Monday March 18, 2024

SUMMARY-


I. Hotter inflation data leads to second straight losing week for stocks.

II. Although down significantly, shelter inflation proves stubborn.

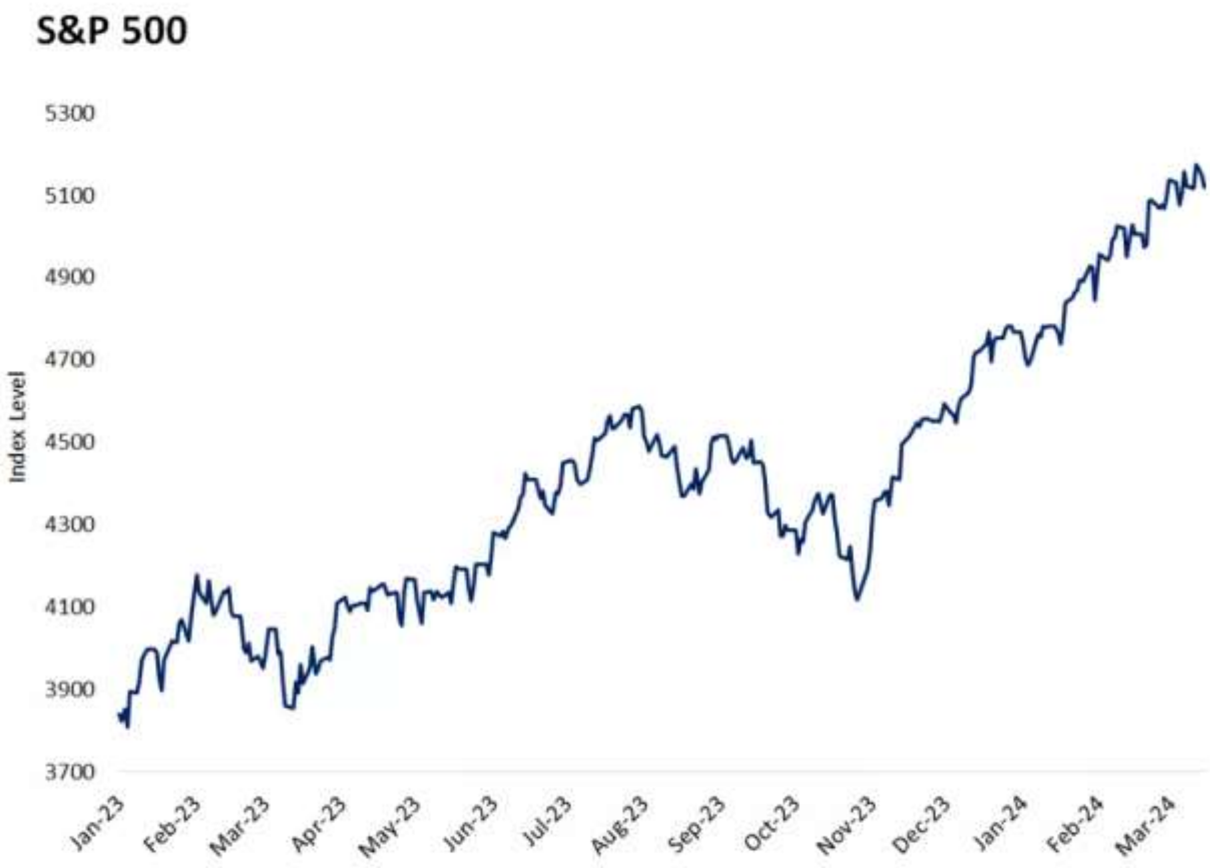
III. Wage inflation modestly outpacing rising prices.

IV. Consumer sentiment hangs tough, partly due to Wealth Effect.


Good morning:

Virtually all last week's inflation data came in slightly hotter than anticipated, causing market strategists to rethink the timing and number of forthcoming Fed rate cuts. The further evidence of inflation's "stickiness" prompted stocks to post their second straight week of losses. By Friday's close, the tech-heavy NASDAQ led major averages lower with a weekly decline of 0.7% while the S&P 500 lost a mere 0.1%. 10-year Treasury yields, which often impact mortgage rates, also ticked up 0.2% to 4.31%. However, after a relatively strong start to the year and a continuation of last fall's bull market rally in equities, the market's recent muted reaction to disappointing inflation news is quite encouraging. It appears that investors are demonstrating remarkable patience for the expected rate cuts and improving economic conditions they could bring.

**Stocks have rallied to new highs, driven primarily by optimism over coming Fed rate cuts.**

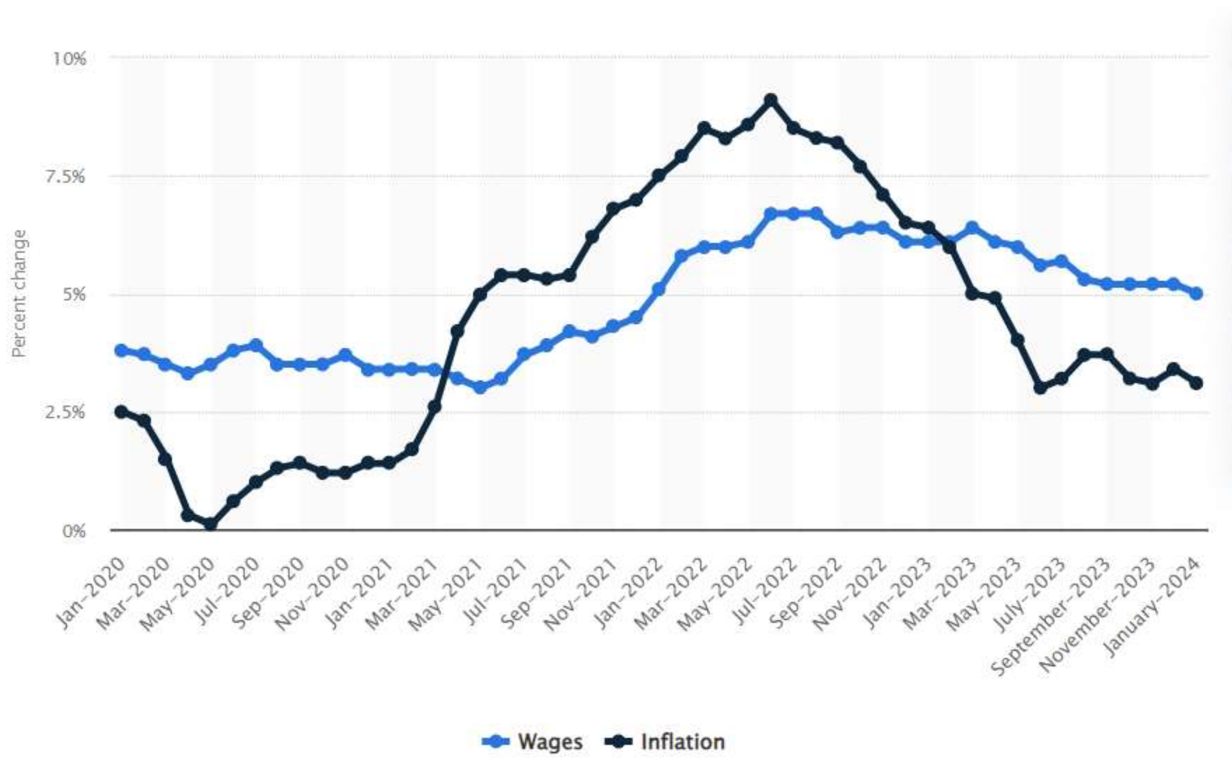



*Source: FactSet, S&P 500 Index.*

Compared to its peak of 9.2%, or even the 12 months ago reading of 5.5%, core inflation of 3.8% as reported last week is materially lower. But remember, inflation rates simply measure the rate of price *increases* over a rolling annual time frame. After a period of hyperinflation, prices rarely revert to previous levels (which would require *deflation*), leaving many consumers struggling to pay these new higher prices for the things they need from then on. This is particularly evident with the recent price increases in the category of shelter, often the highest expenditure for most Americans. Dramatically higher lease costs for renters and mortgage rates for buyers are both responsible for the rate of price increases for shelter remaining significantly higher than overall core inflation.


*Source: St. Louis Fed. Year-over-year percent change in U.S. Core CPI and the shelter index of CPI.*

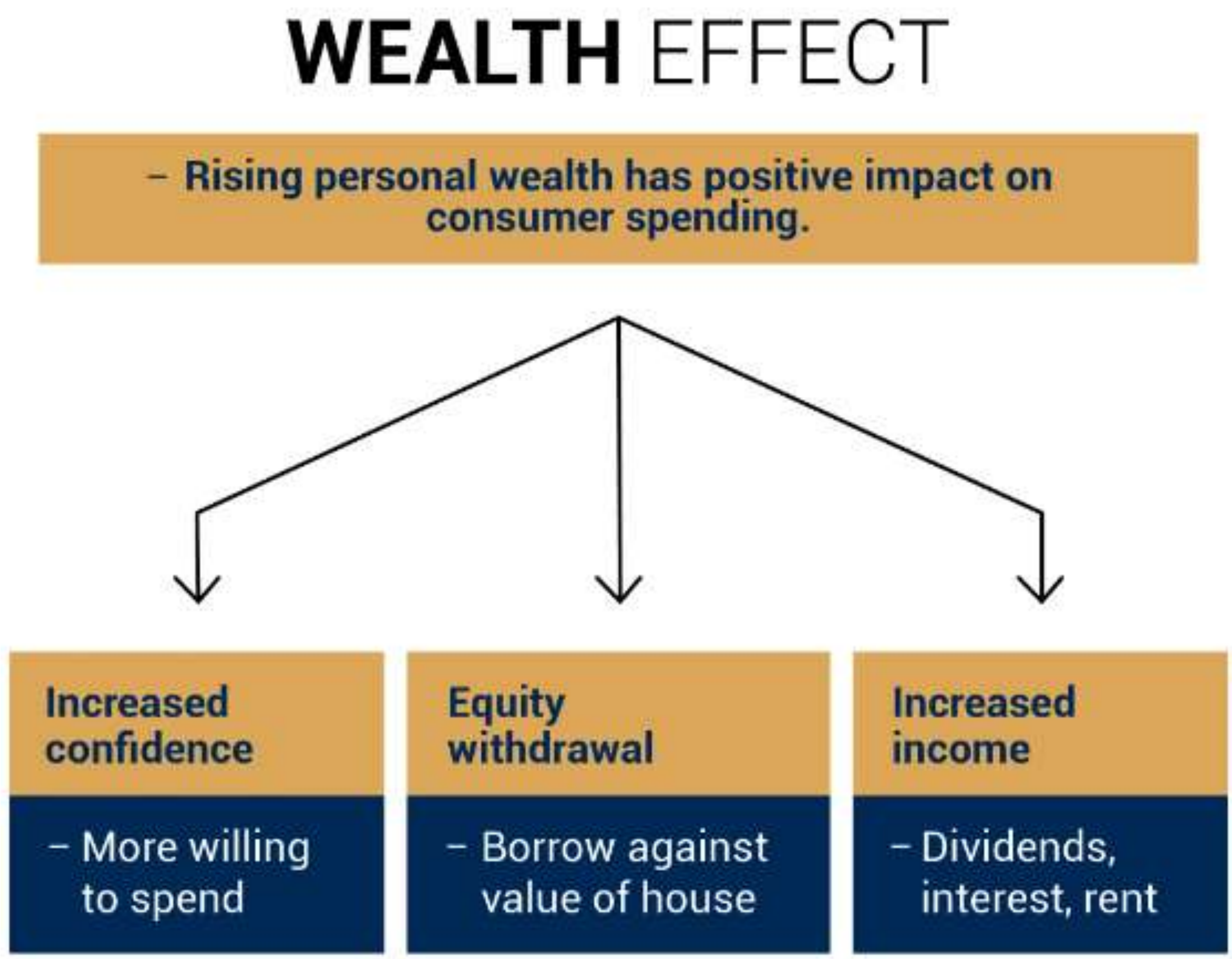
Early in this inflationary cycle, average wage growth for workers failed to keep pace with these costs, resulting in diminishing savings rates and rising credit card balances. Recently, though, wage growth has returned to a level that slightly exceeds inflation.  Nevertheless, the sticker shock that many still feel at the new level of consumer prices may still have many finding it difficult to feel they are getting ahead.




*Source: Statista 2024*

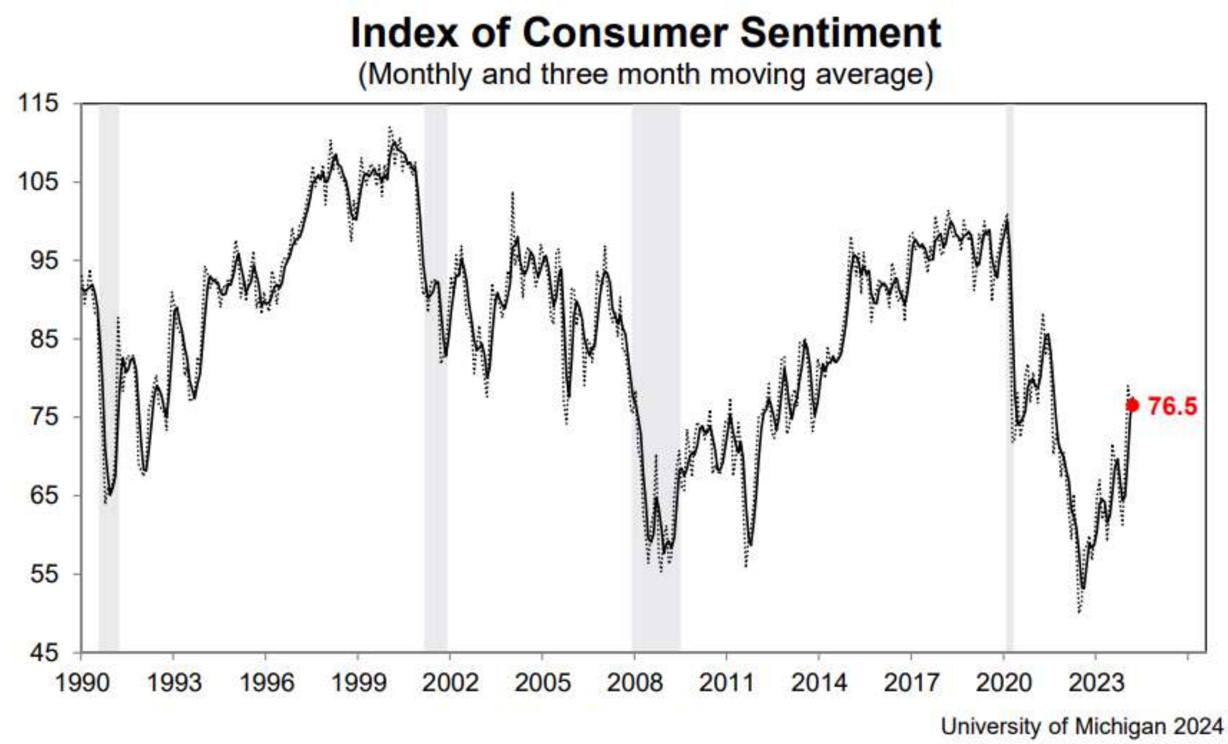
Offsetting the negative impact of higher prices on the mindset of some Americans may be the recent gains they are seeing in their investments.  Of course, many do not have even a small portfolio.  But for those who have money in the market, or even less liquid accounts like 401(k) plans and IRAs, the current bull market in equities can be a contributing factor to consumption.  Known as

“The Wealth Effect,” this theory suggests that people spend more money as the value of their assets rise.




*Source: AES International*

Friday’s release of preliminary March data on Consumer Sentiment in the University of Michigan’s monthly survey further showed the patience and resiliency of consumers’ improving mood since stocks began to rebound last fall.  With consumer spending responsible for more than 68% of GDP, we will be keeping a close watch on this data to monitor any potential shifts that could alter our economic growth trajectory in the coming months.




This week's major tech conference focusing on artificial intelligence, along with the Fed's FOMC meeting could both result in continued heightened volatility in the markets (in either direction). We believe many investors may buy any such dip that may appear as sidelined cash continues to be repositioned in both institutional and retail portfolios as markets broaden out and economic growth remains above trend.

Have a great week!

Mark and Jeff

**Mark S. Loftus, CFP®**
Managing Partner & Founder, LPWP
Registered Principal, RJFS
CA Insurance License #0C83705

**Jeffrey C. Preusser, CFP®**
Senior Partner, LPWP
Registered Principal, RJFS
CA Insurance License #0E01600

O: 630.566.9200 // T: 844.890.8750 // F: 630.566.9292
1901 Butterfield Road, Suite 100, Downers Grove, IL 60515
www.loftus-preusser.com

time and there is no assurance that projections will be realized. Diversification and strategic asset allocation do not ensure a profit or protect against a loss.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.

Raymond James makes a market in AAPL, AMZN, GOOGL, META, MSFT, NVDA, AND TSLA. This is not a recommendation to purchase or sell the stocks of the companies mentioned.

Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

Every investor's situation is unique, and you should consider your investment goals, risk tolerance and time horizon before making any investment. Prior to making an investment decision, please consult with your financial advisor about your individual situation. The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation.

This information is not intended as a solicitation or an offer to buy or sell any security referred to herein.

Every type of investment, including mutual funds, involves risk.  This information is not intended as a solicitation or an offer to buy or sell any security referred to herein.

Certified Financial Planner Board of Standards, Inc. (CFP Board) owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™, and CFP® (with plaque design) in the United States, which it authorizes use of by individuals who successfully complete CFP Board’s initial and ongoing certification requirements.