia has grown rapidly, now 33% of global GDP.
- North America: Dominated by the US, the region includes two of our strongest trading partners, Canada and Mexico.
- Europe: 21% of global GDP; the eurozone (20 countries that share a common currency and economic integration) is 14% of global GDP and rivals the US and China as a trading bloc.
- Emerging Europe, Middle East & Africa (EMEA): Economic growth in these smaller, developing countries has been strong, though they will remain largely uninvestable for most investors due to lack of regulation and geopolitical concerns (Russia).
- Central & South America: Dominated by Brazil, the resource-rich region has expanded ties with China/Asia while maintaining trade within the region and with the US.
- Oceana: The region is dominated by Australia, with close ties to Asia through trade with China and Japan (natural resources).

According to the International Monetary Fund (IMF), global economic growth is expected to slow to 3.0% for 2023 and 2.9% in 2024 (see Figure 6 below), but that growth varies across markets. Advanced economies (countries with highly developed economies and strong regulation, primarily the US, Europe, Japan, Canada and Australia) are expected to grow 1.5% or less, while emerging economies (China, India, Brazil, South Korea, Mexico, etc.) are expected to grow 4.0% or more over the same period.

Figure 6: Household Wealth by Region



Bottom Line

US markets continue to be volatile as investors remain hyper-focused on inflation and interest rates. Markets swooned August-October as continued economic strength implied further interest rate increases by the Fed in order to slow the economy and tame inflation. Somewhat weaker economic data in November buoyed investors' hopes that the Fed is likely finished raising rates, leading to a sharp rebound in stock and bond prices. Equity returns have been highly concentrated, with the "Magnificent 7" AI stocks (AAPL, MSFT, NVDA, AMZN, TSLA, GOOGL, META) up 70.9% in aggregate so far this year while the average stock in the S&P 500 is up only 6.4% YTD. Because trees don't grow to the sky, market breadth will likely need to improve for further equity gains to be sustainable. Diversification remains critical in this volatile environment, with attractive bond and cash yields offering viable alternatives to stocks.

Global diversification is a critical component of the risk/return tradeoff of investing. We tend to focus on the US, but investors should recognize that nearly 75% of the world's economic activity is generated outside of our borders. US growth has been very strong, defying expectations, but growth is likely to slow under the cumulative weight of the Fed interest rate hikes; in fact, that is exactly what the Fed is trying to achieve. Developed economies in Europe are in much the same situation, battling inflation through higher rates. Asia has emerged as the largest and fastest growing region in the world in terms of GDP growth and wealth. Emerging economies in general are expected to grow at more than twice the rate of the US and other developed economies. Because economic growth drives earnings growth, this bodes well for emerging market investments, especially if the US dollar depreciates versus global currencies as the Fed changes course.

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