Thought of the week

Last week’s retail sales report surprised to the upside, with total retail sales increasing 0.3% m/m on a seasonally adjusted basis in November. Excluding auto and gas, retail sales increased 0.6% m/m, up from 0.1% growth in October. Sales at gasoline stations decreased 2.9% due to falling energy prices. Auto sales rebounded 0.5% after falling 1.1% the prior month. Elsewhere in the report, sales in food services, furniture, health & personal care, and sporting goods all increased, while sales in electronics & appliances and building materials both decreased, demonstrating consumers’ continued preference for services. Importantly, sales in the control group, which includes the categories used to calculate GDP, increased 0.4% in November, above expectations and up from a flat reading in October. As a result, GDP estimates for Q4 were revised upwards. The Atlanta Fed’s GDPNow model is currently projecting real GDP to grow 2.6% q/q in 4Q23, up from its estimate of 1.2% a week prior. In addition, healthy retail sales data along with a favorable headline CPI reading, a cooler than expected PPI report, and the FOMC’s dovish pivot should similarly augur well for profits in Q4. Moderate CPI and PPI and the prospect of lower rates next year should support margins, while solid retail sales may defy companies’ gloomy expectations for consumer demand noted in 3Q earnings calls.

The slew of favorable data and a dovish FOMC meeting also led markets to rally last week, as investors become increasingly hopeful of a “soft landing.” Looking ahead, markets should continue to find support over the near term; however, as we move deeper into 2024, the path forward for markets may be bumpier, particularly as economic growth slows to below trend and inflation remains above 2%.

Please see important disclosures on next page.
Chart of the Week: Source: Census Bureau, FactSet, Federal Reserve Bank of Atlanta. J.P. Morgan Asset Management.

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Equity Price Levels and Returns: All returns represent total return for stated period. Index: S&P 500; provided by: Standard & Poor's; Dow Jones Industrial 30 (The Dow Jones is a price-weighted index composed of 30 widely-traded blue chip stocks.); provided by: S&P Dow Jones Indices LLC. Index: Russell 2000; provided by: Russell Investments. Index: Russell 1000 Growth; provided by: Russell Investments. Index: Russell 1000 Value; provided by: Russell Investments. Index: MSCI – EAFE; provided by: MSCI – gross official pricing. Index: MSCI – EM; provided by: MSCI – gross official pricing. Index: MSCI EAFE is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australia, and the Far East.


Key Interest Rates: 2 Year Treasury, FactSet; 10 Year Treasury, FactSet; 30 Year Treasury, FactSet; 10 Year German Bund, FactSet. 3 Month LIBOR, British Bankers’ Association; 3 Month EURIBOR, European Banking Federation; 6 Month CD, Federal Reserve; 30 Year Mortgage, Mortgage Bankers Association (MBA); Prime Rate: Federal Reserve.

Commodities: Gold, FactSet; Crude Oil (WTI), FactSet; Gasoline, FactSet; Natural Gas, FactSet; Silver, FactSet; Copper, FactSet; Corn, FactSet. Bloomberg Commodity Index (BBG Idx), Bloomberg Finance L.P.

Currency: Dollar per Pound, FactSet; Dollar per Euro, FactSet; Yen per Dollar, FactSet.

S&P Index Characteristics: Dividend yield provided by FactSet Pricing database. Fwd. P/E is a bottom-up weighted harmonic average using First Call Mean estimates for the “Next 12 Months” (NTM) period. Market cap is a bottom-up weighted average based on share information from Compustat and price information from FactSet’s Pricing database as provided by Standard & Poor’s. Russell 1000 Value Index, Russell 1000 Growth Index, and Russell 2000 Index Characteristics: Trailing P/E is provided directly by Russell, Fwd. P/E is a bottom-up weighted harmonic average using First Call Mean estimates for the “Next 12 Months” (NTM) period. Market cap is a bottom-up weighted average based on share information from Compustat and price information from FactSet’s Pricing database as provided by Standard & Poor’s. Sector Returns: Sectors are based on the GICS methodology. Return data are calculated by FactSet using constituents and weights as provided by Standard & Poor’s. Returns are cumulative total return for stated period, including reinvestment of dividends.

Style Returns: Style box returns based on Russell Indexes with the exception of the Russell Mid Cap Value and Russell Mid Cap Growth Indexes, which use 60% Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values; 40% Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

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Unless otherwise stated, all data is as of December 18, 2023 or as of most recently available.

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