Wellington Shields

WELCOME TO 2024

Stocks performed well in the fourth quarter and for the year 2023, with the S&P 500 advancing more than 20%. However, practically all the action was in the so-called "magnificent seven," a handful of primarily large cap technology issues. The remaining 493 companies in the S&P 500 appreciated 14% collectively. The number of stocks, or market breadth, substantially increased in the fourth quarter, a good sign for further progress in 2024.

While U.S. economic growth has been resilient, inflation staying well-anchored is the more important determinant for future Federal Reserve policy and the hoped-for soft landing. In December, the U.S. Consumer Price Index was a bit above expectations, but the Producer Price Index (PPI) was well below. We have now had three consecutive months of negative PPI readings. Separately, the New York Fed's survey of one-year consumer inflation expectations fell to 3.0% and the three-year dipped to 2.6%. The domestic labor market appears to be overheating less, with fewer people leaving their jobs and better skills-matching at businesses. In sum, the U.S. labor market appears to be normalizing by cutting job openings rather than jobs.

At their most recent December meeting, Chairman Powell of the Federal Reserve Board hinted quite strongly that the Fed was finished raising interest rates, and the most likely path towards "normalization" would be rate cuts. This was greeted by some equity investors promptly penciling in five to six rate cuts during the course of 2024. We think this is excessive, and that three-to-four rate cuts are more likely. The last thing that the Fed wants is a repeat of the 1970s when they were forced to adopt a stop-and-go monetary policy due to reoccurring bouts of inflation.

Election years are generally good years for equity investors, but unique from other years in market patterns. We would not be surprised, therefore, to see weakness in the first half of the year, as investors muddle through the political process and its economic implications. We are optimistic, however, that with interest rates and inflation on a downward path and corporate profits increasing, 2024 will be a good year for both fixed income and equity investors.

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