The Weekly Market Update – 1/8/24: Jobs & Wage Growth Provide Consumer Support

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,697.24	-1.52%	-1.52%	-1.52%	22.34%	4,796.56	2.1%
Dow Jones Industrial Average	37,466.11	-0.59%	-0.59%	-0.59%	13.03%	37,715.04	0.7%
NASDAQ Composite	14,524.07	-3.25%	-3.25%	-3.25%	38.77%	16,057.44	10.6%
Russell 2000	1,951.14	-3.75%	-3.75%	-3.75%	10.78%	2,442.74	25.2%
MSCI EAFE (USD)	2,207.74	-1.27%	-1.27%	-1.27%	13.57%	2,398.71	8.7%
MSCI Emerging Markets (USD)	1,002.08	-2.12%	-2.12%	-2.12%	4.78%	1,444.93	44.2%
Bloomberg Commodity Index	98.63	-0.01%	-0.01%	-0.01%	-12.56%	237.95	141.3%
Barclays U.S. Aggregate Bond	90.51	-1.30%	-1.30%	-1.30%	1.84%	112.07	23.8%

Source: FactSet

December jobs gains exceeded expectations, but the prior two months' reports were revised lower. After the revisions, December was the strongest jobs month in the fourth quarter (4Q23), adding momentum to a broader trend of slowing growth. According to the Bureau of Labor Statistics (BLS), December nonfarm payrolls (jobs) increased by +216 thousand (K). While this was 56K above the 160K FactSet consensus estimate, the previously reported October and November jobs data were revised lower by -71K. For all of 2023, the U.S. economy created +2.7 million jobs, or +225K per month. In 4Q23, the average monthly jobs gain was +165K, the lowest 3-month stretch since January 2021. The slowing pace of monthly jobs growth supports the view that the Federal Reserve Bank (Fed) is done hiking its short-term fed funds interest rate target range as previous rate increases appear to have had the desired impact (slowing) on the labor market. Bond investors, in our view, have begun to price this in already as the U.S. 2-year Treasury yield (which we view as a proxy for short-term interest rates) closed 2023 at 4.25%, more than 100 basis points below the fed funds target range of 5.25% to 5.50%. Given that consumer inflation (as measured by the BLS' consumer price index, CPI) eased considerably in 2023 (CPI was +3.1% in November 2023 vs. +7.1% in December 2022), the Fed is likely in a position to begin lowering its rate targets in early 2024. However, because December was the strongest labor month of 4Q23, the Fed could cautiously delay the timing and/or magnitude of its first reduction in the fed funds target. The Fed might want to see more data before easing rates as inflation still remains above its 2.0% target. On 1/5/24, the 2-year Treasury yield moved to 4.40%, perhaps reflecting more uncertainty on Fed policy. The fed funds futures market (as measured by the CME Group FedWatch Tool) is currently (1/5/24) pricing in just a 5% chance that the Fed will cut rates by 0.25% at its next meeting on 1/31/24, and a 71% chance of that cut at the year's second Fed meeting on 3/20/24. One week earlier, the futures market showed an 88% chance of that March rate cut. We expect the Fed to enact rate cuts in early 2024, but the pace could be more measured than expected.

Employment report wage data bodes well for consumer trends. Included in the BLS' jobs report for December was wage growth (as measured by average hourly earnings) of +4.1% year-over-year (Y/Y). This was relatively in-line with October and November Y/Y wage growth of +4.0% and +4.1%, respectively. When wages grow at a higher rate than inflation, consumer purchasing power rises as those inflation-adjusted "real" wages gain traction. Comparing AHE to CPI, real wages are now positive for eight consecutive months following 25 consecutive months (April 2021 to April 2023) of negative real wage growth. While surveys still flag inflation as a consumer concern, the trends have improved in recent months. The resilient labor market, along with growth in real wages, has contributed, in our view, to consumer spending and economic growth above expectations.

As investors await the start to 4Q23 earnings season, we are watching the December inflation report. A handful of leading banks will report 4Q23 earnings on Friday (1/12). This unofficially launches earnings season and the FactSet consensus earnings growth estimate for the S&P 500 is just +1% Y/Y. The S&P 500 Financials sector (which includes banks) is estimated to show a -4.2% earnings decline. This could create a market headwind as those early reports come in. Ultimately, however, earnings growth, in our view, is likely to exceed that +1% estimate. The consensus estimate for December CPI is +3.2% Y/Y, and the core CPI (excludes food and energy prices) is +3.8%, an improvement from +4.0% in November.

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

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