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Financial Week Newsletter

Summarized by Smith Shellnut Wilson

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"Great thoughts reduced to practice become great acts." William Hazlitt

MARKETS

Macro Recap: On Wednesday, the November Consumer Price Index (CPI) report was released, meeting expectations. For the second consecutive month, the CPI slightly exceeded the previous month's reading, with November's annual rate at 2.7%, compared to October's 2.6% and September's 2.4%. The Core CPI stood at 3.3%. Although the latest figures aligned with expectations, they highlighted a recent stagnation in efforts to bring inflation closer to the U.S. Federal Reserve's long-term target of 2.0% for core CPI.

On Thursday, the November Producer Price Index (PPI) report indicated rising inflation at the producer level, conflicting with the market's anticipation of ongoing rate cuts. The index for final demand increased by 3.0% year-over-year, up from 2.6% in October. Excluding food and energy, the index for final demand rose by 3.4% year-over-year (3.45% unrounded versus 3.37% in October).

Additionally, on Thursday, the European Central Bank (ECB) reduced its benchmark lending rate for the fourth time this year, implementing a quarter-point cut following the Swiss National Bank's larger-than-expected half-point reduction. The ECB also revised its economic forecast downward, now projecting GDP growth of 0.7% for this year and 1.1% for 2025.

Equity Recap: The Nasdaq Composite closed above 20,000 for the first time, ending 0.3% higher than the previous week. In contrast, the S&P 500 and Dow Jones Industrial Average fell by 0.6% and 1.8%, respectively. The Russell 2000 lagged, declining by 2.6%.

With just over two trading weeks remaining in 2024, the S&P 500 is poised to achieve consecutive annual gains exceeding 20% for the first time since 1999. As of Friday, the S&P 500's total return for the year stands at nearly 29%, following a more than 26% return in 2023.

Bond/Rate Recap: The 10-year yield surged by 25 basis points to 4.40%, while the 2-year yield increased by 14 basis points to 4.24%. This movement came in response to disappointing inflation data and signs of a softening labor market.

Week Ahead: Expectations for a 25 basis point rate cut at the FOMC meeting on December 18th have risen following last week's data. The fed funds futures market now indicates a 95.3% probability of a 25 basis point cut, up from 86.0% a week ago.

INDICES

	Dec 13 Close	Dec 9 Open	Weekly Change	Dec 31 2023	YTD Change
DJIA	43,828	44,643	-1.8%	37,690	16.3%
S&P 500	6,051	6,090	-0.6%	4,770	26.9%
NASDAQ	19,927	19,860	0.3%	15,011	32.7%
Russell 2000	2,347	2,409	-2.6%	2,027	15.8%
KBW Bank Indx	131.8	135.6	-2.9%	96.0	37.2%
VIX	13.8	12.8	8.1%	12.5	10.9%
Oil (WTI)	$71.29	$67.31	5.9%	$72.57	-1.8%
Gold	$2,648	$2,638	0.4%	$1,973	34.2%
Prime	7.75	7.75	0.00	8.50	-0.75
Effective Fed Funds	4.58	4.58	0.00	5.32	-0.74
3m Tbill	4.32	4.39	-0.07	5.33	-1.01
2yr UST	4.24	4.10	0.14	4.25	-0.01
10yr UST	4.40	4.15	0.24	3.88	0.52
2-10yr UST Spread	15	5	10	-37	52
2y AAA Muni/10y UST	62.0%	61.9%	0.1%	58.9%	3.2%
10y AAA Muni/10y UST	66.4%	67.0%	-0.6%	58.5%	7.9%
5yr Inflation Rate	2.42	2.33	0.09	2.15	0.27

Week Ahead

- **Monday:** No major reports
- **Tuesday:** Retail sales, Industrial production, Housing Market Index
- **Wednesday:** FOMC announcement, Housing starts
- **Thursday:** 3rd Q GDP, LEI, Existing home sales, Weekly unemployment
- **Friday:** PCE, UofM Consumer Sentiment

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