NOVEMBER 13, 2023

Weekly Wire

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Focus Still on Interest Rates

By Rusty Vanneman, CMT, CFA, BFA™

Late last week Moody's lowered its credit rating outlook on US federal debt from "stable" to "negative". Driving this concern was "very large" fiscal deficits and Washington gridlock. It is important to note that this was not an actual rating downgrade by Moody's, but just a change in outlook. Moody's credit rating for US debt remains as high as it can get: AAA. This comes, however, three months after another rating agency Fitch did lower its credit rating on US debt from AAA to AA+ due to the same concerns. All else being equal, this should keep some pressure on bond market prices (i.e, interest rates moving higher) as it's not likely these concerns will get seriously addressed anytime soon (it would require raising taxes or cutting spending in an election year). As for the topic of Washington gridlock, we do have the threat of another government shutdown this coming Friday. Again though, given the upcoming election positioning, expect this issue to again be temporarily resolved and the bigger issues to be postponed until later.

It's likely that longer-term interest rates will also remain the key driver of stock market price action, as they have in recent months. Short-term interest rates (such as what the Federal Reserve determines) are important, but arguably longer-term rates (which the markets have more influence over) are just as important. Interest rates impact stock prices in a variety of ways. First, all else being equal, higher interest rates typically translate into lower valuations. Stocks with higher valuations, such as growth stocks, typically suffer more. Interest rates also impact earnings. For higher quality companies, which have higher profitability and lower debt (like the Magnificent Seven), higher rates can enhance earnings as they earn more on their cash holdings. Lower quality companies, or companies with more debt, especially variable-rate debt (like small caps stocks), will have their earnings negatively impacted.

As for this week, we do get some key inflation data, with the Consumer Price Index (CPI) on Tuesday and Producer Price Index (PPI) on Wednesday. Current expectations are that the year-on-year number will not decline. If that turns out to be true, it would be the first time in a year that core CPI hasn't fallen, to a level that remains too high for the Federal Reserve's comfort. Retail Sales are also on Wednesday. Regarding the health of the consumer, we also get earnings reports this week from some leading retail names including Walmart, Target and Home Depot. This could provide particularly useful clues on the US consumer, especially heading into year-end. Nonetheless, expect the bond market (including Federal Reserve expectations) to keep leading the stock market.

Add it all up…

Stay invested. Stay diversified. Stay disciplined.

Key Economic Data Last Week

Data Point	Expectation	Actual
Consumer Credit	4.7%	4.9%
Wholesale Investories MoM	2.0%	4.7%

Source: MarketWatch, First Trust

Key Economic Data This Week

Data Point	Expectation	Release Date
Consumer Price Index (CPI) YoY	3.3%	11/14/2023
Core CPI YoY	4.1%	11/14/2023
Producer Price Index (PPI) YoY	-	11/15/2023
Core PPI YoY	-	11/15/2023
US Retail Sales	-0.1%	11/15/2023
Housing Starts	1.35M	11/17/2023

Source: MarketWatch

Mind Over the Market

"Skilled Investor" is a behavioral choice not a personality type.

The Behavioral Investor, Dr. Daniel Crosby

Trivia

Which other major credit rating agencies are often mentioned alongside Moody's in discussions about credit ratings?

Standard & Poor's (S&P) and Fitch Ratings