January 2024

Monthly Market Commentary

Happy New Year! We hope that you were able to spend the holidays with family and friends and welcome in the new year! Now that 2023 is in the rear-view mirror, we have a lot to look forward to in 2024. The start of a year is a perfect time to create goals and a plan to accomplish everything you want for the year. It is also a good time to think about all the fun things you want to do over the next year! We wish you health and happiness in 2024!

Markets closed the year on a positive note as strong momentum continued into the year-end with participation from both equity and fixed income markets. Equities were essentially flat over the last two years with certain sectors outperforming such as AI, while economically sensitive and defensive sectors lagged the overall indices. After two years of weakness in fixed income, we saw some relief as treasuries yields finally found an interim peak after the aggressive rate hike cycle that the Fed pursued to get inflation under control after their massive stimulus efforts after covid. In the last Fed policy meeting, the Fed may have signaled the end of their hiking cycle; however, soon after the market aggressively priced in 6-7 rate cuts in 2024. This may be premature and does not add up to the narrative of a resilient economy that has been portrayed. For these expectations to come to fruition, the economy must be in contraction and inflation decisively below their 2% target. We believe we will get something in between as the economy continues to slow while inflation remains somewhat sticky around current levels unless something really derails the economy meaningfully.

Our expectation for growth in 2024 remains at a slowdown on a year-over-year basis for the first half of the year with an inflection sometime around the 2nd or 3rd quarter of 2024. While inflation is moving in the right direction so far, it remains to be seen if the trajectory continues as expectations shift from a tighter monetary policy towards monetary easing. Risks remain elevated as the consumption and industrial economy continue to slow while this weakness has been somewhat offset by government spending to some extent over the last year. The ISM manufacturing index has been in contraction for the last 14 months while the ISM services have slowed but are still in expansion. Valuations remain stretched relative to the economic backdrop and warrants caution for a tad bit longer until we see a reacceleration in growth that we expect to see in a few quarters.