January 2024 Market Update

Special points of interest:

- **For investors, January saw the third month of gains and more all time highs for equity markets.**
- **Surprisingly, our domestic economy added more jobs than expected and recorded higher consumer sentiment and an expansionary purchasing environment.**
- **January's market enthusiasm will prove to be February's burden.**
- **While rate cuts as soon as March may no longer be on the table, they are still likely this year.**

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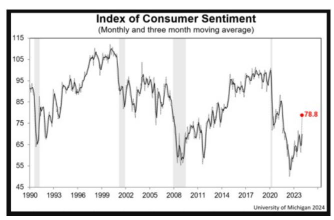
The Markets in January 2024

We have a three-peat! For the month of January, the S&P500 index rose 1.6% while the DJIA and tech-heavy Nasdaq gained 1.2% and 1.0% respectively. This was the third month of gains across markets. And for the S&P, this was just enough for this index to notch another all-time high for the first time in two years. In a reversal from the month prior, crude oil prices traded on the NY Mercantile Exchange rose almost 6% while gold prices fell 0.7%.

Good news/bad news: the U.S. economy seems to be doing better than feared! Job growth for January came in stronger than expected as employers added 353,000 jobs in the month according to the Labor Department. This number represented the highest growth in a year and nearly double what economists had expected. Consumer Sentiment is running high alongside the job growth numbers, rising to its highest level in more than a year as can be seen here.



Further, the January Purchasing Managers Index, rose more than forecast to 50.3 according to S&P Global, which is the first expansionary reading (> 50) since April 2023 and the highest since October 2022. The bad news is that all of this economic info likely pours cold water on the idea of Fed rate cuts as soon as March. After all, if the economy shows little signs of duress to the current level of interest rates, why rush to cut? Maybe in May then?

Markets spent much of January anticipating that the Fed would cut rates as soon as March, a hope that likely has been dashed.

A Look Ahead

January's enthusiasm is proving to be February's burden so far as the prospect of imminent rate cuts pushes out further in the year than forecast. After all, domestic equity and fixed income markets had rallied nicely the last two weeks of the month as investors anticipated a positive update from the Federal Reserve. However, when that update came on the last day, Chairman Powell disappointed markets by indicating that the Fed could stay paused on rates even past their next March meeting—although he did add that we're likely at the peak of the tightening cycle and reinforced that rate cuts would begin this year sometime. In other words, the timing is all still up in the air and reliant on more signs of falling inflation or softening economic conditions. Will we get them? On the inflation front, I think this is likely as the readings over the past 6 months were lower than the 6 months before. However, our economy is holding up against higher rates just fine at the moment, which is good. Either way, I think patience is the game at the moment. While volatility is likely to be high in the short term, all signs point to a stronger second half of the year.

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