



Monthly Market Commentary: February 2024

The jobs market continues to show remarkable resilience. In January, there were 353,000 new jobs added, the largest increase in one year¹. Wages also grew by 0.6%, giving consumers a boost in their inflation-adjusted spending power. Treasury yields surged immediately following the strong job report, reinforcing the Federal Reserve's stance on maintaining rates a bit longer. The Federal Reserve's recent statement signaled a cautious approach towards rate cuts, emphasizing the need for sustained inflation trends before adjusting rates, challenging previous market expectations of a March rate cut².

In January, the Consumer Price Index (CPI) rose by 3.1% compared to the previous year, slightly lower than December's 3.4% but still above expectations³. The report also showed core prices, excluding food and energy costs, increased by 3.9% year-over-year. Services, excluding housing, experienced a notable increase of 0.7% month-over-month, while core goods prices fell for the eighth consecutive month. These inflationary trends are closely watched by investors and economists, influencing consumer sentiment, spending, yields, housing, and equity valuations.

Despite concerns over inflation and monetary policy, stock markets have shown resilience, with the S&P 500 closing above 5,000 for the first time in February and the NASDAQ 100 hitting multiple all-time highs this year so far. Despite a few brief periods of volatility, the overall momentum in US stocks since late October has continued so far this year. While the momentum has pushed up valuations across the S&P 500, the fourth quarter's earnings reports have shown earnings growth of nearly 5% thus far⁴. Nevertheless, the market's focus remains on the Federal Reserve and adjusting expectations of when they may be able to cut rates.

The bottom line: Monetary policy expectations continue to shift, particularly on the back of a worse-than-expected inflation report and significant job gains. The delicate balance the economy finds itself in will likely reignite debate on how successful the Federal Reserve may be in bringing inflation finally below its target rate without doing damage to the jobs market as well as overall economic growth. As with last month, cautious optimism in a potential soft landing may still be the predominant story, though the next inflation report and jobs report will be important ahead of the Federal Reserve's next meeting on March 20th.

Sources:

1. Bureau of Labor Statistics, <https://www.bls.gov/news.release/empstat.nr0.htm>
2. CME FedWatch Tool's probabilities of a rate cut in March as of January 30, 2023
3. Bureau of Labor Statistics, <https://www.bls.gov/news.release/cpi.nr0.htm>
4. Bloomberg analysis as of February 15, 2024

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