

January 22, 2024

Weekly Viewpoint

S&P Finishes at New All-time High

Performance for Week Ending 1/19/2024

The Dow Jones Industrial Average (Dow) finished up 0.72%, the Standard & Poor's 500 Index (S&P 500) gained 1.17%, and the Nasdaq Composite Index (NASDAQ) added 2.26%. Sector breadth was mixed with five S&P sector groups closing higher and six closing lower. The Technology (+4.31%) sector was the best performer while the Utilities (-3.70%) was the worst.

Index*	Closing Price 1/19/2024	Percentage Change for Week Ending 1/19/2024	Year-to-Date Percentage Change Through 1/19/2024
Dow	37863.0	+0.72%	+0.46%
S&P 500	4839.81	+1.17%	+1.47%
Nasdaq	15310.97	+2.26%	+2.00%

Market Observations: 1/15/24 – 1/19/24

The S&P 500 finished higher for a second straight week and closed the week at a new all-time high. The Technology sector led the advance, fueled by hopes the artificial-intelligence boom will keep powering the market higher. Despite the gains, trading has been choppy since the start of the year as investors try to gauge the timing of when the Fed will begin to loosen monetary policy by cutting rates. Investors are also facing a conundrum. On one hand they would like to see economic data weaken, resulting in the Fed cutting rates sooner. While on the other they want the economy to remain resilient, but that would mean later and probably fewer rate cuts. The latter scenario seemed top of mind for Fed Governor Chris Waller. Speaking at the Brookings Institute, Waller said, "with economic activity and labor markets in good shape and inflation coming down gradually to 2 percent, I see no reason to move as quickly or cut as rapidly as in the past. The healthy state of the economy provides the flexibility to lower the (nominal) policy rate to keep the real policy rate at an appropriate level of tightness." Atlanta Fed President Raphael Bostic also said he is in no rush to begin the easing process. Speaking at an event in Atlanta, Bostic said he wants to see more evidence inflation is on track toward the central bank's 2% target, repeating that he doesn't expect policymakers to cut interest rates until the third quarter. "My outlook right now is for our first cut to be sometime in the third quarter this year and

we'll just have to see how the data progresses," Bostic said. According to Bloomberg's World Interest Rate Probability tool, the odds of a reduction in rates at the March FOMC have fallen to 44 percent from nearly 100 percent at the end of last year.

Beige Book: Last week the Fed released its Beige Book report. The report, which gathers anecdotes and commentary on business conditions in each of the 12 Fed districts, said resilient consumer spending helped propel the US economy in recent weeks, offsetting weakness in other sectors like manufacturing. "Consumers delivered some seasonal relief over the holidays by meeting expectations in most Districts and by exceeding expectations in three Districts, including in New York." A majority of Fed districts reported "little or no change" in economic activity in the period, but firms were increasingly optimistic about the future. "Overall, most Districts indicated that expectations of their firms for future growth were positive, had improved, or both," the report said. Overall, firms noted an easing in inflationary pressures in the period, including that "increased consumer price sensitivity had forced retailers to narrow their profit margins and to push back in turn on their suppliers' efforts to raise prices." Nearly all districts cited one or more signs of a cooling labor market, with over half seeing little to no net change in overall employment levels. Firms in many districts anticipate wage growth to fall further over the coming year.

Economic Roundup: US retail sales rose at the strongest pace in three months in December, capping a solid holiday season that suggests consumer resilience heading into the new year. The value of retail purchases increased 0.6% in a broad-based advance. Excluding autos, sales rose 0.4%. Sales for the so-called control group—which are used to calculate gross domestic product—advanced 0.8%, the most since July. Initial applications for US unemployment benefits unexpectedly dropped last week to the lowest level in more than a year, underscoring the resilience of the labor market to start the year. The four-week moving average of initial claims dropped to 203.25K, the lowest in 11 months. Construction of new homes in the US fell for the first time in four months in December, dragged down by a drop in single-family home building. Residential starts decreased 4.3% last month to a 1.46 million annualized rate. Single-family home construction fell by the most since July 2022, following a surge in November, while multifamily projects rose to a five-month high. Building permits, which indicate future construction, increased to a 1.50 million pace. Meanwhile, mortgage rates in the US fell after two weeks of increases, dropping to the lowest level in almost eight months. The average for a 30-year, fixed loan was 6.6%, the lowest since May and down from 6.66% last week, according to Freddie Mac.

Q4 Earnings Season: While it is still early, fourth quarter earnings season is off to a mixed start. Through Friday, 52 members of the S&P 500 have reported results with 86% beating expectations. Aggregate earnings for the group are down 2.86%, and below the 1.8% gain that the Bloomberg consensus is forecasting for the overall reporting season. On the sector front, Consumer Discretionary has delivered the strongest growth while the Financials sector has delivered the weakest. According to Bloomberg data, the earnings environment is set to improve over the course of the year with 2024 S&P 500 earnings growth estimated at 10.2% followed by 13.3% growth during 2025.

The Week Ahead: The focal point of this week's data calendar will be the December core PCE reading on Friday. The core PCE, which is the Fed's preferred inflation barometer, is expected to dip to a 3.0% year-over-year pace, down from 3.2% y/y during November. Other data points of interest include the Leading Economic Indicators report, the S&P Global Manufacturing and Services PMIs, the initial reading of Q4 GDP, Durable Goods Orders, and New Home Sales. The earnings calendar will move to the front burner with 74 members of the S&P 500 scheduled to release reports throughout the week. Included in this group are 9 members of the Dow Jones Industrial Average. On the political front, the New Hampshire primary is scheduled for Tuesday.

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.

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