Weekly Market Commentary

February 5, 2024

# More Progress is Needed

The S&P 500 Index declined intra-week due to hawkish Federal Reserve comments, but rallied Friday to close at a new high. For the week, the S&P 500 Index was +1.4%, the Dow was +1.4%, and the NASDAQ +1.3%. The S&P 500 Index was led by the Consumer Discretionary, Communication Services, and Consumer Staples sectors, while the Energy, Real Estate, and Technology sectors lagged. The 10-year U.S. Treasury note yield decreased to 4.031% at Friday's close versus 4.160% the previous week.

The Federal Open Market Committee (FOMC) indicated it would need to see more progress on reducing inflation before it would be appropriate to lower the Fed funds rate. Fed Chair Jerome Powell was on *60 Minutes* over the weekend to reiterate this stance. CME Fed funds futures currently indicate 84.5% probability that the committee keeps rates the same at the March FOMC meeting and that there is a 55.8% probability the first reduction in rates comes at the May meeting. The first new data following the meeting showed the labor market is still strong with 353,000 net new jobs created in January versus an expectation of 185,000.

Fourth quarter earnings reports continue this week with 76 companies in the S&P 500 Index scheduled to report earnings. Current fourth quarter expectations for the S&P 500 Index are earnings growth of 7.8% and revenue growth of 3.1%. For full-year 2023, S&P 500 Index earnings are expected to grow by 3.6% with revenue growth of 2.1%. For full-year 2024, earnings are expected to grow by 9.9% with revenue growth of 4.8%.

In our *Dissecting Headlines* section, we look at the shift in expectations for rate interest rate cuts.

## Financial Market Update

| | Weekly Return | YTD Return | | Weekly Return | YTD Return |
|---|---|---|---|---|---|
| S&P 500 Index | 1.4% | 4.1% | Aggregate Bond Index | 0.6% | -0.5% |
| Dow Jones Industrial Average | 1.4% | 2.6% | U.S. Dollar Index | 0.8% | 2.9% |
| NASDAQ 100 | 1.3% | 4.9% | WTI Crude Oil | -7.3% | 0.9% |
| Russell 2000 (Small Cap Index) | -0.8% | -3.1% | Gold | 1.0% | -1.2% |
| International Stocks (MSCI ex-US) | 0.1% | -1.4% | Real Estate (US REIT Index) | -0.6% | -3.6% |

*Sources: S&P Global, Thomson Reuters*

## Dissecting Headlines: Keen Interest

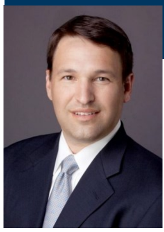
After a steep increase in the Fed funds rate in 2022 and 2023, the FOMC hasn't raised interest rates since last July. The committee also indicated in its December 2023 Summary of Economic Projections that the Fed funds rate could decline by 0.75% in 2024. The key question has been "When?".

Jerome Powell has been consistent in his commentary that progress on inflation is the key metric the FOMC is working with. The data point for this is the Core Personal Consumption Expenditures (PCE) Price Index, which is the PCE excluding the impact of food and energy prices. The most recent reading on this index was 2.9% year-over-year growth in December and 0.2% month-to-month growth. He has stated the FOMC doesn't need to see year-over-year core inflation at 2.0%, but that the committee needs confidence that core inflation is on track to return to 2.0% over time and that they won't need to wait until it is at the 2.0% level to lower the Fed funds rate.

Investors were keen to see a 0.25% reduction for the Fed funds rate at the March FOMC meeting, but a combination of hawkish comments, or at least a lack of dovish comments, at the January FOMC meeting combined with a strong January employment report has pushed out those expectations to May. Chairman Powell has consistently said the FOMC will be data dependent. Between now and the March 20th meeting, we will see data on the Consumer Price Index (CPI) and Producer Price Index (PPI) for both January and February, the January PCE Price Index, and the February Employment Situation Report.

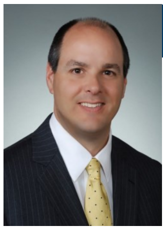
Chairman Powell said on 60 Minutes over the weekend that , "it's not likely that this committee will reach that level of confidence (to lower interest rates) in time for the March meeting". What the FOMC will do is issue an updated Summary of Economic Projections at the March meeting and that should update their assessment as to whether a rate decrease in May is appropriate. Current investor expectations for a May rate decrease have a 55.8% probability. That view is likely to shift around as data on inflation and employment is released over the next seven weeks and solidify following the March FOMC meeting and issuance of the updated economic projections.

# The NovaPoint Team



## Joseph Sroka, CFA, CMT / Chief Investment Officer / jsroka@novapointgroup.com

Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



## Alan J. Conner / President and Chief Compliance Officer / aconner@novapointgroup.com

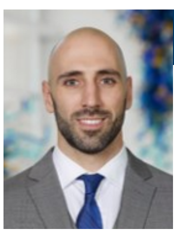
Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.

## Frederick Wright, CFA / Managing Director & Portfolio Manager / fwright@novapointgroup.com

Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management . Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).

## Larry Dixon, EA / Tax Managing Partner / ldixon@novapointgroup.com

Larry leads NovaPoint's accounting, tax and outsourced CFO business. He built his previous company, Atlas Solutions, as a solo entrepreneur before merging into NovaPoint CFO. Larry began his career as a Field Artillery officer in the United States Army. Larry earned his Bachelor of Science degree from the U.S. Military Academy at West Point, where he was a four-year letterman on the football team. Larry is a certified Enrolled Agent, recognized by the U.S. Department of the Treasury to represent taxpayers before the Internal Revenue Service.



## Steven Chrysosferidis / Vice President / schrysosferidis@novapointgroup.com

Steven is a Vice President at NovaPoint. Prior to joining NovaPoint, Steven's financial experience includes corporate finance at The Home Depot, contributing on Seeking Alpha, and leading investments in real estate projects. Prior to starting his business career, he served in the U.S. Army as a Special Forces Medic with 1st Special Forces Group. Steven is currently attending the Georgia Institute of Technology, Scheller College of Business for his MBA. He also has a Master of Science in Finance degree from Auburn University and a Bachelor of Science in Mechanical Engineering degree from Georgia Southern University. He is currently a member of a local Special Forces Association Chapter.



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