MARKET WRAP MINUTE

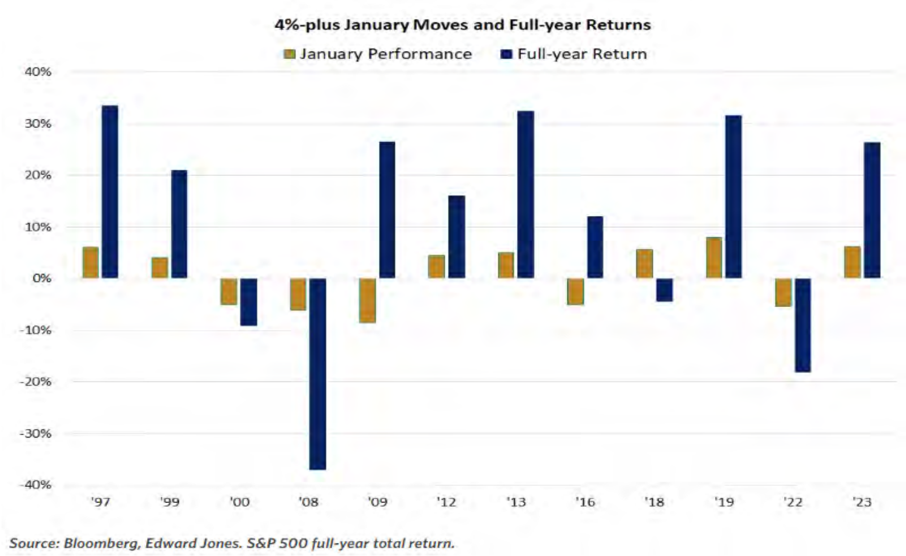
WEEK OF JANUARY 8, 2023

MARKET MENTIONS: Tepid Start to 2024 – Harbinger of Things to Come?

- Stocks declined and interest rates moved higher last week, ending the S&P 500's nine-week winning streak. After the sharp move higher for equities over the last few months, it's not surprising to see markets take a breather.
- Additional detail on the Fed's outlook for policy moves this year, along with the latest read on the state of the labor market, were the headliners for the week. Neither produced any major surprises, but both confirmed the path ahead for the economy, and Fed interest-rate moves are reasonably favorable but far from certain.
- It's likely we may see a bit more volatility at the start of 2024 than the end of 2023, but we think the outlook for stocks and bonds this year remains positive. We'd view periodic pullbacks as a potential opportunity to enhance diversification and rebalance portfolios after the sharp moves in stocks and rates over the last few months.
- There are two primary forces that we think may dictate 2024's performance: Fed interest-rate decisions and the glidepath of the economy. The good news is that we think both may be generally favorable this year. That said, markets came into 2024 with expectations that are even rosier than that (as evidenced by that rally). While we have no qualms with an optimistic market, it does present some vulnerability in the event of spates of disappointment.
- The ideal (Goldilocks) outcome for the market is one in which economic growth is sufficiently strong to support ongoing growth in consumer spending and corporate profits, while inflation is sufficiently moderating to support rate cuts from the Fed. Those two forces are generally in tension with each other, though we do think 2024 could manage to pass through the eye of that needle. We think the latter may come from some softness in the economy stemming from a slowdown in the pace of consumer spending. That path of household consumption rests squarely on the shoulders of the labor market.

CHART OF THE WEEK

Does the start to the year give us any clues about performance for the year ahead? Seventeen of the last 30 Januarys saw a gain for the stock market in January. In 15 of those 17, the stock market went on to post a gain for the year. When the gain in January was particularly strong (greater than 4%), the average return for the full year was 22%. On the other hand, notably weak starts may be a sign of a challenging year ahead. The stock market has logged a full-year decline six times in the last 30 years, three of which began with a January decline of more than 4%.



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