D|A DAVIDSON
WEALTH MANAGEMENT

The Weekly Market Update – 1/29/24: 4Q23 GDP Growth Provides an Upside Surprise

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,890.97	1.06%	2.54%	2.54%	27.39%	4,894.16	0.1%
Dow Jones Industrial Average	38,109.43	0.65%	1.11%	1.11%	14.97%	38,109.43	0.0%
NASDAQ Composite	15,455.36	0.94%	2.96%	2.96%	47.67%	16,057.44	3.9%
Russell 2000	1,978.33	1.75%	-2.40%	-2.40%	12.33%	2,442.74	23.5%
MSCI EAFE (USD)	2,222.74	2.00%	-0.60%	-0.60%	14.34%	2,398.71	7.9%
MSCI Emerging Markets (USD)	985.10	1.46%	-3.77%	-3.77%	3.00%	1,444.93	46.7%
Bloomberg Commodity Index	98.78	2.05%	0.14%	0.14%	-12.43%	237.95	140.9%
Barclays U.S. Aggregate Bond	90.39	0.04%	-1.42%	-1.42%	1.70%	112.07	24.0%

Source: FactSet

U.S. economic growth exceeded expectations in the fourth quarter (4Q23), adding to fading recession fears. According to the Bureau of Economic Analysis (BEA), 4Q23 real gross domestic product, GDP, grew +3.3% (annualized growth from the prior quarter, inflation-adjusted). GDP growth exceeded the +1.7% FactSet consensus (from Wall Street economists) estimate and was above the +2.4% estimate from the Federal Reserve Bank of Atlanta's GDPNow model. On the heels of 3Q23 GDP growth of 4.9%, the 4Q23 data showed that the U.S. economy accelerated in the second half of 2023, entering 2024 with solid momentum. 4Q23 consumer spending grew +2.8% annualized and contributed +1.9% to the +3.3% reported growth. Spending on goods (approximately one-third of consumer spending) increased +3.8% annualized, while spending on services (about two-thirds of spending, from BEA data) grew +2.4%. Among the key drivers of the post-pandemic U.S. economy (reopening) was consumer demand for services (travel, restaurants, concerts, etc.). While that continued in 2023, spending on goods rebounded as well, contributing to strong overall growth. The combination of consumer, business, and housing investment reflected +2.2% of the +3.3% 4Q23 annualized GDP growth. While modestly below the 3Q23 contribution of +2.6%, it was better than any quarter in 2022, and for now, reduces chances of a recession, in our view. Also driving 4Q23 GDP upside was +3.3% growth in government outlays, including higher federal and state and local spending. Government spending continues to lift GDP growth, especially as the annual budget deficit increases. For the full-year 2023, U.S. GDP growth was +2.5%. This exceeded 2022's +1.9% growth and was driven by positive contributions from consumer, business investment, government outlays, and net exports. One year ago (December 2022), the FactSet consensus estimate for 2023 U.S. GDP growth was just +0.5%, but each quarter exceeded estimates. As of 1/26/24, the 2024 FactSet consensus GDP estimate is +1.4%.

The Federal Reserve Bank's (Fed) preferred core inflation measure dropped in December and could change the equation for the timing of an expected Fed interest rate cut. The personal consumption expenditures price index (PCE PI) increased +2.6% in December year-over-year (Y/Y), and the core PCE PI (excludes food & energy prices) increased +2.9% Y/Y. While both numbers remained above the Fed's 2.0% target, the core PCE PI monthly data showed a +0.2% M/M increase (+2.4% annualized) and the annualized M/M rate over the prior six months was +1.8%. Since peaking at 5.3% in February 2022, the core PCE PI has meaningfully improved, in our view. Since the Fed began raising its overnight bank lending fed funds interest rate target in March 2022 from 0% to its current 5.25% to 5.50% range, inflation has trended substantially lower while economic data has surprised to the upside. While the Fed would like to begin "normalizing" the fed funds target to lower levels, they could delay rate cuts until after the March Fed meeting as the current fed funds target does not appear to be weighing on economic growth.

The Fed meets for the first time in 2024 this week, and earnings reporting season for 4Q23 begins to heat up. A two-day Fed meeting concludes on 1/31/24, and the Fed is expected to hold interest rates (fed funds) unchanged and provide commentary on expectations for the next Fed meeting on 3/20/24. Many believe the Fed could stretch rate cut expectations out to the 5/1/24 meeting. Earnings reports are scheduled from 106 S&P 500 companies this week. Through early Monday, with 25% of S&P 500 reports complete, 4Q23 earnings are down Y/Y, and the estimate remains -1.7%. Many of the high-profile, tech-centric companies will report this week.

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