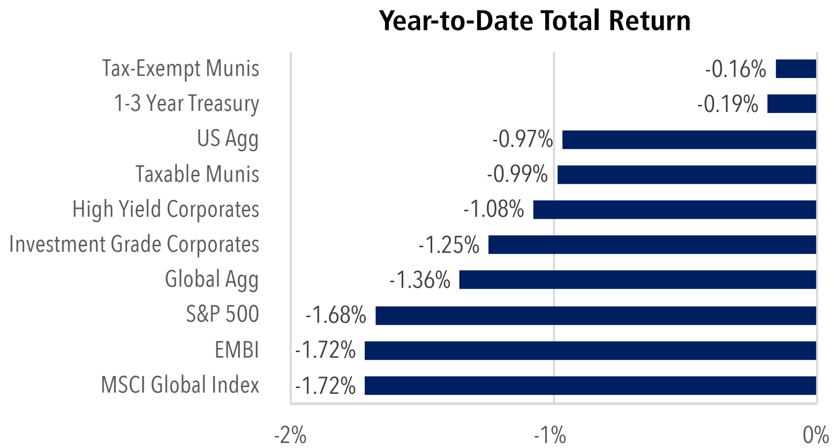
Week Ending: **January 5, 2024**

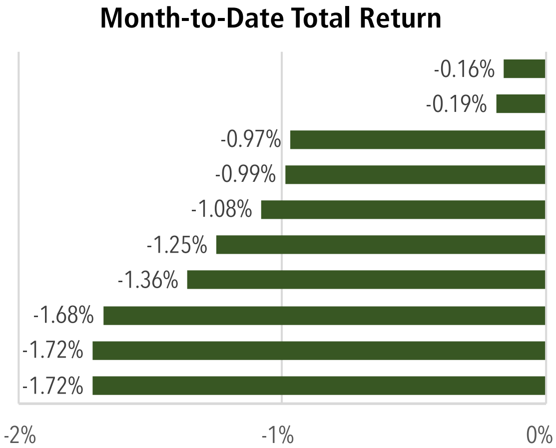
Back Into Balance

Economic Overview:

What would justify rate cuts from the Fed in 2024? This week's freshly published December FOMC meeting minutes highlight two significant considerations. First, "clear progress had been made in 2023 toward the 2 percent inflation objective," notably "the recent shift down in six-month inflation readings." Second, participants see "growing signs of demand and supply coming into better balance in labor markets," which will "ease upward pressures on nominal wages and prices." This week's release of the November Jobs Opening and Labor Turnover Survey bolstered the view that labor market imbalances are easing—the "quits rate" declined to 2.2%, a sign that workers see fewer opportunities to switch jobs in pursuit of higher wages. Suppose inflation continues to cool and the labor market rebalances. In that case, the Fed can afford to be less restrictive—great news for investors expecting rate cuts. With the market pricing in 130 basis points of cuts starting as early as March, well, we know it's ski season in the northern hemisphere, but the market may be over its skis.

Total Returns by Asset Class





Source: Bloomberg

Highlights of the Week:

High Yield: 2023 high-yield bonds delivered a blockbuster return of +13.4%, more than half of which came from coupon income. While it may be challenging to match the 2023 result this year, yields in the 8% context today are down only modestly from the 9% yields on offer at the beginning of 2023, which bodes well for income generation in 2024.

Municipals: Healthy municipal bond performance continued into December 2023, with the Bloomberg IG Municipal Bond Index recording a solid 2.3%, contributing to an annual return of 6.4% for 2023. Taxable municipal bonds enjoyed an even stronger performance in December, registering a 5% return, outperforming taxable equivalent corporate bonds and Treasuries.

Equities: The U.S. equity market ended the first trading week of 2024 lower as investors appear to be taking a breather after nine consecutive weekly gains. Market leadership favored last year's losers, with health care, utilities, and energy posting gains of greater than 1%, while tech, consumer discretionary, and industrials ended the weekly down more than 2%.