U.S. Market Commentary

The Markets

Markets extended their late-year rally in December as the US economy proved more resilient in 2023 and interest rates appear to have peaked.

Market Indices	December 2023	Year-to-Date
Dow Jones Industrial Average	4.8%	13.7%
S&P 500 Index	4.4%	24.2%
NASDAQ Composite	5.5%	43.4%
MSCI World Index	4.8%	21.8%
Bloomberg US Aggregate Bond Index	3.8%	5.5%
Bloomberg Global Aggregate Bond Index	4.2%	5.7%

The Economy

Economic reports for December suggested that the US economy performed well and above expectations for the full calendar year. Preliminary estimates for Q4 GDP suggested the economy grew at a healthy annualized pace of 3.3 percent, albeit slower than the 4.9 percent reported in Q3. Fiscal support and a strong labor market kept American consumers afloat on a broad level despite the steep incline in interest rates over the past two years. Although the overall pace of job growth slowed compared to 2022, the US economy averaged monthly job gains of over 250k in 2023 and recorded 333k new jobs in December. Further, the unemployment rate remained flat at 3.7 percent from the prior month and has only moved up marginally from the 3.5 percent recorded in December 2022. Wage growth also remains steady, improving 4.3 percent year-over-year. With the job market intact, both personal spending and core retail sales increased over the prior month, with gains of 0.7 percent and 0.4 percent, respectively.

Consumers' outlook also improved in December, as The Conference Board's Consumer Confidence Index climbed to 108.0 from a revised 101.0 in November led by more positive ratings of current business conditions and job availability. Similarly, the University of Michigan's Consumer Sentiment Index showed a sharp improvement in December to 69.7 from 61.3 from the prior month as consumers were much more optimistic about inflation expectations and expected business conditions. On the other hand, the manufacturing sector looked dull throughout the year. Economic activity recorded by the Institute for Supply Management's Purchasing Managers Index (PMI) showed that the sector contracted in December for the 14th consecutive month, highlighting one of the few weak spots in the economy as demand within this sector remains soft.

As for inflation, a downward trend was firmly established in 2023. Year-over-year readings of the Consumer Price Index (CPI) showed that inflation fell to 3.4 percent in December from 6.5 percent a year ago, with a drop in oil prices leading the decline. The Core CPI (which strips out volatile components such as food and energy) also declined in 2023 but fell less sharply to 3.9 percent from 5.7 percent a year earlier as the price of services (primarily shelter and transportation) increased by 5.3 percent. The downward trend was even more pronounced in producer prices, as the Producer Price Index (PPI) declined to 1.0 percent from 6.2 percent in December 2022 and the Core PPI fell to 1.8 percent from 5.5 percent. More recently, the monthly PPI change has been flat or negative for the past three months. In line with slowing price growth, the US Federal Reserve has held interest rates steady at 5.25 – 5.50 percent since July and it appears unlikely that rates will move higher in the absence of rising inflation.

Lastly, the housing sector struggled in 2023 as mortgage rates soared above 7 percent and inventory remained low. Preliminary estimates show that sales of existing homes fell by over 18 percent in 2023 as homeowners locked into low interest rates were reluctant to sell their homes and assume higher mortgage payments. On the bright side, the 30-year mortgage rate in December declined by over a full percentage point since October to 6.83 percent and the possibility of an increase in available homes coupled with mortgage rates declining further in 2024 offers potential for a more affordable market for homebuyers.

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