Benjamin F. Edwards®
Investments for Generations®

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
TF (855) 382-1600
www.benjaminfedwards.com
Member SIPC

Investment Insights Monthly

From The Desk of Jack Kraft, CFA, Investment Strategist November 2023

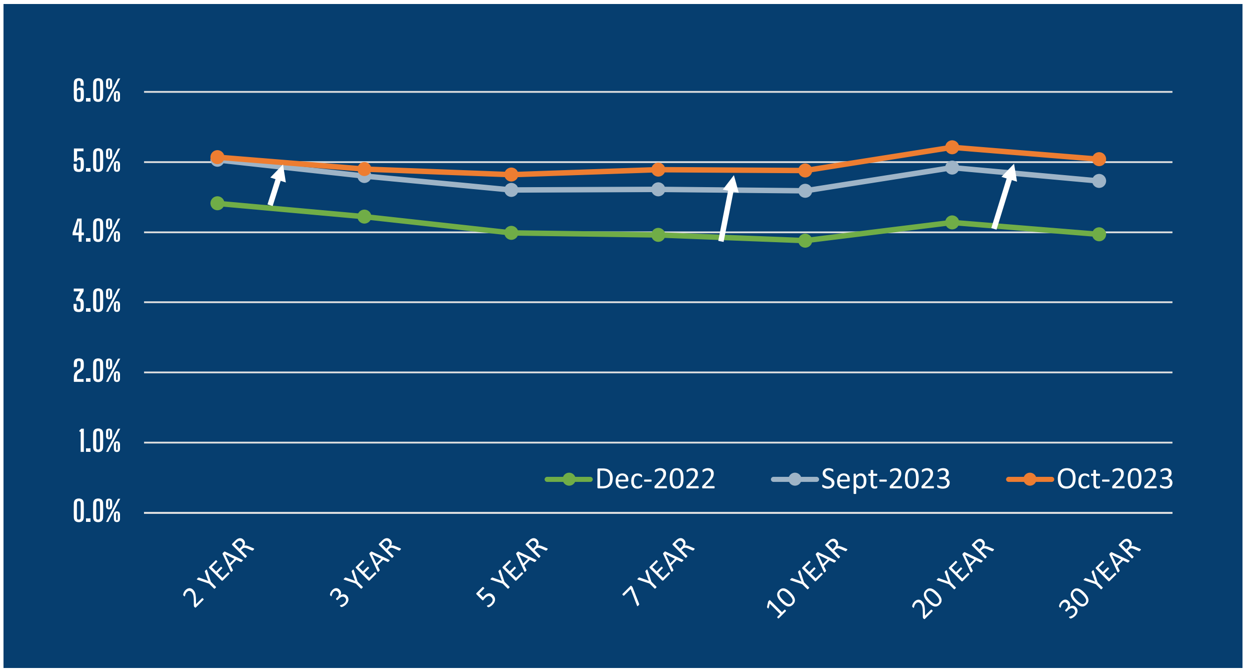
Corrections, Elections and 2024

U.S. equities faltered in October with both the S&P 500 and Nasdaq dipping into correction territory, or 10% below recent highs. The move lower in equities was associated with several headwinds, including geopolitical tensions in the Middle East and a run up in bond yields. The U.S. Treasury curve became less inverted with the curve steepening as longer-dated Treasuries (10- and 30-year) rose more than 30 basis points (bps). For the month of October, the S&P 500 declined 2.2%, while the Nasdaq lost 2.8%. Meanwhile, the Dow slipped 1.4%.

BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
TF (855) 382-1600
www.benjaminfedwards.com

Year-to-Date Yield Curve Changes



Data as of last business day of each month referenced
Source: Morningstar Direct

The correction in stocks was short-lived as investors began pounding the table on "oversold" equity conditions following the November U.S. Federal Reserve (Fed) meeting. At the press conference after the meeting, Jerome Powell's overall tone was perceived as "dovish," including remarks that policymakers are monitoring tighter financial conditions attributed to the higher interest rates and will proceed carefully. Ultimately, the 10-year Treasury gave back last month's 30-basis-point rise in yields in just one week, while the S&P 500 and Nasdaq surged 5.9% and 6.6%, respectively.

Following the meeting, many market participants seemed to be in the camp that the Fed is likely finished raising rates this cycle. According to CME Group's FedWatch tool, investor consensus is that the target rate will remain in the 5.25% to 5.50% range until mid-next year. If futures markets are correct about the peak in the federal funds rate, it is highly possible that bond yields will peak during the fourth quarter of 2023. Historically, when the Fed approaches the end of its hiking cycle, it's a good time to start adding duration to the fixed-income allocations of a portfolio. Additionally, as the U.S. economy continues to see disinflation come through in economic data, correlations between equities and bonds should become more normal and turn less positive. This means that fixed income should provide a better "risk-off" hedge to equities than it has over the past two years.

Shifting gears back to equities, 2023 has turned out to be a solid year for stock returns. Coming into the year, many investment strategists thought stock returns would struggle as countless headwinds lingered—including an overheating economy, inflation and higher interest rates. However, stocks have remained resilient, with the S&P 500 up more than 20% from 12 months ago. This leads to the question: Where did returns come from and where did investment strategists go wrong?

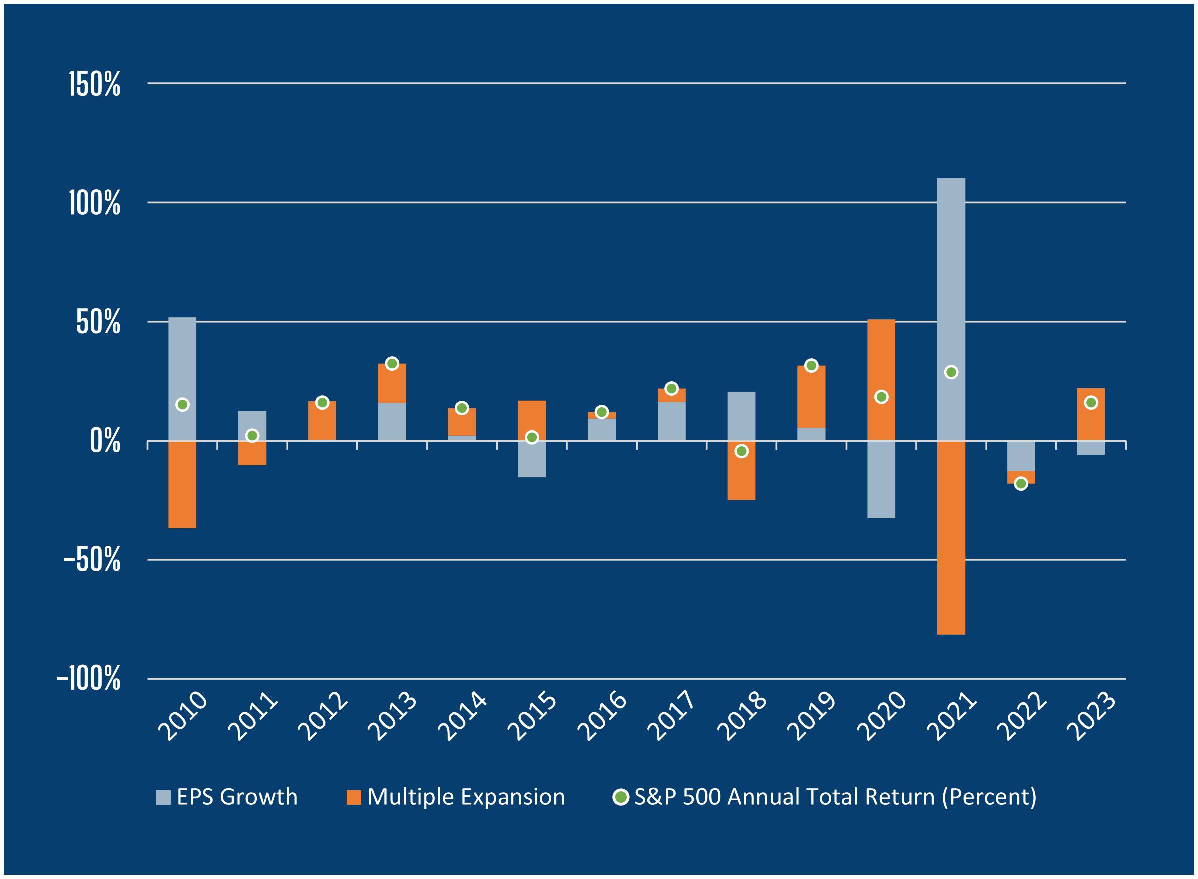
BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
TF (855) 382-1600
www.benjaminfedwards.com

Fundamentally, price returns come from two places—either multiple expansion, which is when investors pay higher prices for a share of a company, or from an increase in earnings per share, where a company generates a higher amount of profit for each share outstanding. The reason many strategists didn't anticipate large returns is that earnings growth was expected to be poor in 2023. In fact, this held true for the average company in the S&P 500, which has seen negative earnings growth.

From the chart below, you can see that at the index level, all of the return contribution for the S&P 500 has been attributed to multiple expansion rather than earnings growth. As Benjamin Graham once said, "In the short run, the market is a voting machine but in the long run it is a weighing machine." What Graham meant by this is that over the long term, stock prices eventually reflect fundamental characteristics of the underlying business, such as earnings growth and financial strength. However, in the short term, the market may assign higher valuations to a company that many investors consider in demand.

S&P 500 Return Contribution %



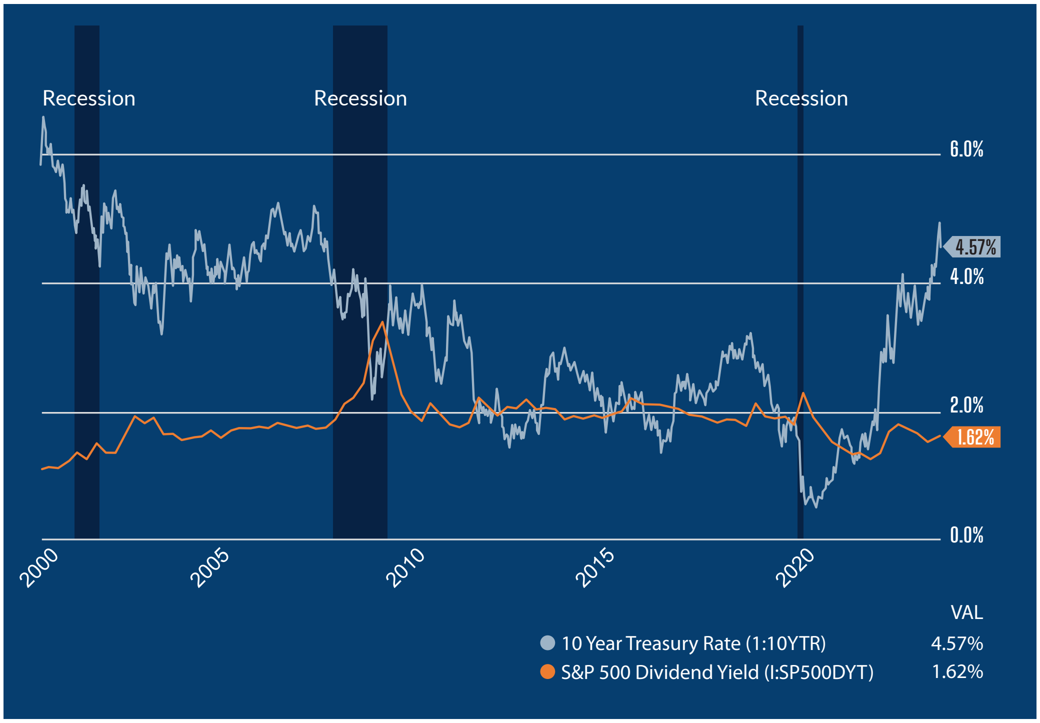
2023 Data as of June 30, 2023
Source: YCharts, Haver Analytics

BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
TF (855) 382-1600
www.benjaminfedwards.com

With that being said, we are not of the opinion that equities are overvalued, but some would argue fairly valued. At the end of October, the S&P 500 Index was trading at about 17x next year's price-to-earnings (P/E) ratio. This compares to the 25-year average forward (P/E) of 16.8x. Drilling down further under the hood, if you take out the 10 largest companies, the remaining 490 constituents' forward P/E drops to 15.9x. Much of this divergence in valuation can be attributed to investors favoring growth-oriented stocks versus value-oriented stocks. An argument to why value stocks have underperformed in 2023 could be made by looking at the dividend yield versus the bond yield gap. This is the difference of yield an investor can earn from buying a 10-year Treasury versus earning the dividend yield associated with the S&P 500. At the time of this writing, the gap is at 310 bps, with the 10-year yielding 4.6% and the dividend yield on the S&P 500 at 1.5%. These higher yields in fixed income create less demand for value equities and more demand for fixed income by investors seeking income.

10-Year Treasury Rate vs. S&P 500 Dividend Yield



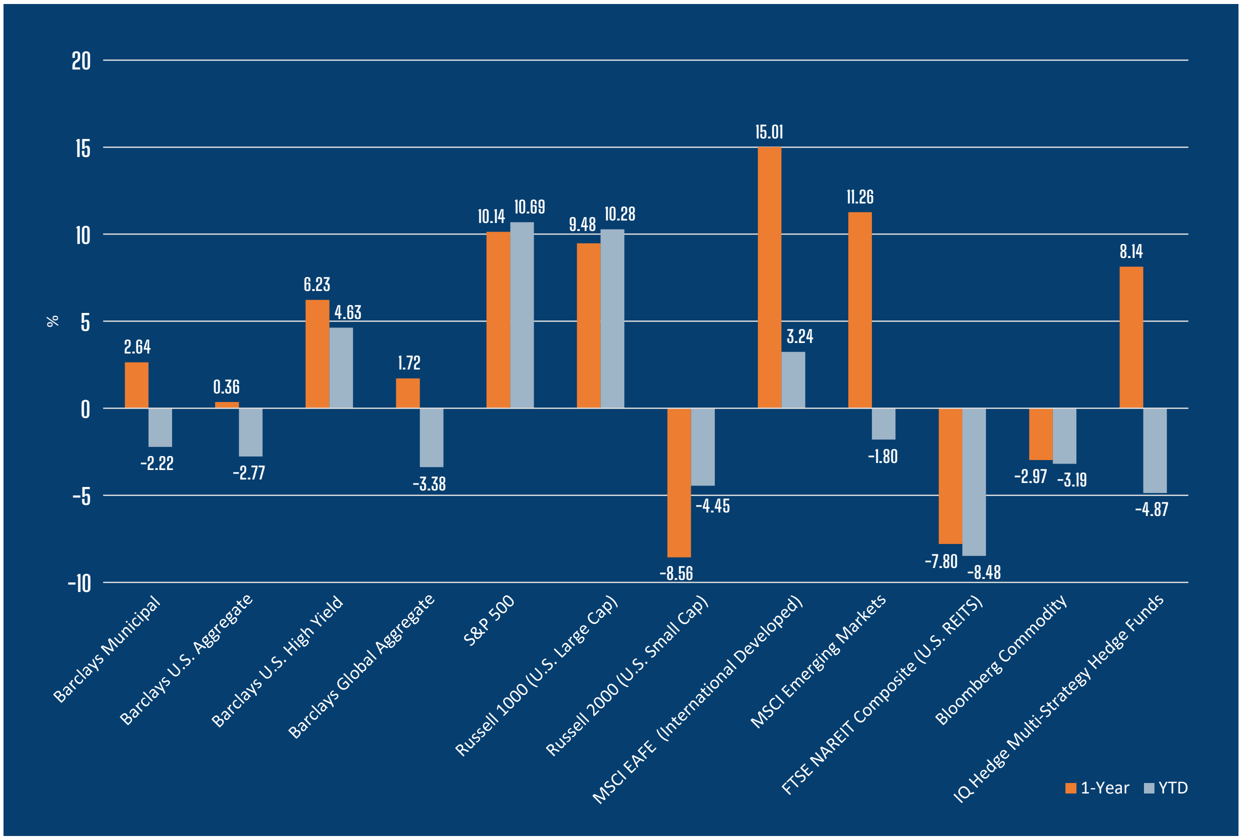
As of November 3, 2023
Source: YCharts

With 2024 fast approaching, many don't want to hear this, but so is the U.S. presidential election, which is less than 365 days away. But what does that mean for clients and financial markets?

One thing to keep in mind is that election years tend to be bumpier, with lower average returns and heightened volatility. According to Goldman Sachs, the S&P 500 posted average returns of 4% in the 12 months ahead of the last 10 elections. However, this number is skewed downward due to the last three recessions taking place during an election year: 2000, 2008 and 2020. If those years are excluded from the data, the average return increases to about 9%. Another factor that Goldman Sachs points out is that during election years, valuations tend to move sideways, while returns are driven by earnings growth. Given the elevated equity valuations on a price-to-earnings basis compared to history, this could ring true for next year as well.

Asset Class Returns

Comparing Recent 1-Year and Year-to-Date Total Returns



As of October 31, 2023
Source: Conway Investment Research

Fixed Income

- Treasury and other sovereign debt yields continued their trek higher in October, leading to losses in core fixed income and municipal bonds.
- Credit did not fare much better as spreads finally began to widen with the economic and geopolitical uncertainty.
- U.S. dollar strength has been a major headwind for non-U.S. assets over the past few months, but the currency translation was largely flat in October.

Equities

- U.S. equities finished October with losses on the heels of geopolitical uncertainty and higher volatility.
- Small caps were hit particularly hard by uncertainty over U.S. growth and the impact of higher interest rates.
- Large caps beat small caps and growth led value within large caps. Value outperformed within small caps.
- Non-U.S. equities lagged U.S. equities last month with weakness coming from both Europe and Japan.
- Growth beat value outside the U.S., and small caps trailed large caps within EAFE markets.
- Emerging markets were weak in October with broad-based losses from all major regions and market caps.
- The U.S. dollar played a minimal role in returns last month.

Alternatives

- Hedge funds fell along with equities in October. YTD, they have protected capital and provided a positive return, well in excess of bonds.
- REITs continued to slide on commercial real estate concerns and higher bond yields. Inflation concerns and a flight to safety helped commodities and gold broadly while energy prices rallied after the attacks in Israel.

BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
TF (855) 382-1600
www.benjaminfedwards.com

October 31, 2023	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
Fixed Income Indices							
Bloomberg U.S. Treasury Bill 1-3 Month	0.46%	0.46%	4.18%	4.88%	1.91%	1.77%	1.14%
Bloomberg Municipal	-0.85%	-0.85%	-2.22%	2.64%	-2.48%	1.00%	2.12%
Bloomberg US Govt/Credit Intermediate	0.31%	0.31%	2.19%	3.23%	-0.62%	1.25%	1.03%
Bloomberg U.S. Aggregate	-1.58%	-1.58%	-2.77%	0.36%	-5.57%	-0.06%	0.88%
Bloomberg U.S. High Yield	-1.16%	-1.16%	4.63%	6.23%	1.19%	3.05%	3.86%
S&P/LSTA Leveraged Loan	-0.02%	-0.02%	10.14%	11.92%	6.00%	4.46%	4.22%
Bloomberg Global Aggregate	-1.20%	-1.20%	-3.38%	1.72%	-7.33%	-1.64%	-0.66%
U.S. Equity Indices							
DJ Industrial Average	-1.26%	-1.26%	1.44%	3.17%	9.84%	7.96%	10.34%
S&P 500	-2.10%	-2.10%	10.69%	10.14%	10.36%	11.01%	11.18%
NASDAQ Composite (Price)	-2.78%	-2.78%	22.78%	16.96%	5.61%	11.96%	12.61%
Russell 1000	-2.42%	-2.42%	10.28%	9.48%	9.53%	10.71%	10.88%
Russell 1000 Growth	-1.42%	-1.42%	23.20%	18.95%	8.70%	14.22%	13.82%
Russell 1000 Value	-3.53%	-3.53%	-1.80%	0.13%	10.21%	6.60%	7.60%
Russell Mid Cap	-4.99%	-4.99%	-1.28%	-1.01%	6.04%	7.14%	8.05%
Russell 2500	-6.07%	-6.07%	-2.70%	-4.63%	5.51%	5.48%	6.89%
Russell 2000	-6.82%	-6.82%	-4.45%	-8.56%	3.95%	3.31%	5.63%
Russell 2000 Growth	-7.71%	-7.71%	-2.87%	-7.63%	-1.83%	2.68%	5.67%
Russell 2000 Value	-5.97%	-5.97%	-6.46%	-9.93%	9.73%	3.26%	5.20%
Non-U.S. Equity Indices							
MSCI World	-2.88%	-2.88%	8.34%	11.05%	8.66%	8.82%	8.11%
MSCI ACWI	-2.98%	-2.98%	7.19%	11.06%	7.18%	8.00%	7.36%
MSCI ACWI Ex-U.S.	-4.11%	-4.11%	1.47%	12.66%	3.54%	3.96%	3.03%
MSCI EAFE	-4.04%	-4.04%	3.24%	15.01%	6.26%	4.61%	3.55%
MSCI EAFE Growth	-3.68%	-3.68%	0.77%	11.16%	0.79%	4.82%	4.14%
MSCI EAFE Value	-4.39%	-4.39%	5.78%	18.96%	11.71%	3.96%	2.71%
MSCI Europe	-3.72%	-3.72%	4.56%	16.50%	8.61%	5.45%	3.61%
MSCI Japan	-4.50%	-4.50%	6.57%	17.23%	2.16%	3.31%	4.27%
MSCI AC Asia	-4.10%	-4.10%	-0.22%	15.15%	-2.54%	2.61%	3.48%
MSCI EAFE Small Cap	-5.87%	-5.87%	-3.73%	6.99%	0.70%	2.00%	3.75%
MSCI ACWI Ex-U.S. Small Cap	-5.58%	-5.58%	-0.41%	9.36%	3.43%	3.95%	3.84%
MSCI Emerging Markets	-3.87%	-3.87%	-1.80%	11.26%	-3.30%	1.98%	1.56%
MSCI EM Asia	-3.95%	-3.95%	-2.68%	14.64%	-5.45%	2.88%	3.28%
MSCI China	-4.26%	-4.26%	-11.08%	21.34%	-16.82%	-2.50%	1.16%
MSCI EM Eastern Europe	11.18%	11.18%	27.95%	56.79%	-28.43%	-20.14%	-11.30%
MSCI EM Latin America	-4.75%	-4.75%	8.02%	4.33%	14.20%	1.56%	-0.34%
MSCI EM Small Cap	-4.82%	-4.82%	8.66%	17.78%	9.54%	8.26%	4.07%
MSCI Frontier Markets	-5.78%	-5.78%	1.59%	5.34%	-0.24%	1.48%	1.75%
Hedge Fund Indices							
IQ Hedge Multi-Strategy	-1.32%	-1.32%	4.87%	8.14%	0.67%	2.10%	2.20%
Real Assets Indices							
FTSE NAREIT Composite	-3.50%	-3.50%	-8.48%	-7.80%	2.65%	2.24%	5.19%
Alerian MLP	0.42%	0.42%	21.06%	16.60%	41.26%	8.70%	1.71%
Bloomberg Commodity	0.27%	0.27%	-3.19%	-2.97%	15.79%	6.65%	-0.57%
S&P Global Infrastructure	-3.01%	-3.01%	-6.64%	-1.31%	6.63%	4.27%	4.38%
Other							
Oil Price Brent Crude	-8.29%	-8.29%	1.75%	-1.32%	32.64%	2.98%	-2.16%
CBOE Market Volitility (VIX)	3.54%	3.54%	-16.29%	-29.91%	-21.86%	-3.10%	2.81%

Source: Morningstar

BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

One North Brentwood Boulevard, Suite 850
St. Louis, Missouri 63105
TF (855) 382-1600
www.benjaminfedwards.com