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Have we Landed Yet?

Global Markets and Regions

	4th QTR	2023 YTD
US	11.90%	27.10%
Developed Europe	11.10%	20.70%
Asia	7.10%	11.5%
Emerging Markets	7.90%	10.3%

US Markets

	4th QTR	2023 YTD
Dow 30	13.10%	16.20%
Large Cap Cos.	11.66%	29.77%
Mid. Cap Cos.	12.16%	16.04%
Small Cap Cos.	12.37%	18.23%
Bonds	6.90%	5.66%

The Federal Reserve has pivoted. The Central Bank has indicated that interest rate hikes have been paused for the time being. They will remain vigilant of the economic data, but there are no additional increases scheduled for now and the discussion of rate reductions has begun. If inflation is essentially a monetary phenomenon and inflation occurs when money supply exceeds demand, supply and demand are back in balance. Their stated goal of 2% annual inflation is now in sight. The next focus of markets will be on whether their battle of the last year and a half will still result in a recession. Markets react badly to recessions.

Markets have applauded these monetary developments with sharp increases in stock prices and sharp declines in retail interest rates. For instance, 30-year mortgage rates have declined over a full percentage point in the last two months. For now, it appears that a hard recession is not in the forecast.

The economic data that guides Fed policy has been weakening for the past year. We have avoided outright contraction in the data, but evidence of slowing growth is widespread. Payroll growth is slowing down. Institute of Supply Management (ISM) surveys have been contracting. Home buying and mortgage activity have slowed. All are indications of a possible recession.

On the other hand, the consumer has remained strong. Big Tech spending has remained strong. US energy and oil field production has remained strong, particularly exports. Of course, government spending has remained strong. The current expectation is that the Fed exercise in inflation fighting will not result in a hard recession. So far, that appears to be the case.

Through the inflation fight, corporate earnings slowed as large parts of the economy experienced an “earnings recession” where quarterly profits shrank. That appears to be about to reverse itself as fourth quarter earnings season is starting. And the forecasts for 2024 are for a return to growth.

Markets have had to deal with quite a list of negatives over the last year and a half. And that is without fully considering forces outside our borders. Wars, rumors of more wars, economic and political turmoil are in bountiful supply. Maybe things can calm for a bit as we continue to try to build out wealth. That may be wishful thinking, but markets continue their efforts to deal with it. Here’s to the New Year!