CORBETT ROAD
WEALTH MANAGEMENT

MACRO MUSINGS

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Is the Fed Pause Finally Here?

Rush Zarrabian, CFA®
Corbett Road
Managing Partner, Portfolio Manager

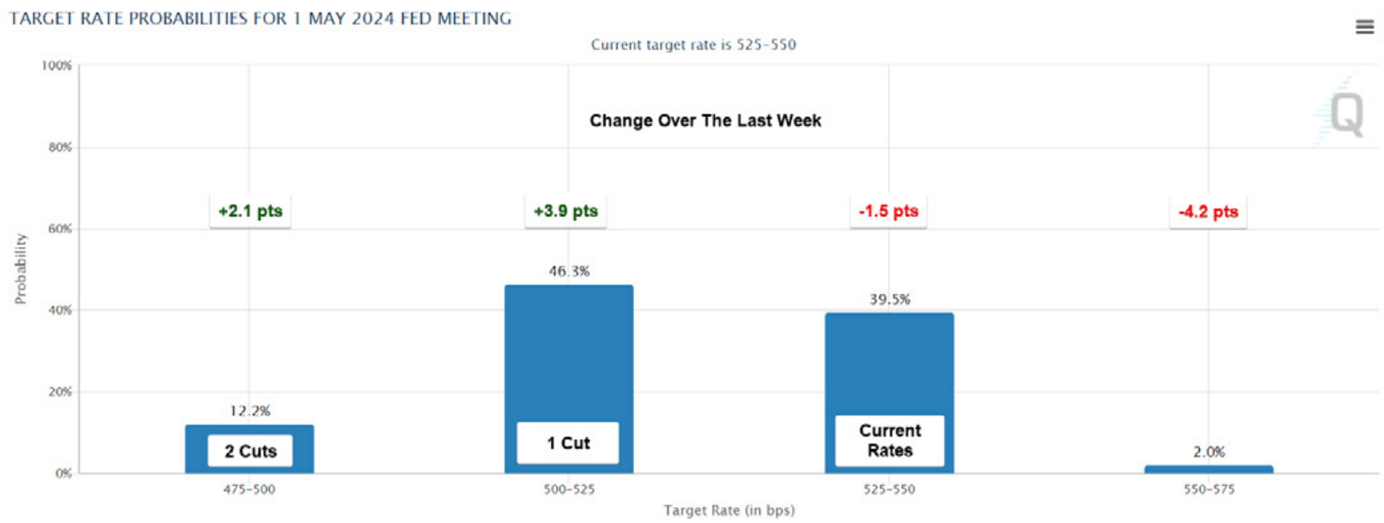
SUMMARY

- The **macro**cast™ score was higher than last month. The current **micro**cast™ signal is recommending an aggressive allocation. The combination of a cautious **macro**cast™ and a more constructive **micro**cast™ highlights the ongoing uncertainty in the market, reflecting a complex investment environment.
- Recent statements from Federal Reserve officials suggest the US central bank may be at the end of its aggressive rate hike cycle that began in early 2022. Still, higher rates and the continuation of Quantitative Tightening reflect the Fed's commitment to tighter-for-longer monetary policy as they aim to curb inflation without inducing an economic recession.
- Certificates of Deposit (CDs) are currently offering higher yields, which may appeal to savers, but their liquidity issues and modest performance over longer time horizons make them less-than-ideal investments for long-term growth. Diversification across stocks and bonds, which historically outperform CDs, can offer a more strategic balance of safety and growth potential as a long-term investment strategy.
- A rare and bullish technical indicator triggered on November 3rd. Since 1950, this signal has preceded positive market returns over the following 6- and 12-month periods, in every instance.

THERE IS A HIGH PROBABILITY THE FED IS FINISHED RAISING RATES, **BUT MONETARY POLICY REMAINS TIGHT**

Recent statements from Federal Reserve members indicate that the Fed may have finished its cycle of interest rate hikes, initiated in early 2022 to combat rising inflation. This pause could mark the end of a notably rapid sequence of rate increases, the likes of which haven't been seen in many decades.

Yet a halt in rate hikes doesn't imply an immediate loosening of monetary policy. Consistent with their ongoing efforts to control inflation—which still exceeds the Fed's target, despite recent moderation—the Fed seems poised to maintain higher interest rates over the next six months. This timeline is evident when looking at market expectations for the Fed's policy rate in May of next year (chart from CME Group):



Following the release of the latest inflation data for October, which saw flat CPI month-over-month, the probability that the Fed Funds rate will be higher than it is today has dropped to a near-negligible 2.0%. Prior to the CPI release, the first rate cut was expected to occur in June, but after October's data showed inflation cooling quicker than consensus expectations, the probability of a cut in May increased and is now the highest probability outcome (46.3% chance). While the trajectory of monetary policy is fluid and subject to change as new data is released, market participants currently expect rates to remain steady and elevated over the next six months.

Additionally, the Fed's ongoing Quantitative Tightening (QT) program underscores their dedication to a more stringent monetary policy. By offloading securities and shrinking

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their balance sheet, QT keeps interest rates higher than they otherwise would be, essentially reversing the effects of the Quantitative Easing (QE) program initiated at the start of the pandemic.

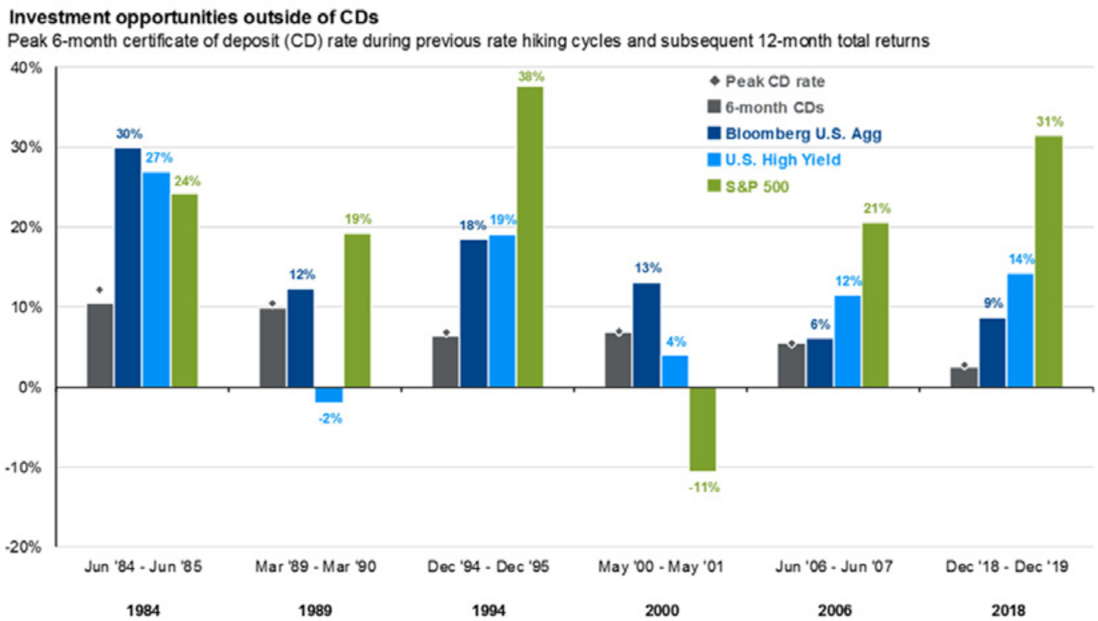
If the Fed holds steady on interest rates, it could benefit savers while posing challenges for borrowers. However, the possibility of the Fed maintaining this stance through 2024 is not set in stone. If job growth slows, the Fed might have to change course much sooner.

CERTIFICATES OF DEPOSIT YIELDING HIGHER RETURNS: **STRATEGIC ALLOCATION CONSIDERATIONS FOR INVESTORS**

Certificates of Deposit (CDs) are currently offering higher yields than seen in recent years, making them more appealing for savers. However, for those focused on long-term wealth growth, it's crucial to consider the limitations of this type of investment. CDs are known for their safety and consistent returns, but they generally offer modest long-term gains, particularly during inflationary periods. This can impede wealth accumulation, especially compared to other investments with higher growth potential.

A diversified portfolio that balances safety with growth opportunities may be a more suitable solution for investors seeking longer-term growth, despite the higher risk and volatility. CDs also present liquidity issues; funds can be tied up for terms ranging from three months to five years, resulting in missed opportunities during market upswings.

Historical data illustrates that in five out of six instances over the past 40 years, both stocks and bonds have significantly outpaced CDs after peaks in CD rates. The exception was in 2001 during a recession, but even then, bonds outperformed CDs (from JP Morgan):



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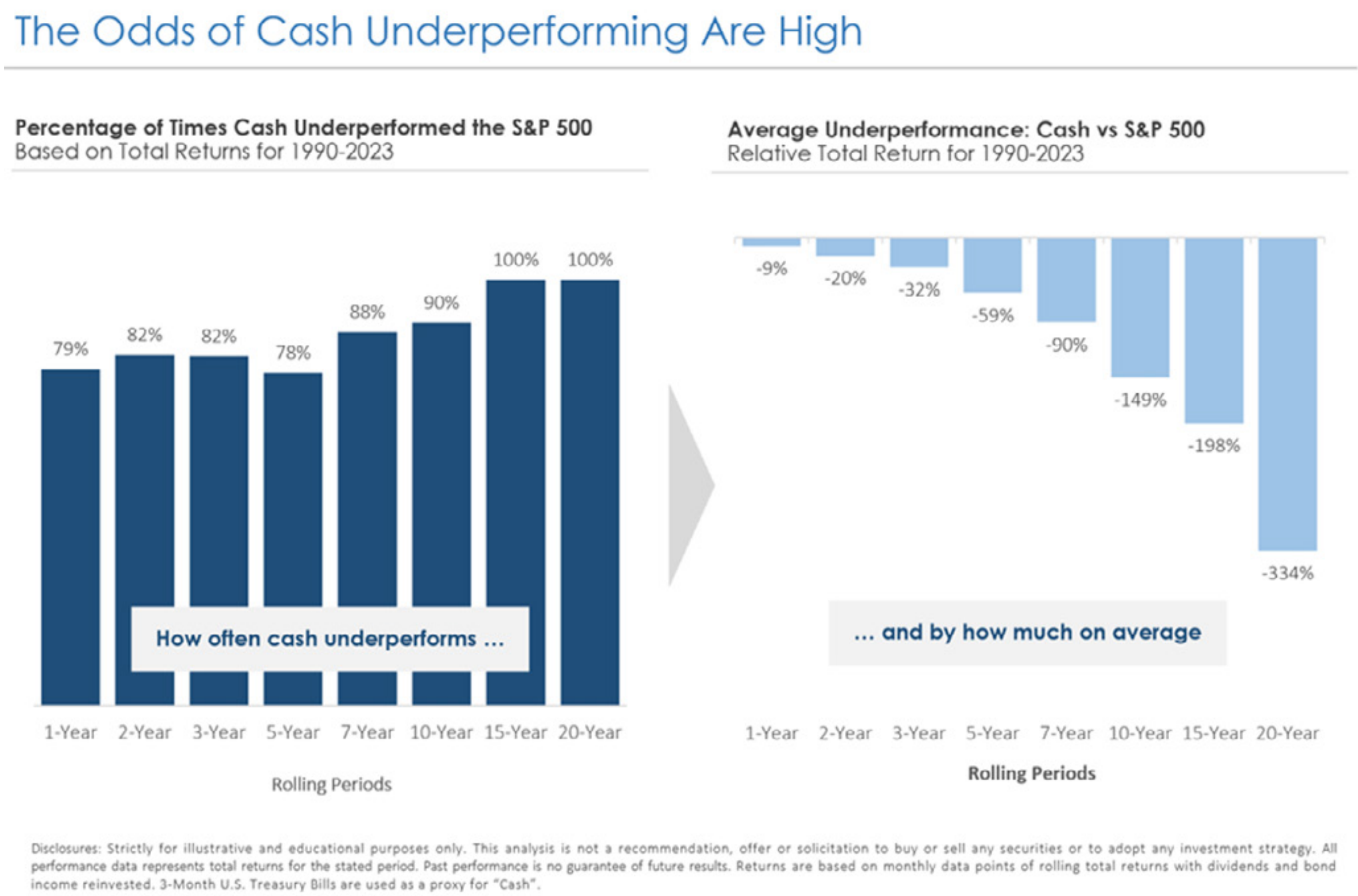
Similar to CDs, after a decade of near-zero rates, the Fed's recent hiking cycle has increased the yields on cash and money market funds. But again, relying on these instruments for long-term strategies may not be optimal. Historically, equities have consistently outperformed cash and cash-equivalent assets, even over shorter investment periods (from MarketDesk):



A RARE IMPROVEMENT IN MARKET BREADTH JUST OCCURRED. **HISTORICALLY, THAT'S BEEN BULLISH FOR STOCKS**

On November 3rd, the New York Stock Exchange witnessed a significant surge in market breadth, identified as the Zweig Breadth Thrust. Although infrequent, this event is noteworthy, indicating a potential major shift in the market's trajectory.

The Zweig Breadth Thrust—a technical market indicator named after its creator Martin Zweig—is designed to signal the onset of a new bull market. It functions by measuring the proportion of advancing stocks to declining stocks in a market index over a 10-day

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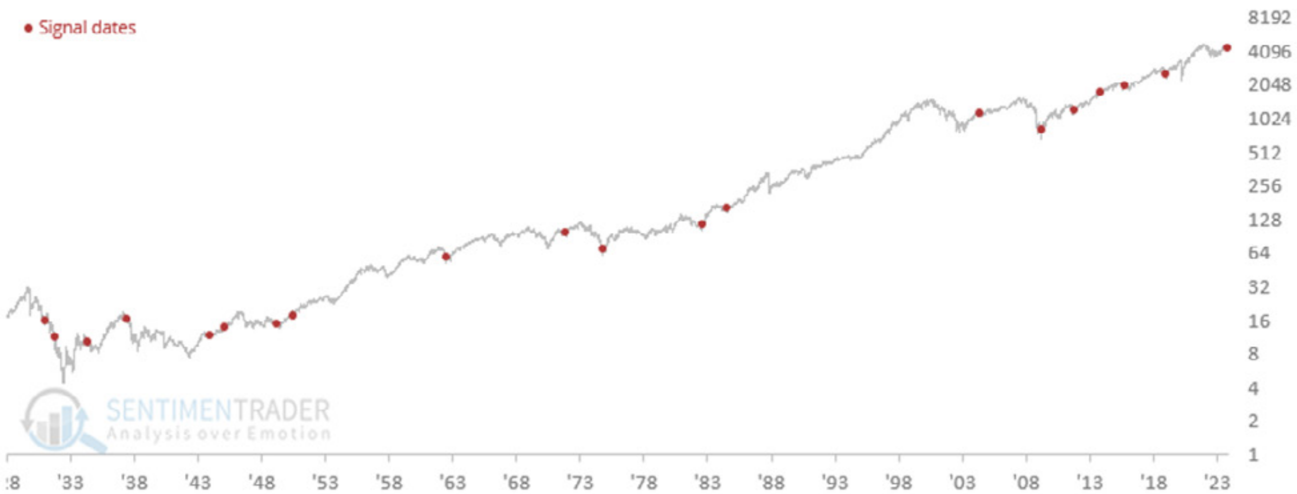
period. A shift from below 40% to above 61.5% within this time frame indicates a sudden, broad-based surge in stock prices, suggesting a strong and lasting upward market trend. This tool is valuable for investors as it highlights periods of significant positive market sentiment, though it's most effective when used alongside other market analyses.

The study below highlights the positive market reaction following past Zweig Breadth Thrusts. According to data from Sentiment Trader, in every instance since 1950, the market has shown a gain over the following 6- and 12-month periods:

S&P 500 after first NYSE Zweig Breadth Thrust in > 1 year (since 1950)



Dates of 12 Signals	# Days Since Thrust	1 Week Later	2 Weeks Later	1 Month Later	2 Months Later	3 Months Later	6 Months Later	12 Months Later
1950-07-21	387	0.6	3.1	6.3	9.2	13.5	20.9	26.9
1962-07-11	3072	-2.7	-2.2	-0.5	1.2	-0.9	12.1	20.8
1971-12-03	2259	0.6	3.3	5.2	7.9	11.2	13.1	20.9
1974-10-10	718	2.0	0.6	7.3	-3.6	4.0	20.6	26.6
1982-08-20	1927	3.6	8.5	10.5	23.2	22.4	30.5	44.7
1984-08-03	494	1.9	1.1	1.6	0.1	3.2	10.0	17.9
2004-05-25	4997	1.1	1.6	1.9	-1.6	-0.7	5.7	6.9
2009-03-18	1210	2.5	2.1	9.5	14.5	14.6	34.5	46.8
2011-10-14	650	1.1	4.9	2.2	-1.0	5.6	13.6	17.6
2013-10-18	504	0.9	1.0	2.7	3.8	5.7	7.7	9.1
2015-10-08	495	0.5	1.9	4.3	2.5	-4.5	1.4	7.0
2019-01-07	815	1.3	3.3	7.1	7.6	13.6	16.9	27.0
2023-11-03	1215							
Median	**815**	**1.1**	**2.0**	**4.7**	**3.1**	**5.7**	**13.3**	**20.9**
% Positive		**92%**	**92%**	**92%**	**75%**	**75%**	**100%**	**100%**
Avg Max Loss		-0.5	-0.5	-0.5	-1.5	-2.6	-2.6	-2.6
Avg Max Gain		1.1	3.2	5.1	6.4	6.9	14.9	21.8
Z-Score		2.2	2.3	4.3	0.9	1.8	3.6	3.8

© SENTIMENTRADER Numbers are % return after signal; Risk = avg max loss; Reward = avg max gain; Z-Score +/- 2 suggests significance.

Furthermore, the market has risen by 15% since the start of the year. Although the majority of this increase can be attributed to the top seven stocks in the index, this historical pattern tends to lean positive: in the last 22 occurrences of the market being up by at least 5% at this point in the year, it has continued to climb higher through the end of the year (table and data from Wayne Whaley):

NOV15-DEC31 S&P PERFORMANCE WHEN DEC31-NOV15 IS UP +5%								
The last 50 years			*waynewhaley.witterlester@gmail.com*			*waynewhaley.com*		
YEAR	DEC31-NOV15%	NOV15-DEC31%	YEAR	DEC31-NOV15%	NOV15-DEC31%	YEAR	DEC31-NOV15%	NOV15-DEC31%
1975	32.69	0.21	1991	15.87	9.19	2009	21.06	2.02
1976	10.77	8.55	1993	6.44	0.75	2010	7.41	5.07
1979	8.34	3.79	1995	29.33	3.87	2012	7.61	5.41
1980	27.06	-0.91	1996	19.76	0.51	2013	26.08	2.80
1982	11.81	2.66	1997	25.33	4.57	2014	10.36	0.98
1983	17.58	-0.04	1998	16.00	9.26	2016	6.68	2.70
1985	18.46	6.71	1999	13.44	5.40	2017	14.55	4.27
1986	15.72	-0.75	2003	19.38	5.90	2019	24.48	3.55
1988	8.60	3.63	2004	6.47	2.44	2020	10.97	4.77
1989	22.62	3.94	2006	11.91	1.60	2021	24.67	1.80
#UP-DOWN = 27-3			AVG%CHG = 3.49			1%MOVES = 22-0		

In summary, the Federal Reserve's recent signals suggest a pause in the cycle of interest rate hikes, but rates are expected to remain restrictively high for the next six months. Higher policy rates have pushed up the yields on Certificates of Deposit (CDs) and money market funds, offering better returns for short-duration cash instruments, but the limited longer-term growth of these vehicles should be weighed against other investment options. Finally, the recent occurrence of the Zweig Breadth Thrust on the New York Stock Exchange has historically been a bullish development for the market.

We hope you find our latest thoughts and insights useful. In next month's publication, we will delve into the economic outlook for 2024 and the implications for risk assets.

Thank you for your continued support and trust in Corbett Road.

Thankful

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CORBETT ROAD
WEALTH MANAGEMENT

Washington, D.C.
7901 Jones Branch Dr
Suite 800
McLean, VA 22102
Local: 703.748.5836

Boston, MA
101 Arch St
8th Floor
Boston, MA 02110
Local: 617.600.7930

Los Angeles, CA
1901 Avenue of the Stars
Suite 200
Century City, CA 90067
Local: 310.591.5674

Fort Lauderdale, FL
2598 E. Sunrise Blvd
Suite 2104
Ft. Lauderdale, FL 33304
Local: 954.507.6028

Knoxville, TN
800 S. Gay St
Suite 700
Knoxville, TN 37929
Local: 865.444.4520

Phoenix, AZ
2375 E. Camelback Rd
Suite 600
Phoenix, AZ 85016
Local: 602.807.1145

St. Louis, MO
7777 Bonhomme Ave
Suite 1800
Clayton, MO 63105
Local: 314.463.0132

Toll Free: 844.688.4955
info@corbettroad.com
www.corbettroad.com
linkedin.com/company/corbettroad