Tuesday December 26, 2023

SUMMARY-

I. Markets extend weekly winning streak to eight.

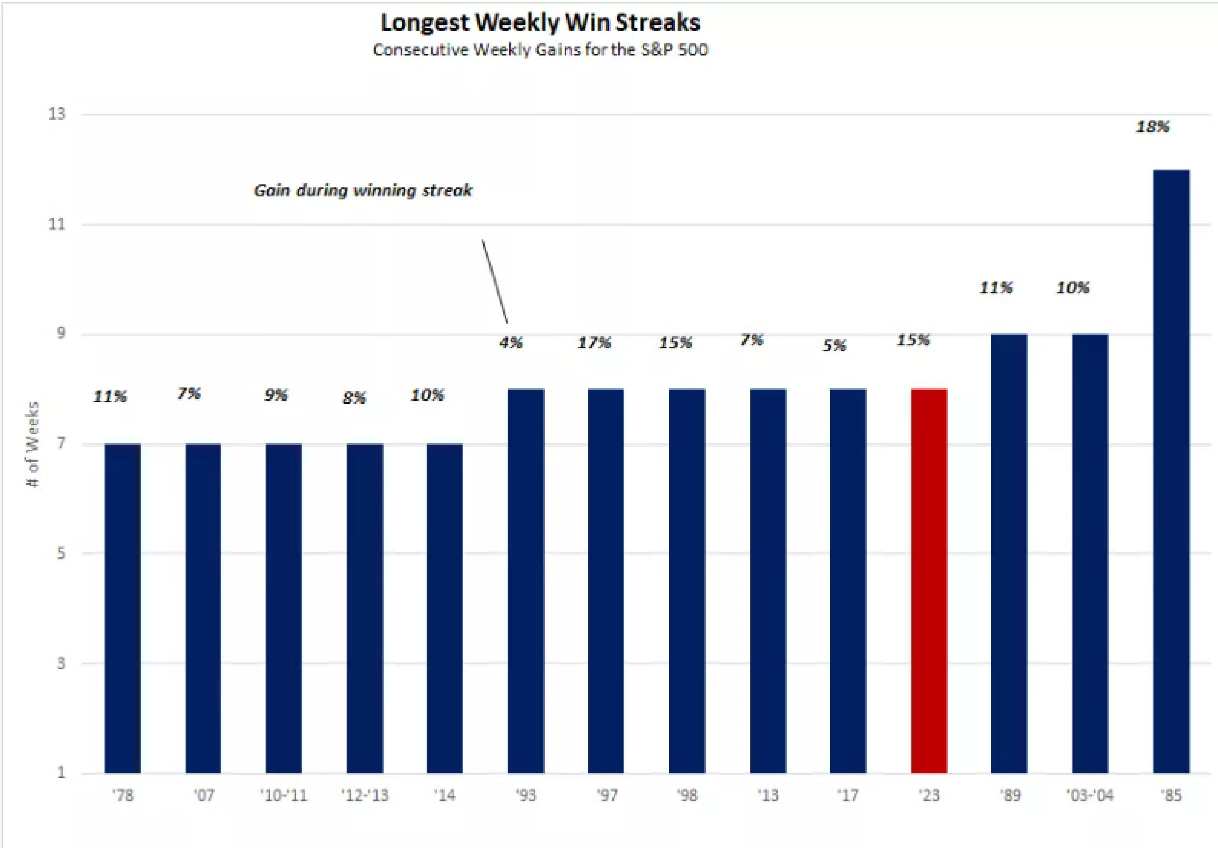
II. Stronger than expected GDP and consumer made 2023's success possible.

3. Early 2024 could see weaker economic growth.

4. Current inverted yield curve may normalize in 2024.

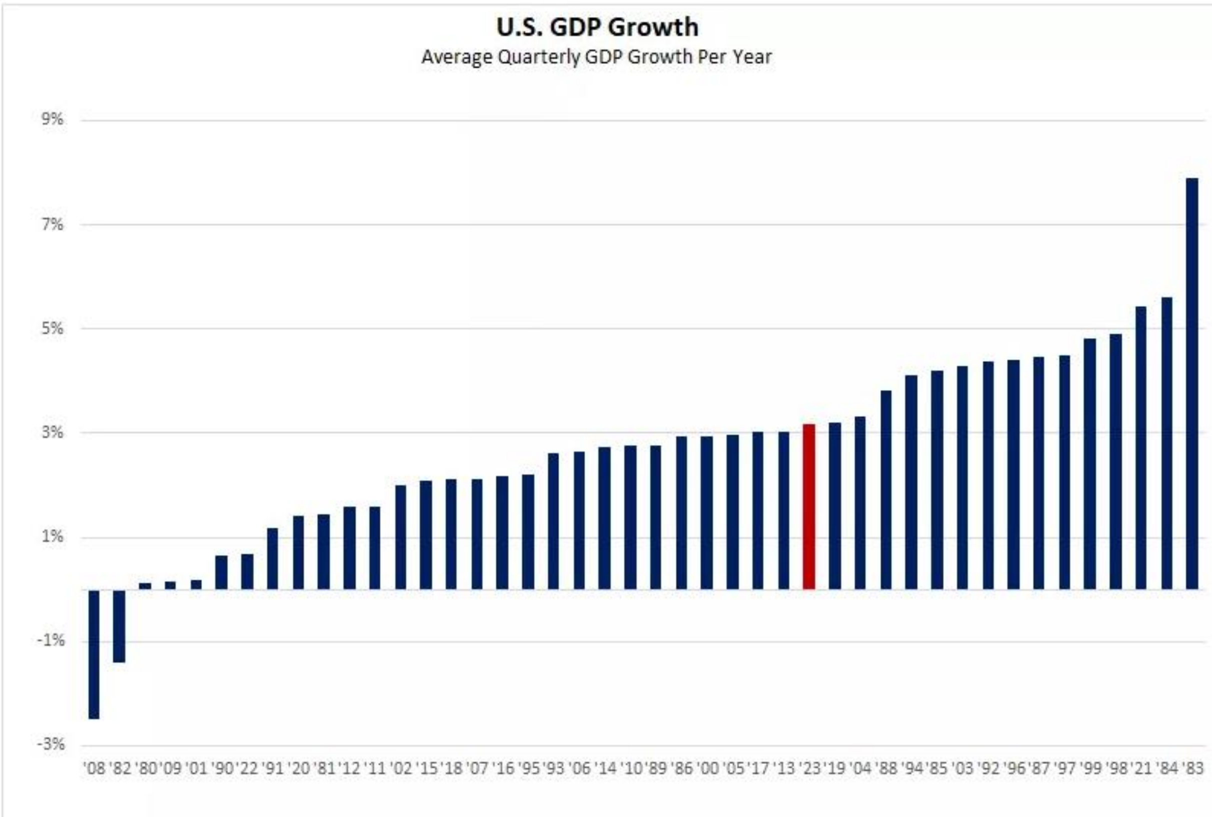
Good morning:

Although markets were fairly quiet last week in advance of the Christmas holiday weekend, stocks managed to post a small gain and advance their winning streak. The S&P 500 has now risen eight consecutive weeks for one of the longest winning streaks in the past 50 years. Besides the length of this move, it should be noted that the cumulative gain is also one of the largest among such eight-week or longer runs. Most strategists were not predicting such a strong finish to this year, especially only a few months ago when interest rates surged higher and stocks underwent a correction. Nevertheless, patient investors were rewarded when interest rates eased and inflation data softened. While no streak lasts forever, improving inflation data and expected rate cuts in 2024 should keep both equity and fixed income assets heading in the right direction as we start a new year.



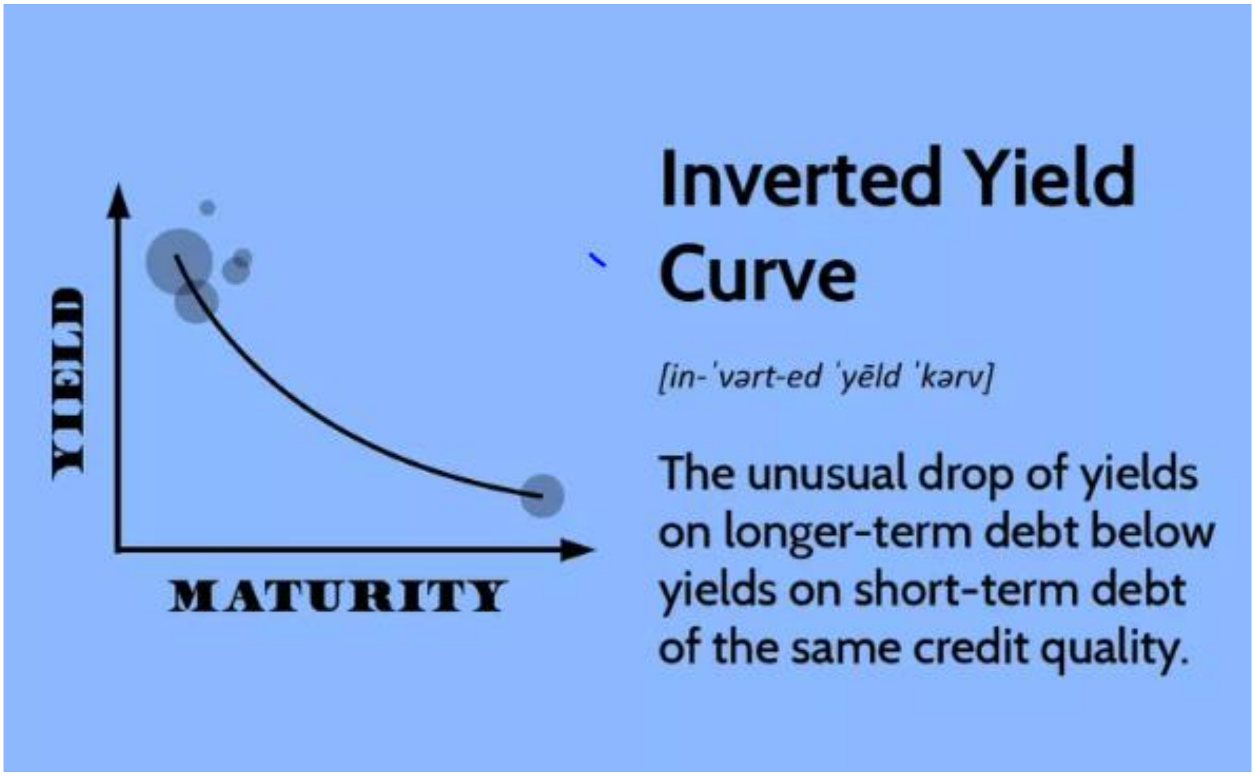
Source: Bloomberg, past performance is not a guarantee of future return. The S&P 500 is an unmanaged index and cannot be invested in directly.

Underpinning this year's surprising market strength was the average quarterly U.S. GDP growth that topped 3% for the 16th year since 1980. Driving this move was the strong labor market leading to consistently impressive levels of consumer spending. While it is quite possible that the lagging effect of aggressive Fed tightening will impact both consumers and jobs in 2024, many economists now predict a gradual softening rather than a sharp downturn or recession in the first half of next year. However, as the Fed starts cutting rates, capital investments and manufacturing could pick up leading to renewed GDP strength in the back half of 2024.



Source: Bloomberg.

We are closing out 2023 with a highly inverted yield curve, but perhaps not for much longer. Short-term instruments like CDs and money market funds are currently yielding about 1.0% more than 2-year treasuries and nearly 1.5% more than 10-year treasury bonds. However, the moment we start to see Fed rate cuts, the yield curve will start to normalize as short rates fall in lock-step with reductions in the federal funds rate. Those with sidelined cash enjoying the current multi-year high yields should strongly consider either redeploying some of these funds into other asset classes, or at least locking in some of today's higher rates in a fixed-income security ladder before rates fall further.



We will be in the office during this holiday-shortened trading week completing any year-end tax selling which must be done by Friday's close. Contributions for 2023 IRAs and ROTH IRAs may be made until April 15, 2024. Our office will reopen on Tuesday, January 2nd for another 4-day trading week to start 2024. On behalf of all of us at Loftus & Preusser Wealth Partners, we want to wish you a very happy, healthy and safe new year! We look forward to another successful year working together to help you achieve your financial objectives.

Have a great week & Happy New Year 2024!

Mark and Jeff

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