MARKET WRAP MINUTE
WEEK OF JANUARY 15, 2024

MARKET MENTIONS: 2024 Stock Market Earnings Preview

- All eyes were on the release of the consumer price index (CPI), which increased 3.4% in December from a year ago, a slight acceleration from last month's 3.1% reading. Core CPI, which excludes food and energy, continued to slow, falling to 3.9% from 4%. While that was the lowest reading in two and half years, and was mostly in line with forecasts, core inflation is still well above the Fed's target of 2%. Most of the upside was driven by services costs and specifically shelter, which contributed over half of the overall increase in inflation.

- Last week's inflation data suggest that the Fed might not rush into cutting rates, as some market participants are expecting. The bond market is currently pricing in a 75% chance that the 1st rate cut will be delivered in March and that there will be two more rate cuts by June, which appears somewhat aggressive to us. It is possible that at the first Fed meeting of the year at the end of the month, policymakers might push back against these expectations.

- The timing of when the 1st rate cut might be delivered could be a source of volatility, but that doesn't change the broader theme that policy may most likely be easing in the back half of the year as inflation moves closer to the 2% target. A less restrictive Fed policy may be market-friendly, but only if it's based on easing price pressures rather than economic weakness. The big question to be answered in 2024 is in terms of growth and earnings, not so much in the path of inflation.

- Given the magnitude and speed of the late 2023 rally, markets could enter a choppier phase in the near term, as investors wait for confirmation of the reacceleration in actual earnings (not just estimates) and a clearer direction about the timing and magnitude of rate cuts.

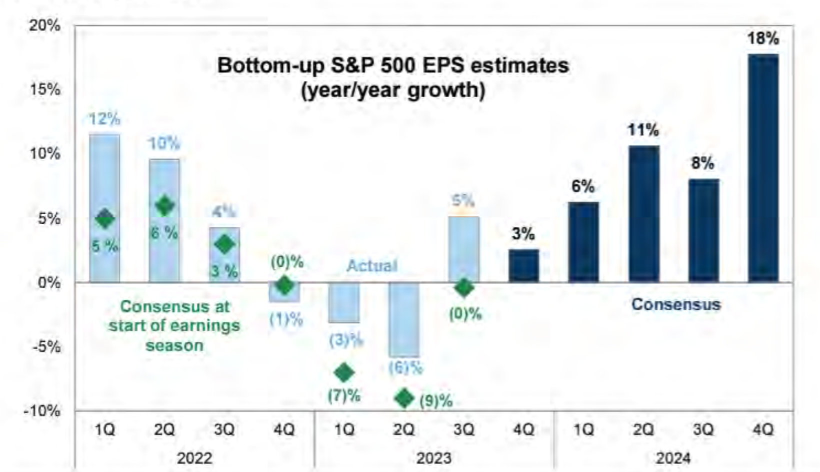
- Bonds have rallied hard in the last two months of 2023, with the 10-year Treasury yield falling from 5% to under 4%. For yields to decline meaningfully from here the Fed must start signaling a more aggressive rate-cutting cycle than the market expects, which we view as unlikely at this stage. Yet, we continue to see an opportunity to transition some of the CD money, which is now coming due for many, toward intermediate and long-term bonds, especially if the 10-year revisits the 4.25%-4.5% range. This way investors may lock in the still-attractive yields for longer and have the potential for further price appreciation as the Fed moves toward a more neutral stance over the next two years.

CHART OF THE WEEK

Bank earnings kicked off the fourth-quarter earnings season on Friday, and with the sector rallying over the past two months, stocks pulled back in response to mixed earnings. While most of the reported bank earnings beat expectations, several projected lower net interest incomes ahead (the difference between what a bank earns on its assets and what it pays on its debts).

Expectations may be that earnings will reaccelerate this year, which may be supportive of equities, even as we assume that valuations might not have much more room to expand further (especially the case for the mega-cap tech stocks). As shown below, the forward quarterly earnings estimates for the S&P 500 are all above the expectations in 2023. Earnings will come through this year, so things may get bumpy for the market. Earnings and more importantly guidance may give us our first peek into what lies ahead.

Exhibit 1: Quarterly path of S&P 500 EPS year/year growth
as of January 5, 2024



Source: Goldman Sachs Global Investment Research

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