Commerce Trust
Banking | Investments | Planning™

Commerce Trust Market Brief with Scott Colbert
01/08/2024

Scott Colbert: Good morning. It's Monday, January 8th, and the markets are open. I think everybody knows that the financial markets performed exceptionally well last year. The S&P 500 (Index) was up nearly 26%, almost 27%. Dow Jones Industrial (Average) was up closer to 16%. Smaller-cap stocks, as measured by the Russell 2000 Index, were up also closer to 16% or 17%. Emerging market stocks didn't participate quite as much, but were even positive, a positive 10%, despite the fact that Chinese stocks were negative, and international large-cap stocks were up close to something like the Dow Jones Industrials.

Bonds also participated after having generated two consecutive negative years of returns. The broadest measure in the bond market, the Bloomberg Aggregate Bond Index, was up about 5.5%, and municipals even did better because they weren't as impacted as much by interest rates and generated broad-based returns closer to 6 or 6+%. While, of course, those were exceptionally positive returns last year, it comes after a rather disastrous 2022 when balanced portfolios were deeply negative. In fact, if you look at the index returns, a 60% S&P 500 and 40% bond (balanced) portfolio, chances are the return is negative. The index's return actually would be a negative 45 basis points over the past two years.

That was the past couple of years. What about this year going forward? The biggest question we continue to get is, will we or won't we have a recession? We managed to avoid one last year, despite the fact that the yield curve was inverted, and the leading economic indicators were declining. How did we avoid that? Basically, it was simple job growth. Jobs grew by about 1.9 million. That was about 1.2% more jobs created last year than we had at the beginning of 2023. Add to that wages and salaries that grew at 4% to 5%, and you can see how we had approximately 6% more money to spend last year. With inflation falling to 3(%), that leaves you 2.5% to 3% real economic growth.

As we start out this year, the yield curve remains inverted and the leading economic indicators continue to cool, but there's a difference this year relative to last year (2023), and that is the fact that with inflation having rolled over so much, so assertively, it's quite possible that the Federal Reserve (Fed) will provide some accommodation this year (2024). While we were more than certain that we would likely have a recession last year, putting a probability in excess of 50-50, it's pretty clear that this year the recessionary probabilities have declined, and as the recessionary probabilities declined, so too has the market picked up on the possibility of avoiding one entirely.

Will we avoid one? It's still not out of the question, but at least the good news is now the Federal Reserve has some ammunition to come to the rescue, and inflation does appear to be honing in on their 2% target faster than most people expect. The second biggest question that we continue to get is, will or won't the markets broaden out? Now, I think we all know last year, and we heard about the Magnificent Seven. The Magnificent Seven stocks that we all know generated a whopping 76% return last year relative to the S&P's very robust 26% to 27% return.

If we took the equally weighted stock index last year, it was only up about 13.8%, or basically 50% of the return of the S&P 500. Fortunately, we do think that the stock market likely broadens out this year, particularly if the Fed provides any relief. Since the market has picked up on the logical idea that the Fed is likely to pivot, as in no longer raising rates and likely to reduce them, that occurred about October 27th, we've seen a material broadening out of the market.

In fact, from October 27th to the end of the year (12/31/2023), the S&P 500 was up about 16%. The broader market, when you measure the average stock, the individually weighted stock, was actually up even more, almost 18%. We're already beginning to see some of this broadening out. We think that will be very, very healthy for stock market returns as the year progresses.

We'll be back in a couple of weeks to talk about all the financial market news, particularly now that equity earning season is upon us.

Commerce Trust does not offer tax, legal, or specific estate planning advice. And while we may provide information or express general opinions from time to time, such information or opinions are not offered as professional tax or legal advice. Commerce Trust does not provide advice relating to rolling over retirement accounts. Commerce Trust is not a municipal advisor under Section 15B of the Securities Exchange Act and therefore does not offer advice or recommendations concerning bond proceeds or other municipal advice, subject to this section. Any data contained herein from third party providers is obtained from what are considered reliable sources. However, its accuracy, completeness, or reliability cannot be guaranteed.

January 8, 2024
Commerce Trust is a division of Commerce Bank.