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Closing Out 2023 and Looking into 2024

By Mike Skoric

With inflation steadily decreasing during 2023, the key question is no longer how high the Fed might raise rates. Instead, it is more about how long will rates stay at peak levels before starting to go down again. When compared to the June FOMC (Federal Open Market Committee) meeting, data now shows that the Fed sees higher projected GDP growth in 2024 (increased from 1.1% to 1.5%) and lower unemployment (decreased from 4.5% to 4.1%). This optimism with regard to the economy, coupled with an unchanged year-end 2024 2.6% core inflation level, suggests that rate cuts may come later and decrease less than what was expected.

While we continue to see a slow but steady pace of disinflation, there has recently been an uptick in certain inflation metrics primarily caused by a spike in oil prices. This is mostly due to a production cut agreed upon by Russia and Saudi Arabia. Regardless of the reason, this could throw a wrench in the Fed's "soft landing" playbook. Meaningfully higher oil prices impact energy costs for consumers and businesses and could be detrimental in the battle to bring inflation down.

Aside from inflation, another key factor we are focused on is China. As a leading global economy, this country has emerged from being the world's manufacturing hub to also being a leading consumer of goods and services produced by many Western companies. However, the growth of this economy has slowed significantly in just the last few years. The country is also dealing with the aftermath of a massive commercial real estate bubble limiting its ability to provide stimulus. As the global economy softens, it is less likely that a spurt in export-based manufacturing growth can save the day as has happened many times in the past. It has long been said, with respect to global economics, that "when the U.S. sneezes, the world catches a cold". Based on the size of the Chinese economy and its influence on the broader emerging market segment – perhaps this phrase now applies to China as well, and we can definitely say that China has been sneezing!

On the positive side, it is expected that the "earnings recession" that we have been in for the last few quarters should come to an end. We anticipate single-digit earnings growth throughout the remainder of the year and the potential for double-digit growth in 2024. Solid earnings growth is a critical factor in providing support for equities at current levels and to sustain future growth.