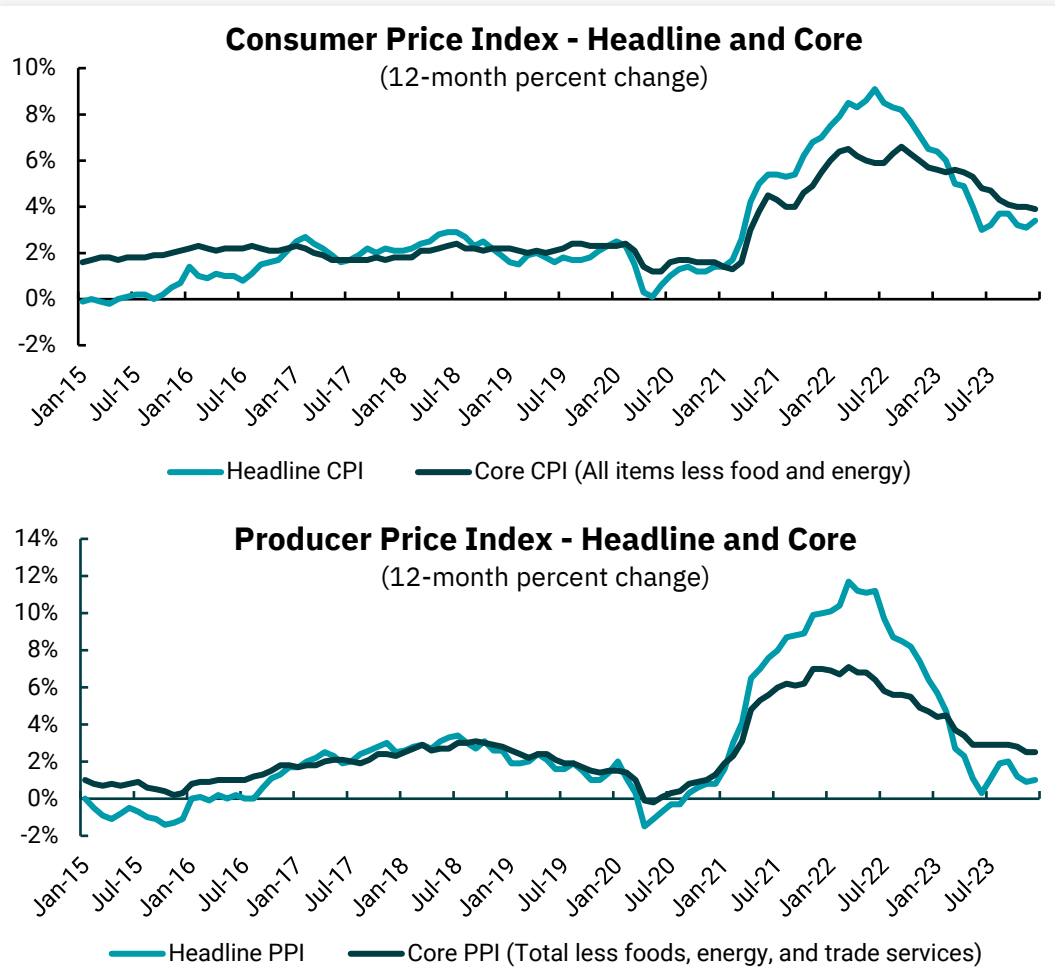


Weekly market update



Chart of the week (Jan. 12, 2024)



There has been a mix of inflation data recently. After the most recent Consumer Price Index (CPI) report showed inflation at the retail level a bit higher than expected, the following day, the Producer Price Index (PPI) report showed a bit lower inflation at the wholesale level than expected. The timing for the first Federal Reserve rate cut was pushed out following the CPI report, only to be brought back to March following the PPI report.

Such volatility can be hard to follow and shows the difficulty in forecasting the future of monetary policy. The good news is that both series, as shown in the graphs to the left, are moving in a similar direction: lower. The headline rate of inflation for the CPI is at an annual rate of 3.4%, while the core rate, which strips out food and energy, is 3.9%. This is a welcome development after both measures peaked in the summer of 2022 at 9.1% and 7.1%, respectively. The PPI report showed headline inflation at an annual rate of 1% while the core rate advanced 2.5% on an annual basis. The PPI peaked at even higher levels than the CPI in 2022.

Between these two measures, the CPI is more important to the Fed from a monetary policy standpoint. Still, with PPI lower than CPI, this could indicate even less inflation pressure in the pipeline going forward. That said, while it is good news that the rate of inflation is falling, this does not mean prices are declining overall. Instead, it means the pace of price increases is slowing. Consumers are still feeling the aggregate increase in price levels since the beginning of the pandemic, with the aggregate increase in the CPI index since Jan 2020 approaching 20%.

As we think about what this might mean from an interest rate standpoint, the Fed has forecast rates to be a bit lower over the course of 2024. This would not be a classic “easing” of monetary policy where the Fed lowers rates to spur demand. Instead, this would merely be a rate reduction to avoid increasing the restrictive nature of interest rates. If the Fed has rates at 5% and inflation at 4%, their “real rate” is 1%. If inflation falls to 3% and the Fed takes no action, their real rate increases to 2%. This now higher real rate may act to slow economic growth more than desired, so to avoid this, the Fed could lower rates to 4% and keep the real rate at 1%.

The difficulty lies in the volatile nature of inflation, and the Fed does not like to make quick changes to interest rates. At the same time, they know inaction might lead to lower economic activity and higher unemployment than they want. It seems we will all be watching the inflation and labor market indicators very closely as we move through 2024. Here’s hoping inflation continues its decline while economic growth stays positive and the Fed can reduce rates slowly.

Weekly market update



Commentary (Jan. 12, 2024)

Domestic Equities

- Most U.S. stocks saw gains during the week, and there was a return to large-cap and growth leadership. The Nasdaq Composite Index was up over 2% for the week. The Russell 2000 Index was about flat and remains down about 3.5% so far this year.
- Earnings season kicked off with several big banks reporting. JP Morgan reported its most profitable year ever. Other banks did not fare as well, and share prices fell on news of slowing lending and trading desk profits and planned layoffs.
- Energy prices rose this week after an escalation of conflicts in the Middle East. This weighed on airline stocks, and Delta lowered its 2024 earnings guidance, which they had just outlined at an investor day in December.

Bonds

- U.S. Treasuries rallied on inflation data and soaring rate-cut expectations. The drop in rates was most acute around the front end of the curve, with the yield on the two-year tenor hitting a new low and the 2s/30s curve turning positive. As for rate cut expectations, Fed Fund futures ended the week pricing in just under an 80% probability of a 0.25% cut in March and over 6.5 cuts through year-end 2024.
- The broad investment-grade market rallied as measured by the Bloomberg US Aggregate Bond Index, with the market benefiting from the drop in rates and narrowing spreads across both the corporate and securitized markets.
- Federal Reserve officials indicated that the Bank Term Funding Program (BTFP) remains slated to end in March. In recent weeks, banks have pushed lending from the facility to new highs as the spread between interest on reserve balances (IORB) and BTFP has widened.

International Equities

- Global stock markets failed to gain much traction this week as investors digested the latest U.S. inflation data while assessing the escalating geopolitical conflicts.
- Foreign developed markets delivered mixed results this week, with weakness across many European markets. The Japanese Nikkei index reached its highest level since 1990 as companies are working to improve shareholder value, decades-long deflation is fading and a weak yen is supporting the earnings of key exporters.
- Emerging markets struggled this week, with most markets across Asia and Latin America falling. China's consumer prices fell for the third straight month in December. This deflationary trend suggests weak domestic demand across China's economy, which could lead to more policy adjustments.

Economics

- The Bureau of Labor Statistics (BLS) reported the Consumer Price Index (CPI) increased 0.3% in December, the highest level since September 2023. Increases in shelter prices led to most of the monthly increase. The 12-month inflation rate increased to 3.4%. Core CPI, which excludes food and energy, rose 0.3% in the month and 3.9% over the prior 12 months.
- The BLS Producer Price Index for final demand (PPI) declined 0.1% in December, primarily due to goods prices declining 0.4% in the month. Services were unchanged in the month.
- Initial jobless claims were 202,000 for the week ending Jan. 6, and continuing claims were 1.8 million for the week ending Dec. 30.
- Retail sales and industrial production reports will be released on Wednesday.

Weekly Market Update

For Week Ending January 12, 2024

Markets

	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	37,592.98	0.4%	-0.2%	12.3%
S&P 500 Index	4,783.83	1.9%	0.3%	22.1%
NASDAQ Composite	14,972.76	3.1%	-0.2%	37.2%
S&P 400 Midcap Index	2,728.63	0.6%	-1.9%	8.1%
S&P 600 Smallcap Index	1,269.90	0.0%	-3.6%	5.0%
MSCI EAFE	7,753.03	0.9%	-0.4%	11.0%
MSCI Emerging Markets	519.67	-0.6%	-2.7%	0.4%
Bloomberg US Agg	2,155.65	0.9%	-0.3%	2.1%
Bloomberg Municipal 5 Yr	487.52	-0.1%	-0.3%	2.6%
Bloomberg US Corporate	3,211.37	1.3%	-0.3%	4.3%
Bloomberg Glb Agg ex US Hdg	562.99	0.2%	-0.3%	6.2%
Bloomberg High Yield	2,476.08	1.0%	-0.2%	9.2%
MSCI US REIT Index	2,139.63	1.2%	-0.5%	4.7%
Bloomberg Commodity Index	225.32	-0.6%	-0.5%	-7.0%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.50%	5.50%	4.50%
3-Month Treasury	5.35%	5.37%	5.33%	4.58%
1-Year Treasury	4.66%	4.83%	4.76%	4.64%
2-Year Treasury	4.14%	4.38%	4.25%	4.14%
5-Year Treasury	3.83%	4.01%	3.85%	3.54%
7-Year Treasury	3.89%	4.03%	3.88%	3.49%
10-Year Treasury	3.94%	4.05%	3.88%	3.44%
30-Year Treasury	4.18%	4.20%	4.03%	3.58%

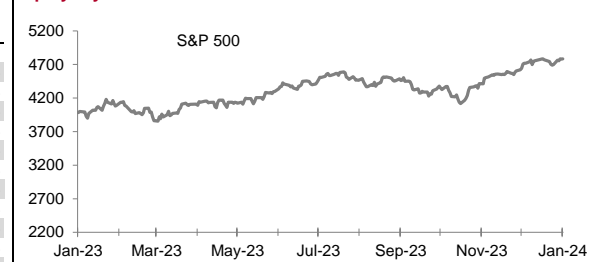
	Last Price/Yield	Prior Week	Year End	Year Ago
Consumer Rates				
30-Year Mortgage	6.93%	7.07%	6.99%	5.83%
Prime Rate	9.25%	9.25%	8.50%	8.25%
SOFR	5.31%	5.31%	5.38%	4.30%

	Last Price	Prior Week	Year End	Year Ago
Commodities				
Gold	2,049.06	2,045.45	2,062.98	1,897.09
Crude Oil (WTI)	72.68	73.81	71.65	75.87
Gasoline	3.07	3.08	3.12	3.29
Natural Gas	3.31	2.89	2.51	4.60
Copper	3.74	3.81	3.89	4.19

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	17.93	20.97	4.83	1.91
S&P 500	20.16	21.98	4.49	1.47
S&P 500 Value	15.73	18.95	3.01	2.38
S&P 500 Growth	26.67	25.36	7.68	0.68
NASDAQ	27.52	37.02	5.99	0.79
S&P Midcap 400	15.22	15.66	2.37	1.99
S&P Smallcap 600	14.84	14.04	1.79	1.74
MSCI EAFE	13.53	13.88	1.74	3.30
MSCI Emerging Markets	11.76	14.21	1.57	3.19

Source: Bloomberg

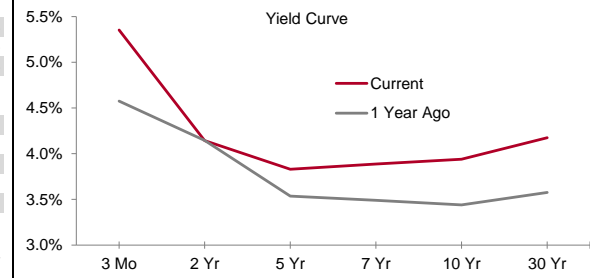
Equity Style



	1 Month*				Year to Date*		
	Value	Core	Growth		Value	Core	Growth
Large	3.09	3.14	3.21	> 10%	-0.23	0.34	0.85
Mid	3.95	3.53	3.18	0% - 10%	-2.46	-1.87	-1.29
Small	3.16	3.92	4.62	< 0%	-4.29	-3.62	-2.96

*S&P Indices

Fixed Income Style



	1 Month*				Year to Date*		
	Short	Interm.	Long		Short	Interm.	Long
Govt	1.33	1.81	2.71	> 10%	0.33	0.15	-2.30
Corp	1.50	2.22	3.19	0% - 10%	0.35	0.07	-1.01
HY	1.44	2.73	4.69	< 0%	0.04	-0.16	0.04

1-3 Yrs 1-10 Yrs +10 Yrs

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.4%	6.5%
CPI Core Inflation	3.9%	5.7%
Personal Consumption Exp (PCE) Core	3.2%	5.1%

	Last Release	Year Ago
Jobs		
Unemployment Rate (U3)	3.7%	3.5%
Broader Unemployment Rate (U6)	7.1%	6.5%
JOLT Survey (in millions)	8.79	10.75
Jobless Claims (000's)	202	205
Change in Non-Farm Payroll (000's)	216	239
Average Hourly Earnings (Y/Y % Change)	4.1%	4.8%

	Last Release	Year Ago
Consumer & Spending		
Consumer Confidence (Conf Board)	110.7	109.0
Consumer Spending (\$ Bil)	18,859	17,892
Consumer Credit (\$ Bil)	5,010	4,875
Retail Sales (\$ Bil)	706	678

	Last Release	Year Ago
Housing		
Housing Starts (000's)	1,560	1,427
Case-Shiller Home Price Index	312.95	298.71

	Last Release	Year Ago
U.S. Productivity		
Real Gross Domestic Product (\$ Bil)	22,491	21,851
Quarter over Quarter Change	4.9%	2.7%
Year Over Year Change	2.9%	1.7%
ISM Manufacturing	47.40	48.40
Capacity Utilization	78.79	80.26
Markit US Composite PMI	50.90	45.00

	Last Release	Year Ago
U.S. General		
Leading Economic Indicators	103.0	111.5
Trade Weighted Dollar Index	119.7	122.1
EUR / USD	1.10	1.09
JPY / USD	144.88	129.25
CAD / USD	0.75	0.75
AUD / USD	0.67	0.70

S&P 500 Sector Returns

	1 Month	YTD
Health Care	5.71%	3.08%
Communication Services	7.00%	2.42%
Consumer Staples	3.48%	1.23%
Information Technology	2.26%	0.63%
Utilities	0.53%	-0.07%
Financials	3.14%	-0.11%
Real Estate	5.12%	-1.25%
Energy	2.73%	-1.29%
Industrials	2.03%	-1.59%
Consumer Discretionary	0.99%	-1.97%
Materials	1.30%	-2.43%

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