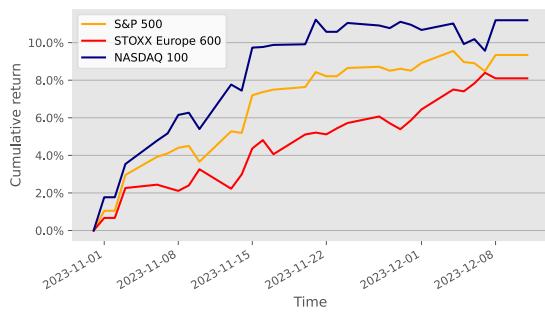


Market Reawakening: November Market Summary:

Market sentiment shifted in November as investors anticipated interest rate cuts in 2024. Growth stocks, which are more sensitive to interest rates, led the market rebound. Inflation data came in lower than expected, further supporting the rally. The dollar weakened as investors priced in a more dovish Fed. The euro could weaken if the ECB acts before the Fed. Increased liquidity in the system also contributed to the stock market rally.

Market Drivers

The negative market trend that has been in place since the summer of 2023 broke in November. It became clear to all investors that central banks had reached the peak of interest rate hikes this time around, and the market also began to discount interest rate cuts in rate contracts for 2024.

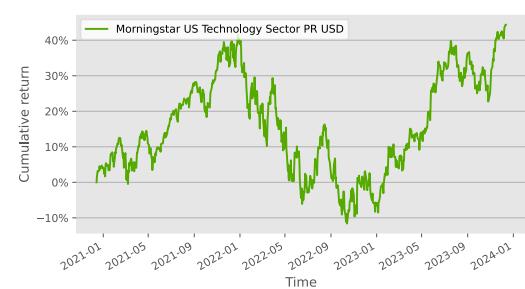
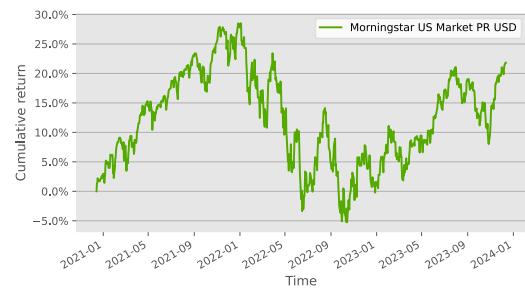
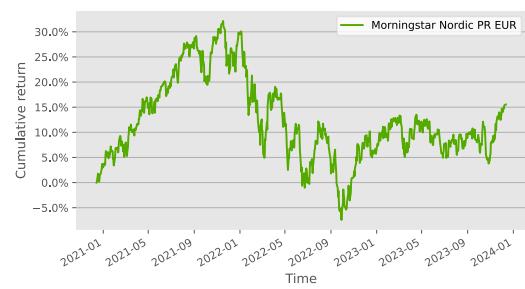


In particular, assets with high duration, such as growth stocks, responded strongest and rose sharply during the month. Naturally, all of this was supported by falling government bond yields. As inflation looks set to continue to fall, we are likely to see more of this in the coming month. In November, inflation data came in lower than the market expectations on both sides of the Atlantic. In the coming months, the usual lagging retail inflation in the United States is likely to continue to put pressure on the inflation rate during the winter.

Currency Movements

The dollar has retreated on expectations of reduced carry as interest rate cuts are now beginning to be priced in the United States. However, one should be a little cautious about betting on a continued weak USD as both the macroeconomic and inflation outlooks in Europe are surprisingly negative. This could push the ECB to act before the Fed and lower its policy rate first, which should weaken the euro.

Market Activity



Liquidity

An increased liquidity in the system may also have helped to drive the stock rally during the month. Liquidity is a bit like a hot potato, no investor or asset manager wants to hold it for too long. Excess liquidity is usually converted into other assets relatively quickly. So, an increased liquidity in the system often creates a demand pressure in other asset classes.

The problem is that liquidity can be measured in many ways and that the effects of changes in liquidity are notoriously difficult to isolate. However, if we simplify things and assume that the amounts that commercial banks deposit at the central bank are a measure of excess liquidity sloshing around in the system, and for which there is obviously no better use at the moment, then it is usually highly correlated with the price development of risk assets. This measure of liquidity has risen relatively sharply in the United States recently, which is likely to have given extra fuel to the rise in the stock market that started when investors realized that interest rate hikes were now over for this cycle, in late October and early November.

Key Takeaways:

- ❖ The negative market trend that began in the summer of 2023 reversed in November as investors increasingly priced in interest rate cuts in 2024.
- ❖ Growth stocks, which are sensitive to interest rates, led the market rally in November.
- ❖ Inflation data came in lower than expected in November, which also supported the market rally.
- ❖ The dollar has weakened as investors have priced in a turnaround in monetary policy from the Fed.
- ❖ The euro may weaken if the ECB acts before the Fed to lower interest rates.
- ❖ Increased liquidity in the system may have also helped to drive the stock rally in November.

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