Summary

Economic data for the week included 4th quarter U.S. GDP coming in hotter than expected, as did new home sales, while PCE inflation continued to show a deceleration towards normal levels.

Equities gained globally last week, with positive economic and inflation news. Bonds were little changed, with minimal changes in interest rates last week. Commodities rose, led by better expected demand for crude oil.

Economic Notes

(+) The initial release of **U.S. GDP** growth for the fourth quarter of 2023 came in at 3.3%, down from the surprisingly robust Q3 pace of 4.9%, but well above the 2.0% growth rate expected. (Full year 2023 growth was initially quoted at 2.5%.) Personal spending rose 2.8% (contributing 1.9% to the total GDP number), interestingly driven far more by goods than by services, albeit the latter being a much larger piece of the consumption pie. Other gainers included business fixed investment (up 1.7%, 0.3% of total, much of which was in IT equipment), net exports (0.4% of total), and government (0.6% of total, most of which was state/local). The detailed results point to a split between a handful of areas showing very robust growth, while others came in closer to trend-like expectations. For inflation, the GDP price index for Q4 increased by an annualized 1.5%, while the core PCE price index for Q4 came in at an annualized 2.0% pace—likely delighting the Fed, as it stands right at policy target, and could serve as a catalyst for an easing of policy back away from tight toward normal.

The Atlanta Fed's GDPNow measure had pointed to a final Q4 estimate of 2.4%, with the Blue Chip economist consensus coming in at an average of 1.5%, having steadily risen from 1.0% or so in October, but continuing to underestimate the economy's strength. For Q1-2024, the first estimate came in last week at 3.0%, with the Blue Chip economist consensus again beginning at 1%, with the highest and lowest ten forecasts in a fairly wide range from 0% to 2%. Within the Atlanta Fed estimate, consumer spending continues to dominate, at 2.4% of the total for now, with government spending and non-residential fixed investment expected to contribute positively as well. While there remains ample room for revision in the next few months, this is far above the ~2% trend level; insofar as real-time data releases show, recession remains at bay.

(0) **Personal income** for December rose by 0.3%, in keeping with expectations, driven by continued annualized strength in wage/salary income, leading to a 5% year-over-year increase (with wages rising 7%). **Personal spending** rose sharply, by 0.7%, exceeding the 0.5% expected, bringing the year-over-year increase to just under 6%. These resulted in the personal saving rate declining to 3.7%. On the inflation side, headline and core PCE each rose by a rounded 0.2%, in line with consensus. On a year-over-year basis, headline PCE rose 2.6% while core decelerated to a rise of 2.9%. From a compositional standpoint, over that trailing 12-month period, prices for services rose by 4%, while goods prices ended unchanged (and durable goods prices down -2%).

(0) **Durable goods orders** in December were unchanged in total, down from the 5% rise of the prior month and expectations of a 1.1% increase. Excluding transportation, orders rose 0.6%, and gained 0.3% on a core level. Transportation orders fell nearly a percent, while gains were seen in communications equipment, electrical equipment, computers, and metals. Durable good shipments fell -0.3% for December but rose 0.1% on a core basis. Year-over-year, durable goods orders are up 4%, while shipments are up 3%.

(+/0) **New home sales** in December rose 8.0% to a seasonally-adjusted annualized rate of 664k units, disappointing compared to an expected 10.0% increase, but reversed a -9% drop in the prior month (including revisions). Regionally, the South saw the most robust gains, while the West was the sole decliner, to a small degree. Months' supply for new homes fell by -0.6 to 8.2, as the pace of sales quickened. This brought the year-over-year growth in new home sales to 4.4%, with better momentum in recent months. The median new home price has fallen -14% from last year to $413,200, with rising buyer preferences for more affordable smaller homes.

(-) **Initial jobless claims** for the Jan. 20 ending week rose by 25k to 214k, above the 200k forecast. Continuing claims for the Jan. 13 week rose by 27k to 1.833 mil., just above the 1.823 mil. expected. Due to the composition by state, it appeared this could have been a snapback from exceptionally cold weather the prior week in the Midwest, which had prevented claims activity.

(-/0) The Conference Board's **Index of Leading Economic Indicators** for December fell by -0.1%, continuing a trend downward, but an improvement on the -0.5% November result. Per the Conference Board, 6 of the 10 indicators were in positive territory, but were outweighed by persistent negative contributions from manufacturing, interest rates, and low consumer confidence. For the last 6-month period, the LEI declined -2.9%, a less severe pace than the first six months of 2023, which declined -4.3%. Most of the negativity for the semiannual stretch remained consumer sentiment and ISM new orders, as well as the inverted yield curve, a persistent recession indicator. Although it has improved as of late, the negative trend continues to point to recession in coming quarters, with the Conference Board noting particular risk in Q2 and Q3 this year.

Market Notes

Period ending 1/26/2024	**1 Week %**	**YTD %**
DJIA	0.65	1.20
S&P 500	1.07	2.62
NASDAQ	0.94	2.98
Russell 2000	1.75	-2.37
MSCI-EAFE	2.01	-0.57
MSCI-EM	1.47	-3.74
Bloomberg U.S. Aggregate	0.10	-1.30

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2023	5.40	4.23	3.84	3.88	4.03
1/19/2024	5.45	4.39	4.08	4.15	4.36
1/26/2024	5.44	4.34	4.04	4.15	4.38

U.S. stocks gained last week with the S&P 500 reaching new all-time highs again; small caps outperformed large caps but remained well below highs. The response to stronger GDP growth was positive, largely due to the beneficial expected impact on earnings, despite the offsetting possible byproduct of the Fed having another excuse to keep rates higher for longer. The Fed offered no communication hint either way, in the week prior to their next meeting. By sector, energy and communications (helped by Netflix, and higher subscriber count) gained 5% each, offsetting a -1% decline in consumer discretionary (driven by a double-digit decline in Tesla, upon disappointing earnings, revenue and outlook). About a quarter of firms in the S&P 500 have now reported Q4 earnings, with 70% reporting a positive earnings surprise, but the index still showing a blended -1.4% decline. However, hopes remain high for a soft landing—from lows of around 25% last year, roughly 80% of stocks in the S&P 500 are now trading above their 200-day moving average, a common momentum indicator. Interestingly, in regard to sensitivity to drawdowns, JPMorgan data show that over the past 35 years, the S&P 500 has reached new highs 20 times per year on average, with positive forward 12-month returns 85% of the time after a new high.

Foreign stocks also saw gains last week, with Europe and the U.K. up over 2% each, while Japan lost ground. The ECB kept key interest rates on hold at their policy meeting, noting that rate cut talk was 'premature,' although language was a bit dovish in reference to inflation pressures now easing. U.K. PMI results also came in better than expected. Emerging market stocks also saw gains, with a recovery in China. The Chinese government has announced a large rescue package of stimulus, as well a cut of -0.50% in the bank reserve requirement. Financial markets have certainly been challenged there, with this being seen as an urgent move to prop up confidence and ease conditions as local investors are liquidating mutual fund holdings at a record pace.

Bonds were little changed on the government and investment-grade corporate side, along with minimal changes in interest rates for the week. Expectations for Fed rate cuts as soon as March continued to fade a bit, with decent economic data. High yield ended with stronger returns, in keeping with positive equity sentiment. Foreign bond returns were similarly muted, aside from a rally in emerging market local debt.

Commodities gained last week, led by gains in energy and industrial metals, while precious metals fell back. Crude oil rose over 6% last week to $78/barrel, with help from strong U.S. economic data and improved 2024 estimates pointing to potentially stronger demand, while U.S. inventories fell, and Red Sea tensions continued.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Census Bureau, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.