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Weekly Viewpoint

As Payrolls Surge, Odds of a March Rate Cut Fade

Performance for Week Ending 2/2/2024

The Dow Jones Industrial Average (Dow) finished up 1.43%, the Standard & Poor's 500 Index (S&P 500) gained 1.38% and the Nasdaq Composite Index (NASDAQ) added 1.12%. Sector breadth was positive with 9 of the 11 S&P sector groups closing higher. The Consumer Discretionary (+3.77%) sector led the way higher followed by Consumer Staples (+2.13%) and Health Care (+1.98%).

Index*	Closing Price 2/2/2024	Percentage Change for Week Ending 2/2/2024	Year-to-Date Percentage Change Through 2/2/2024
Dow	38654.42	+1.43%	+2.56%
S&P 500	4958.61	+1.38%	+3.96%
Nasdaq	15628.95	+1.12%	+4.11%

Market Observations: 1/29/2024 – 2/2/2024

The S&P 500 finished the week higher and has now posted gains in 13 of the past 14 weeks. The broader market index also finished the week at a new all-time high. Driving the gains was a batch of solid earnings reports from the mega-cap Technology space and more data underscoring the economy's resiliency. On Friday the Labor Department reported that nonfarm payrolls during the month of January surged by 353K, well ahead of the 185K expected by economists. In addition, payrolls over the prior two months were revised upward by 126K. The unemployment rate was unchanged at 3.7% during the month. While the Fed hinted last week that the first-rate cut is not likely at the March FOMC meeting, this week's market reaction seems to reflect that an environment of resilient economic growth, moderating inflation pressure, solid earnings, and an eventual easing in monetary policy – is a pretty friendly environment for risk assets

Fed Meeting: As expected, the Fed held interest rates steady at 5.25%-5.50% for the fourth straight meeting and signaled its openness to cutting them, though not necessarily right away. In a sign that the rate hiking cycle is now over, Fed Chair Powell said, "we believe that our policy rate is likely at its peak for this tightening cycle and that if the economy evolves broadly as expected it will likely be appropriate to begin dialing back policy restraint at some point this year." Underscoring that officials are not in a rush to reduce rates, the FOMC also said it "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%." During the after-meeting press conference Fed Chair Powell said it's not likely the Fed will be confident enough to cut rates in March, adding "March isn't the base case for the first cut." According to Bloomberg's World Interest Rate Probability tool the odds of a March cut, as of Friday, now stands at only 22%.

In Other Economic News: A measure of factory activity climbed to a 15-month high at the start of the year, fueled by the strongest orders growth since May 2022 and suggesting manufacturing is starting to stabilize. The ISM's manufacturing gauge rose 2 points to 49.1 last month versus expectations of 47.2. The 5.5-point increase in the forward-looking new orders index marked the largest monthly advance in more than three years, helped by robust demand in the last half of 2023. Initial applications for US unemployment benefits unexpectedly rose to a two-month high last week, suggesting a modest pickup in layoffs. Initial claims increased by 9K to 224K in the week ending Jan. 27. US consumer confidence increased in January to the highest level since the end of 2021 as Americans grew more upbeat about the economy and amid more confident views about moderating inflation. The Conference Board's gauge of sentiment increased to 114.8 from a revised 108 a month earlier. Mortgage rates in the US fell slightly, adding support to a housing market where demand has been improving. The average for a 30-year, fixed loan was 6.63%, down from 6.69% last week, according to Freddie Mac.

Q4 Earnings Season: After a mixed start, fourth quarter earnings season is showing signs of improvement. Through Friday, 230 members of the S&P 500 have reported results with 78% beating expectations. Aggregate earnings for the group are up 4.0%, and above the 1.2% gain that the Bloomberg consensus was forecast in early-January for the overall reporting season. On the sector level, the strongest growth is coming from the Consumer Discretionary and Communication Services sectors while the Energy and Materials sectors have posted sharp declines in growth. 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: As is common the week after the release of the payroll data, the economic calendar is on the light side. Reports of note include the ISM Services Index, the S&P Services PMI, and weekly jobless claims. Also of interest will be the Fed's Senior Loan Officer Opinion Survey (SLOOS), which will give investors a gauge of how tight bank lending standards currently are. It will be a busy week for Fed Heads with almost a dozen appearances on the calendar. Earnings season continues with 100 members of the S&P 500 scheduled to release results. Included in this group are 4 members of the Dow Jones Industrial Average.

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.