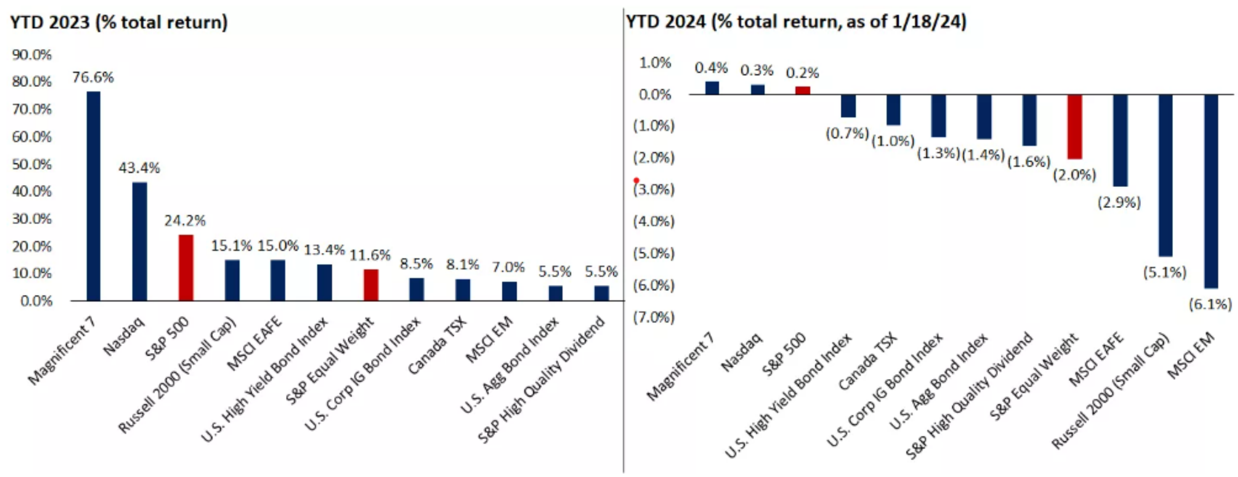
Monday January 22, 2024

SUMMARY-

I. S&P 500 Index makes new high while bonds slip back.
II. Earnings and economic growth reports on deck this week.
III. Softer consumer spending & rate cuts expected in early 2024.
IV. Improving fundamentals support bullish 2024 equity thesis.

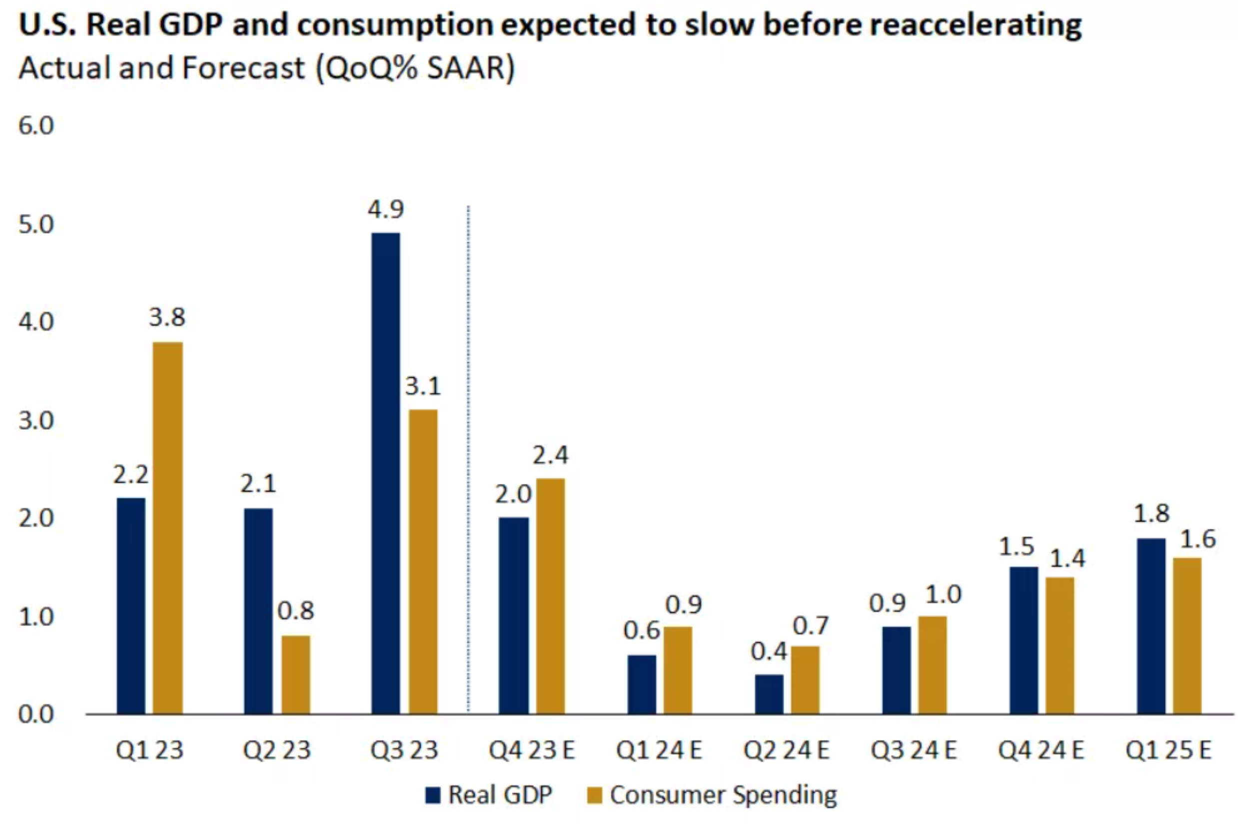
Good morning:

Continuing its choppy start to this year, stocks rebounded from the prior week's losses to narrowly eclipse a new record high for the S&P 500. However, as a market cap weighted index, this was again mostly attributed to several mega-cap tech stocks amongst the so-called Magnificent Seven positing solid gains. After the strong and broad-based rally to close out 2023, a period of consolidation or even modest retracement early this year is not only understandable but could be a healthy pause that refreshes. On the hells of recent inflation data, bond yields ticked higher last week with the 10-year Treasury touching 4.13% before settling back this morning. This has put some downward pressure to start the year on bond prices, dividend-paying stocks, and small caps. This morning's positive equity market opening is once again being led by many of the mega-cap tech names.



Source: Bloomberg. Magnificent 7 represented by Apple, Microsoft, Google, Amazon, Tesla, Nvidia, and Meta

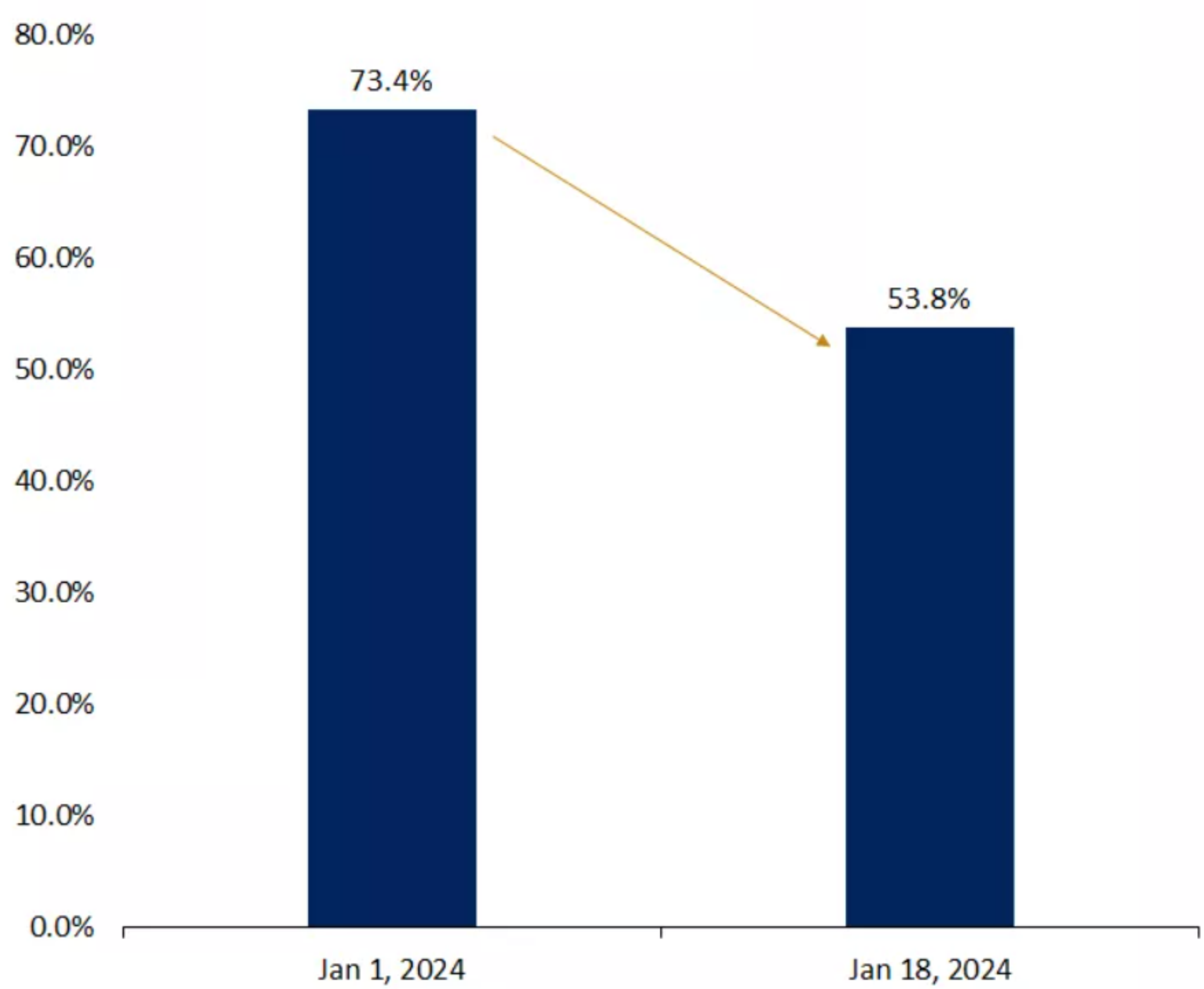
In addition to the bulk of Q4 corporate earnings reports forthcoming in the next few weeks, several key economic reports will help clarify the current health of the U.S. economy. Thursday’s release of Q4 GDP will quantify the economic momentum and consumption heading into the new year. After two years of aggressive rate hikes, current expectations see GDP growth falling from 4.9% annualized to around 2.0% in the fourth quarter. However, the Atlanta Fed’s GDP-Now tracker, a real-time indicator of GDP based on the most current economic data, predicts last quarter’s growth may have been closer to 2.4%. For many consecutive quarters, the consumer has been remarkably resilient and largely responsible for our above-trend growth rates. However, lower savings rates and rising credit card balances, in addition to rising food and housing prices along with the resumption of student loan payments, are expected to pressure consumer spending in the coming months. If this occurs, GDP growth rates will likely dip to below trend levels (1.5%) but are expected to remain positive and not result in a recession before restrengthening in the second half of the year.



Source: Bloomberg

The expectation that the Federal Reserve will begin a rate cutting campaign this year is still the largest driver to economic and market growth forecasts. In the past few days, expectations in the bond futures market for a March Fed rate cut have fallen to about 50%. The Fed's first FOMC meeting of this year on January 31st is seen as one in which they will leave rates unchanged but may provide insights as to their timeline for subsequent moves.

Probability of March Fed rate cut has come down to just over 50%



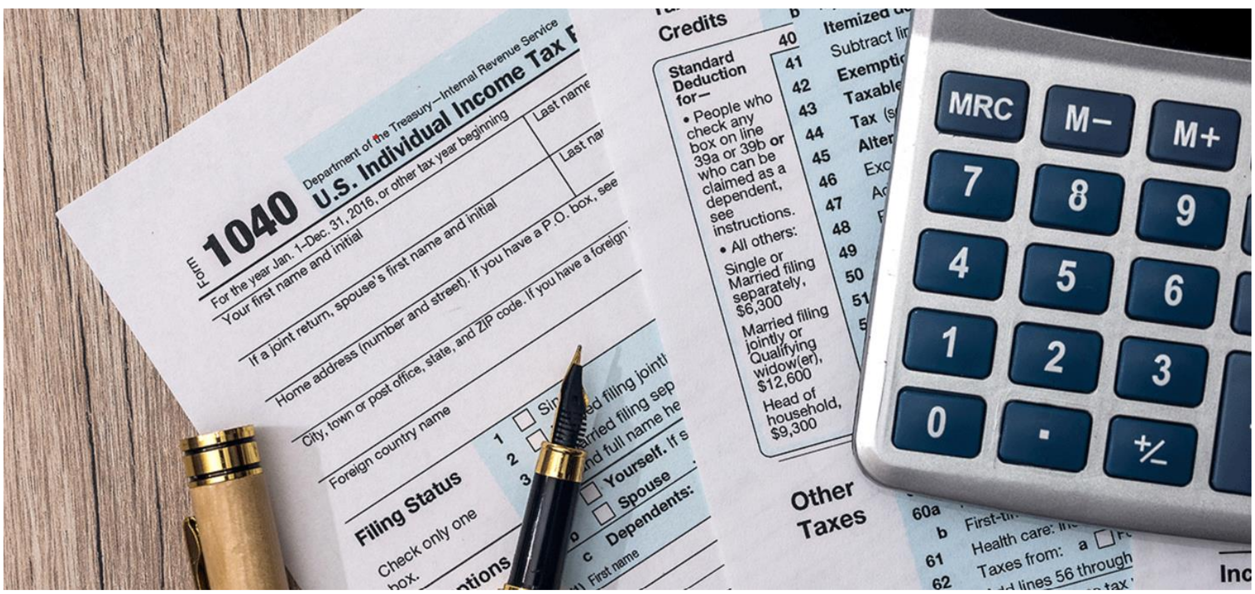
Source: CME Fed Watch

With inflation still trending lower, rate cuts on the horizon, and corporate earnings increasing, 2024 should have a strong fundamental basis from which it can produce healthy gains for investors. We see the current market gyrations and uncertainty about *when* the Fed will start to cut rates (not *if*) as an opportunity for investors to get well positioned for a more protracted period of better equity conditions to come.

As we approach tax reporting season, please keep the following Raymond James mailing dates in mind:

- Retail Composite Forms 1099 will be mailed in three main groups – the first mailed by 2/15, the second mailed by 2/28, and the third mailed by 3/15 - depending on when we receive the information from securities issuers to finalize the Form.
- Forms for retirement (Forms 1099-R and 5498, if applicable) and education savings accounts (Form 1099-Q) will be mailed by 1/31.

All tax documents will also be available to download from the Client Access website as of its mailing date.



Have a great week!

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