A look back at 2023

The year in brief.

Interest rates were the chief concern in 2023 as market watchers watched closely how the Federal Reserve and Chairman Jerome Powell balanced concerns over inflation with worries over the economy's resilience.

Despite numerous headwinds from elevated inflation, geopolitical conflicts, banking troubles, and a fear of an impending recession that never came, the U.S. economy showed steady growth throughout the year.[1]

Artificial intelligence optimism, steady consumer spending, and solid corporate earnings reports provided much-needed tailwinds that helped keep the economy from a much-feared 2023 recession.

The U.S. economy.

Annual inflation simmered to a more moderate 3.2% for the 12 months ended October 2023; this is a notable cooling from recent highs of 6.5% in 2022 and 7% in 2021. The federal government's core consumer price index, which excludes volatile food and energy prices, was up 4% for the 12-month period ending October.[2]

The Federal Reserve raised benchmark interest rates four times throughout 2023 to curb inflation. The most recent hike occurred during the July 26th meeting, when interest rates increased 25 basis points to 5.50%.[3]

Positive indicators support an overall healthy national economy. The first quarter saw a 2.2% annualized gross domestic product increase, followed by a 2.1% increase in the second quarter. The most recent November estimate for the third quarter expects a 5.2% increase. The Bureau of Labor Statistics reports show that the economy has been adding over 100,000 jobs a month, and the unemployment rate remains relatively stable at 3.9%, a small uptick from the recent January low of 3.4%.[4,5,6]

The three major U.S. equity benchmarks have rebounded since their 2022 lows, with the S&P 500 up 9.23%, the DJIA up 8.86%, and the NASDAQ soaring 22.78% for the first ten months of the year.[7]

One notable concern is the housing market, which has stalled due to increased interest rates. The 30-year fixed rate mortgage average hit 7.79% in October, the highest level in decades. Existing home sales hit their lowest point in the last thirteen years, down 2% in September and down 15.4% year-over-year.[8,9]

The global economy.

Attention has turned to the wavering economy of China, which is experiencing falling consumer prices, a deepening real estate crisis, and high unemployment amongst younger workers. China's year-to-date real GDP growth was 4.9% as of quarter three, much lower than the long-term average of 8.8%. These indicators may suggest unfavorable conditions for future economic global growth.[10, 11]

The U.S. was not the only country to experience cooling inflation in 2023. Headline inflation in the euro area fell from 8.39% in 2022 to 5.52% in the third quarter of 2023. Many other countries enjoyed similar trends of cooling inflation as well.[12]

WTI crude oil prices remained well below the nearly $120 highs of 2022, peaking briefly at $91 a barrel in September due to supply shortage before settling back to the more moderate $70-$80 a barrel average for the rest of the year.[13]

As for equities, MSCI's EAFE index, which tracks developed overseas stock markets, was relatively flat at 0.21% YTD as of October 31. While many national indexes experienced anywhere from tepid to modest gains, the Hang Seng index was down 13.49% by the end of October.[14]

Looking back, looking forward.

Many anticipated a recession in 2023—a suspicion that hasn't come to pass. But fear of a recession is still hot in the minds of many market pundits as 2024 approaches. All eyes remain on the Fed as they continue their tightrope walk of trying to tame inflation while monitoring overall economic health.

While solid consumer spending has been one linchpin of an otherwise uncertain economic landscape, it's unclear how long it will persist. Concerns over high housing costs, rising credit card debt, and dwindling savings in the face of increased consumer prices have some anticipating a slowdown in spending in 2024. A resilient labor market may also help counterbalance these concerns.[15,16]

When the economy gives mixed signals, it's essential to prepare. That's why we work with our clients to ensure their financial strategy reflects their goals, time horizon, and risk tolerance. We understand the economy will move through cycles, so we look to keep you updated during the highs and the lows.

Happy holidays, and have an excellent 2024.

Citations

1. BEA.gov, 2023

2. USInflationCalculator.com, 2023

3. TradingEconomics.com, 2023

4. BEA.gov, 2023

5. BLS.gov, 2023

6. BLS.gov, 2023

7. Finance.Yahoo.com, 2023. The Dow Jones Industrial Average is an unmanaged index generally considered representative of large-capitalization companies on the U.S. stock market. The S&P 500 Composite Index is an unmanaged index that is considered representative of the overall U.S. stock market. The Nasdaq Composite Index is an unmanaged index that is considered representative of small-capitalization companies. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

8. StLouisFed.org, 2023

9. FreddieMac.com, November 21, 2023

10. YCharts.com, 2023

11. CNN.com, August 23, 2023

12. OECD.com, September 2023

13. TradingEconomics.com, 2023

14. MarketWatch.com, 2023. The Hang Seng Index is a benchmark index for the blue-chip stocks traded on the Hong Kong Stock Exchange. MSCI EAFE is an unmanaged index. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

15. CNN.com, November 26, 2023

16. Barrons.com, November 17, 2023