Monday February 5, 2024

SUMMARY-

I. Market adds to gains despite several key surprises.

II. Fed states March rate cut is unlikely.

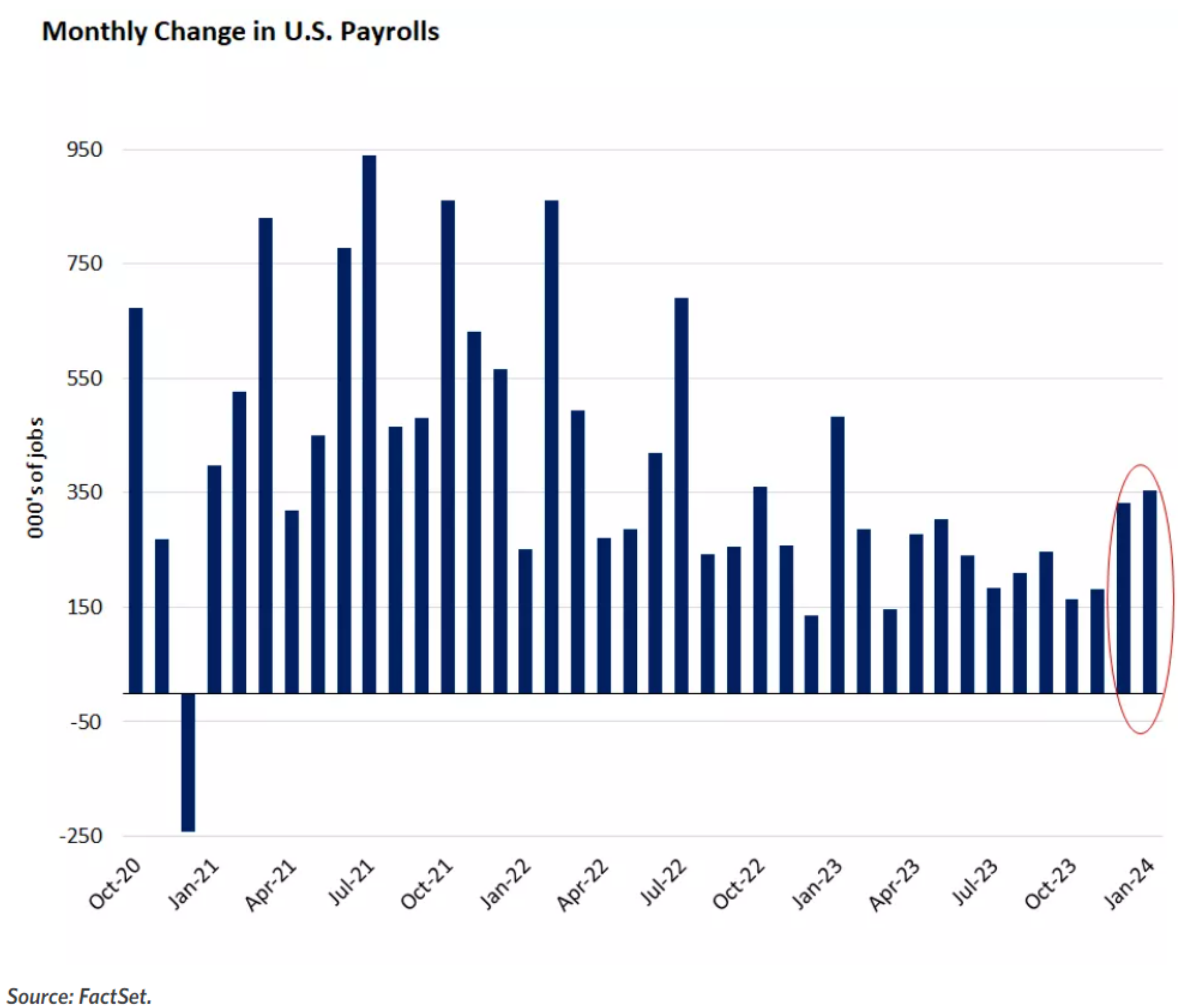
III. Huge job gains bolster economy but may delay rate cuts.

IV. Markets cheer some Mag 7 results and worry again about regional banks.

Good morning:

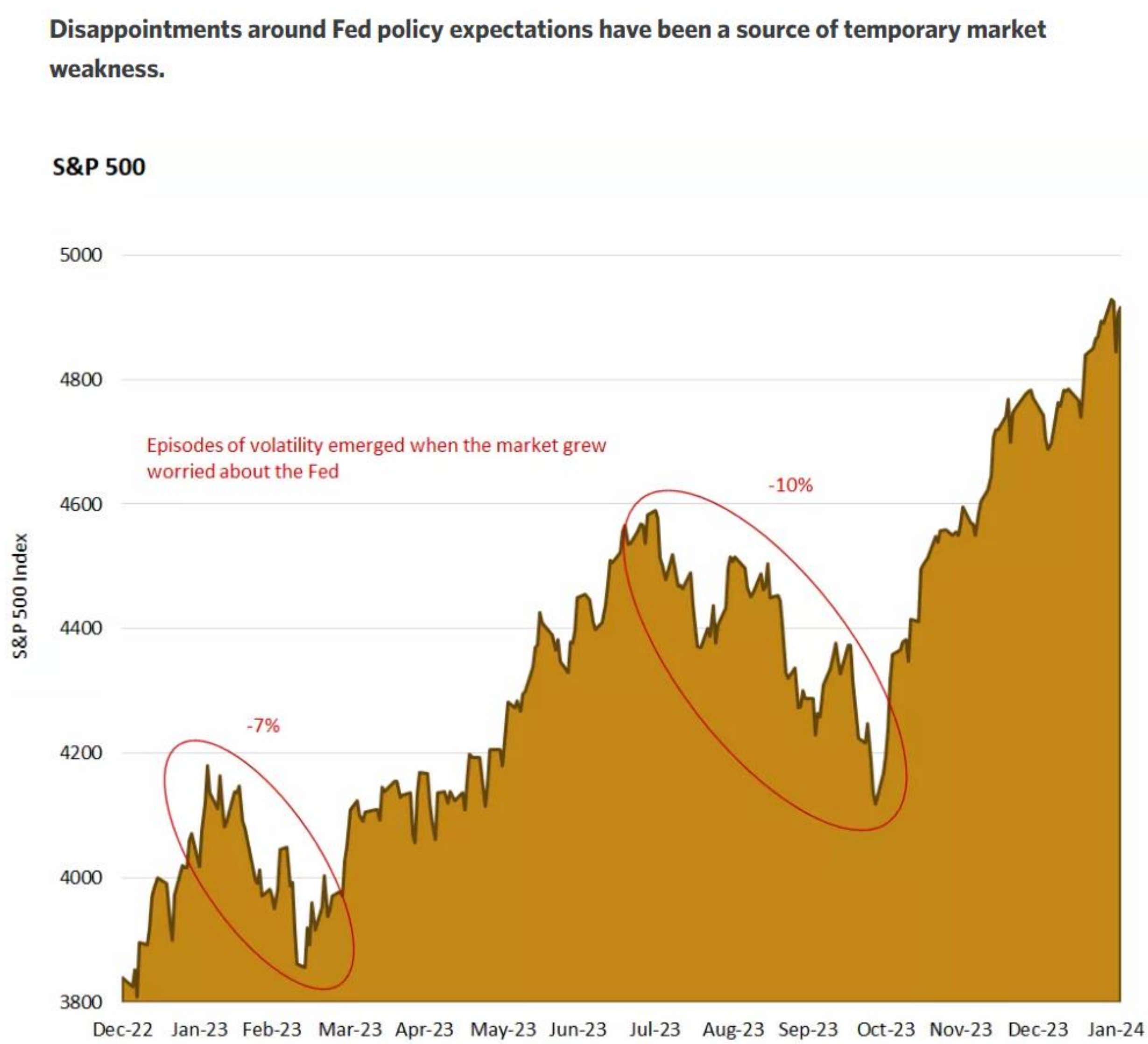
Markets were whipsawed last week by several surprises but still managed to end the week up more than 1.0% across all major large-cap averages. Perhaps biggest among them was Fed Chairman Powell's throwing cold water on the idea of an initial rate cut in March. While leaving rates unchanged, as was expected at this meeting, the Fed's remarks focused on their mission to achieve a 2.0% inflation rate regardless of how that may impact economic growth. Powell further commented that their level of confidence that inflation is on its way to their target is not there yet and therefore, a rate cut in March appears unlikely at this point. In response, equities sold off and bond yields spiked, before rebounding to previous levels less than 24 hours later.

Early Friday, the Bureau of Labor Statistics released January's jobs report which also took many economists and market strategists by surprise. The economy added 353,000 non-farm jobs in January, double the consensus estimate. This is the second straight month of more than 300,000 new jobs which last occurred in summer 2022. While critically important to keeping consumption, consumer spending and confidence, and economic growth all strengthening, it is precisely the type of report that could worry the Fed who may see it as adding inflationary pressure. Nevertheless, markets were not rattled and instead chose to focus on the economy growth aspect along with some key earnings reports last week.



Meanwhile, several of the Magnificent Seven mega-cap tech stocks reported their quarterly results with most, but not all, rallying in response. Their outsized weighting in indices like the S&P 500 and NASDAQ 100 helped these averages finish the week in the black. However, renewed concerns over regional bank problems, like we saw at this point last year, began to resurface. One New York based regional bank was identified, but the market's concerns are not necessarily limited to any one institution. If the economy was to slow dramatically, we would anticipate numerous banks in trouble as loan delinquencies rise and depositors flee. We will be closely watching this area for any developments.

We find it encouraging that the market's reactions last week to the Fed's comments and the strong jobs report were fairly muted. Neither provoked a protracted equity market selloff like has happened before. However, while the economy appears unlikely to experience a recession this year, investors might be well served to anticipate a few bumps along the way as the market advances. Remember, a big catalyst behind the S&P 500 gaining 20% in the last three months was the belief that the Fed was done hiking rates and had pivoted to an easier monetary policy stance. Now that expectations in the bond market for a March cut have fallen significantly, it is possible that some equity traders may become impatient and look to take profits. Such Fed-related anxiety has impacted the stock market at least twice last year as the following chart illustrates. With rate cuts now considered a matter of *when*, not *if*, any pullbacks should be brief and a likely buying opportunities for sidelined cash.



Source: Bloomberg

Although markets will continue to react to further economic reports and key company's results this earnings season, it is important to also be mindful of any developments on the domestic political front, as well as the increasing tensions and military actions unfolding abroad. History has shown how such related issues and events can arise quickly and cause short but sometimes dramatic knee-jerk reactions in the financial markets.

Have a great week!

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