Summary

Stock prices fluctuated during a choppy trading week following a series of disappointing inflation reports. The S&P 500 retreated 0.4% for the week after touching a new record high on Thursday. The Dow Jones Industrial Average lost 0.1% while the NASDAQ dropped 1.3%.

The much anticipated CPI release last Tuesday caught many analysts by surprise. Prices accelerated faster than expected in January. Core CPI, which excludes food and energy, saw an even bigger rise, climbing 0.4% month-over-month, the fastest increase since April 2023. On Friday, the PPI, a leading indicator of future inflation, also showed that wholesale prices rose faster than expected in January, which will give Fed officials an argument to maintain their hawkish interest rate rhetoric. Import and export prices grew at a faster pace, breaking the trend we saw in recent months.

January was also a disappointing month for the housing market. Both the number of housing starts and building permits came short of expectations, bringing little hope that the inventory-constrained housing market will ease anytime soon. The number of mortgage applications for the week ending February 10 dropped 2.3% compared to the previous week. There was a slowdown in production and spending in January as well. Industrial production contracted in January (-0.1%) despite analysts' predictions of a 0.4% expansion. Manufacturing, the major component of industrial production, declined 0.5% from December to January. Retail sales plunged 0.8% month-over-month in January, larger than a forecasted 0.2% decline.

The January Treasury Budget showed a deficit of $22.0 billion compared to a deficit of $38.8 billion in the same period a year ago. Initial claims continue to remain low, decreasing by 8,000 to 212,000 for the week ending February 10 while continuing jobless claims for the week ending February 3 increased by 30,000 to 1.895 million.

Despite several reports pointing to an underperforming economy in January, consumers remain optimistic. The preliminary reading for the University of Michigan Consumer Sentiment Index for February came in at 79.6 (Briefing.com consensus 79.3), up from the final reading of 79.0 for January. In the same period a year ago, the index stood at 66.9.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
Treasury Budget (Jan – Mo 14:00)	-$22.0B	NA	Year prior: -$38.8B
CPI (Jan – Tu 8:30)	0.3%	+0.2%	Core CPI: +0.4%
MBA Mortgage Applications Index (02/10 – We 7:00)	-2.3%	NA	Prior: 3.7%
Initial Claims (02/10 – Th 8:30)	212K	221K	
Continuing Claims (02/03 – Th 8:30)	1895K	NA	Prior: 1865K
Retail Sales (Jan– Th 8:30)	-0.8%	-0.2%	Retail Sales ex-auto: -0.6%
Industrial Production (Jan– Th 8:30)	-0.1%	+0.4%	
Import Prices (Jan– Th 8:30)	+0.8%	NA	Import Prices ex-oil: +0.7%
Export Prices (Jan– Th 8:30)	+0.8%	NA	Export Prices ex-ag.: +0.9%
Housing Starts (Jan– Fr 8:30)	1331 TUAR	1,470 TUAR	
Building Permits (Jan– Fr 8:30)	1470 TUAR	1,510 TUAR	
PPI (Jan– Fr 8:30)	+0.3%	+0.1%	Core PPI: 0.5%
U. of Michigan Consumer Sentiment – Prelim (Feb– Fr 10:00)	79.6	79.3	
Next Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
Leading Indicators (Jan – Tu 14:00)	-0.3%	-0.1%	
MBA Mortgage Applications Index (02/17 – We 7:00)	NA	-2.3%	
Initial Claims (02/17– Th 8:30)	216K	212K	
Continuing Claims (02/10– Th 8:30)	NA	1895K	
Existing Home Sales (Jan– Th 10:00)	3.99 MUAR	3.78 MUAR	

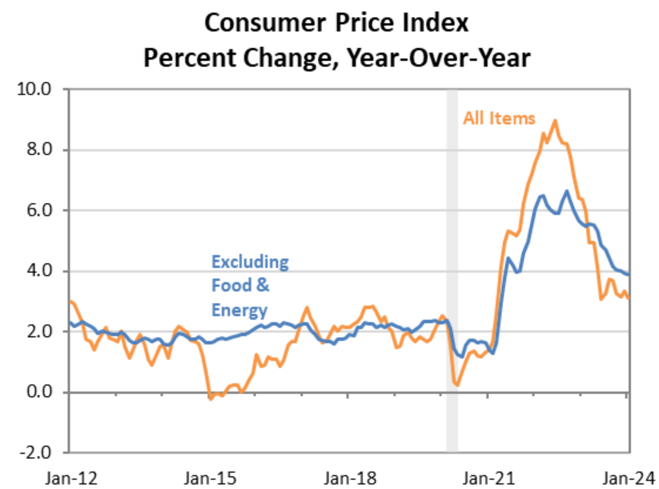
**Sources: www.briefing.com and www.federalreserve.gov*

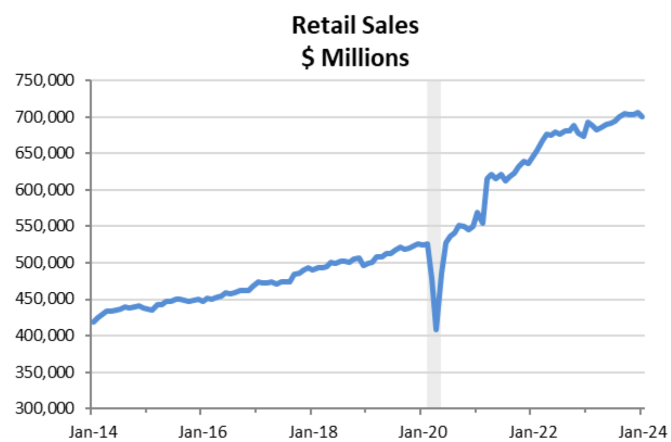
Economic Review

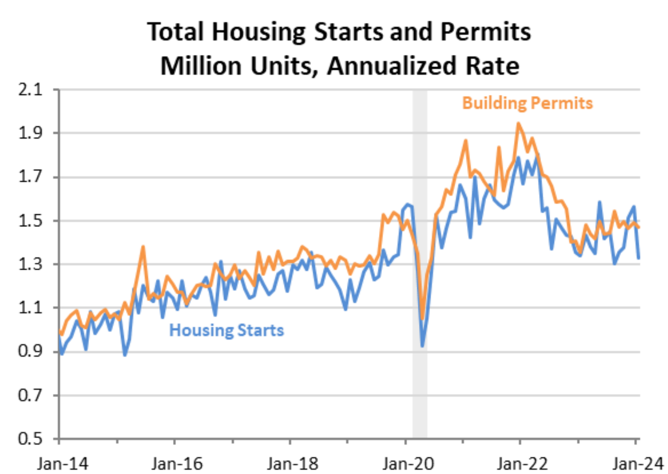
Total CPI declined to 3.1% in January from 3.4% in December. The decrease in energy prices has driven this moderation. Energy prices are down 4.6% from a year ago. After removing volatile energy and food prices, The CORE CPI remains stubbornly elevated at 3.9%, showing little improvement from last month. The latter is closely watched by the Fed because it aligns with the core PCE index, its preferred gauge of inflation. When breaking down the core CPI index into its two major components, goods prices were down 0.3% year-over-year, and services were up 5.4%. Shelter continues to be the main driver of inflation in the United States, accounting for 2/3 of the monthly headline increase. Transportation services were another big contributor to inflation with prices up 9.5% from a year ago. Food prices advanced 2.6% year-over-year, but the price of food away from home was up 5.1%.

Consumers cut spending in January. Nominal RETAIL SALES (including food services) declined to $700,291 million from $706,180 million in December. Year-over-year January sales were up 0.6%. But after adjusting for inflation, sales were down 2.4%. Consumer spending, which has been one of the main drivers of the U.S. economy in 2023, seems to have lost some momentum in 2024. Month-over-month, January sales were up at food services and drinking places (+0.7%) and grocery stores (+0.6%) but down across all other sectors except for home furnishing stores (+1.5%). Even sales at online retailers declined 0.8% from December.

Total HOUSING STARTS declined 14.8% month-over-month to a seasonally adjusted annual rate of 1.331 million units, the second lowest since the COVID-19 recession. BUILDING PERMITS also decreased (-1.5%) month-over-month to a seasonally adjusted annual rate of 1.470 million. The slowdown was concentrated in multi-family starts and permits which plunged 35.6% and 7.9% month-over-month. Single-family starts were down 4.7%. The biggest drop in single-unit starts was registered in the West (-12%), followed by the Midwest (-6.5%) and the South (-4.3%). Single-unit starts rose in the Northeast (+26.7%).







Fed Speeches

Governor Christopher J. Waller addressed participants of the "Climate, Currency, and Central Banking," conference in Nassau, Bahamas, on February 15 about the future of the U.S. dollar's primacy in global finance and the global economy:

> *"The dollar serves as a safe, stable, and dependable form of money around the world."*

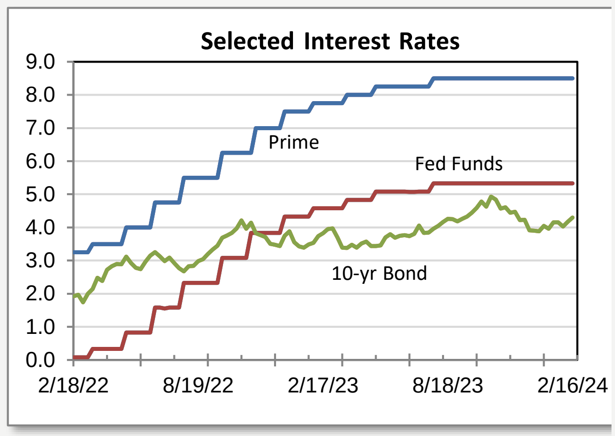
Almost 60% of global reserves in 2022 were held in U.S. dollars. The dollar remains the currency of choice in countries facing high inflation. Outside the Eurozone, more than three-quarters of international transactions are invoices in U.S. dollars. However, some worry that the U.S. dollar's role as the dominant world's reserve currency could be threatened by cryptocurrencies such as Bitcoin.

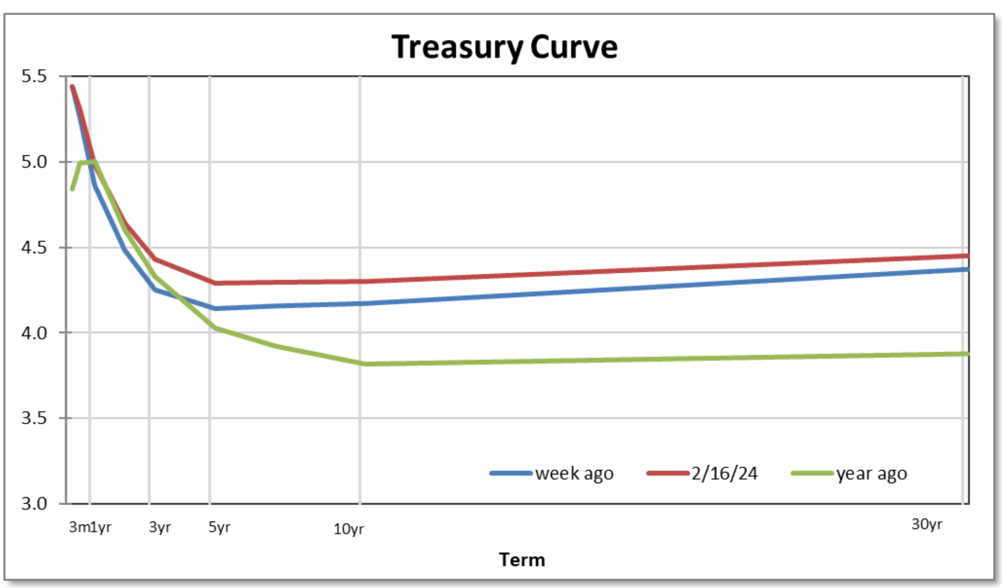
> *"But most trading in decentralized finance (DeFi) involves trades using stablecoins, which link their value one-for-one to the U.S. dollar. About 99 percent of stablecoin market capitalization is linked to the U.S. dollar, meaning that crypto-assets are de facto traded in U.S. dollars. So, it is likely that any expansion of trading in the DeFi world will simply strengthen the dominant role of the dollar."*

Neither the Euro nor any other currency can currently replace the role the U.S. dollar plays in the international market. Especially during times of financial distress, the U.S. dollar remains the currency of choice for investors looking for a safe haven to protect the value of their assets. This is not likely to change anytime soon.

Financial Markets

Last week, the stock market finished lower. The Dow Jones Industrial Average lost 0.1% and the S&P 500 slipped 0.4%. The NASDAQ dropped 1.3% following big losses for the Magnificent Seven stocks which account for around half of its weighting. Treasury and municipal bond yields rose across the board, with the 10-year bond gaining 13 basis points back from the losses of the previous week. The average 30-year conventional mortgage rate followed suit and finished the week at 6.77%. The price of gold dropped 1.3%. Crude oil prices rose 3.5%, ending the week at $79.22 per barrel. In the forex market, the U.S. dollar appreciated 0.6% against the Japanese Yen. The greenback traded 0.1% higher against the euro as well.





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 2024

FINANCIAL MARKET SUMMARY

	As of 2/16/2024	As of 29/2024	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)	5.31	5.31	0	0	(1)
Fed Funds (Wed close)	5.33	5.33	0	0	0
TREASURIES (BE) (Changes in BPs)					
3 Months	5.44	5.44	0	(1)	(6)
6 Months	5.31	5.26	5	10	(8)
1 Year	4.98	4.86	12	14	(26)
2 Years	4.64	4.48	16	25	(24)
5 Years	4.29	4.14	15	21	(16)
10 Years	4.30	4.17	13	15	(14)
30 Years	4.45	4.37	8	9	(14)
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.83	2.79	4	0	(37)
5-Year Muni	2.49	2.45	4	1	(49)
10-Year Muni	2.55	2.51	4	7	(50)
30-Year Muni	3.71	3.66	5	8	(40)
30-Year Conventional Mortgage	6.77	6.64	13	17	(67)
MARKET INDICATORS (Changes in %)					
DJIA	38,627.99	38,671.69	(0.1)	2.0	10.5
S&P 500	5,005.57	5,026.61	(0.4)	3.4	10.9
NASDAQ	15,775.65	15,990.66	(1.3)	3.0	11.7
CRB Futures	313.66	315.35	(0.5)	3.1	1.0
Oil (WTI Crude)	79.22	76.55	3.5	8.9	2.4
Gold	2,013.45	2,039.50	(1.3)	(0.8)	1.7
Yen / Dollar	150.20	149.27	0.6	3.6	(0.9)
Dollar / Euro	1.08	1.08	(0.1)	(1.1)	(1.2)