

January 29, 2024

Weekly Viewpoint

Fed Meeting on Tap

Performance for Week Ending 1/26/2024

The Dow Jones Industrial Average (Dow) finished up 0.65%, the Standard & Poor's 500 Index (S&P 500) gained 1.06% and the Nasdaq Composite Index (NASDAQ) added 0.94%. Sector breadth was positive with 8 of the 11 S&P sector groups closing higher. The Energy (+5.15%) sector led the way higher followed by Communication Services (+4.51%) and Financials (+1.88%).

Index*	Closing Price 1/26/2024	Percentage Change for Week Ending 1/26/2024	Year-to-Date Percentage Change Through 1/26/2024
Dow	38109.43	+0.65%	+1.11%
S&P 500	4890.97	+1.06%	+2.54%
Nasdaq	15455.36	+0.94%	+2.96%

Market Observations: 1/22/24 – 1/26/24

The S&P 500 finished higher for a third straight week after economic data showed the US economy remained resilient and inflation continued to cool. Last week, the Commerce Department reported that the U.S. economy grew at a 3.3% seasonally and inflation-adjusted rate in the fourth quarter, solidly ahead of the 2% rate forecast by economists. The report topped off a year in which the economy defied expectations that it would plunge into recession. On the inflation front, the core PCE reading—the Fed's preferred measure of inflation—cooled to a better than expected 2.9% on a year over year basis. In what's likely to be an encouraging sign for the Fed, core PCE inflation remained at just 1.9% on a 6-month annualized basis. At this week's FOMC meeting, Fed officials are widely expected to leave rates unchanged for the fourth consecutive meeting, underscoring the importance of listening to what they say versus what they do. Investors are expected to parse the after-meeting statement and Fed Chair Powell's press conference for the timing of the first rate cut. The market has pared back its expectation of a March cut to around a coin toss, with May odds now at over 90%, according to the CME FedWatch tool.

In Other Economic News: Business activity in the US expanded in January by the highest pace in seven months, led by stronger new orders growth that left service providers and manufacturers more confident about the demand outlook. The S&P Global flash composite output index advanced to 52.3, fueled mainly by stronger services activity. Meanwhile, applications for home-purchase mortgages in the US rose to the highest level since April, signaling housing demand is picking up as borrowing costs hold below 7%. The Mortgage Bankers Association's index of mortgage applications to buy a home increased 7.5% in the week ended Jan. 19. The advance followed a 9.2% increase in the prior week that was the largest in a year. The uptick comes as homebuyers get some relief from mortgage rates that neared 8% during the fall. While the contract rate on a 30-year fixed mortgage increased by 3 basis points to 6.78% last week, borrowing costs have been holding below 7% for more than a month. On the jobs front, initial jobless claims rose by 25K to 214K in the week ended Jan. 20, moderately higher than the 200K expected by forecasters. The less-volatile four-week moving average fell to 202.3K from 203.8K. Sales of new homes exceeded forecasts in December as a drop the mortgage rates enticed prospective buyers. Purchases of new single-family homes increased 8% to a 664K annual during the month. The median sales price of a new home dropped for a fourth month to \$413,200 from a year ago as more homes became available for sale.

Q4 Earnings Season: So far just over 20% of the S&P 500 have reported Q4 results with overall results mixed relative to expectations. Through Friday, 124 members of the S&P 500 have reported results with 78% beating expectations. Aggregate earnings for the group are down 1.6%, moderately below the 2.3% gain that the Bloomberg consensus is forecasting for the overall reporting season. According to Bloomberg data, the earnings environment is set to strengthen over the course of the year with 2024 S&P 500 earnings growth estimated at 10.2% followed by 13.3% growth during 2025.

The Week Ahead: The focal point in the coming week will be the two-day FOMC meeting on Tuesday and Wednesday. While no change in rates is expected, investors will pay close attention to the messaging regarding the timing of the first-rate cut given the still resilient growth and cooling inflation picture. On the data front, all eyes will be on the January jobs report due on Friday. According to Bloomberg, economists expect nonfarm payrolls to grow by 178K and for the unemployment rate to remain steady at 3.7%. Other data reports of interest include the Conference Board's consumer confidence index, the ISM manufacturing index, and the employment cost index. On the earnings front, 102 members of the S&P 500 are expected to release results. Included in this group are 6 members of the Dow Jones Industrial Average. Also of interest will be the US Treasury's Quarterly Refunding Announcement on Wednesday.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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