Weekly Investment Insights

February 12, 2024

VERDENCE CAPITAL ADVISORS

Key Takeaways:

- Services sector continues to expand.
- Trade deficit contracts by most since 2009.
- Consumers slow pace of spending on credit cards.
- S&P 500 ends the week above the 5,000 level.
- Treasury yields move higher on resilient economic data.
- Hopes fade for ceasefire in Gaza; crude oil rallies.

Weekly Economic Recap –

Consumers Slow Spending on Credit Cards, but Balances at Record High

Economic activity in the services sector as tracked by the ISM Services Index expanded for the 13th consecutive month in January. The increase at the Index level was attributed to new orders as well as the employment index rebounding back into expansion territory (a reading above 50).

The Fed's Survey of Senior Bank Lending Officers showed U.S. banks expect an increase in demand for loans this year as interest rates are expected to fall. The banks expect to tighten credit standards on commercial real estate and credit/auto loans this year.

The U.S. trade balance narrowed in 2023 by the most since 2009 as imports declined and exports jumped to a record high. Exports were driven by capital goods, auto vehicles/parts, and consumer goods.

Consumer credit increased at the slowest pace since August in December as consumers slowed their spending on credit cards. However, consumers are carrying the most credit card debt in history ($1.13 trillion) according to the New York Federal Reserve. Balances increased ~10% from a year ago, with the average balance climbing to a record $6,360. Credit card delinquencies increased more than 50% in 2023, while "serious delinquencies" (those 90+ days past due), reached the highest level since 2009.

Weekly Market Recap –

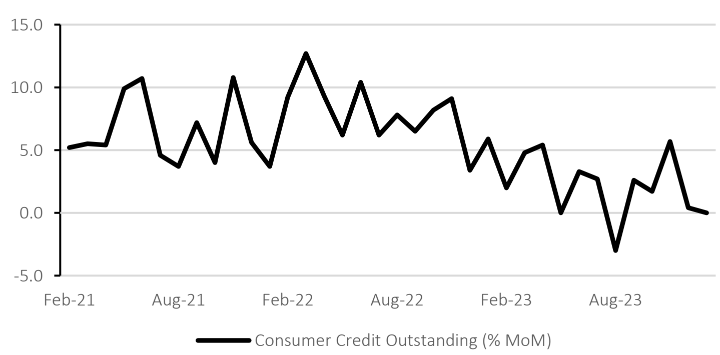
S&P 500 at Record Levles as Economic Data Remains Resilient

Equities: The MSCI AC World Index was higher for the third straight week given resilient economic data and better-than-expected 4Q23 earnings season. Major U.S. averages were higher for the fifth straight week with outperformance coming from the tech-heavy Nasdaq and small-cap Russell 2000. The S&P 500 ended the week above the 5,000 level for the first time ever. Emerging markets were led higher by China's stimulus package boosting the country's stock market off of five-year lows.

Fixed Income: The Bloomberg Barclays Aggregate Index was lower for the first time in three weeks as reslient economic data reaffirmed the likelihood of Fed taking more time before cutting rates. Investment grade corporates were the worst performing sector.

Commodities/FX: The Bloomberg Commodity Index was higher for the second time in three weeks. Crude oil prices were higher for the third time in four weeks as hopes for a ceasefire in the Middle East faded and fighting continues between Israel and Hamas. Gold prices fell for the third time in four weeks as investors are attracted with higher yields for treasuries.

Consumers Slow Spending on Credit Cards



Footnotes: Data is as of December 2023.
Source: FactSet Research, Verdence Capital Advisors

Megan Horneman | Chief Investment Officer
mhorneman@verdence.com

Key Takeaways:

- Congratulations Kansas City Chiefs.
- Markets would have preferred a 49er win.
- The S&P likes the overtime games.
- Markets prefer an outdoor stadium than a dome.
- We assure you this is simply fun facts, it does not sway our recommendations.

Cocktail Trivia – What does the Super Bowl Mean for the Markets?

Congratulations to the Kansas City Chiefs for winning Super Bowl LVIII. They were the first team to win back to back Super Bowls since the New England Patriots accomplished it about 20 years ago (2003-2004). The Super Bowl is always a bittersweet celebration as we binge on fried food and salty snacks but wake the next day to the realization that football season is over…for now. Therefore, to cheer up football fans we wanted to offer some interesting tidbits about what the Super Bowl has meant for the financial markets. However, we will reassure you that this is for fun and we do not make portfolio decisions around who wins the Super Bowl.

- **Does the market like an AFC or NFC winner?** Going back to 1971 when an AFC team wins the big game (i.e., Chiefs) the S&P 500 posts a slightly less positive return for the year than if an NFC team would have won. On average, the S&P 500 rises 8.6% for the year when an AFC team wins, compared to 9.7% when an NFC team wins. However, it is good to know that the S&P 500 has been positive 72% of the time when an AFC team brings the trophy home.

- **The market does not mind overtime games:** **Last night was only the second Super Bowl in history to go into overtime. The last game was in 2017 between New England and the Atlanta Falcons**. In that year, the S&P 500 rallied 19.4%. When looking at the scores of all the super bowl games and how tight the game was tells a slightly different story. With a score of 25-22, this is the third consecutive Super Bowl where the winning team won by a tight margin (3 points). The average return of the S&P 500 in the years that the difference in the score is less than five points has been 7.8%. This compares to an average return of 9.3% when the difference is more than five points.

- **The stadium matters:** This was the first Super Bowl held at Allegiant Stadium in Las Vegas. The S&P 500's average annual return in the years that the game is played in a stadium for the first time has been 6.5% and it has been positive ~80% of the time. While we know the game is typically played in a dome or warm weather arena, the market does not necessarily like domes like last night's venue. On average, when the game is played in a dome the S&P 500 has posted a 2.7% return for the year. This compares to the S&P 500 rallying ~11% in the years the game was played in a non-dome arena.

The Bottom Line:

As you try to wake up after the late game and recover from the food coma, we hope you enjoyed this fun spin on the markets and the big game. Rest assured that your investment advisors are not using history about major sporting events and superstitions to let us guide your portfolio allocations. Instead we will focus on fundamentals and valuations. One thing we have learned is that the cost of hosting a super bowl party was a record high. According to the National Retail Federation spending for food, drinks, apparel and decorations was expected to reach a record high ($17.3 billion). Clearly, prices are still rising and we will get crucial information on inflation tomorrow when the Consumer Price Index for January is released. This is likely to move markets as it can give us better insight into the path of the Fed funds rate this year.

Megan Horneman | Chief Investment Officer
mhorneman@verdence.com

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