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Market Update: January 2024

U.S. stock values increased approximately 1% in January, for a third consecutive month of gains. Foreign equities actually declined by about that same amount. The yield on the benchmark 10-year U.S. Treasury ended the month at 3.96%, just slightly higher than where it started the year. Overall, it was a relatively quiet month for investors, with global stocks eking out slight gains against modest losses for global bonds.

> **All three (U.S.) indexes finished January in the green despite choppy trading that veered between growing confidence about the U.S. economy and continued caution toward the central bank's monetary policy for the rest of the year.**

David Uberti – WSJ 1/31/24

The Federal Reserve's policy committee held interest rates steady at its first meeting of 2024. The current target range for the benchmark federal-funds rate remains at 5.25% – 5.50%, the highest level in more than two decades.

While Chairman Powell acknowledged the Fed would likely be "dialing back policy restraint at some point this year", he also noted that "ongoing progress toward our 2% inflation objective is not assured". So, for now, it appears an interest rate cut in March is essentially *off the table*.

> **Exuberant markets fixated on interest rates coming down in 2024 will need to wait for their prize. Cuts are coming this year, but don't count on them beginning in March – or maybe even in May.**

Nicholas Jasinski – Barron's 1/31/24

The Commerce Department reported U.S. Gross Domestic Product (GDP) grew at an annualized 3.3% in the fourth quarter, far exceeding expectations. Employers added about a half-million jobs during the quarter. More importantly, wage growth exceeded inflation, which slowed to an annualized 1.7% rate during the quarter.

> **Not too long ago, investors would have been worried about strong GDP growth and what it meant for inflation and rate hikes. But investors have left those fears behind, convinced that rate cuts are coming sometime this year, regardless of economic data. Now solid data is just solid data.**

Alex Eule – Barron's 1/25/24

For all of 2023, the U.S. economy grew 3.1%, thanks to a strong labor market and robust consumer spending. It's hard to imagine, but a year ago, economists were predicting a recession as the most likely outcome.

> **It's been a really strong year for economic growth. The consumer was meant to roll over – and they didn't.**

James Knightly, ING economist – WSJ 1/25/24

Most economists expect economic growth to ease in 2024, as consumer spending moderates. The Fed previously "penciled in" *three* rate cuts for 2024. Wall Street, on the other hand, has been hoping for *six*.

Over the past two years, state and local governments have more than doubled their contribution to economic growth from 2017 to 2021. Federal pandemic and infrastructure funding have enabled government spending to somewhat offset the slowdown in business investment.

> **The question is whether – and for how long – consumers and government can sustain the expansion.**

The Editorial Board – WSJ 1/25/24

The eurozone's GDP was unchanged during the fourth quarter, after declining during the previous quarter. The European economy has been a victim of rising oil prices courtesy of Russia's war in Ukraine, and now the Middle East crisis has caused cargo traffic bottlenecks in the Red Sea.

> **The eurozone economy remains stuck in the twilight zone between recession and stagnation.**
>
> **Carsten Brzeski, ING Bank economist – WSJ 1/30/24**

The Chinese economy expanded by 5.2% in 2023. Excluding the pandemic period, that pace is considered to be one of the weakest advances in decades. Economists expect growth in the current year to be close to the same level.

China's economic problems are widespread. A study conducted by Beijing Normal University found that 70% of China's population is living on a monthly income of less than 2,000 yuan … the equivalent of $280.

Beijing is now attempting to boost lending by reducing reserve requirements for banks and cutting interest rates. Lowering the reserve requirements is expected to free up $139 billion for new loans.

> **The days of blowout stimulus packages that shock China's economy into roaring expansions are over. Government officials from Chinese leader Xi Jinping down have indicated that they are determined to wrest the economy onto a healthier trajectory – even if that means tolerating slower economic growth.**
>
> **Jason Douglas – WSJ 1/25/24**

Economists are generally skeptical that the latest measures will bolster the property sector, which remains China's major economic dilemma. In fact, China Evergrande Group, once China's largest property developer, was just ordered to liquidate by a Hong Kong court. Evergrande, which owes about $300 billion to creditors, stopped paying its debts more than two years ago.

> **Evergrande's default was a watershed moment for the Chinese real-estate industry and fueled a liquidity crisis in the sector. Since then, more than 50 developers have defaulted on their debts, and thousands of people in the sector have lost their jobs.**
>
> **Saeedy/Feng – WSJ 1/29/24**

Chinese stocks, as measured by the benchmark CSI 300 Index, declined by over 11% last year. That makes three straight years of declines. The index has lost more than a third of its value since 2020.

> **Foreign investors pulled out of China's stock market in droves last year … individual investors in the country are increasingly joining the exodus.**
>
> **Rebecca Feng – WSJ 1/25/24**

The State Council, the country's top government body, is now calling for action to stabilize plummeting stock prices. Officials have apparently been urging state-affiliated financial firms to buy up stocks. These firms, referred to as the so-called national team, include insurers, pension funds and China's sovereign wealth fund.

> **If you read the tea leaves from what the government was saying, the signal was the Chinese economy is not doing that badly. That message has shifted, and now policymakers appear to be more engaged, concerned, and tuned in with sentiment.**
>
> **David Chao, Invesco – WSJ 1/25/24**

According to Freedom House, China was ranked worst in internet freedom among 70 nations for a ninth straight year. Not surprisingly, as economic data continues to deteriorate, Beijing is discouraging the flow of financial news. The Ministry of State Security even cautioned the public that economic security is a key component of national security.

> **Several prominent commentaries by economists and journalists in China have vanished from the internet in recent weeks, raising concerns that Beijing is stepping up its censorship efforts as it tries to put a positive spin on a struggling economy.**
>
> **Jonathan Cheng – WSJ 1/31/24**

The Fed's preferred inflation measure, the personal-consumption expenditures price index, rose 2.6% in December … well below the 5.4% rate just one year ago. Core prices, which exclude energy and food costs, rose 2.9% for the year. But over the past three and six-month periods, core inflation rose an annualized 1.5% and 1.98%, respectively.

> **Everything is now pointing to inflation heading back to 2% and it's harder to see why they need to keep rates at 5.5%, which officials acknowledge is restrictive territory.**
>
> **Andrew Hunter, Capital Economics – WSJ 1/26/24**

With inflation falling faster than many expected, real rates (nominal rates adjusted for inflation) are now at relatively high levels. The Fed doesn't generally cut rates when the economy is strong, but there are still significant economic concerns for heavily indebted borrowers.

> **We made a very aggressive tightening. There is potentially a lot of room to cut rates before they are in neutral territory again.**
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> **Ester George, former Kansas City Fed President – WSJ 1/28/24**

The U.S. economy enters the new year with a strong labor market, solid wage gains, and fading inflation. The economic consensus is for the U.S. economy to land softly … meaning inflation will stabilize at the Fed's 2%

target without damaging the labor market. By now, we're all aware that economists are not very good at predicting the future. History also tells us that *sticking* an economic soft landing is no small feat.

So, will the Fed actually orchestrate a soft landing, or will the economy slip into recession as consumer spending finally starts to diminish?

If you find yourself struggling to read the *economic tea leaves*, consider the following excerpts from an article by Jason Zweig (WSJ 1/26/24), a columnist who has been on leave for the past eight months:

I just pulled a Rip Van Winkle – and maybe you should too:

- **The best part about coming back from this market sabbatical is noticing how silly so many forecasts seem to be – including my own.**
- **When you don't watch the market every day, you can finally see with unquestionable clarity that what you would have expected to happen didn't. The unexpected did.**
- **I'm not saying that the news doesn't matter or – heaven forbid – you should stop reading the Journal. I am saying that *reacting* to the news – or even feeling you're supposed to – can poison your portfolio and sour your life.**

It's not often when a well-respected financial pundit acknowledges the limitations of his expertise. While it's important to be informed, it's even more important to stay humble. Overreacting to the daily noise of the markets remains a fool's errand.

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