



Monthly Market Commentary: January 2024

Jobs, inflation, and expectations around what the Federal Reserve may or may not do continue to be the focus of markets as 2024 begins. The latest jobs report showed December exceeded most economists' expectations, with the economy adding 216,000 jobs¹, surpassing estimates by 41,000². Further, wages rose more than anticipated, having gained 4.1% compared to December 2022¹. While the unemployment rate remained steady at 3.7%¹, the drop in labor force participation will be an area to watch. Overall, last year saw 2.7 million new jobs as the economy¹ defied strongly held expectations of a recession arriving sometime in 2023. Despite the stronger-than-expected jobs report, the overall gradual cooling trend continues to be the predominant belief across economists, though wage growth could spell trouble for dovish expectations around Federal Reserve policy in 2024.

On the inflation front, the Consumer Price Index (CPI) rose by 0.3% in December and 3.4% over the year³, both faster than the market had expected and an acceleration from November. However, yearly changes in core CPI, which excludes the more volatile food and energy components, continued to improve in December, though just barely, rising 3.9% versus the 4.0% gain from the November report. Shelter continues to play a significant role in the headline inflation story, despite indications and expectations throughout the year that it would slow. While one month's report does not indicate a trend, if a trend were to form, the current expectations for the Federal Reserve to begin cutting rates early this year could be in jeopardy. As the market has continued to show over the last year, changing expectations can quickly create ripples and volatility across capital markets.

The bottom line: The market's growing consensus on a substantial dovish pivot from the Federal Reserve this year fueled the late 2023 market rally. However, the same expectations may also set the stage for potential volatility if that picture were to shift again. The market saw multiple consensus expectations shifts in 2023 and this year may be no different. While only time will tell, investors will likely stay focused on the upcoming inflation, retail sales, and jobs reports to continue to take the temperature of the health of the consumer. At some point the relentless focus on the Federal Reserve will shift, but not yet.

Sources:

1. Bureau of Labor Statistics, <https://www.bls.gov/news.release/empstat.nr0.htm>
2. Consensus estimate from Bloomberg's survey of economists
3. Bureau of Labor Statistics, <https://www.bls.gov/news.release/cpi.nr0.htm>

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