U.S. Market Commentary

The Markets

Equity markets were positive in February as many companies released solid earnings reports for the fourth quarter. Bonds were negatively impacted by moderating expectations for interest rate cuts.

Market Indices	February 2024	Year-to-Date
Dow Jones Industrial Average	2.2%	3.5%
S&P 500 Index	5.2%	6.8%
NASDAQ Composite	6.1%	7.2%
MSCI World Index	4.1%	5.3%
Bloomberg US Aggregate Bond Index	-1.4%	-1.7%
Bloomberg Global Aggregate Bond Index	-1.3%	-2.6%

The Economy

Economic data for February was mixed but overall positive for the US economy. The final revision for Q4 GDP showed that the economy expanded at an annualized rate of 3.4 percent, up from the preliminary estimates of 3.3 and 3.2 percent. Consumer spending was also robust at 0.8 percent over the prior month, while Core Retail Sales rebounded by 0.3 percent following the prior month's 0.8 percent decline. On the other hand, the manufacturing sector continues to contract for the 16th consecutive month as the ISM Purchasing Managers Index (PMI) fell to 47.8 from 49.1 despite manufacturing prices increasing in recent months.

As for the labor market, favorable conditions persist although some softening in the data was observed during the month. Nonfarm payrolls for February confirmed that the US economy added 270k jobs, albeit less than the 300k+ added in the prior two months. On the other hand, unemployment rose to 3.9 percent from 3.7 percent in January, and the number of job openings declined to a three-year low of 8.756 million. Further, wage growth decelerated to 4.3 percent year-over-year from 4.5 percent.

Despite the longer-term downtrend in the rate of price growth, monthly inflation reports surprised to the upside partially due to a rebound in oil prices. The Consumer Price Index (CPI) increased to 3.2 percent over the past twelve months, alongside a rise in the Producer Price Index to 1.6 percent from 0.9 percent. However, excluding volatile food and energy components, the Core CPI moved lower marginally to 3.8 percent from 3.9 percent, while the Core PPI increased slightly to 2.1 percent from 2.0 percent. Coupled with stubborn service-based inflation, the recent climb in energy prices could threaten to keep inflationary pressures elevated in the near future and discourage the Fed from making interest rate cuts too soon.

Finally, the housing market perked up in February against the downtrend. Housing starts jumped by 14.3 percent to an annualized 1.521 million, and building permits increased by 2.4 percent to 1.524 million. Residential sales also climbed higher, as existing home sales and new home sales increased by 9.5 percent and 0.2 percent, respectively. The rebound may be due in part to the steady decline in mortgage rates since October 2023, as homebuyers seek to take advantage of any moderation in borrowing costs. However, the long term drag within the sector could continue as the MBA 30-year mortgage rate bucked the downward trend and escalated to 7.04 percent in February.

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