



# Investors look to the Fed to pilot a soft landing.

## November snapshot

- Global equity markets finished in positive territory in November. Signs of slowing inflation spurred investors' hopes that the Federal Reserve (Fed) won't need to raise interest rates further.
- Global fixed-income assets posted significant gains for the month. U.S. Treasury yields moved lower for all maturities of three months or longer (bond prices move inversely to yields).
- SEI believes that the Fed will keep the federal-funds rate at its current range of 5.25%-5.50% through the first half of 2024.

Global equity markets rallied sharply in November. Signs of slowing inflation spurred investors' hopes that the Federal Reserve (Fed) won't need to raise interest rates further and that the economy could be primed for a "soft landing," in which growth and inflation slow but the economy does not enter a recession. Developed markets outperformed their emerging-market counterparts for the month.

The Nordic countries were the strongest performers among developed markets in November, led by Sweden. The Pacific ex Japan region was the primary market laggard due mainly to underperformance in Singapore and Hong Kong. Latin America posted a double-digit gain and was the top-performing region within the emerging markets during the month due primarily to strength in Brazil. In contrast, the Gulf Cooperation Council (GCC) countries—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates—saw a less significant upturn and comprised the weakest-performing emerging-market region during the month.<sup>1</sup>

Global fixed-income assets, as represented by the Bloomberg Global Aggregate Bond Index, gained 5.0% in November. Corporate bonds were the top performers within the U.S. market for the month, while U.S. Treasury securities saw relatively smaller gains and were the most notable market laggards.<sup>2</sup> Treasury yields moved lower for all maturities of three months or longer. Yields on 2-, 3-, 5- and 10-year Treasury notes decreased 0.34%, 0.42%, and 0.51%, respectively, over the month. The spread between 10- and 2-year notes moved from -0.19% to -0.36% during the month, further inverting the yield curve.

The minutes of the Fed's October 31-November 1 meeting indicated that the central bank most likely will maintain the federal-funds rate at the current range of 5.25% to 5.50% in the near term. The Federal Open Market Committee (FOMC) meeting participants agreed that they were "in a position to proceed carefully and that policy decisions at every meeting would continue to be based on the totality of incoming information and its implications for the economic outlook as well as the balance of risks." However, the FOMC members acknowledged that "further tightening of monetary policy would be appropriate if incoming information indicated that progress toward the Committee's inflation objective was insufficient." The FOMC also noted that "data arriving in coming months would help clarify the extent to which the disinflation process was continuing, aggregate demand was moderating in the face of tighter financial and credit conditions, and labor markets were reaching a better balance between demand and supply"

<sup>1</sup> All equity market performance statements are based on the MSCI ACWI Index.

<sup>2</sup> According to the ICE BofA U.S. Corporate Index and ICE BofA U.S. Treasury Index.

## Key measures: November 2023

### Equity

Dow Jones Industrial Average	9.15%	↑
S&P 500 Index	9.13%	↑
NASDAQ Composite Index	10.83%	↑
MSCI ACWI Index (Net)	9.23%	↑

### Bond

Bloomberg Global Aggregate Index	5.04%	↑
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### Volatility

Chicago Board Options Exchange Volatility Index	12.92	↓
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**PRIOR MONTH: 21.67**

### Oil

WTI Cushing crude oil prices	\$75.96	↓
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**PRIOR MONTH: \$81.02**

### Currencies

Sterling vs. U.S. dollar	\$1.27	↑
Euro vs. U.S. dollar	\$1.09	↑
U.S. dollar vs. yen	¥147.84	↓

Sources: Bloomberg, FactSet, Lipper

On the geopolitical front, a one-week ceasefire in the military conflict between Israel and Hamas expired on November 30, after the two sides could not reach an agreement on an extension. The truce had led to several hostage and prisoner exchanges between Israel and Hamas. Each side blamed the other for the failure to extend the ceasefire, and fighting resumed following the expiration of the truce. Elsewhere, President Joe Biden and China's President Xi Jinping met in California on November 15. The leaders of the world's two largest economies agreed to resume military communications in an effort to improve relations between the countries amid speculation about China's intention to invade Taiwan, as well as the Xi administration's support of Russia in its ongoing conflict with Ukraine. At a news conference following the meeting, Biden noted that he and Xi had agreed that if there were concerns about "anything between our nations, or happening in our region, we should pick up the phone and call."

Global commodity prices, as measured by the Bloomberg Commodity Total Return Index, declined in November. The West Texas Intermediate (WTI) and Brent crude oil prices fell 6.2% and 4.9%, respectively, due to a significant increase in production in the U.S. and weakening global demand, particularly from China. The New York Mercantile Exchange (NYMEX) natural gas price tumbled 27% over the month due to an increase in inventories and forecasts for above-average winter temperatures in the U.S. On the positive side, the gold spot price rose 3.2% in November, bolstered by a decline in U.S. Treasury yields, as well as higher demand spurred by investors' hopes that the Fed may begin to ease monetary policy sooner than previously anticipated. Wheat prices were up 7.5% in November attributable to a reduction in exports from Ukraine, along with a delayed harvest in France due to above-average rainfall.<sup>3</sup>

## Economic data

### U.S.

- The Department of Labor reported that the U.S. consumer-price index (CPI) was flat in October after rising 0.4% in September. The CPI advanced at a lower-than-expected rate of 3.2% compared to the same period a year earlier—down sharply from the 3.7% annual rise in September. Core inflation, as measured by the CPI for all items less food and energy, posted a 12-month increase of 4.0%—the smallest year-over-year advance since September 2021. Core inflation rose 0.2% in October versus 0.3% during the previous month. Housing costs comprised the bulk of October's rise in CPI, offsetting lower gasoline prices. Food costs rose 0.3% and 3.3% during the month and over the same period in 2022, respectively.
- According to the second estimate of the Department of Commerce, U.S. gross domestic product (GDP) grew at an annualized rate of 5.2% in the third quarter of 2023, up from the initial estimate of 4.9%, and sharply higher than the 2.1% year-over-year rise in the second quarter. GDP has increased for five consecutive quarters following declines in the first two quarters of 2022. The largest contributors to economic growth in the third quarter were consumer spending, private inventory investment (a measure of the changes in values of inventories from one time period to the next), and exports. These gains offset an increase in imports, which are a subtraction in the calculation of GDP.

<sup>3</sup> According to market data from The Wall Street Journal.

## U.K.

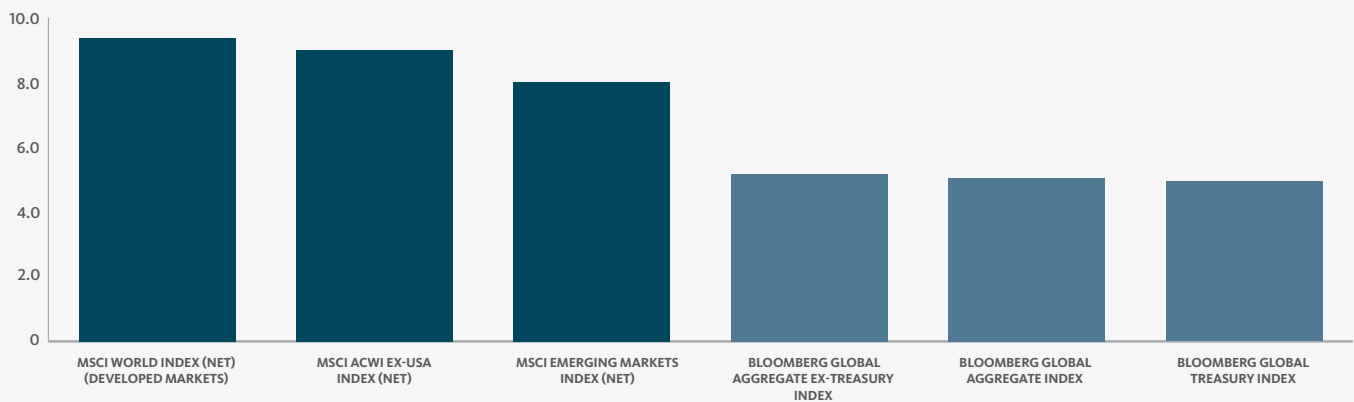
- The Office for National Statistics (ONS) reported that consumer prices in the U.K., as measured by the Consumer Prices Index (CPI), were unchanged in October, down sharply from the 0.5% increase in September. The CPI rose 4.6% year-over-year, significantly lower than the 6.7% annual upturn in September. The largest contributors to the 12-month rise in inflation included alcoholic beverages and tobacco, as well as food and non-alcoholic beverages. These more than offset a decline in prices for electricity, gas and other fuels. Core inflation, which excludes volatile food prices, rose at an annual rate of 5.7% in October, down from the 6.1% year-over-year increase in September.<sup>4</sup>
- The ONS also announced that U.K. GDP was flat in the third quarter of 2023, following an increase of 0.2% in the second quarter, and rose 0.6% versus the same period in 2022. Production output was unchanged during the quarter, compared to the 1.2% upturn during the previous quarter. The services sector saw an upturn of 0.4% in August, versus a 0.5% decrease during the second quarter. Output in the construction sector ticked up 0.1% in the third quarter, compared to the 0.3% growth rate over the previous three-month period.<sup>5</sup>

4 According to the Office for National Statistics, November 15, 2023.

5 According to the Office for National Statistics, November 10, 2023.

### Major Index Performance in November 2023 (Percent Return)

● Fixed Income ● Equities



Sources: FactSet, Lipper

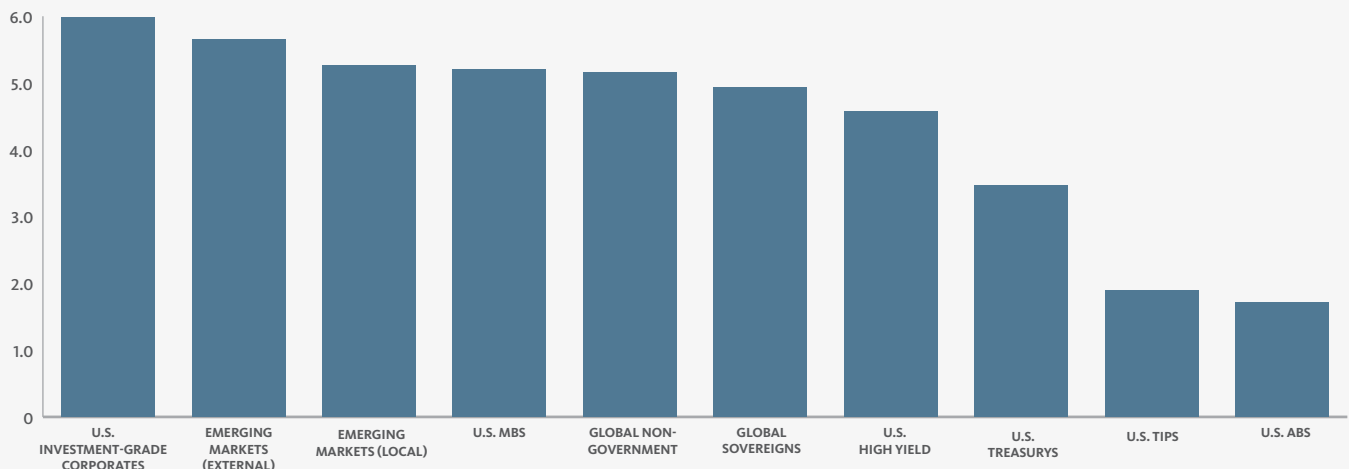
## Eurozone

- Eurostat pegged the inflation rate for the eurozone at 2.4% for the 12-month period ending in November, down from the 2.9% annual increase in October. Prices for food, alcohol and tobacco rose 6.9% in November, but the pace of acceleration slowed from the 7.4% annual rate for the previous month. Costs for services and non-energy industrial goods rose 4.0% and 2.9%, respectively, over the previous 12 months. Conversely, energy prices fell 11.5% year-over-year, following an 11.1% decline in October. Core inflation, which excludes volatile energy and food prices, rose at an annual rate of 3.6% in November, down 0.6 percentage point from the previous month.<sup>6</sup>
- According to Eurostat’s initial estimate, eurozone GDP decreased 0.1% in the third quarter of 2023, a modest downturn from 0.2% growth rate in the second quarter, and posted a slight uptick of 0.1% year-over-year. The economies of Poland and Cyprus were the strongest performers for the third quarter, expanding 1.4% and 1.1%, respectively. GDP for Ireland fell 1.8% and Finland’s economy contracted by 0.9% during the period.<sup>7</sup>

<sup>6</sup> According to Eurostat. November 30, 2023.

<sup>7</sup> According to Eurostat. November 14, 2023.

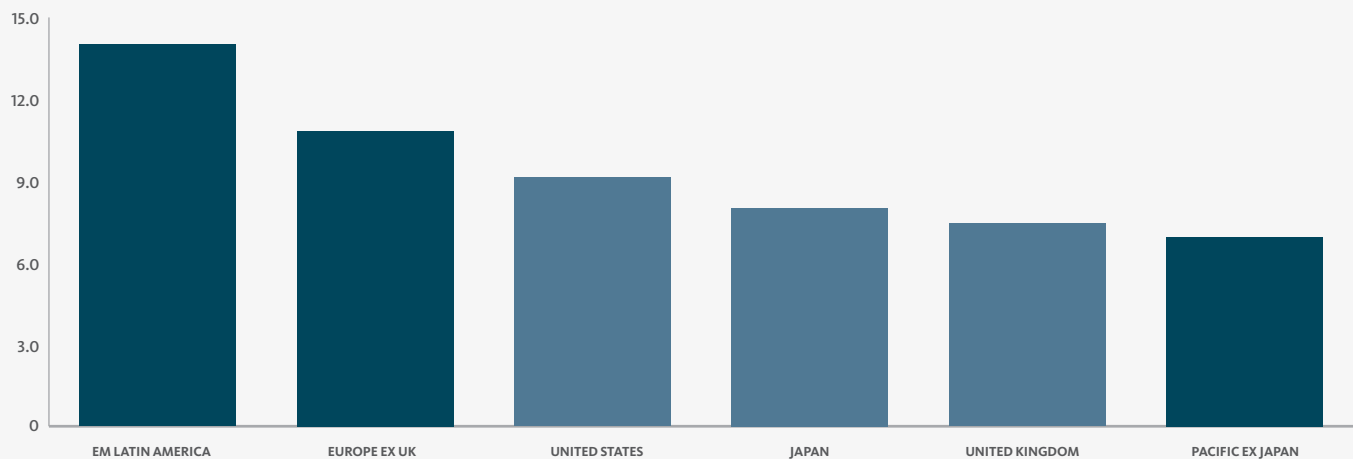
### Fixed-Income Performance in November 2023 (Percent Return)



Sources: FactSet, Lipper. See “Corresponding Indexes for Fixed-Income Performance Exhibit” in the Index descriptions section for more information.

## Regional Equity Performance in November 2023 (Percent Return)

● Countries ● Regions



Sources: FactSet, Lipper. See “Corresponding Indexes for Regional Equity Performance Exhibit” in the Index descriptions section for more information.

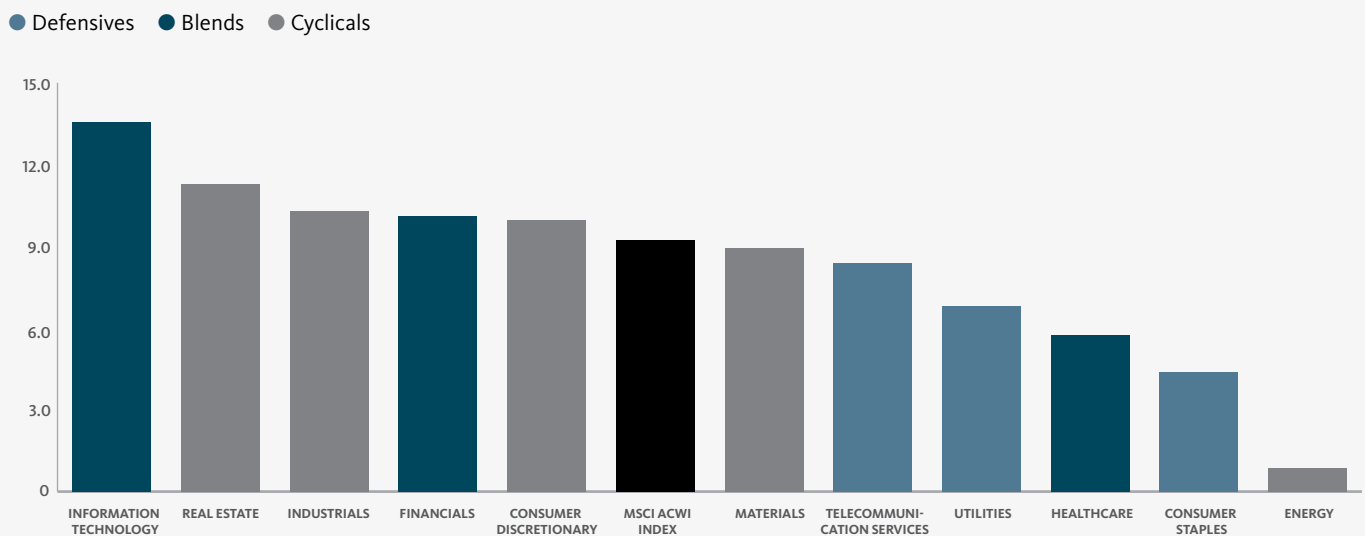
## Central banks

- During a speech in early November at the Jacques Polak Annual Research Conference in Washington, D.C., hosted by the International Monetary Fund, Fed Chair Jerome Powell noted that, while inflation is slowing, it remains above the central bank’s 2% target rate. Powell said that the Federal Open Market Committee (FOMC) members are “gratified by this progress but expect that the process of getting inflation sustainably down to 2 percent has a long way to go. The labor market remains tight, although improvements in labor supply and a gradual easing in demand continue to move it into better balance.” Powell also commented that the FOMC is “committed to achieving a stance of monetary policy that is sufficiently restrictive to bring inflation down to 2 percent over time; we are not confident that we have achieved such a stance.” As widely expected, the Fed maintained the federal-funds rate in a range of 5.25% to 5.50% following its meeting on October 31-November 1. The next Fed meeting will be held on December 12-13.
- In an interview with Daily Focus, a UK-based news service, Bank of England (BOE) Governor Andrew Bailey said that the central bank is “getting our sleeves rolled up and tackling the issues we face. We’ve got to get on and bring inflation down to our target of 2 percent. That is the best thing we can do for growth in the economy—and we will do it.” Noting that the 4.6% annual increase in the CPI in October was well below the peak of 11.1% a year earlier, Bailey commented that “2 percent is our target and we will do what it takes to get there.” He also cautioned that the BOE is “not in a place now where we can discuss cutting interest rates—that is not happening. We need to see how the final part of the journey down to 2 percent inflation plays out; we have not seen enough of that journey yet to be confident.”<sup>8</sup> In a split 6-3 vote at its meeting in early November, the Bank of England (BOE) left the Bank Rate unchanged at a 15-year high of 5.25%. Three BOE Monetary Policy Committee members supported a 25-basis point increase.

<sup>8</sup> Source: Daily Focus. November 29, 2023.

- During a speech at the European Parliament’s Committee on Economic and Monetary Affairs in Berlin, Germany, on November 21, European Central Bank (ECB) President Christine Lagarde cautioned that, despite larger-than-expected declines in the eurozone’s inflation rate over the past several months, it remains above the central bank’s 2% target. Lagarde commented, “This is not the time to start declaring victory. We need to remain focused on bringing inflation back to our target, and not rush to premature conclusions based on short-term developments. We will need to remain attentive until we have firm evidence that the conditions are in place for inflation to return sustainably to our goal.” The ECB left its benchmark interest rate unchanged at 4.50% following its meeting on October 26, and its next meeting is scheduled for December 14.
- The Bank of Japan’s (BOJ) “Summary of Opinions at the Monetary Policy Meeting” (held on October 30-31) revealed that several members recommended a gradual reduction of monetary economic stimulus amid signs of higher inflation and wage growth. As noted in the summary, “Although the year-on-year rate of increase in the consumer price index has started to decelerate, this has been more moderate than projected, since a pass-through of cost increases to selling prices has spread among firms to a greater extent than expected.” In an appearance before Japan’s Parliament on November 9, BOJ Governor Kazuo Ueda said, “We expect trend inflation to gradually approach 2%. But we’d like to wait until we have more conviction that sustained achievement of our price target comes into sight. Until then, we will maintain negative interest rates and the yield curve control framework.” The BOJ left its benchmark interest rate unchanged at -0.1% following its meeting on October 30-31, and will meet again on December 18-19.

### Global Equity Sector Performance in November 2023 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

# SEI's view

While predictions of a downturn in business activity during 2023 have been widely held since the end of last year, the U.S. economy has mostly surprised to the upside. Recession calls are now in the minority, with the latest plane analogy going from “hard landing” to “soft landing” and even to “no landing.” Other major economies outside the U.S. are showing signs of weakness, despite advances during the first half of this year. Germany is already in recession and the U.K. may not be far behind. In these developed economies, businesses and consumers alike are feeling pressure from rising interest rates and persistent core inflation.

Hopes that China would offset slowing economic growth elsewhere have proven to be elusive. Although Chinese domestic travel and services consumption experienced a post-COVID-19 bounce, the economic data have been mostly disappointing. Consumer sentiment remains extremely depressed, with the latest quarterly reading showing a partial reversal of the early 2023 post-lockdown bounce. Chinese consumers and financial market participants appear largely unimpressed with the government's efforts, both fiscal and monetary, to turn the economy around.

The surprise Hamas attack on Israel has increased tensions in the Middle East. Oil prices react to instability and potential threats to supplies. With Iran a long-time backer of Hamas and other designated terrorist groups, Russia's invasion of Ukraine still in progress, the potential for China or other countries to take advantage of the situation and make moves of their own. The dysfunction in the U.S. political system resulting in gridlock in Washington, there are plenty of opportunities for the situation to get worse before it gets better. The greatest concern that we see is the potential for escalation between Israel and Iran, given the potential for an Israeli military strike as retaliation for Iran's likely involvement in supporting the attack.

The Fed's progress toward its target inflation rate has been fairly rapid, but getting all the way back to 2% will be difficult, especially if the economy continues to grow at a pace that keeps labor markets tight and wage growth elevated. Our best guess is that the Fed keeps the federal-funds rate at its current range of 5.25%-5.50% through the first half of 2024. We do not expect the Fed to cut interest rates next year as aggressively as markets have recently priced in. While we agree the global tightening cycle is nearing an end, we wouldn't be surprised with another rate hike from the Fed and some movement towards tighter monetary policy out of the Bank of Japan. However, bond investors did central bankers a huge favor tightening financial conditions by forcing lenders to pay higher yields on bonds, making additional interest-rate hikes from monetary policymakers essentially a coin flip at this point.

In our view, the case for owning longer-duration bonds is stronger as the metrics are stacked more in investors' favor. Yields now offer a larger buffer against further rate increases. And this is before considering the bull case for bonds, which could easily materialize if the economy enters recession and/or equities and other risk assets experience a significant sell-off. Although the U.S. economy has so far remained remarkably resilient, it is difficult to see how 500+ basis points (5.00%) of Fed rate hikes since early 2022 doesn't start to have a negative impact on the economy in 2024. We believe the case for owning high-grade bonds is stronger today than it's been for many years.

We think that the U.S. stock market's concentration in the so-called “Magnificent Seven” mega-cap technology companies means that investors looking to S&P 500 index funds in search of a diversified portfolio aren't getting the diversification they expect. Now, more the ever, we believe that an equally weighted portfolio is a better choice for investors looking to diversify risk.

**Our best guess is that the Fed keeps the federal-funds rate at its current range of 5.25%-5.50% through the first half of 2024.**

# Glossary of Financial Terms

**Yield** is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

**Yield curve** represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (are (which is used to assess the risk of default of companies or countries). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates that short- and long-term yields are closer together.

An **inverted yield curve** occurs when short-term yields exceed long-term yields. While an inverted yield curve historically has predicted economic recessions, it is an indicator—not a forecast.

The **federal-funds rate** is the interest rate charged to lending institutions on unsecured overnight loans. It is set by the U.S. Federal Reserve's Federal Open Market Committee. The rate is increased when the Federal Reserve wants to discourage borrowing and slow the economy and decreased when the Federal Reserve wants to spur economic growth.

**Economic output** comprises a quantity of goods or services produced in a specific time period.

**Monetary policy** refers to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.\

A **recession** is a significant and prolonged downturn in economic activity.

A **soft landing** occurs when a country's economic growth slows, but does not enter recession.

A **hard landing** occurs when a country's economy rapidly shifts from growth to slow growth to flat as it approaches a recession, usually resulting from a government's attempts to slow inflation.



## Index Descriptions

All indexes are quoted in gross performance unless otherwise indicated.

The **MSCI All Country World Index (ACWI)** is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **Bloomberg Global Aggregate Bond Index** is a market capitalization-weighted index that tracks the performance of investment-grade (rated BBB- or higher by S&P Global Ratings/Fitch Ratings or Baa3 or higher by Moody's Investors Service) fixed-income securities denominated in 13 currencies. The index reflects reinvestment of all distributions and changes in market prices.

The **ICE BofA U.S. Corporate Index** includes publicly issued, fixed-rate, nonconvertible investment-grade (rated BBB- or higher by S&P Global Ratings and Fitch Ratings or Baa3 or higher by Moody's Investors Service) dollar-denominated, U.S. Securities and Exchange (SEC)-registered corporate debt having at least one year to maturity.

The **ICE BofA U.S. Treasury Index** tracks the performance of fixed-rate, nominal debt issued by the U.S. Treasury.

The **Bloomberg Commodity Total Return Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

**Consumer-price** indexes measure changes in the price level of a weighted-average market basket of consumer goods and services purchased by households. A consumer price index is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

## Corresponding Indexes for Fixed-Income Performance Exhibit

U.S. High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Global Treasury Index
Global Non-Government	Bloomberg Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg US Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg US Asset Backed Securities Index
U.S. Treasurys	Bloomberg US Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg 1-10 Year US TIPS Index
U.S. Investment-Grade Corporates	Bloomberg US Corporate Bond Index

## Corresponding Indexes for Regional Equity Performance Exhibit

United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex U.K.	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

## Disclosures

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There are risks involved with investing, including loss of principal. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Narrowly focused investments and smaller companies typically exhibit higher volatility. Bonds and bond funds will decrease in value as interest rates rise. High-yield bonds involve greater risks of default or downgrade and are more volatile than investment-grade securities, due to the speculative nature of their investments.

Diversification may not protect against market risk. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.

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