Key Takeaways:

- Consumer confidence rebounds.
- Fed takes March cut off the table.
- Blockbuster January jobs report.
- U.S. leads global markets higher, but small-caps fall.
- Yields fall despite hawkish Fed tone.
- Crude oil prices plummet on global demand outlook.

Weekly Economic Recap –

Fed Uncertain About Rate Cuts in March

Home prices increased at the slowest monthly pace (+0.15%) since February 2023 according to the S&P CoreLogic Index. Las Vegas, Cleveland and Miami reported the largest price increases for the month while Seattle, San Francisco and Denver saw the largest price declines for the month.

Consumer confidence as measured by the Conference Board increased to the highest level since December 2021. However, buying plans eased as consumers expecting to buy durable goods fell from last month.

U.S. job openings unexpectedly increased in December to the highest level in three months according to the JOLTS Report. People who voluntarily quit their job fell to the lowest level since May 2021 (3.4 million).

The FOMC kept interest rates unchanged at their January meeting (5.25% - 5.50%) and reaffirmed their stance to be data dependent. The Fed noted, "[the Committee] 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%." When asked about the possibility of rate cuts, Fed Chairman Powell stated, "I don't think it's likely that the committee will reach a level of confidence by March."

The ISM Manufacturing Index increased to its highest level in 15 months fueled by higher prices paid and new orders.

The U.S. economy added more jobs than expected in January (335K vs.185K est.). In addition, the unemployment rate remained unchanged at 3.7% and wages grew 4.5% YoY. However, weekly hours worked fell to the lowest level since March 2020.

Weekly Market Recap –

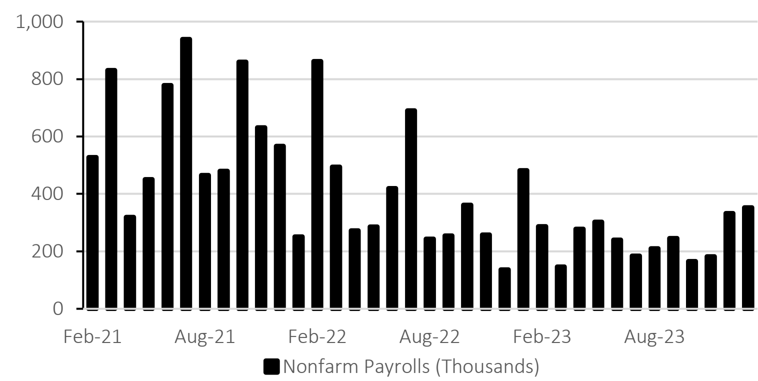
Mega-Cap Tech Earnings Lead U.S. Markets Higher Despite Hawkish Fed

Equities: The MSCI AC World Index rose last week despite the Fed taking a more hawkish-than-expected tone on the timing and path of future rate cuts. Large-caps led performance in the U.S. The S&P 500 notched another record close to end the week as mega-cap tech names, including Meta and Amazon, posted strong earnings results. The small-cap Russell 2000 Index was the only major average lower in the U.S.

Fixed Income: The Bloomberg Barclays Aggregate Index was higher for the second straight week as Treasury yields fell. Municipals and IG corporate bonds led performance. High yield corporates were lower for the second time in three weeks as yields moved lower.

Commodities/FX: The Bloomberg Commodity Index was lower for the fourth time in six weeks. Crude oil prices fell by the most since October as the stronger jobs report further dampened the likelihood of Fed rate cuts. In addition, the cyclal industrial metals were lower on concern the Fed's hawkish tone with dampen economic growth.

Economy Adds Most Jobs Since January 2023



Footnotes: Data as of January 2024.
Source: Bloomberg Finance LP, Verdence Capital Advisors

Key Takeaways:

- Inflationary pressures remain sticky.
- Consumer spending drives economic growth.
- Developed equity markets lead performance.
- Treasury yields inch higher amid Fed rate cut uncertainty.
- Crude oil rallies on geopolitical tensions.

January Recap – Euphoria Carries into 2024

The U.S. economy continues to exhibit resiliency as we move into 2024. As a result, the equity market rally that started in 4Q23 has carried into the new year. The S&P 500 notched a new record high while the MSCI AC World Index and the tech heavy Nasdaq are within ~5% of their record high. The Federal Reserve has signalled that their rate hiking cycle may be complete but they pushed back on rate cuts in March as the futures market had anticipated. As a result, bond yields moved modestly higher in January. In this weekly insights, we review the month of January from an economic and asset class perspective.

- **Mixed signs on inflation:** Consumer inflation remained sticky as the headline CPI Index surprisingly increased. However, the Fed's preferred inflation gauge, PCE Core, increased at the slowest YoY pace (+2.9%) since March 2021.
- **Resilient labor market:** The U.S. economy added the most jobs in a year in January (353K) and the unemployment rate remained unchanged (3.7%). Job openings also increased to the highest level in three months and wages grew at the fastest pace in 22 months.
- **Consumer confidence and spending strong:** Consumer confidence as measured by the Conference Board rose to the highest level since December 2021. In addition, core retail sales rose at the fastest pace in five months.
- **Government deficit reaches new record:** The U.S. deficit increased in the first quarter of its fiscal year, pushing the total deficit past $34 trillion for the first time on record.

Global Equities – Developed markets outperform: The MSCI AC World Index was higher for the third straight month led by gains in the U.S. and Europe.

- **Large-cap growth leads the U.S.:** The Russell 1000 Growth Index was higher for the third month as the mega-cap tech trade failed to lose steam. While large cap value posted a modest gain as financials rebounded, small and midcap stocks declined for the month.
- **Developed markets outperform EM:** The MSCI EAFE Index outperformed the MSCI Emerging Market Index by the most since October 2022 (~610bps).
- **Emerging markets hurt by China:** Chinese equity markets plummeted to near five-year lows as the region continues to struggle with a property crisis, weak economic data and lack of confidence.

Fixed Income – Bonds weaker: The Bloomberg Barclays Aggregate Index fell for the first time in three months as Treasury yields moved slightly higher amid strong economic data and the Fed's more hawkish tone.

- **Short duration fixed income outperforms:** Short maturity bonds (2YR) and floating rate instruments rallied as interest rates moved higher.

Commodities – Oil prices lead rally: The Bloomberg Commodity Index was higher for the first time in three months driven by soft commodities and energy.

- **Softs lead:** Soft commodities led by sugar aided the commodity gains on production declines in India.
- **Energy rallies:** The Bloomberg Energy Index rallied for the first time in four months led by crude oil. Increasing geopolitical tensions pushed crude oil prices higher.

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