MONTHLY MARKET COMMENTARY

JANUARY 2024 Executive Summary

Benchmark Returns as of January 31, 2024

	For the Month	Year-to-Date
S&P 500	1.68%	1.68%
Dow Jones Industrial Average	1.31%	1.31%
Nasdaq	1.04%	1.04%

	For the Month	Year-to-Date
Bloomberg Aggregate Bond Index	-0.27%	-0.27%
Developed International	-0.98%	-0.98%
Emerging Markets	-4.63%	-4.63%

Can the much-discussed "soft landing" for the U.S. economy provide a firm basis for investment gains in the year ahead? The final U.S. economic reports for 2023 showed a strong labor market, progress on reducing inflation, and robust economic expansion. Last January's drumbeat of recession fears has fallen silent. Consumers' confidence in the economy is rising while their expectations for future inflation are falling. It's not surprising, then, that major US equity indices reached successive all-time highs before a last-hour pullback in the wake of the Fed's news conference on January 31st.

The December labor report released on January 5th was stronger than expected, with non-farm payrolls expanding by 216,000 and the unemployment rate unchanged at 3.7%. The release of January data is imminent and expected to show a strong (180,000 jobs added) but stable (unemployment rate still at 3.7%) jobs market.

The two major monthly inflation measures were somewhat at odds. On January 11th, the December CPI report surprised to the upside with the headline index up 3.4% year-over-year vs. +3.1% the prior month. Still, it is far below its level of +9.1% in mid-2021. Markets were cheered on January 26th when the Fed-favored core PCE inflation measure fell to 2.9% year-over-year for December, its lowest level since March 2021.

The first estimate of U.S. GDP for 4Q23 showed robust growth of 3.3%, bringing the preliminary full-year increase for 2023 to 2.5%. Much of the final quarter's strength was attributed to increases in consumer spending. U.S. consumers account for approximately 70% of GDP, therefore their beliefs about the future course of the economy and prices can have a larger impact on financial markets than backward-looking statistical reports.

Consumers have been notably dour in their economic outlook post-pandemic. That negative mood lifted recently with significant increases to the University of Michigan Consumer Sentiment Index in both December and January. Further, two separate inflation surveys show consumers' outlook on prices is plunging for both the near- and longer-term. Overall inflation expectations play a large role in the Fed's interest rate decisions.

That brings us to the first Fed rate decision of 2024. The January 30 - 31 FOMC meeting concluded with no change to the benchmark short-term fed funds rate. It has been 5.25% - 5.50% since July 2023. This outcome was fully expected by the markets, putting the focus on the post-meeting press conference. In that conference, Fed Chairman Jay Powell dashed widespread hope for a rate cut at the next FOMC meeting on March 19 – 20, saying, "I don't think... the committee will reach a level of confidence by the time of the March meeting" to dial back the restrictive stance that is now in place.

Investors are adjusting their interest rate assumptions at this writing. The CME FedWatch Tool (based on market pricing of interest rate futures contracts) shows the odds of a rate cut are 38.5% and 95.6% for the March 20th and May 1st meetings, respectively.

Against this economic background and the intense focus on interest rates, companies have been reporting 4Q23 earnings throughout the month and providing guidance for their profits in the coming year. As of February 1st, 208 companies in the S&P 500 have reported earnings, with 80.3% coming in above analyst expectations. Using a blended metric of actual results and estimates for companies yet to report shows year-over-year earnings growth of 6.4%. (Source: LSEG I/B/I/S). We will be closely following the remaining company releases to gauge the strength of corporate profits.

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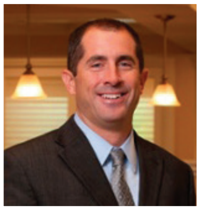

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