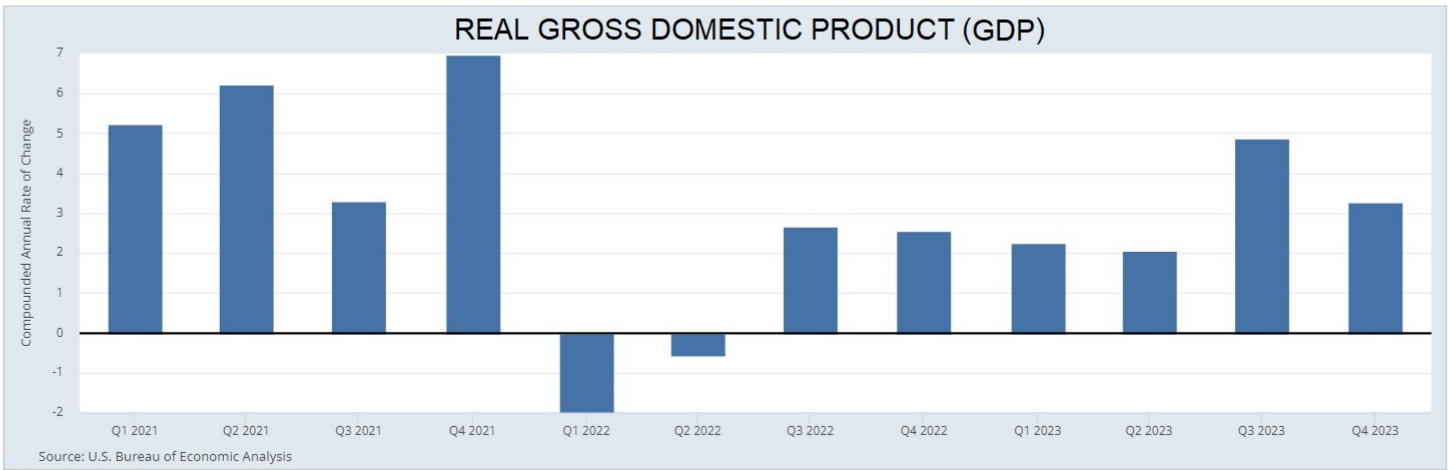
CHART OF THE MONTH

JANUARY 2024

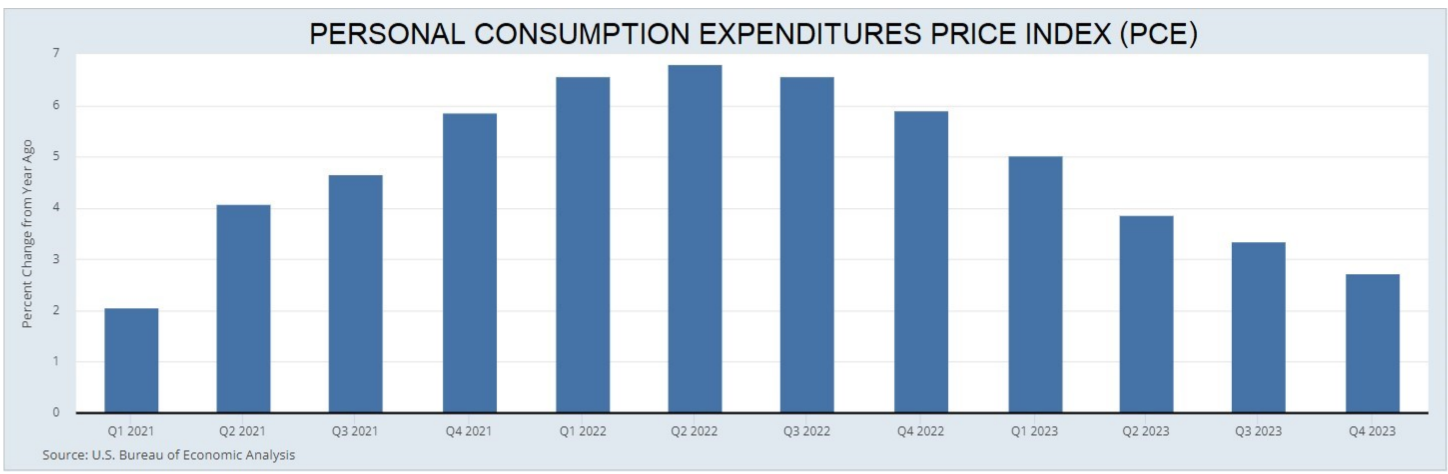


On Thursday, the U.S. Bureau of Economic Analysis reported that Real Gross Domestic Product (GDP) grew at an annual rate of 3.3% in the fourth quarter of 2023 (as shown in the table above), beating consensus forecasts of 2.0%. For the year, the economy increased at an annualized rate of 2.5%, defying those who have been expecting a recession due to the anticipated impact from the 11 federal funds hikes totaling 5.25% from March 2022 through July 2023.

On Friday, the Commerce Department announced that the Personal Consumption Expenditures Price Index (PCE) increased 0.2% in December and 2.6% year-over-year (see table below), the third consecutive month in which the annualized rate has been below 3.0%. The PCE has now declined for six straight quarters. The six-month annualized PCE and core PCE (which excludes volatile food and energy costs) are down to 2.0% and 1.9%, respectively, matching or exceeding the Fed's inflation target of 2.0%.

We believe real GDP will advance between 2% and 3% this year, once again avoiding a recession. The lower end could be pierced if the Federal Reserve remains too tight for too long. However, the upper end may be achieved if the Fed lowers the fed funds rate from the current range of 5.25%-5.50% toward a less-restrictive level. While the central bank is expected to keep its policy rate unchanged at its meeting next week, the probability of a cut in March is close to 50/50 with an 88% likelihood by May (according to the CME FedWatch Tool).

The combination of solid economic growth, declining inflation, and the potential for rate cuts should be a positive backdrop for the stock market. While bullish for the year, we are mindful that the S&P 500 has rebounded nearly 20% since late October, suggesting that the good news is at least partially embedded in equity prices. With investor sentiment (as measured by bull/bear and put/call ratios) at an unusually high level, we believe "pumping the brakes" a bit in the short run makes sense from a contrarian perspective.



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