



# PRECISION

## Financial Services, Inc.

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### January Market Update

Major U.S. equity indexes closed out 2023 strongly in the green, marking the second consecutive month of gains for the S&P 500. A [Santa Claus Rally](#) was not really needed for long-term investors, as major equity indexes have been enjoying a powerful rally that began in October.

### Major Stock Indexes

For the month of December, the S&P 500 increased by [4.42%](#), the Nasdaq 100 reached an all-time monthly closing high by adding [5.51%](#)—and the Dow Jones Industrial Average rose by [4.84%](#)—also an all-time monthly closing high.

### S&P 500: 9 Weeks in a Row

The S&P 500 has enjoyed green on the screen for [nine consecutive weeks](#). It closed December just [0.6%.shy](#) of its all-time high, set in January 2022.

The [lopsided performance](#) with the “Mag 7” names leading the way has market watchers curious about the relative performance of the remaining index components of the S&P 500 heading into the new year. The rise of AI has fueled

the gains in these select names, with 2024 being discussed as the year of AI implementation.

## **Roaring Bonds**

Bond markets pulled off their [biggest two-month rally](#) in decades. Well-deserved for long-term investors, with bonds enduring a prolonged bear market in light of rising interest rates.

Rate cut optimism helped to fuel the bond rally as investors weigh the increasingly dovish expectations of the Fed in 2024.

## **Small-Caps Gain**

Small-cap stocks, as measured by the Russell 2000 Index, have come to life in a big way in the last two months, gaining ground on their large-cap counterparts after failing to participate in broad stock market rallies for much of the year.

[Attractive valuations](#) have investors chatting about the smaller market capitalization stocks, even as the Russell 2000 returned [12.05%](#) in December.

## **Payrolls**

December's jobs report (November data) showed a positive trend. The Nonfarm Payroll data for November indicated a gain of [199,000 jobs](#), which exceeded the estimated 190,000 and the previous month's gain of 150,000. The result is a "just right" scenario, or what some describe as a "Goldilocks" scenario. The healthcare and government [sectors](#) have created many of these new employment opportunities.

The labor market picture shows signs of the economy experiencing a [soft landing](#), which is good news. This can mean that the economy is cooling down but not heading towards a full-blown recession. The markets also reacted

favorably to the jobs report, as the results were very close to expectations, resulting in less volatility.

In addition, the U.S. unemployment rate dropped to [3.7%](#), lower than the expected 3.9%. Overall, the labor market continues to impress, with an increase in the labor force [participation rate](#) and a decrease in unemployment.

### **Fed Pivot & Rate Cut Expectations**

In December, the Federal Reserve held its December policy meeting and left benchmark interest rates [unchanged](#) at 5.25% - 5.50% for the third consecutive time, which was in line with market expectations. That said, the Fed indicated that it's more likely to shift towards a more [accommodating](#) monetary policy stance soon, which could include rate cuts.

Fed members projected the possibility of [three 25-basis point rate cuts](#) in 2024. This move towards a more [dovish](#) policy was well-received by the markets, as major U.S. stock indexes rose and treasury yields fell.

### **Markets Versus Fed**

According to the [CME FedWatch Tool](#), there is a 73.5% implied chance of a 25 basis point cut in March 2024. That said, there are some disparities to be aware of.

With the Fed broadcasting a message of 3 rate cuts in 2024, current market pricing and expectations show the equivalent of 6 to 7 quarter-point rate cuts.

Historically, rate cuts have been utilized by the Fed as stimulus during periods of economic contraction. Looking at the major stock market indexes, there are no signs of cooling—at least not at the end of December. Wall Street and Main Street are two different things, however.

## The Takeaway

December featured a bullish continuation from November's rally across major market indexes.

As January begins, the feeling across markets is easygoing at the time of writing. Markets could be overdue for some time of pullback after this recent runup, which could create opportunities for investors with [cash on the sidelines](#).

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