Cambridge ADVISORS inc.
INVESTMENT MANAGERS

ECONOMIC UPDATE FEBRUARY 2024

LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

Stocks and bonds started the year with mixed results. Large cap stocks in the S&P 500 index rose 1.7% in January, but small cap stocks in the Russell 2000 were down -3.9%. Developed country international stocks in the MSCI EAFE index were up slightly at 0.6% while emerging market stocks were down -4.6%. The yield on the 10-year Treasury bond ended January at 3.97% versus 3.87% at the end of 2023. The higher yields on the Barclays US Aggregate Bond Index resulted in a loss of -0.3%.

Once again, GDP growth surprised to the upside showing initial estimates of 3.3% growth in the fourth quarter. Full year GDP growth was 3.1% for 2023. Looking at 2024, analysts expect economic growth to be slower but many analysts believe the probability of recession is now less likely.

Corporate earnings are showing positive results for the fourth quarter. Of the companies in the S&P 500 that have reported so far, more than 80% have beaten their earnings estimates and almost 70% have beaten their revenue estimates. Fourth quarter results are expected to show 2.4% earnings growth overall.

Technology companies continue to show much higher earnings growth than the S&P 500 Index as a whole; their earnings are up about 19%. Furthermore, the "Magnificent 7" (which includes Microsoft, Alphabet, Apple, Nvidia, Amazon, Meta and Tesla) are expected to have earnings growth of 41% compared to fourth quarter last year. This follows 54% growth in the third quarter compared to 2022's third quarter. These stocks rallied in 2023, stretching their valuations, but their outsized growth seems to support the higher price/earnings levels at this time. Should we move to a risk off environment, these multiples may not support prices and we could see a sell off.

The inflation picture is also continuing to improve. The 12-month price change recorded in October and November was 3.2% and it fell to 2.9% in December. The Fed has an inflation target near 2.0% so continued improvement is still needed. Furthermore, fiscal stimulus such as the tax cuts being discussed in Congress, could increase inflation pressures again.

Unemployment is currently just 3.7%. However, Brian Wesbury of First Trust has concerns about payrolls. He cites that if we "exclude job gains in government, health & education (which are largely funded by government), and leisure & hospitality (still recovering from lockdowns), job growth looks exceptionally weak. In the last seven months of 2023, payrolls excluding those categories rose only 3,000 per month, the kind of weakness we might expect before a recession."

The Fed has indicated that future rate cuts are expected but not until later in the year. The hopes of a March cut were smashed when the Fed kept rates unchanged at their January meeting. Strategas Research projects the first of three rate cuts for the year won't happen until June.

We continue to encourage investors not to try and time the market by trading in and out and instead invest according to risk tolerance. If you have questions about the strategy for your account, please contact your advisor.

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
CAMBRIDGEADVISORS.NET