Summary

The stock market ended the first week of 2024 on a negative note. The strong labor market report has investors worried that the Fed will not start cutting interest rates as soon as anticipated. The Dow Jones Industrial Average lost 0.6%, the S&P 500 dropped 1.5%, and the NASDAQ retreated 3.2%.

The unemployment rate held steady in December at a remarkably low 3.7%, but the labor force participation rate fell to 62.5% from 62.8% in November. Nonfarm payrolls increased by a larger-than-expected 216,000 in December; however, downward revisions for October and November led to 71,000 fewer jobs than previously reported. Nonfarm payroll is the net difference between new hires and separations. In November, the number of hires and total separations decreased to 5.5 million and 5.3 million, respectively. Hiring is now down 12.6% year-over-year. Quits have also moderated, with 3.5 million quits in November compared to 4.1 million a year before. The number of job openings changed little at 8.8 million on the last business day of November, down from 10.7 million a year prior.

Average hourly earnings rose 0.4% in December month-over-month, beating analysts expectations. Over the last 12 months, average hourly earnings have risen 4.1%, versus 4.0% for the 12 months ending in November. Initial jobless claims for the week ending December 30 decreased 18,000 to 202,000. Continuing jobless claims for the week ending December 23 decreased 31,000 to 1.855 million but remained elevated compared to a year ago. In December, persons unemployed for 27 weeks or more accounted for 19.7% of the unemployed versus 19.4% in November.

Mortgage applications decreased 9.4% from two weeks earlier, according to data from the Mortgage Bankers Association's (MBA) Weekly Mortgage Applications Survey for the week ending December 29, 2023. Mortgage rates have come down considerably in recent weeks, but the housing supply remains limited. The recent strength in new residential construction will help ease inventory shortages in 2024. Total construction spending increased 0.4% month-over-month in November, less than expected (+0.6%). Although disappointing, the reading is still up 11.3% over 12 months.

Factory orders increased 2.6% month-over-month in November, twice as much as expected, after declining 3.4% in October. The December ISM Manufacturing PMI fared better than anticipated and checked in at 47.4%, while the ISM Non-Manufacturing Index dropped more than expected to 50.6%.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Construction Spending (Dec – Tu 10:00)	+0.4%	+0.6%	Year-over-year: +11.3%
MBA Mortgage Applications Index (12/29 – We 7:00)	-9.4%	NA	
ISM Manufacturing Index (Dec – We 10:00)	47.4%	47.1%	
JOLTS – Job Openings (Nov – We 10:00)	8.790M	NA	Prior: 8.852M
Initial Claims (12/30 – Th 8:30)	202K	220K	
Continuing Claims (12/23 – Th 8:30)	1,855K	NA	
Nonfarm Payrolls (Dec – Fr 8:30)	+216K	+162K	Nonfarm Private Payroll: +164K
Unemployment Rate (Dec – Fr 8:30)	3.7%	3.8%	
Avg. Hourly Earnings (Dec – Fr 8:30)	+0.4%	+0.3%	
Factory Orders (Nov – Fr 10:00)	+2.6%	+1.3%	
ISM Manufacturing (Dec – Fr 10:00)	50.6%	52.5%	
Next Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
Consumer Credit (Nov – Mo 15:00)	+$9.3B	+$5.2B	
Trade Balance (Nov – Tu 8:30)	-$64.7B	-$64.3B	
MBA Mortgage Applications Index (1/6 – We 7:00)	NA	-9.4%	
CPI (Dec – Th 8:30)	+0.2%	+0.1%	Core CPI: +0.2%
Initial Claims (1/6 – Th 8:30)	209K	202K	
Continuing Claims (12/30 – Th 8:30)	NA	1,855K	
Treasury Budget (Dec – Th 14:00)	NA	-$314.0B	
PPI (Dec – Fr 8:30)	+0.1%	0.0%	Core PPI: +0.2%

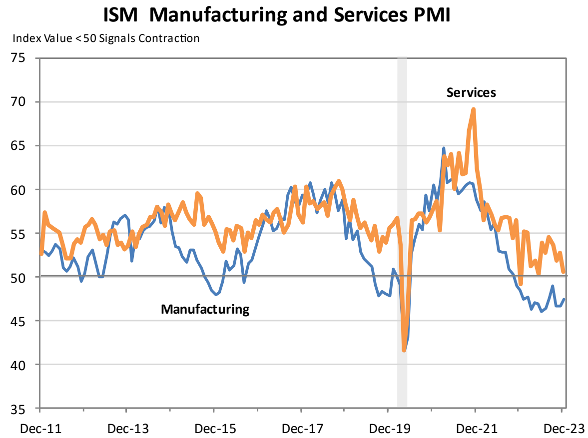
**Sources: www.briefing.com and www.federalreserve.gov*

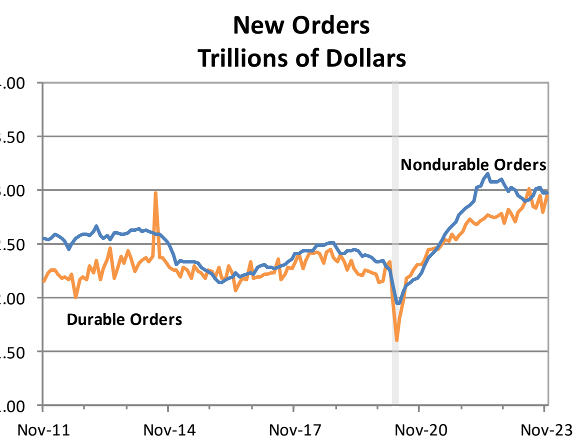
Economic Review

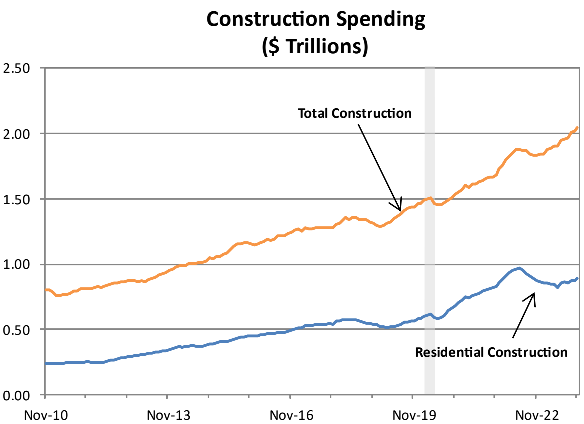
The December ISM MANUFACTURING PMI checked in at 47.4%, up from 46.7% in November. While the index has improved slowly in the last quarter of 2023, it remains below 50; the dividing line between expansion and contraction is 50.0%. Improvements in backlog of orders, supply deliveries, production, new export orders, and employment led to the advancement of the index. The opposite is true about the ISM SERVICES PMI. The index decreased to 50.6% from 52.7% in November. While the index remains above 50%, it is approaching contraction territory. A deterioration in new orders, employment, prices, and supply deliveries contributed to this decline.

NEW ORDERS increased 2.6% month-over-month in November and 0.7% year-over-year. Excluding defense, factory orders were up 3%. The jump was driven by orders for transportation equipment that soared 15.3%, namely nondefense aircraft and parts (+80.1%). Without transportation, factory orders were up only 0.1% for the month. Durable goods orders increased 5.4% month-over-month to \$2.95 trillion supported by strong demand for electrical equipment, appliances, and components (+1.2%), machinery (+0.2%), primary metals (+0.5%) and computers and electronic products (+0.2%). New orders for nondurable goods were flat at \$2.98 trillion. New orders for nondefense capital goods excluding aircraft –a proxy for business spending, rose 0.8% after declining 0.6% in October.

Total CONSTRUCTION SPENDING increased 0.4% in November to \$2.1 trillion. Total residential construction spending rose 1.0% while nonresidential spending was down 0.1% month-over-month. In private construction, residential spending jumped 1.1%, led by a 2.9% increase in new single-family construction. Nonresidential spending was up 0.2%, led by a 0.8% increase in power spending and a 0.5% increase in manufacturing spending. In public construction, nonresidential spending fell 0.6% month-over-month, paced by a 0.3% decline in educational spending and a 1.6% decline in sewage and waste disposal spending.







Fed Speeches

Federal Reserve Bank of Richmond President Thomas Barkin spoke on January 3, 2024 at the Raleigh Chamber of Commerce. In his presentation, President Barkin was optimistic that a soft landing was achievable, but he emphasized that it was not a secure outcome. He pointed to four potential risks still on the table. First, because monetary policies impact the economy with substantial lags, past monetary tightening may derail the soft landing even without any further interest rate hikes. Second, there is the unanticipated risk of unforeseen events:

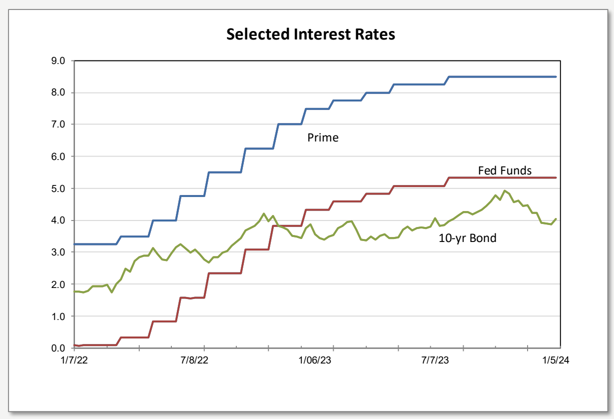
> *"The economy is always vulnerable to geopolitical events, a cyber shutdown, unanticipated spillovers from troubled sectors or banks pulling back in force. Such shocks could bring inflation down but at a potentially large cost."*

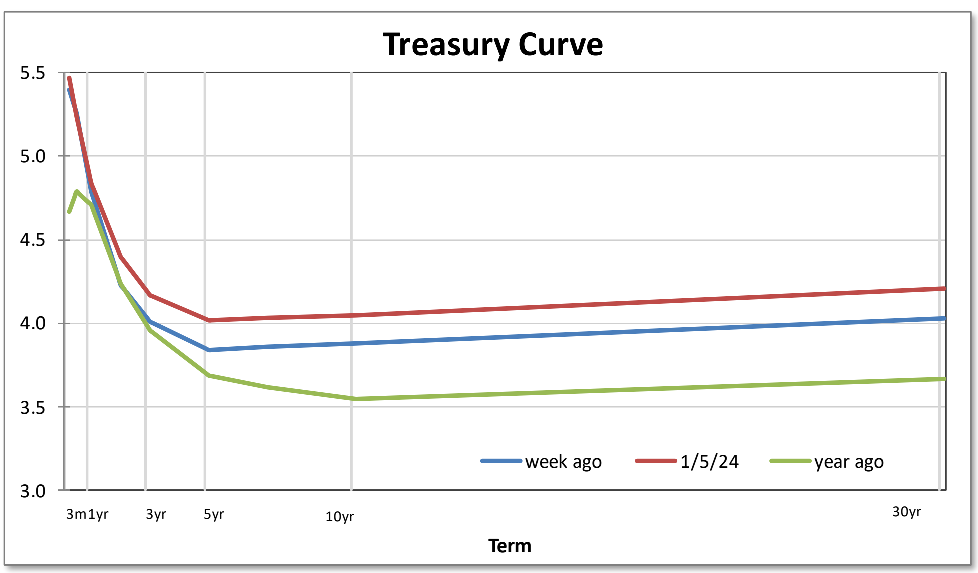
Third, although inflation has moderated, most of the gains are concentrated on the partial reversal of pandemic-era goods prices. Shelter and services inflation remains higher than historical levels, presenting a risk that inflation levels off higher than the Fed's 2 percent target rate. Finally, there is the risk that the soft landing may be delayed:

> *"Longer-term rates have dropped recently, which could stimulate demand in interest-sensitive sectors like housing. While you might think this would be a first-class problem, strong demand isn't the solution to above-target inflation. That's why the potential for additional rate hikes remains on the table."*

Financial Markets

The U.S. stock market had a weak start to 2024 with the Dow Jones Industrial Average losing 0.6%, the S&P 500 shedding 1.5%, and the NASDAQ dropping 2.4%. Yields on government securities and municipal bonds rebounded except for the 6-month t-bill that lost two basis points. Medium and long-run Treasury yields scored the biggest advance since October after a strong jobs report. The average 30-year conventional mortgage rate stayed mostly flat, advancing only 1 basis point for the week. The price of gold declined 0.9%. Crude oil prices moved up 3.2% and ended the week at $73.91 per barrel. The greenback strengthened its position on the Forex market. The U.S. dollar appreciated 2.6% against the Japanese Yen and 0.9% against the euro.





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 December policy meeting. In the statement released following the meeting, the FOMC said, "In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
4th Qtr '23	8.5	5.3	5.33	5.5	5.0	4.6	4.8	7.5
1st Qtr '24	8.5	5.4	5.35	5.5	4.9	4.6	4.7	7.6
2nd Qtr	8.4	5.3	5.27	5.4	4.9	4.8	4.8	7.7
3rd Qtr	8.1	5.0	4.94	5.1	4.8	4.7	4.8	7.4
4th Qtr	7.7	4.5	4.52	4.8	4.6	4.6	4.8	7.0

**Forecast as of November 27, 2023*

FINANCIAL MARKET SUMMARY

	As of 1/5/2023	As of 12/29/2023	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	5.38	(6)	0	0
Fed Funds (Wed close)	5.33	5.33	0	0	0
TREASURIES (BE) (Changes in BPs)					
3 Months	5.47	5.40	7	3	(16)
6 Months	5.24	5.26	(2)	(15)	(35)
1 Year	4.84	4.79	5	(29)	(59)
2 Years	4.40	4.23	17	(31)	(68)
5 Years	4.02	3.84	18	(22)	(73)
10 Years	4.05	3.88	17	(18)	(73)
30 Years	4.21	4.03	18	(10)	(74)
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.57	2.50	7	(24)	(119)
5-Year Muni	2.28	2.22	6	(19)	(122)
10-Year Muni	2.34	2.27	7	(13)	(123)
30-Year Muni	3.49	3.40	9	(17)	(105)
30-Year Conventional Mortgage	6.62	6.61	1	(41)	(87)
MARKET INDICATORS (Changes in %)					
DJIA	37,466.11	37,689.54	(0.6)	3.4	12.1
S&P 500	4,697.24	4,769.83	(1.5)	2.0	9.0
NASDAQ	14,524.07	15,011.35	(3.2)	0.8	8.1
CRB Futures	304.10	301.40	0.9	1.6	(2.7)
Oil (WTI Crude)	73.91	71.65	3.2	(0.5)	(18.7)
Gold	2,044.87	2,062.98	(0.9)	2.0	11.7
Yen / Dollar	144.70	141.04	2.6	(1.5)	(3.1)
Dollar / Euro	1.09	1.10	(0.9)	1.6	3.3