Email Body 2/8/2024

**What’s Next for the Economy and Markets**

Happy belated New Year! I hope all of those resolutions are still being kept. The good news is that San Diego seems to have avoided the worst of this past weeks “atmospheric river,” at least compared to the central coast of California.More good news is also comingin the form of economic and market outlooks. Let’s dive in.

The U.S. economy continues to surprise in its resilience to higher interest rates and a contracting manufacturing sector. Fourth quarter GDP growth came in at an annualized 3.3% with 2023 ending the year at an annual growth rate of 3.1%. Not bad considering that the majority of economists and analysts were projecting recession at the beginning of 2023. Strong spending growth by the private sector and the Government spurred the economy forward with an assist from increased inventory building and exports in the fourth quarter.

The question now is what will keep this phenomenon rolling forward. The answer is the consumer. Consumer confidence stands at 78.8 which represents a strong comeback from its low of 50 in June of 2022. However, it is still below its long-term average of 85, likely because of the effects of inflation. Consumer finances are still strong, but we are seeing a rise in revolving debt with increasing delinquencies (i.e., more than 30 days late) in auto and credit card loans. Unemployment at 4.3% is still low but labor demand is softening. Inflation news is positive in that it has come in lower than the Federal Reserve bank expected. The core PCE deflator, the Fed’s favorite gage, came in at 2.9% in December, closing in on the Fed’s 2.0% target.

If inflation continues to trend in the right direction, unemployment does not surge and consumer confidence and spending grows, I expect the Federal Reserve to make good on its promises to cut the Fed Funds rate at least three times, probably starting in May. Combine that with continued sales and earnings growth surprises from companies and the stock market should have a reasonably decent year in 2024. Right now, we are a little over halfway through fourth quarter earnings reporting season with year-over-year earnings growth averaging 8.1% and sales growth averaging 3.2%. To put this in context, analysts were expecting negative sales growth and lower earnings growth. Clearly companies have figured out how to maintain their margins and pass along higher costs.

My recommendation is to stay focused on your goals and keep your long-term investments fully engaged at the risk level appropriate for you. Volatility will occur in the short-term based on the news of the day. However, as long as the economy continues to grow, the markets will reflect that growth by moving higher.

Please find attached to this email a short piece penned by Brad McMillan, Commonwealths’ Chief Investment Officer. In it he provides his thoughts on the current state of the economy and the markets. I encourage you to read it to get another perspective.

I am always available to you via phone, zoom conference or in person. I look forward to talking with you over the next few weeks. If you have any questions or if we can be of any help, please do not hesitate to contact Linda or me.

*Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results.*

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