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Economic Update

MARCH 2024

Commentary

The stock market continues to push higher this month with the S&P 500 increasing almost 3% month-to-date and by 10% thus far in 2024. This is on the back of similar strength in the previous quarter (+11%) and elevated housing prices. The latest household net worth data (from the fourth quarter of 2023) already showed a 34% gain from the pre-pandemic period (December 31, 2019). This has helped to spur consumer spending and delay or eliminate a recession that would have normally been the case with such an aggressive rate hiking cycle.

The biggest economic news to watch this month was the result of the Federal Open Market Committee (FOMC) meeting. Going into the meeting, there was a debate whether the median rate cut projection would shift to 50 basis points from 75 basis points in 2024 due to higher-than-expected inflation prints. By the narrowest of margins, the Fed's median forecast remained at 75 basis points of easing (10 participants forecasted 75 basis points or more of rate cuts; nine participants forecasted 50 basis points or less of rate cuts).

The Fed's updated economic projections saw a large increase in expected gross domestic product (GDP) growth this year (from 1.4% to 2.1%). Normally, this would coincide with a decrease in the unemployment rate and an increase in inflation expectations, but in this case, those forecasts remained largely unchanged. The Fed is clearly viewing the strong economic growth as a function of a positive supply shock (due to the healing of supply chains and strong labor force growth) rather than excessive demand that needs to be restrained. This means that the bar to cut interest rates is now relatively low and it's clear that Fed Chairman Jerome Powell is itching to start easing.

The latest economic data lends support to the Fed's view. Many of the strong economic growth numbers for January were revised downwards when the February data was released this month. Payroll growth for January was revised from 353,000 jobs created to 229,000 jobs. Monthly wage growth was revised downwards from 0.6% to 0.5%, and February's wage growth was just 0.1%. Lastly, retail sales for January were revised lower by 0.3%. The newly revised data shows an economy that is still growing, but not threatening to grow at breakneck speeds.

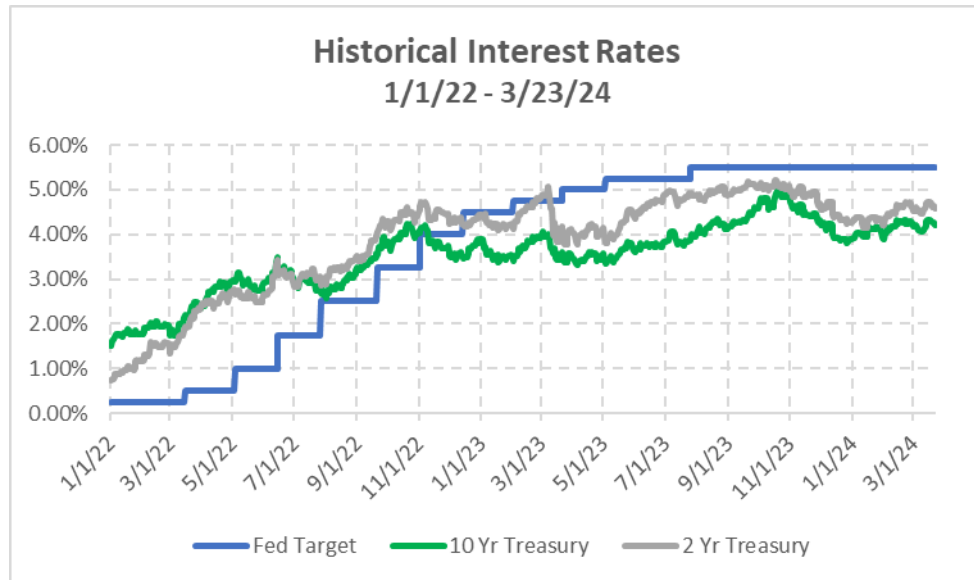
It is getting harder to stick with our call for a mild recession in 2024, but we still think that recession risks are elevated. Recessions often don't happen slowly, and one catalyst can lead to an abrupt end to the positive cycle. We are hopeful that's not the case this time, but think that risks still remain skewed to the downside.

THIS MONTH

- COMMENTARY
- FIXED INCOME OUTLOOK
- LABOR READINGS
- INFLATION READINGS
- CONSUMER READINGS

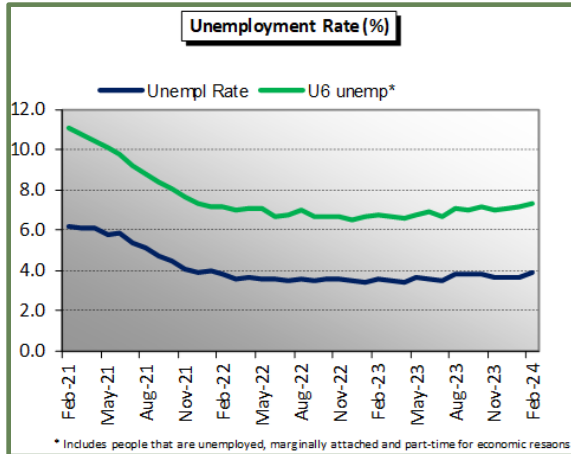
Fixed Income Outlook

Treasury yields have been largely unchanged thus far in March. Yields drifted higher earlier in the month due to another round of higher-than-expected inflation data but retrenched once the FOMC meeting occurred. Market projections are now largely in-line with the FOMC projections. This wasn't the case when we started the year, as the market was expecting 150 basis points of easing. We feel that the Treasury market is fairly valued at current levels.



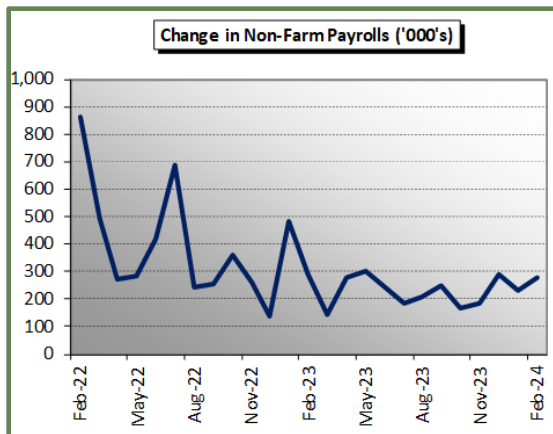
Labor Readings

(Data source: Bloomberg)



Unemployment Rate Jumps Higher

The unemployment rate in February climbed to its highest rate in two years. The rate increased from 3.7% the prior month to 3.9%. The market was expecting the rate to remain unchanged. Wage growth was slower than expected and the prior month's increase was revised downwards. Overall, the unemployment rate remains near multi-decade lows, but the labor market is showing signs of cooling.

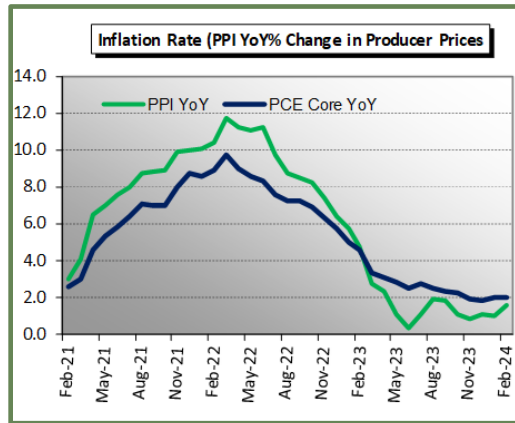


Payroll Growth Revisions Show Slower Growth

Payroll growth in February came in above expectations, but the prior two months were revised significantly lower. Jobs gained by 275,000 in February compared to an expected 200,000 gain. The prior two months were revised 167,000 jobs lower. The updated job numbers still show solid growth, just at a bit slower pace than was implied by the initial January data.

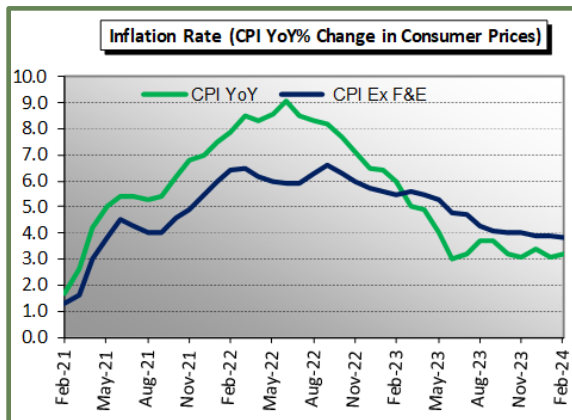
Inflation Readings

(Data source: Bloomberg)



Producer Prices Gain Steam

Producer prices in February rose at their fastest pace in six months. Prices gained by 0.6% on a month-over-month basis compared to an expected increase of 0.3%. Higher fuel and food costs were the main drivers. Core producer price (which excludes food and energy) gains slowed down from the prior month, but were higher than expected.

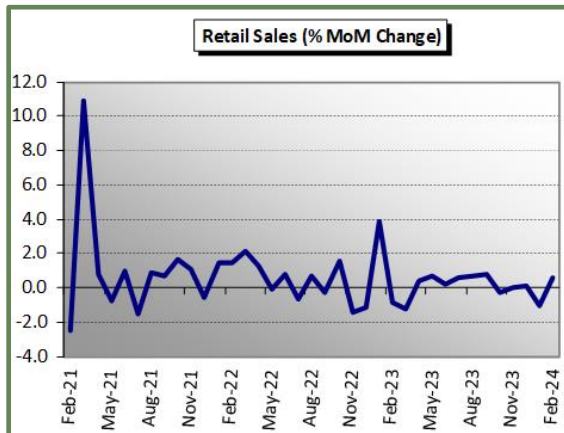


Consumer Inflation Higher than Expected Again

Consumer inflation topped forecasts for the second consecutive month in February. The year-over-year inflation rate ticked up to 3.2% from 3.1% the prior month. Core inflation for the past three months rose at an annualized 4.2% pace, the most since June. Core goods prices rose for the first time since May 2023.

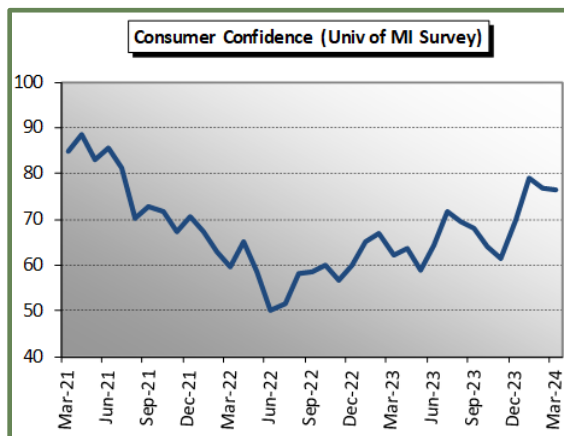
Consumer Readings

(Data source: Bloomberg)



Retail Sales Increase Less Than Expected

Retail sales in February increased from the steep decline in January, but still came in below expectations. Month-over-month, sales increased by 0.6% compared to an expected gain of 0.8%. Sales have been relatively weak to start 2024.



Consumer Confidence Largely Unchanged

Consumer confidence dipped slightly in the preliminary March reading. Lower-to-middle income consumers continue to cite concern over higher prices eroding their standard of living. Despite that, inflation expectations remain relatively subdued.