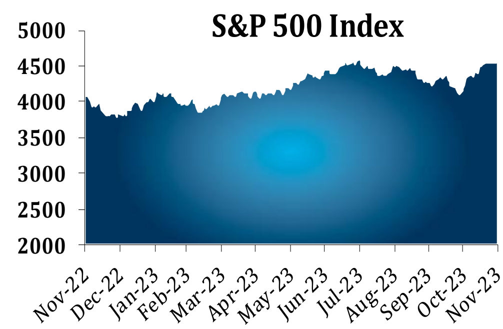
Public

This Month in the Markets

November 2023

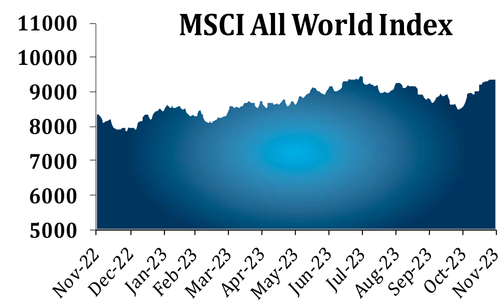
Equity Commentary

Ode to Munger

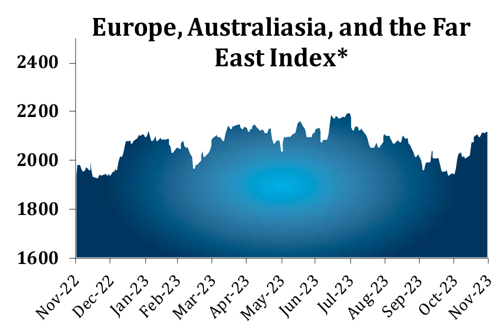


The equity markets surged in November as rates markets began pricing the end of tightening cycles, and economic moderation led to falling inflation rates. The MSCI ACWI Index rose 9.3%. The MSCI ACWI World Value Index advanced 7.4% compared to the rise of 11% in the MSCI All Country World Growth Index. International markets were mixed versus the U.S. as the S&P 500 rose 9.1%, and the MSCI EAFE and Emerging Market Indices rose 9.3% and 8%, respectively. The MSCI ACWI Information Technology Sector index was the top performer, posting a gain of 13.6%, as investors bid up long-duration assets. The MSCI ACWI Energy Sector was the under-performer, with a small gain of 1% as energy prices continued to fall in the month.

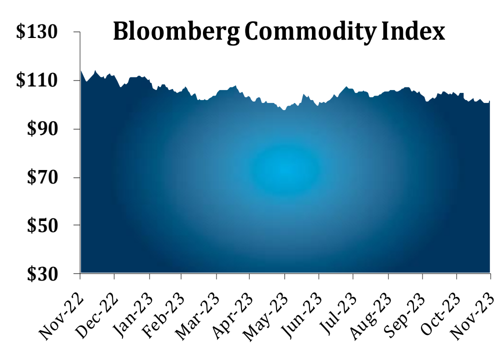
We'll take a short break from typical macro discussions affecting the equity market to pay homage to an investment legend who passed away on November 28th. Charlie Munger, often referred to as Warren Buffett's right-hand man, was a monumental figure in the investment world and a prolific source of pithy wisdom and common sense. What follows are a few of our favorite quotes from Charlie and some brief expanded commentary.



1) "The big money is not in the buying and selling, but in the waiting."
Munger often noted never interrupting compounding, but, unfortunately, so much of the investing business seems to attribute value to "activity". The irony of being patient and investing for the long run is that it is not exciting. Waiting and holding great investments is a choice. It is often the case that doing so is the best decision, but managers must face the pressure to act. Investing, ironically, is a profession where trying harder does not necessarily lead to better results.
2) "I constantly see people rise in life who are not the smartest, sometimes not even the most diligent, but they are learning machines. They go to bed every night a little wiser than they were when they got up, and boy does that help, particularly when you have a long run ahead of you."
Munger has also said: "I don't think you can get to be a really good investor over a broad range without doing a massive amount of reading," and "In my whole life, I have known no wise people...who didn't read all the time." We would wholeheartedly agree. Sadly, in an age of 140 characters or less and consumption of sound bites, the deep learning received by in-depth reading and analysis is often lacking. Acquiring knowledge through short-form videos or opinions generated by echo chambers created by algorithms has, in many ways, reduced the quality of discourse and intelligent discussion and, in many ways, lowered some forms of accurate investing research.
3) "Knowing what you don't know is more useful than being brilliant."
Remaining in your circle of competence is something both Buffett and Munger have promoted. It doesn't mean you don't try to expand that circle (see #2 above), but it is essential to be honest about what you don't fully understand to reduce mistakes and errors of ego. So much of desired brilliance is born from emotion and the inability to admit one does not know, or as is the case for many aspects involving the future, can't say for sure. Munger notes: "A lot of people with high IQs are terrible investors because they've got terrible temperaments." Emotional intelligence is critical.



Diageo PLC was the month's largest underperformer, falling 8.4% as the company lowered its guidance due to some weakness in its South American business. Uber Technologies Inc. was the top performer and soared 30.3% on a continued progression towards higher levels of profitability and solid trends in underlying ride share volumes. We divested our trade of iShares MSCI China Index as we have become increasingly concerned with the macro environment in China surrounding its growth, the bursting of the real estate bubble, and the increasing involvement of the Chinese government in private companies' governance. We purchased Meta Platforms Inc. ("META") during the month. Meta Platforms is the largest social media company and has changed how people interact. It has built an efficient advertising system that allows businesses to advertise directly to their targeted market. Artificial Intelligence will add efficiencies to their business model and should promote future growth.



*MSCI EAFE Index

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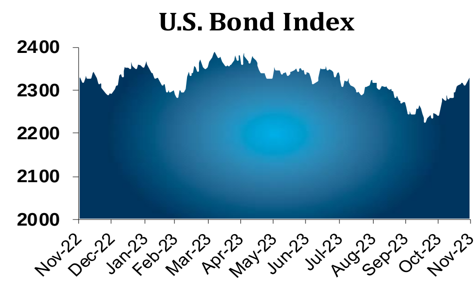
Fixed Income Commentary

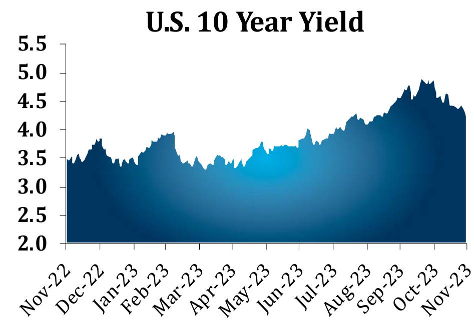
Bonds Rally

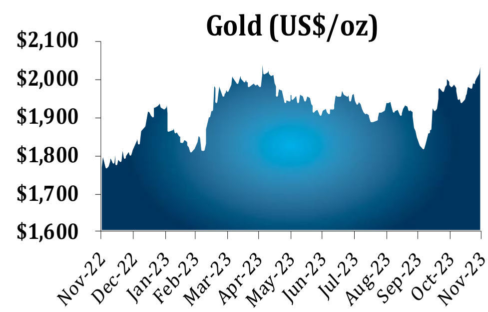
After seven months of higher treasury rates, interest rates declined in November. The 10-year treasury rate declined 0.59% to end the month at 4.34%, while the 2-year fell 0.39% to 4.69%. The move in rates was widespread across the curve - all maturities greater than three years declined more than 0.40% in the month. One catalyst for the decline in treasury yields was the November 1st Federal Open Market Committee (FOMC) meeting and, more specifically, Chair Powell's press conference. As a reminder, from March 2022, the FOMC raised the fed funds rate (upper range) from 0.25% to 5.50%. Throughout 2022 and 2023 Chair Powell had been keen to stress his intent to bring down inflation back to the Fed's 2% target. In the November meeting the FOMC kept the fed funds rate on hold, stressing data dependency. However, Chair Powell was less hawkish than he had been for much of the past 2 years - over which time he had said on multiple occasions that the risk of doing too little (monetary tightening) outweighed the risk of doing too much. However, in the latest FOMC press conference, when asked if he was worried about overtightening, he replied, "The risk of doing too much versus the risk of doing too little are getting—are getting more—closer to balance, because policy is I think clearly restrictive at 5¼ to 5½ percent." The bond market interpreted this change in stance as a signal that the Fed is done hiking rates and rallied. At the end of October fed fund futures were pricing in about 2.5 0.25% cuts in 2024 and 2 cuts in 2025. However, over the course of November, these expectations had been completely repriced and, at the time of writing, suggest 5 cuts in 2024 and 2 cuts in 2025.

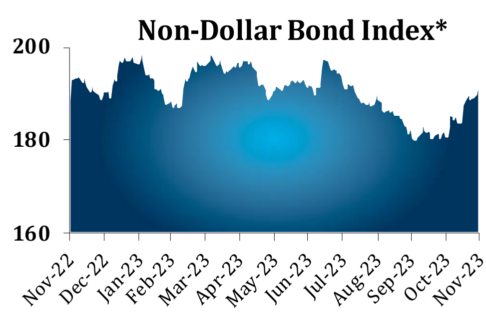
Rates also reacted to the economic data and in particular the labor market which shows some sign of weakening from albeit strong levels. For example, seasonally adjusted continuing jobless claims have trended higher, as has the number of employees at temporary-help service firms. The unemployment rate remains subdued at 3.7%. If we include those marginally attached to the labor force and working part-time for economic reasons (U6 unemployment rate), then it jumps to 7.2%. This compares to 6.5% at year-end 2022. Not a big increase, but we note that historically once the unemployment rate starts to rise it doesn't do so in a linear fashion. Inflation figures continue to trend lower. Goods inflation has completely collapsed since the peaks of mid-June 2022. The latest Goods Consumer Price Index (CPI) print was only 0.1% year-on-year (YoY). Core Services excluding shelter, often cited by Chair Powell as an indicator that broadly captures economic price pressures, continues to move lower. Looking at the CPI, services inflation is declining (5.5% YoY latest reading); however, excluding the (lagging) shelter component (6.7%) it is only 3.8%. The latest Personal Consumption Expenditure (PCE) data, released on November 30th, also reinforced the decline in inflation. Core PCE Services excluding Shelter figures are very encouraging. The 3-month annualized inflation figure (2.7%) is less than the 6-month annualized data point (3%), which is in turn lower than the YoY figure (3.9%). As such, we expect inflation to continue trending lower as we move into 2024, all else equal.

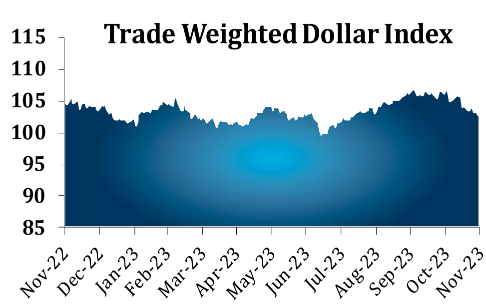
During the month we added a +10 year treasury and a 10 year Charter bond which replaced the Lennar bond which rolled off. This increased the duration in our portfolios to an overweight position. While we acknowledge rates could move higher, we think the path of least resistance is likely to be lower over the next twelve months. On the other hand we remain slightly underweight credit risk in our portfolios. Credit spreads have rallied strongly off the back of the decline in rates and are suggesting a soft landing. While this is certainly possible, we prefer a more cautious tilt with regard to credit risk, favoring select investment grade credits over high yield. If the economy sours and the labor market shows more material weakness high yield credit, in particular, will be at risk. The latest reading on the Atlanta Fed real GDP nowcast is just 1.2% for Q4, after real GDP of 5.2% in Q3. All things considered, we prefer the risk-reward of greater interest rate risk over credit risk.











*Merrill Lynch Global Broad Market, Ex US Dollar Index

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