Summary

Last week, the stock market continued its weekslong rally while the Federal Reserve held interest rates steady. Both the S&P 500 and the Dow Jones Industrial Average hit new highs on Friday, finishing the week at 4,959 and 15,629, respectively. The NASDAQ climbed 1.1% for the week.

Several reports surprised analysts who had predicted a softening of the labor market. Employers added 373,000 workers to their payrolls in January, twice as many as expected. The majority of the new hires (317,000) were in the private sector. The strong January reading was accompanied by an upward revision of the December private sector payroll to 278,000 from 164,000. November private sector payrolls were also revised to 152,000 from 136,000. The unemployment rate held steady at 3.7% against expectations of an uptick. The cost of labor decelerated in the last quarter of 2023. Wages and salaries increased 0.9% in the last three months of the year, the smallest quarterly increase since 2021. That trend seems to have reversed in January, with wages rising 0.6% for the month, compared to analysts' expectation of a more moderate 0.3% growth. There were a little more than 9 million job vacancies on the last day of December, a small increase from the month before. Initial claims increased 9,000 to 224,000 for the week ending January 27. Continuing jobless claims for the week ending January 20 jumped 70,000 to 1.898 million.

Consumers are feeling more confident about the economy. Both the Conference Board's Consumer Confidence Index and the University of Michigan Consumer Sentiment Index climbed in January. Total construction spending increased 0.9% month-over-month in December, driven by a boost in residential spending (+1.4%). Still, the low current housing supply is limiting options for prospective buyers and is keeping home-price growth elevated. Mortgage applications for the week ending January 26 decreased 7.2% from one week earlier while the average loan size has now reached $444,100, the largest average loan size since May 2022. The January ISM Manufacturing PMI checked in at 49.1% from 47.1% in December, approaching the breakeven mark of 50.0%, the dividing line between expansion and contraction. Factory orders increased 0.2% month-over-month in December. Excluding defense goods, orders were up 0.4%.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Consumer Confidence (Jan – Tu 10:00)	114.8	113.0	Prior: 108.0
JOLTS – Job Openings (Dec – Tu 10:00)	9.026M	NA	Prior: 8.925M
MBA Mortgage Applications Index (1/27 – We 7:00)	-7.2%	NA	
Employment Cost Index (Q4– We 8:30)	+0.9%	+1.0%	
Initial Claims (1/27 – Th 8:30)	224K	NA	
Continuing Claims (1/20 – Th 8:30)	1898K	NA	
Construction Spending (Dec – Th 10:00)	+0.9%	+0.4%	
ISM Manufacturing Index (Jan – Th 10:00)	49.1%	47.3%	
Nonfarm Payrolls (Jan – Fr 8:30)	+353K	+175 K	Nonfarm Private Payrolls:+ 317K
Avg. Hourly Earnings (Jan – Fr 8:30)	+0.6%	+0.3%	
Unemployment Rate (Jan – Fr 8:30)	3.7%	3.8%	
Factory Orders (Dec – Fr 10:00)	+0.2%	+0.3%	Factory Order Less Defense: +0.4%
U. Michigan Consumer Sentiment – Final (Jan – Fr 10:00)	79.0	78.8	Prior: 69.7
Next Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
ISM Non-Manufacturing Index (Jan – Mo 10:00)	52.0%	50.5	
MBA Mortgage Applications Index (2/3 – We 7:00)	NA	-7.2%	
Trade Balance (Dec– We 8:30)	-$62.0B	-$63.2B	
Consumer Credit (Dec – We 15:00)	+$16.3B	+$23.7B	
Initial Claims (2/3 – Th 8:30)	225K	224K	
Continuing Claims (1/27 – Th 8:30)	NA	1898K	

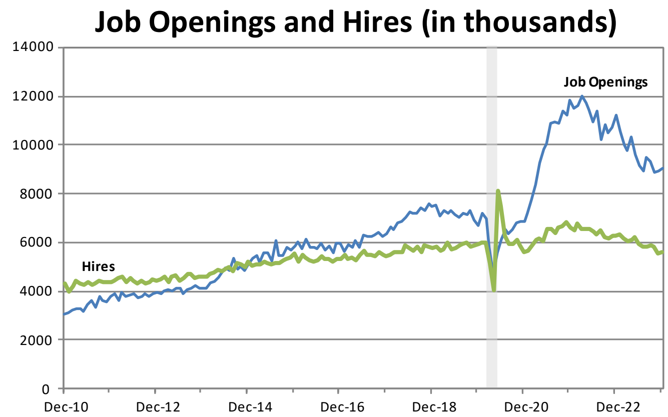
**Sources: www.briefing.com and www.federalreserve.gov*

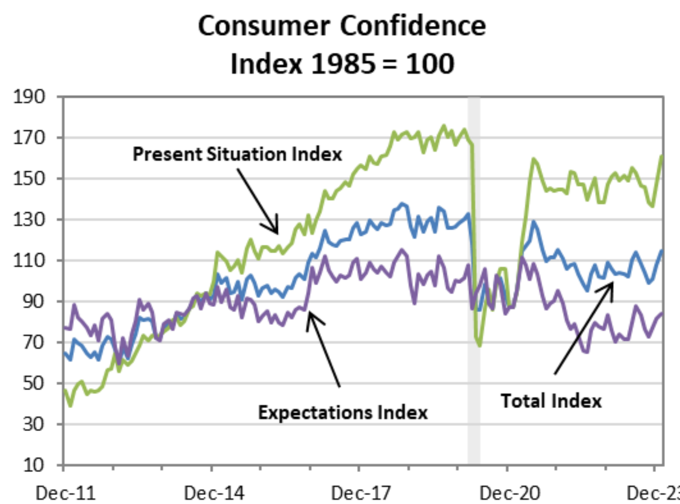
Economic Review

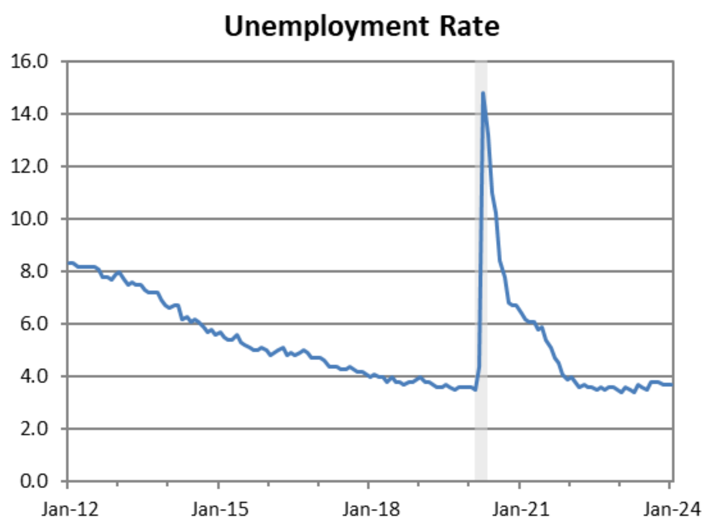
The number of JOB OPENINGS hitched up in December to 9.02 million, but remains 19% below its level a year prior. This drop is not uniform across all establishments. Year-over-year, job openings were up 9% for establishments with less than 10 employees, but down for all other establishments. A larger decline was registered among establishments with 10 to 49 employees (-34%) followed by establishments with 50 to 249 employees (-31%). Job openings for establishments with 1,000 to 4,999 employees are down 3% and those for establishments with more than 4,999 employees are down 5%. There are now 1.4 job openings per unemployed worker compared to almost 2 job openings per unemployed worker at the end of 2022. In December, the number of hires was little changed at 5.6 million. The number of hires decreased in health care and social assistance (-119,000) but increased in state and local government, excluding education (+35,000).

The Conference Board's CONSUMER CONFIDENCE INDEX rose in January to 114.8 from 108.0 in December, fueled by a drop in average 12-month inflation expectations. That is the highest reading since December 2021 and the third straight monthly increase. Inflation expectations fell to 5.2% from 5.6% in December, hitting the lowest level since March 2020. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—surged to 161.3 from 147.2 last month. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—improved to 83.8 in January, up from a revised reading of 81.9 in December.

January's UNEMPLOYMENT RATE was unchanged at 3.7%, for the third month in a row. However, The U6 unemployment rate, which accounts for unemployed and underemployed workers, was 7.2% versus 7.1% in December. The number of people employed part-time for economic reasons increased 5% month over month. These individuals, who would have preferred full-time employment, were working part-time because their hours had been reduced or they were unable to find full-time jobs. The average workweek in January was 34.1 hours, versus 34.3 hours in December. Among the major worker groups, the unemployment rates for adult men (3.6%), adult women (3.2%), teenagers (10.6 %), Whites (3.4%), Blacks (5.3 %), Asians (2.9%), and Hispanics (5.0%) showed little or no change in January.







Fed Speeches

Federal Reserve Chairman Jerome Powell held a news conference following the Janaury 30-31 Federal Open Market Committee meeting. As anticipated, the Committee decided to leave the Fed funds target rate unchanged at 5.25% to 5.50% (for a fourth straight meeting) but to continue to reduce securities holdings. However, the Chair suggested that rate cuts are likely in 2024:

> *"We believe that our policy rate is likely at its peak for this tightening cycle and that, if the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year."*

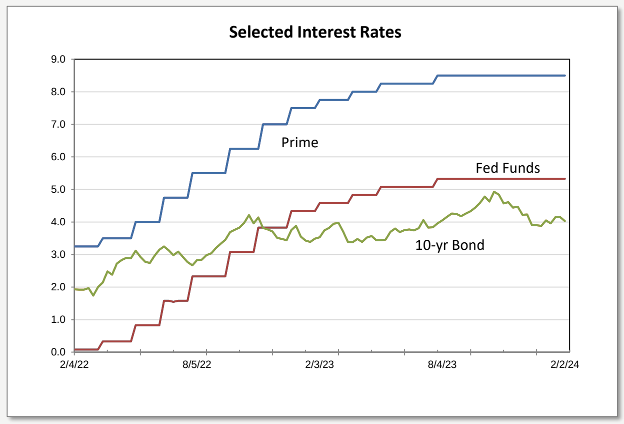
These cuts are not expected to the implemented in the spring. While the last six months of data are promising, the Committee wants to see more reports to be sure that inflation continues to cool off:

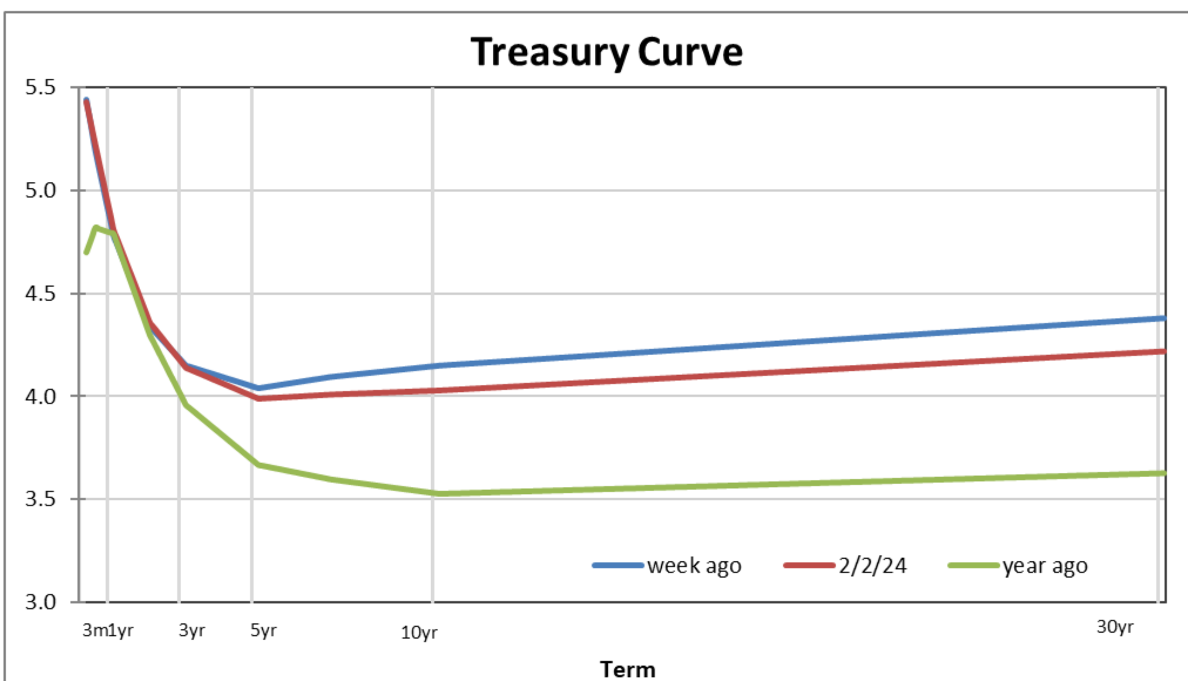
> *"Based on the meeting today, I would tell you that I don't think it's likely that the Committee will reach a level of confidence by the time of the March meeting to identify March as the time to do that."*

The main concern in the mind of the Committee members is not that inflation may reaccelerate, but that it may stabilize at a level above the target rate of 2%.

Financial Markets

The U.S. stock market experienced continued gains last week with the Dow Jones Industrial Average and the S&P 500 advancing 1.4%, and the NASDAQ rising 1.1%. Short-term Treasury yields were little changed. The yields on the 10-year and the 30-year bonds dropped 12 and 16 basis points, respectively. The average 30-year conventional mortgage rate shed 6 basis points to finish the week at 6.63%. The price of gold jumped 1.0%. Crude oil prices dropped 7.6%, ending the week at $72.20 per barrel. In the forex market, the U.S. dollar was relatively unchanged against the Japanese yen and the euro fell 0.6% against the greenback last week.





Interest Rate Forecast*

The Federal Open Market Committee (FOMC) kept the federal funds rate target at 5.25% to 5.50% during the Fed's January policy meeting. In the statement released following the meeting, the FOMC said, "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
1st Qtr '24	8.5	5.4	5.36	5.4	4.7	4.3	4.5	6.9
2nd Qtr	8.4	5.3	5.27	5.3	4.8	4.4	4.5	6.8
3rd Qtr	8.1	5.0	4.94	5.0	4.8	4.5	4.5	6.6
4th Qtr	7.7	4.5	4.52	4.6	4.5	4.5	4.5	6.4
1st Qtr '25	6.9	3.8	3.77	4.3	4.1	4.5	4.5	6.2

January 29, 2024

FINANCIAL MARKET SUMMARY

	As of 2/02/2024	As of 1/26/2024	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	8.50	8.50	0	0	0
Secured Overnight Financing Rate (SOFR)	5.32	5.32	0	0	0
Fed Funds (Wed close)	5.33	5.33	0	0	0
TREASURIES (BE) (Changes in BPs)					
3 Months	5.43	5.44	(1)	(4)	(10)
6 Months	5.22	5.19	3	(2)	(23)
1 Year	4.81	4.78	3	(3)	(48)
2 Years	4.36	4.34	2	(4)	(47)
5 Years	3.99	4.04	(5)	(3)	(50)
10 Years	4.03	4.15	(12)	(2)	(54)
30 Years	4.22	4.38	(16)	1	(55)
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.69	2.84	(15)	12	(82)
5-Year Muni	2.35	2.50	(15)	7	(94)
10-Year Muni	2.42	2.55	(13)	14	(95)
30-Year Muni	3.56	3.69	(13)	7	(82)
30-Year Conventional Mortgage	6.63	6.69	(6)	1	(113)
MARKET INDICATORS (Changes in %)					
DJIA	38,654.42	38,109.43	1.4	3.2	13.5
S&P 500	4,958.61	4,890.97	1.4	5.6	13.8
NASDAQ	15,628.95	15,455.36	1.1	7.6	16.0
CRB Futures	307.45	313.82	(2.0)	1.1	(3.7)
Oil (WTI Crude)	72.20	78.12	(7.6)	0.8	(15.2)
Gold	2,037.88	2,018.52	1.0	(0.3)	2.3
Yen / Dollar	148.36	148.16	0.1	5.2	(0.9)
Dollar / Euro	1.08	1.09	(0.6)	(1.4)	0.5