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Weekly Viewpoint

Some Profit Taking after a Solid Year of Gains

Performance for Week Ending 1/5/2024

The Dow Jones Industrial Average (Dow) finished down 0.59 percent, the Standard & Poor's 500 Index (S&P 500) lost 1.52 percent and the Nasdaq Composite Index (NASDAQ) shed 3.35 percent. Sector breadth was mixed with 5 of the S&P sector groups finishing higher and 6 closing lower. The Healthcare (+2.07%) sector was the best performer while Technology (-4.05%) was the worst.

Index*	Closing Price 1/5/2024	Percentage Change for Week Ending 1/5/2024	Year-to-Date Percentage Change Through 1/5/2024
Dow	37466.11	-0.59%	-0.59%
S&P 500	4697.24	-1.52%	-1.52%
Nasdaq	14524.07	-3.25%	-3.25%

Market Observations: 1/2/24 – 1/5/24

The major market indices finished the week lower with the S&P 500 ending its nine-week winning streak. The catalyst for the sell-off was a batch of better-than-expected labor market data, that in turn fueled doubt as to when the Fed will begin to reduce interest rates. According to the CME FedWatch tool, the probability of a 25-basis point reduction in rates at the March FOMC meeting fell to 65%, down from over 73% just one week ago. Stocks also appeared to take a well-deserved breather to work off "overbought" conditions after the S&P 500 rallied 13.7% over the final two months of last year.

Labor Data Underscores the Economy's Resilience: On Friday, the Labor Department reported that the U.S. economy added 216K jobs in December versus a revised 173K in November and compared to market estimates of 175K. The unemployment rate in the U.S. came in unchanged at 3.7 percent in December, compared to market estimates of 3.8 percent. During 2023, payroll employment rose by 2.7 million, with an average monthly gain of 225,000 according to the Labor Department. The report followed data earlier in the week also showing that the labor market remains strong. The ADP Research Institute reported that US companies ramped up hiring in December with private payrolls increasing by 164K last month, the most since

August. The advance was led by services sectors including leisure and hospitality and education and health care, while the manufacturing sector cut jobs for a fourth straight month. Meanwhile, weekly jobless claims fell to 202K from 220K in the prior period, the lowest level since mid-October.

FOMC Meeting Minutes: Last week the Fed released the meeting minutes from its December gathering. While the minutes didn't really contain much new news, officials did say policy rates are "at or near peak," with the path forward dependent on how the economy evolves. The minutes didn't offer any guidance to the timing of rate cuts. There was some pushback on the recent easing of financial conditions, with "many participants remarking that an easing in financial conditions beyond what is appropriate could make it more difficult for the Committee to reach its inflation goal." In a more dovish leaning discussion "a number of participants highlighted the uncertainty associated with how long a restrictive monetary policy stance would need to be maintained and pointed to the downside risks to the economy that would be associated with an overly restrictive stance".

In Other Economic News: The Institute for Supply Management's (ISM) manufacturing gauge rose to 47.4 in December from 46.7 in the prior month and was modestly ahead of the 47.1 forecast by economists. Despite the better-than-expected reading, the index has been below the 50 level — indicating contraction – since late 2022. Meanwhile, the ISM also reported that the US services sector remained in expansionary territory, but the pace of expansion slowed. The ISM Services index fell to 50.6 in December (vs. 52.7 prior) and was below consensus expectations for only a modest decline to 52.5. New orders—a forward-looking indicator of business demand—fell 2.7 points to 52.8 (vs. 55.5 in the prior two months). Elsewhere, Freddie Mac reported that US mortgage rates rose for the first time in 10 weeks, snapping a streak of declines that lowered borrowing costs from nearly two-decade highs. The average for a 30-year, fixed loan was 6.62%, up from 6.61% last week.

The Week Ahead: The key data release this week will be the Consumer Price Index (CPI) report on Thursday as markets continue to try and gauge the likelihood and timing of monetary policy easing. According to Bloomberg, headline CPI is expected to rise to 3.2 percent on a year-over-year basis, slightly higher than the 3.1 percent y/y pace in November. The core rate—which excludes food and energy prices—is forecast to dip to 3.8 percent from a year ago, down from 4.0 percent in November. The earnings calendar will begin to slowly creep back into the picture with 8 members of the S&P 500 scheduled to release quarterly earnings. These reports will feature results from several US banks including JPMorgan, Wells Fargo, Citigroup and Bank of America on Friday. The Fed speaking calendar begins to pick up with five Fed heads scheduled to present.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.