RESEARCH CORNER

January 8, 2024

OBSERVATIONS: *Weak markets, manufacturing improves, services weakens, and job creation steady.*

- After a strong finish to 2023, equity markets took a breather and traded lower for the week. After nine straight weeks of gains, the S&P 500 declined -1.5%, while US small caps (Russell 2000 Index) fell -3.7% and the NASDAQ declined -3.2%.[1] The yield on a 10-year Treasury rose 17 basis points to 4.05%.[1]
- The ISM Manufacturing PMI improved to 47.4 in December from November's 46.7 reading—any figure below 50 denotes a contraction in economic activity—which suggests the US manufacturing sector continues to face headwinds from slowing global growth and sluggish global trade.[1]
- However, the ISM Services PMI declined in December to 50.6 down from November's 52.7 figure.[1]
- Job openings declined slightly in November (the most recent data available) to 8.792 million from October's 8.852 million openings, but still above the average number of job openings (7.1 million) in the 2018-2019 period. The quit rate—the share of the labor force that voluntarily resigned from a job—also declined to 2.2% in November down from October's 2.3% rate—the quit rate averaged 2.3% over the 2018-2019 period.[1]
- Unemployment claims once again reconfirmed the strength of the labor market. In the final week of 2023, initial unemployment claims fell 18k to 202,000 (seasonally adjusted)—this is the lowest number of initial unemployment claims for any week in December since 1969.[1]
- The US economy created 216k new jobs in December and the unemployment rate remained at 3.7%—the US has averaged 180k new jobs each month for the past six months and the unemployment rate has been below 4% for 23 consecutive months, which is the longest streak since 1969.[1]

EXPECTATIONS: *Fed minutes pour cold water on a March rate cut, elections galore.*

- The minutes of the Fed's most recent rate setting meeting—December 12-13, 2023—caused markets to reassess their timing of the first potential rate cut in 2024. Prior to the minutes release, the Fed Futures market had priced in a 100% chance that the Fed would cut rates by -25bps in March-2024, but after the minutes' release the likelihood of a March rate cut had fallen to 70%. The meeting minutes showed that while most participants felt that rates would likely be lower by the end of 2024, they noted there was an "unusually elevated degree of uncertainty" around the outlook for the economy in 2024 that could change their rate outlook for the year.[2]
- 2024 is the year of the election, not only will US voters go to the polls in November, nearly 4 billion voters will be voting in some type of election this year. While the outcomes of some elections are unlikely to surprise—Russian voters head to the polls in March—others will have implications for a wide spectrum of stakeholders. This includes Taiwanese Presidential elections later this month, general elections in Indonesia (February), India (April-May), and Mexico (June). Each of these elections will impact global trade and geopolitical tensions across the world.[3]

ONE MORE THOUGHT: *Clearstead's Outlook for 2024*

After a better-than-expected year for the economy and markets in 2023, we pivot to 2024 with mixed expectations for both. So long as the economy avoids recession—we currently assign a low probability for a recession—investors can reasonably expect single digit returns out of public equity and fixed income markets. The risk for equities is that earnings must meet or beat lofty earnings expectations or else returns could disappoint. For bond markets, low

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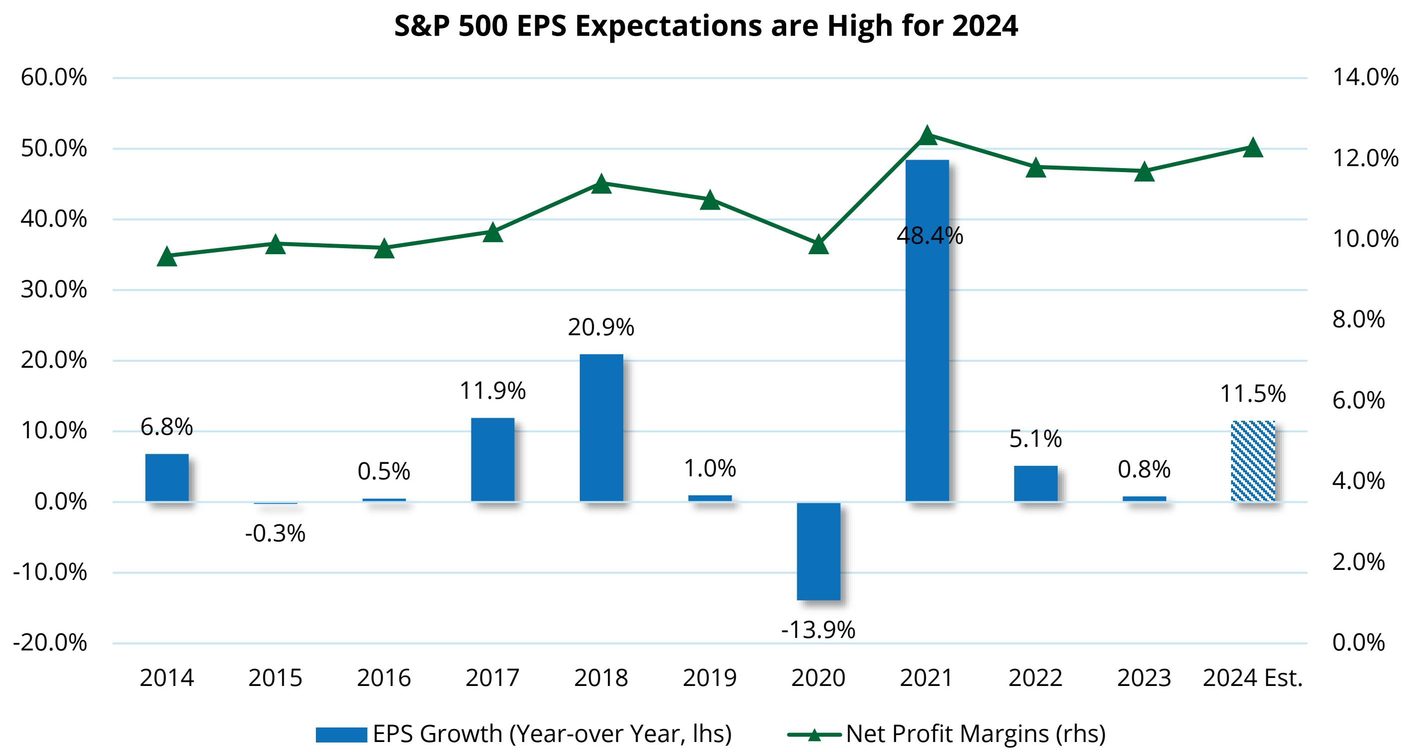
[1] *Bloomberg LP*
[2] *https://www.federalreserve.gov/monetarypolicy/fomcminutes20231213.htm*
[3] *Economist "2024 is the biggest election year in history" 11/13/2023*

single digit returns seem reasonable and some of the negative tail risk of large declines in bond markets (like those of 2022) are likely off the table considering the trajectory of inflation, real GDP, and monetary policy. 2024 is likely a year where diversification pays off and we expect to be talking about more than the magnificent seven this year. For private markets, the next few years should be a great buying opportunity for private equity investors with capital left to deploy, and we encourage our clients to maintain allocations to private markets going forward. Lastly, an increasingly ambiguous economic environment is likely to translate into greater dispersion in return outcomes across both public and private markets. To that end, we continue to focus on disciplined, repeatable, and tenured research and due diligence processes to help our clients meet their objectives. As always, we thank you for your trust and look forward to a prosperous new year. For a more complete discussion of our 2024 expectations please see our January ClearPoint.

CHART OF THE WEEK



Source: Factset Earnings Insight 12/15/2023

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