Will Winter Market Calmness Linger into Spring and Beyond?

As you may have heard, Punxsutawney Phil did not see his shadow on Groundhog Day. According to folklore, that means spring will arrive early this year. Of course, knowing that for sure is impossible, just as it's impossible to ever know for certain what the future holds for the financial markets. The best we can do is make forecasts. The good news is that, when it comes to the markets, we have more reliable forecasting methods than waking up a groundhog.

The first of those involves taking a close look at where the markets are now and how they got here. As for where they are now, the answer, relatively speaking, is in a good place. As you know, 2023 was a year of strong recovery for the markets following a year of losses in 2022. That recovery trend has continued in the new year. In January, the stock market's broadest index, the S&P 500, finally broke through to a new record high, hitting nearly 4,900 for the first time.[1]

For nearly two years the S&P struggled to surpass its previous peak, just as other areas of the market struggled in the face of rising interest rates. Between March 2022 and July 2023, the Federal Reserve took short-term interest rates from near zero to over 5% in an effort to fight inflation.[2] Heading into the final quarter of last year, the Fed finally signaled they were probably finished raising rates. In the wake of that news, the stock market took off and long-term interest rates stabilized after trending mostly upward for about a year and a half. Although the interest rate on the 10-year-government bond briefly topped 5% in October, it has been holding between about 3.8% and 4.1% ever since.[3]

Strong Data

In other words, an element of calmness and stability returned to the markets in late 2023, and it has continued so far in the new year. But the Fed finally hitting the brakes is only one reason. As noted, the Fed's rate hiking efforts were aimed at bringing down inflation, which had hit a 40-year high in early 2022. Since mid-2022, inflation has fallen fairly steadily. Although the core inflation rate as measured by the Consumer Price Index rose by about .3% in December (its most recent measurement), the Fed's preferred inflation gauge, the Personal Consumption Expenditure Index, showed that the rate of price increases continued cooling as 2023 came to a close.[4]

In addition, the economy grew by a healthy 3.3% in the fourth quarter of last year.[5] That was down from 4.9% in the third quarter, but still higher than most analysts expected. On top of that, the US labor market added 353,000 jobs in January according to the Bureau of Labor Statistics, defying predictions that the unemployment rate would increase to start the year.[6]

In other words, not only are investors no longer battling strong interest rate headwinds created by the Fed, but they also have a wealth of strong economic data to fuel their optimism. Is it any won-

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der Wall Street is back to hitting record highs? But remember, the financial markets are forward-looking, so it isn't just the current data or the Fed's new dovishness that investors are reacting to. It's also the knowledge that – thanks to all those rate hikes – the Fed now has plenty of ammunition to combat any potential economic downturn by lowering interest rates again. I'll talk more about that shortly.

Your Portfolios

After making a full recovery thanks to the market rebound at the end of 2023, those of you in our portfolios of bond and bond-like instruments should see your values up by about a half-percent on average, depending on your individual holdings, to end January. Those of you in our stock dividend portfolios should also see your latest values up thanks to Wall Street's strong first month of the year. Basically, we're kicking off 2024 on track for 6% interest and dividend return by year's end, which is our target. Will we stay on track?

Well, once again, it's impossible to ever know for certain what the future holds. But if we consider the current situation in relation to some key issues and potential market forces, we may get a more accurate reading than anything Punxsutawney Phil could tell us. The most important issue, of course, is still the Fed. As noted, they now have plenty of ammunition to combat a potential recession or flagging economy by lowering interest rates again. In fact, they've indicated they would like to start lowering rates again

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this year – but, make no mistake, they are in no hurry to start. The last thing Fed Chairman Jerome Powell wants to do is start lowering rates prematurely, only to have inflation spike again. As I see it, the Fed will keep every arrow in its quiver for as long as possible – or at least until they feel certain the economy is so strong and stable that lowering rates could only strengthen it further.

In making that determination, the Fed will keep an eye on many things. In addition to all the fundamental economic indicators we just talked about, several ongoing geopolitical issues could impact the markets this year, both global and domestic, including two major wars and another divisive presidential election. The list goes on – so stay alert and stay informed!

In the meantime, enjoy this period of relative calm and stability in the markets, which feels so well-deserved after the last two years! Also, take comfort in the knowledge that, when you're investing for income, you have a strategy designed to help protect your principal and help ensure your income return regardless of market conditions. You can also take comfort in the fact that – according to at least one indicator – spring is just around the corner!

1 *"The S&P 500's Wild Ride to an All-Time High," Reuters, Jan. 19, 2024*
2 *US Fed Funds Rate 1954-2024, statista.com*
3 *YCharts.com*
4 *"Fed's Favorite Inflation Gauge Rose 0.2% in December," Yahoo Finance, Jan 26, 2024*
5 *Bureau of Economic Analysis, bea.gov*
6 *"Hiring Surges Past Expectations," Barrons, Feb. 5, 2024*

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