Summary

On the holiday-shortened week, economic data releases included another decline in the index of leading economic indicators, while existing home sales rose.

Equities gained worldwide, led by the U.S. technology sector, improvement in developed market growth conditions, and stimulus in China. Bonds ticked higher as yields fell back a bit from the prior week. Commodities were mixed, with little change in crude oil prices.

Economic Notes

(-) The Conference Board's **Index of Leading Economic Indicators** fell by -0.4% in January, further than the -0.2% decline from the prior month, and continuing a long string of negative index results. The strong S&P stock performance, credit index, and jobless claims all were positive contributors, while the inverted yield curve, ISM new orders, and average weekly hours worked were in the negative for the month.

Over the last six months, the index fell by -3.0%, which is actually a smaller decline than the -4.1% drop over the six months ending in July 2023. During that period, six of the ten indicators contributed positively, which was a turn in a better direction. The year-over-year result similarly remained negative, but less so than in prior months. For the sake of context, in prior recessions, the trough year-over-year changes in the LEI started to reverse as the recessions were occurring. The Conference Board no longer forecasts a recession in 2024 but does expect growth to slow to near zero around mid-year—in keeping with the currently popular 'soft landing' narrative.

(+) **Existing home sales** for January rose 3.1% in January to a seasonally-adjusted annualized rate of 4.00 mil. units, but disappointed relative to the expected gain of 4.9%. Single-family units rose 3%, providing all of the gain, as condos/co-ops were unchanged in the month. By region, sales rose in the West and South, while Northeast sales were flat. Year-over-year, however, sales declined nearly -2%. The median sales price rose 5.1% over the past year to a level of $379,100. Inventory rose 2% from the prior month and 3% over the past year to a level of 3.0 months' supply. All-in-all, inventories remain tight, with affordability low, and mortgage rates still high (although down from peak last year), much of which being related to an abundance of low-rate mortgages current homeowners are reluctant to exit.

(+) **Initial jobless claims** for the Feb. 17 ending week fell by -12k to 201k, below the 216k median forecast. Continuing claims for the Feb. 10 week fell by -27k to a level of 1.862 mil., below the smaller expected drop to 1.884 mil. There appeared to be little underlying change, other than perhaps weather and seasonal adjustment issues.

(0) The **FOMC minutes** from the January meeting left the primary message that risks around policy were 'moving into better balance,' although the committee stayed 'highly attentive' to risks around inflation. At the same time, rates were seen as likely at their peak. It was acknowledged that core PCE inflation has fallen below 2% on a 6-month annualized basis, as we've previously noted, which corresponds to the Fed seemingly achieving their goal, although their vigilance remains. In a related sense, 'most' FOMC members seemed to be also focused on the risk of moving 'too quickly' in easing policy, especially if the easing ended up slowing the progress against inflation. At the same time, 'a couple' of members were concerned about rising downside risks if a tight stance were kept in place for too long. As usual, the minutes didn't provide us with anything we didn't already know, but provided a bit more clarity about the current state of closer balance between conditions warranting tight policy versus easing. In an ideal world, such a balance of risks resulting in a 'pause' in policy is the point central bankers always hope to reach. But since financial markets are always looking over the next hill, such moments are rarely appreciated.

Market Notes

Period ending 2/23/2024	1 Week %	YTD %
DJIA	1.30	4.10
S&P 500	1.68	6.91
NASDAQ	1.41	6.67
Russell 2000	-0.77	-0.37
MSCI-EAFE	1.44	2.49
MSCI-EM	1.23	0.57
Bloomberg U.S. Aggregate	0.25	-1.77

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
2/16/2024	5.44	4.64	4.29	4.30	4.45
2/23/2024	5.46	4.67	4.28	4.26	4.37

U.S. stocks saw gains again last week, led by a Thursday rally driven by stronger-than-expected earnings, product demand, and forward-looking commentary from Nvidia, which continued to defy already high expectations. The focus is on artificial intelligence, and specialized chips leading the effort, buoying the entire stock market on promises of enhanced productivity.

By sector, technology and consumer staples led, each up 2%, led by Nvidia and Walmart, respectively, with materials and industrials gaining just below that mark. Energy lagged with only a meager return, with unstable crude oil prices during the week.

Foreign stocks saw gains as well, with new all-time highs in Europe and Japan. While the two areas remain mired in a recessionary growth slowdown, the S&P Global PMI manufacturing index rose back into expansion, while services pulled back but stayed in expansion—both generating positive sentiment for world growth in the near-term. In Japan, the Nikkei 225 index’s all-time high signifies a recovery from the burst asset bubble of the late 1980s. While a nod to improved fundamentals and sentiment for Japan in recent quarters, it remains a cautionary tale about high valuations and forward-looking return prospects, which can take longer to repair than many expect. Chinese stocks saw gains as stronger spending over the Lunar New Year holiday, as well as additional stimulus measures from the People’s Bank of China, including a significant lending facility and a larger-than-expected cut (-0.25%) in the key 5-year prime mortgage rate, in an aim of supporting that market.

Bonds gained last week, as yields ticked down slightly for longer maturities. Most major groups, including U.S. Treasuries, investment-grade corporates, and high yield, all performed similarly, as did foreign bonds with little change in the U.S. dollar index for the week. In a speech last week, Fed Governor Waller reiterated that they’ll need to see sustained progress on inflation before making a rate cut call (with Jan. CPI data not helping), but is optimistic that levels will get back to the 2% target. This has pushed some thinking that a half-dozen rate cuts or so in 2024 is too optimistic, with perhaps up to four being more realistic.

Commodities were mixed, with small gains in precious and industrial metals offset by declines in energy. Crude oil bounced around during the week, ending down around -2.5% to $76/barrel, with little news to move the needle meaningfully in either direction.

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, National Association of Realtors, 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. 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.

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