Weekly Investment Insights

March 4, 2024

Key Takeaways:

- Consumer confidence falls for first time in four months.
- Fed's preferred inflation gauge increases at fastest pace in a year.
- Manufacturing activity contracts for 16th straight month.
- AI craze continues to drive U.S. equities higher.
- Treasury yields fall as investors weigh rate cut possibility.
- Commodities rally on jump in crude oil prices.

Weekly Economic Recap –

Consumer Confidence Falls; Inflation Remains Stubborn

Sales of new homes increased in January as homebuilders and homebuyers capitalized on lower mortgage rates at the beginning of the year. The median selling price of new homes ($420,700) rose for the second time in the past five months while the months' supply of new homes remained unchanged (at 8.3 months).

Home prices increased slightly more than expected in December according to the S&P Core Logic Index. Fourteen of the twenty regions posted monthly increases in home prices, driven by Las Vegas, Los Angeles, and Miami.

Consumer confidence as tracked by the Conference Board decreased for the first time in four months. The expectations index, which tracks consumers' views over the next six months, fell to a three month low and expectations for a recession in the next year increased.

Orders for durable goods fell by the most since April 2020 driven by a sharp drop in commercial aircraft orders (-58.9% MoM). Nondefense capital goods orders excluding aircraft, a closely watched proxy for business spending, increased 0.1% in January.

The Fed's preferred inflation gauge, PCE Core, increased at the fastest pace in a year (+0.4% MoM). Prices for services contributed the most to the headline increase for January, driven by financial services and food services (i.e., restaurants).The report also showed inflation-adjusted consumer spending fell for the first time in five months while disposable income was little changed.

Economic activity in the manufacturing sector contracted for the 16th straight month (a reading below 50). The employment index fell to a seven-month low and new orders fell.

Weekly Market Recap –

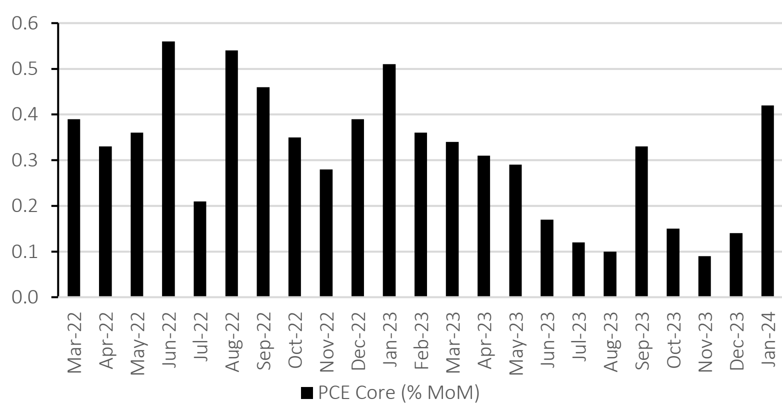
U.S. Equities Rally on Continued AI Craze; Yields Fall on Rate Cut Hopes

Equities: The MSCI AC World Index was higher for the sixth straight week as U.S. equities continued to get a boost from mega-cap technology. Small-caps as tracked by the Russell 2000 were the best performing part of U.S. markets. The Nasdaq and S&P 500 both closed at record-highs.

Fixed Income: The Bloomberg Barclays Aggregate Index was higher for the second straight week as Treasury yields fell as investors digested PCE inflation data and its implications for future Fed rate cuts. All areas of the fixed income markets were higher for the week with outperformace coming from U.S. TIPS and EM debt (USD).

Commodities/FX: The Bloomberg Commodity Index was higher for the first time in three weeks. Crude oil was higher for the third time in four weeks as expectations increased for OPEC+ production cuts. Gold prices were higher for the second straight week as Treasury yields retreated and the U.S. Dollar weakened.

PCE Core Increases at Fastest Pace in a Year



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

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Key Takeaways:

- Inflation remains a key headwind, keeps Fed hawkish.
- Consumers pull back on spending.
- Global equities continue to climb with U.S. and EM outperformance.
- Treasury yields rise amid Fed's hawkish tone.
- Commodities lower; energy products display mixed performance.

February Market Recap – Leaping into March

Global equity markets surged in February despite hawkish Fed commentary and stubborn inflationary pressures which are calling into question the likelihood of Fed rate cuts. U.S. equity markets were higher for the fourth straight month with the S&P 500 and Nasdaq closing out the month at record highs. Bond yields continued to move higher as investors grappled with the expectations of the Fed not cutting rates as aggressively as anticipated. In this weekly, we review the month of February from an economic and asset class perspective.

- **Inflationary pressures remain sticky:** The Fed's preferred inflation gauge, PCE Core, increased at the fastest month over month pace in a year, driven by services prices. Additionally, the prices paid to producers (PPI Index) also increased by the most since August 2023.
- **Fed remains hawkish on interest rate outlook:** The Minutes from the Federal Reserve's most recent policy meeting indicated members believe the policy rate is at its peak. Members remained cautious when discussing the likelihood of interest rate cuts, however, stating they need "greater confidence" that inflation was improving before cutting rates.
- **Leading Indicator Index points to trouble ahead:** The U.S. Leading Economic Indicator Index declined for the 22nd consecutive month to the lowest level (102.7) since April 2020. The series has only declined in as many consecutive months during the Great Recession ('07 – '09).
- **Consumers feeling the pressure:** Consumers have pulled back on spending to start the year as retail sales fell at the fastest pace since March 2023 and spending on credit cards increased at the slowest since August 2023.

Global Equities - Emerging markets shine: The MSCI AC World Index was higher for the fourth straight month fueled by a surge in U.S. and emerging market equities.

- **Emerging markets outperform developed counterparts:** The MSCI Emerging Market Index outperformed the MSCI EAFE by the most since July 2023. Equities in China led the rally and snapped a six-month losing streak.
- **Growth continues to lead U.S. market rally:** Growth outperformed value in the U.S. for the second straight month as the AI frenzy continued to support mega-cap tech names (specifically NVIDIA and Meta).
- **Small-caps rally:** The Russell 2000 Index was higher for the third time in the past four months despite higher Treasury yields putting pressure on valuations and cost of capital.

Fixed Income - Bond yields climb: The Bloomberg Barclays Aggregate Index fell for the second straight month as Treasury yields moved higher amid the Fed's hawkish tone.

- **Riskier areas of debt outperform:** EM debt (USD) and high yield corporates were the best performing areas of fixed income markets. Each were higher for the second straight month.
- **Floating rate instruments higher:** As inflationary pressures remained stubborn, investors turned to floating rate instruments during the month.

Commodities: The Bloomberg Commodity Index fell for the third time in the past four months in February.

- **Energy prices mixed:** Natural gas prices plummeted for the fourth straight month on warmer weather impacting demand. Crude oil was higher amid continued geopolitical tensions.

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