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CFE FINANCIAL

February 2024 Market Update

Special points of interest:

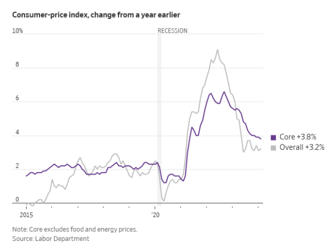
- **In February, equity markets posted solid gains even as Treasury yields rose.**
- **Core inflation rose at a 3.8% rate over the prior year, slightly above economist expectations.**
- **The labor market continues to post 'not too hot, not too cold' gains, an important component in future inflation readings.**
- **Consumer confidence dropped but may be set for an eventual rebound later this year.**

Inside this issue:

The Markets in February 2024

In February, markets ran hot but so did inflation. For the month, the S&P500 index posted solid gains (5.2%), but the Nasdaq did even better, rising 6.1%. By comparison, the Dow Jones Industrial Average increased a more modest 2.2%. Crude oil prices traded on the NY Mercantile Exchange were higher by 3.2% while gold prices were relative flat. Fixed income prices generally declined as the yield on the 10-year Treasury Note rose from 3.919% at the end of January to 4.257% at the end of February.

As has been the case for the past several months, inflation news and expectations were primary



drivers of stock and bond prices. The Labor Department reported that February core consumer prices (removing the volatile food and energy categories) rose 3.8% from a year earlier, down from January's 3.9% but up from economists' expectations for a 3.7% rise. Further, wholesale costs increased 0.6% in February vs. expectations of 0.3%, the latest in a series of signals suggesting that inflation may not drop to the Fed's target of 2% anytime soon.

The good news is that these inflationary pressures have occurred against a backdrop of relatively strong economic performance, which is why stocks have continued to rally. The bad news? No interest rate cuts in the near term.

February's inflation readings do not yet lend support for the Fed to cut interest rate cuts.

A Look Ahead

For investors worried about the viability of the recent stock market rally, look no further than the Labor Department's recent jobs report. Our domestic economy added 275k jobs in February, above expectations for 198k. As a primary component of inflation, the labor market is an important part of what we may see ahead in the Fed's deliberations. But labor is also a real-time driver of spending and economic strength. This type of 'not too hot, not too cold' reading lends more credence to the idea of a soft landing.

Despite what appears to be labor market strength, though, consumers are still wary of inflation. The University of Michigan's consumer-confidence survey slipped backward to 76.5 in mid-March from 76.9 last month, dragged down by a more negative outlook for the coming months according to The Wall Street Journal. Interestingly, as a contrarian signal, I think this sets up the possibility of a rebound in consumer sentiment driving higher consumer optimism and spending in the second half of this year, coincident with eventual rate cuts. Because of this, I believe there is still gas left in the market's tanks.

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