

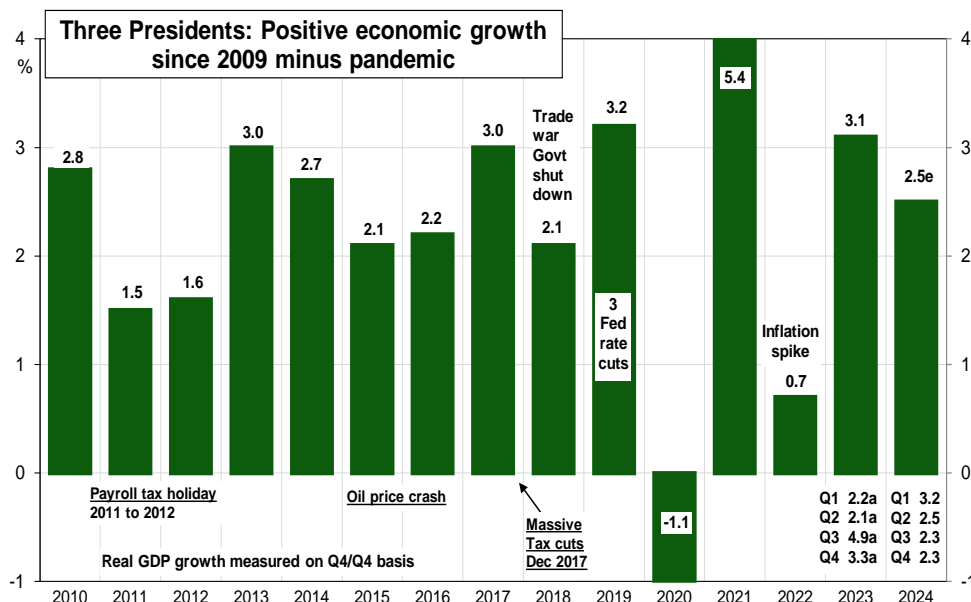
Financial Markets This Week

26 JANUARY 2024

Christopher S. Rupkey, CFA
Chief Economist
crupkey@fwdbonds.com

GDP SHOCKER

The economic expansion that refuses to die. Q4 2023 real GDP was 3.3%, more than 50 percent greater than the expected rate of growth. For Q4/Q4 growth as the Fed measures it, the increase was 3.1% in 2023, where the Federal Reserve March 2023 forecast was a dismal 0.4%, in part because policymakers also forecast a year-end Fed funds rate of 5.25%, the same



level of monetary restraint that helped bring down the economy in the 2007-09 recession. Higher rates did not bring down the economy, we guess because they weren't high enough. Growth slowed to the stall speed of 0.7% in 2022 as the Fed first hiked rates in March that year to fight inflation, but that was it. No recession. Interest rates don't matter anymore unless you are/were gainfully employed in private equity, or have to refinance your commercial real estate loan you took out on that office building, warehouse, shopping center. Elon Musk said Wednesday that margins won't be good if interest rates don't come down quickly. Interest rates drove existing home sales back to rock-bottom 2007-09 recession lows, but consumers switched their purchases from home furnishings and appliances to vacations, restaurants and bars and other services. Consumers are still spending despite higher interest rates because every month there are thousands of new consumers with paychecks as nonfarm payroll employment keeps on moving up. No "unemployment" from declining nonfarm payroll jobs as jobs creation is still positive at least until the next report with the caveat that the annual benchmark revisions are coming February 2.

So it is the consumer that added 1.9 percentage points of that 3.3% Q4 2023 GDP growth. It wasn't autos where spending has dropped since March last year. Out of that 1.9%, Dining out/hotels was 0.37. Health care was 0.36.

	Q3 22	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23p
REAL GDP	2.7	2.6	2.2	2.1	4.9	3.3
REAL CONSUMPTION	1.6	1.2	3.8	0.8	3.1	2.8
CONSUMPTION	1.1	0.8	2.5	0.6	2.1	1.9
Durables	0.1	-0.1	1.1	0.0	0.5	0.4
Nondurables	-0.3	0.1	0.1	0.1	0.6	0.5
Services	1.2	0.8	1.4	0.4	1.0	1.1
INVESTMENT	-1.5	0.6	-1.7	0.9	1.7	0.4
Business Plant & Equipment and Intellectual Property	0.0	0.2	0.8	0.5	0.3	0.1
Homes	0.3	-0.3	-0.2	0.4	-0.2	0.1
Inventories	0.4	0.3	0.2	0.2	0.1	0.1
Homes	-1.4	-1.2	-0.2	-0.1	0.3	0.0
Inventories	-0.7	1.6	-2.2	0.0	1.3	0.1
EXPORTS	1.8	-0.4	0.8	-1.1	0.6	0.7
IMPORTS	0.8	0.7	-0.2	1.1	-0.6	-0.3
GOVERNMENT	0.5	0.9	0.8	0.6	1.0	0.6
Federal defense	0.0	0.3	0.1	0.1	0.3	0.0
Fed nondefense	0.1	0.3	0.3	0.0	0.2	0.1
State and local	0.4	0.3	0.5	0.5	0.5	0.4

Below line: Percentage point contributions to Q4 2023 3.3% real GDP
Second estimate for Q4 is Wednesday, February 28

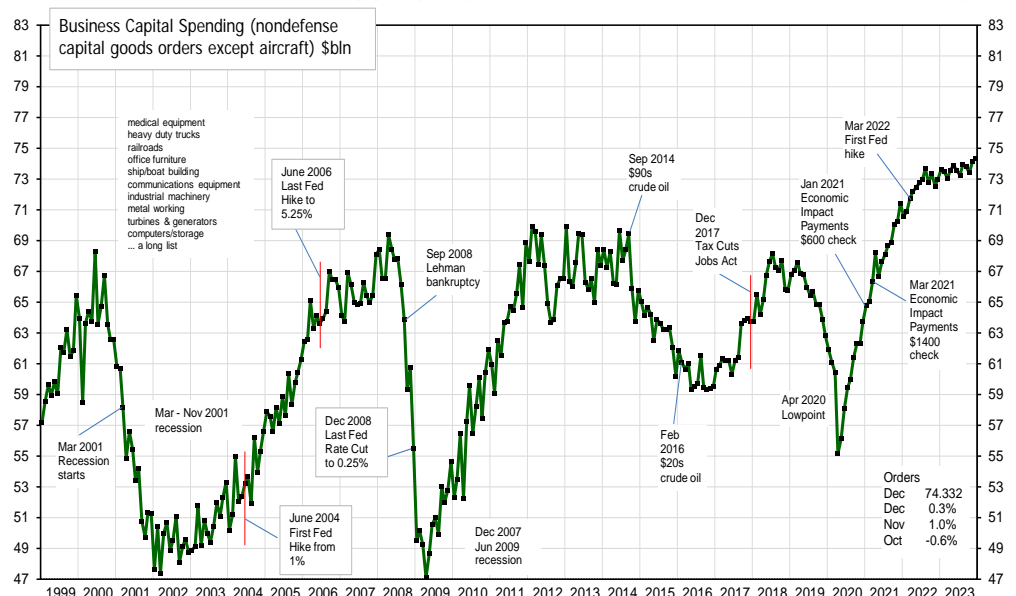
Other nondurable goods was 0.29 of the 1.9 percentage points consumption contribution to growth and prescription drugs was three-quarters of the 0.29. Recreational goods added 0.26 and computer software was 45% of that. If consumers stay on their meds, dine out occasionally, spend on healthcare and tinker with their computers sometimes, the economy should be fine in 2024.

Looking through the volatility quarter to quarter, one sector that is not pulling its weight is business investment in equipment and intellectual property. Even spending on structures (chip factories) is adding less to economic growth in the final quarter of 2023. R&D increased 5.7% in 2022, but has declined in the second half of 2023, perhaps one reason Congress is looking at bringing back full expensing of R&D from the 2017 Tax Cuts and Jobs Act that began phasing out in 2022.

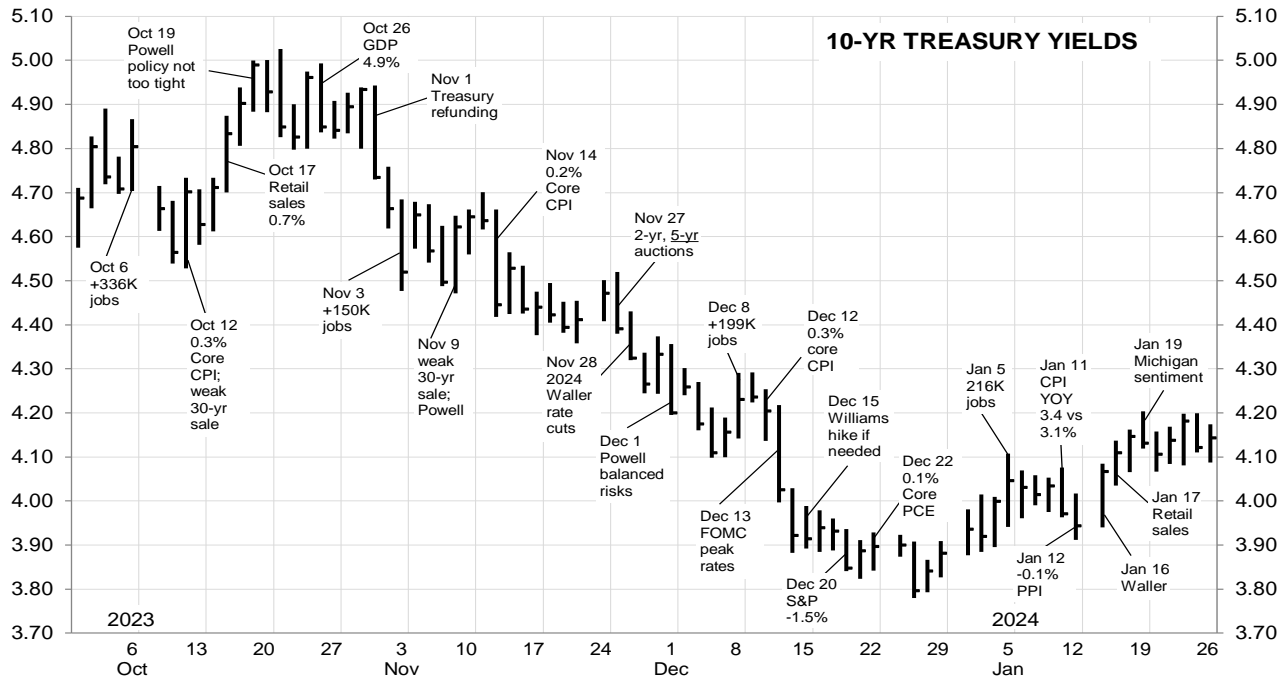
Real Business Investment (% change SAAR)								
\$bln 2023		2022	2023	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23
623.2	STRUCTURES	-2.1	12.7	6.5	30.3	16.1	11.2	3.2
169.9	Commercial and health care	-8.7	0.1	2.0	-0.6	3.8	14.9	-5.9
126.1	Manufacturing	14.2	62.6	17.3	190.4	86.5	29.1	17.1
105.8	Power and communication	-14.6	2.5	-3.4	25.5	-3.3	2.5	8.7
108.3	Mining exploration, shafts, wells	19.8	1.7	6.1	13.2	-14.7	-26.0	2.3
110.8	Other structures 1	0.6	9.2	15.5	4.8	12.6	17.6	-2.0
1,247.5	EQUIPMENT	5.2	-0.1	-5.0	-4.1	7.7	-4.4	1.0
484.4	Information processing equipment	7.6	-5.0	-19.1	-0.9	-6.1	-7.0	17.4
143.1	Computers	6.3	-8.5	-31.9	-8.7	4.4	-19.1	39.0
341.3	Other processing equipment 2	8.3	-3.2	-12.0	2.9	-10.6	-0.9	8.8
252.4	Industrial equipment	3.6	-1.0	3.4	3.9	-5.1	-5.4	3.7
263.5	Transportation equipment	1.1	15.5	17.5	-12.5	66.0	-1.7	-23.2
252.6	Other equipment 3	6.2	-3.6	-6.0	-8.5	0.6	-2.2	2.2
1,396.7	INTELLECTUAL PROPERTY	9.1	4.3	6.1	3.8	2.7	1.8	2.1
718.9	Software	13.5	8.9	14.0	7.1	5.7	7.4	6.4
602.9	Research & Development (R&D)	5.7	0.9	1.2	1.4	0.1	-2.3	-1.2
94.1	Entertainment, literary, artistic	8.7	2.3	-3.5	1.1	2.4	-1.1	0.4

1 Religious, educational, vocational, lodging, railroads, farm, amusement/recreational, other
 2 Communication, medical, photocopy, office and accounting equipment; nonmedical instruments
 3 Furniture; agriculture, construction, mining/oilfield, and service industry machinery; electrical equipment

To conclude, it is positively shocking just how strong the US economy is right now with another blow out quarter for growth recorded at the end of last year and we simply cannot keep getting numbers like this and pretend the economy is on the verge of collapse. Any economist saying recession is coming should be charged with malpractice. Every President regardless of what policies they advance, owns the economic record that takes place from the day they start to the day they leave, and right now, the economy under President Biden is surprisingly fit and ready to go another round. The stock market has it right after making a record high this week, the outlook for the economy in 2024 is a bright one. Bet on it. This is one of the rare times in economic history that the Federal Reserve's massive rate hikes to bring inflation back down under control did not cause a recession. Stay tuned. It's a presidential election year and bragging rights about the economy is making a comeback. The swift recovery from the pandemic recession drop of 1.1% for real GDP in 2020 during Trump's final year, will lead to some big claims about the average growth rate for the economy over 2021 to 2023 under Biden. Looking ahead, after Q4/Q4 2023 3.1% GDP growth, we expect a more moderate 2.5% pace in 2024.



INTEREST RATES

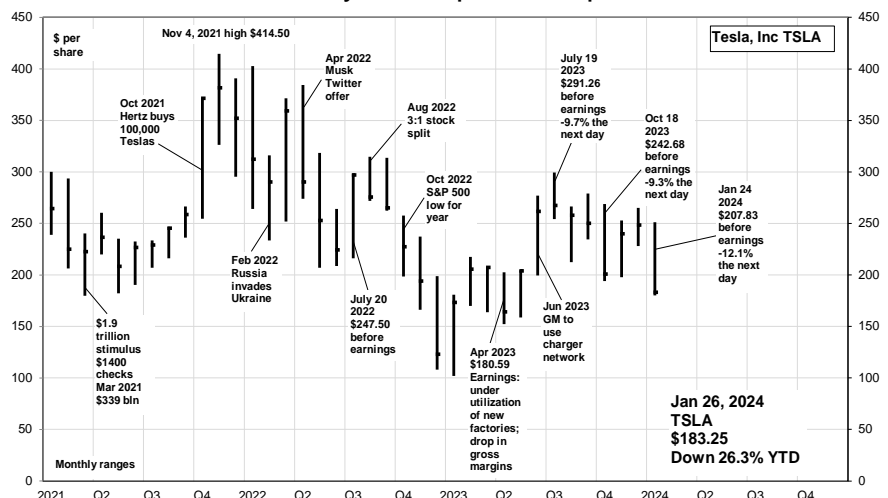


Another [record high for stocks](#) during the day on Friday on strong consumer spending and okay 0.2% (0.17) core PCE inflation. Stocks wavering a little at all-time highs after losing its target goal which was to recover fully from the 2022 27.5% drop for the S&P 500. It took several weeks of tests of the 4,800 level recently, so 4,900 will likely see the same back and forth. Maybe waiting for the Fed officials to take the scissors out to the meeting press statement on January 31 at 2pm ET, dropping the words, “In determining the extent of any additional policy firming,” to signal rate cuts are the only policy option now. 10-yr yields closed little changed at 4.14% this week, bouncing between 4.10-4.20. Waiting for supply news from US Treasury: Monday, January 29 3pm ET quarterly borrowing requirement (Q1 was \$816 bln, incl. \$172 bln QT). Quarterly refunding terms 830am Wed, Jan 31.

Tesla down again after earnings Wednesday

Seems to keep happening: three bad quarterly earnings releases in a row, starting from \$291.26 on July 19, 2023. The stock fell 12.1% on Thursday. Musk opened the call talking of steady improvements, exciting new products, but all investors heard, “In 2024, our volume growth will be, you know, lower, as we have said, because we’re trying to focus the team on the launch of the next-generation vehicle.” Operating income down 47% from last year, expenses up 27%.

	Operating Model 3/Y		
Mln \$	Revenue	Income	Deliveries
Q1 2020	5,985	283	76,266
Q2 2020	6,036	327	80,277
Q3 2020	8,771	809	124,318
Q4 2020	10,744	575	161,701
Q1 2021	10,389	594	182,847
Q2 2021	11,958	1,312	199,409
Q3 2021	13,757	2,004	232,102
Q4 2021	17,719	2,613	296,884
Q1 2022	18,756	3,603	295,324
Q2 2022	16,934	2,464	238,533
Q3 2022	21,454	3,688	325,158
Q4 2022	24,318	3,901	388,131
Q1 2023	23,329	2,664	412,180
Q2 2023	24,927	2,399	446,915
Q3 2023	23,350	1,764	419,074
Q4 2023	25,167	2,064	461,538

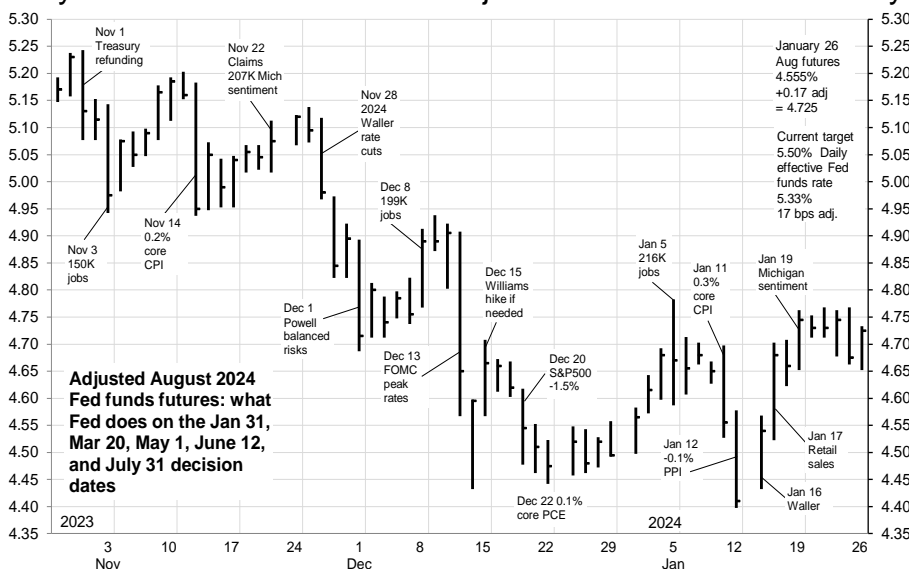


FEDERAL RESERVE POLICY

The Fed meets January 30-31, 2024 to consider its monetary policy. Interest rate cuts were not discussed at the December Fed meeting, but it will surely be a hot topic at the January meeting because 2024 rate cuts are a matter of when not if as inflation comes down closer and closer to the Fed's target. Core PCE inflation fell to 2.9% in December 2023 and will fall even closer to target in coming months giving the Fed a chance to cut rates for the first time in May or June of this year. Policymakers cannot throw caution to the winds as real GDP growth is much stronger than they forecast, so they will likely need more months of data in hand before cutting rates to make sure that inflation does not suddenly flare back up with consumer spending unexpectedly resilient.

Selected Fed assets and liabilities						Change from 3/11/20 to Jan 24
Fed H.4.1 statistical release billions, Wednesday data	24-Jan	17-Jan	10-Jan	3-Jan	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4722.302	4724.025	4751.515	4753.330	2523.031	2199.271
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2428.644	2431.710	2431.773	2431.773	1371.846	1066.798
Repurchase agreements	0.000	0.000	0.000	0.000	242.375	-242.375
Primary credit (Discount Window)	2.785	2.295	2.106	2.159	0.011	2.774
Bank Term Funding Program	167.768	161.501	147.694	141.202		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	3.338	3.364	3.413	3.447		
Main Street Lending Program	15.394	15.375	16.192	16.173		
Municipal Liquidity Facility	0.214	0.214	0.214	0.213		
Term Asset-Backed Facility (TALF II)	0.000	0.046	0.046	0.046		
Central bank liquidity swaps	0.224	0.216	0.223	1.357	0.058	0.166
Federal Reserve Total Assets	7728.0	7724.6	7737.5	7731.4	4360.0	3367.981
3-month Libor-% SOFR %	5.31	5.32	5.31	5.39	1.15	4.160
Factors draining reserves						
Currency in circulation	2329.477	2335.971	2340.501	2348.237	1818.957	510.520
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	815.159	773.544	727.856	743.464	372.337	442.822
Treasury credit facilities contribution	7.438	7.438	7.438	7.438		
Reverse repurchases w/others	639.560	590.191	679.961	719.897	1.325	638.235
Federal Reserve Liabilities	4238.298	4132.281	4200.134	4271.980	2580.036	1658.262
Reserve Balances (Net Liquidity)	3489.709	3592.326	3537.383	3459.408	1779.990	1709.719
Treasuries within 15 days	69.991	67.690	59.873	57.224	21.427	48.564
Treasuries 16 to 90 days	250.636	250.063	245.629	249.347	221.961	28.675
Treasuries 91 days to 1 year	552.163	556.572	554.436	554.981	378.403	173.760
Treasuries over 1-yr to 5 years	1594.803	1594.890	1614.845	1614.938	915.101	679.702
Treasuries over 5-yr to 10 years	749.752	749.792	771.654	771.704	327.906	421.846
Treasuries over 10 years	1504.956	1505.016	1505.076	1505.136	658.232	846.724
Note: QT starts June 1, 2022	Change	1/24/2024	6/1/2022			
U.S. Treasury securities	-1048.477	4722.302	5770.779			
Mortgage-backed securities (MBS)	-278.802	2428.644	2707.446			

As far as economic growth, it isn't slowing down, so it is a good thing the Fed rate cuts this year, as inflation falls back to target, is not driven by growth... too much growth that causes overheating, demand outstripping supply and potential inflation is the theory. December core PCE inflation year-to-year fell to 2.9% from 3.2% in November. If it keeps increasing just 0.2%, then the year-to-year rate comes down to 2.2% in April (released May 31), thanks to the large increases a year ago in the first part of the year, and the 2.2% figure will be just in time for the June 11-12 Fed meeting and potentially a first Fed rate cut... three rate cuts in June, September, December (hey, what's the hurry) total 75 bps to a year-end 2024 level of 4.75% just like the Fed forecasts say.



Fed funds futures call Fed hikes	
Current target: January 26 -- 5.50%	
Rate+0.17 Contract Fed decision dates	
5.375 Apr 2024	Jan 31, Mar 20
4.715 Aug 2024	May 1, Jun 12, Jul 31
Last trade, not settlement price	

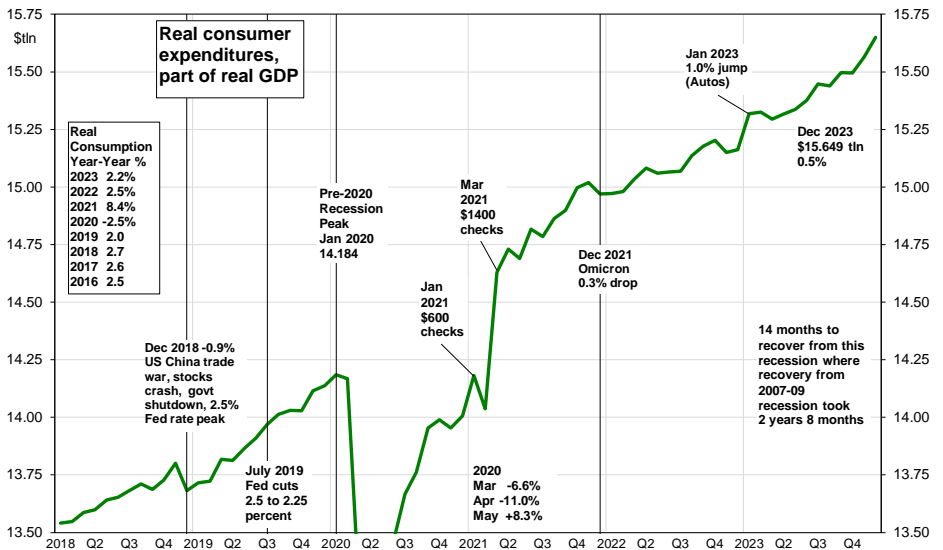
Market still discounting 12.5 bps of a 25 bps rate cut on March 20, three rate cuts by July.

Next up: January CPI inflation report Tuesday, February 13															
Monthly % Changes	2023					2023					2022				
	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct
Core CPI inflation	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.4	0.4	0.4	0.5	0.4	0.4	0.3	0.3
Core PCE inflation	0.2	0.1	0.1	0.3	0.1	0.1	0.2	0.3	0.3	0.3	0.4	0.5	0.4	0.3	0.3
Core PCE YOY	2.9	3.2	3.4	3.6	3.7	4.2	4.3	4.7	4.8	4.8	4.8	4.9	4.9	5.1	5.3
Core CPI YOY	3.9	4.0	4.0	4.1	4.3	4.7	4.8	5.3	5.5	5.6	5.5	5.6	5.7	6.0	6.3

OTHER ECONOMIC NEWS

Consumers shoot the lights out (Friday)

Breaking economy news. The personal income report for December. Consumers bought everything that isn't nailed down at the end of the year with equal amounts of durable goods, nondurable goods and services. Last quarter's real consumer spending was exceptional after zero spending in October with strong gains recorded of 0.5% in both November and December.



The rush to shop at year-end is boosting the outlook for Q1 2024 where just using the December level of real spending, real consumer spending will increase 2.1% in the first quarter, following 2.8% in Q4 2023, even if consumers stay home and spend nothing in January, February, and March.

Inflation is cooling with core PCE inflation 0.2% this month (three-digit 0.172) after 0.1% increases in October and November. If these 0.2% monthly increases continue through April, the year-on-year core PCE rate the June 2024 FOMC meeting participants will see comes down to 2.2% from 2.9% as reported for today in the month of December. As a result, the Fed is likely to cut rates the first time in June by 25 bps to 5.25%. Not that the economy needs it as 5.5% rates are not slowing the consumer down one bit.

Net, net, you can forget about those earlier surveys saying consumers lacked confidence because consumers right now are doing their best to power the economy forward with real spending off the charts in the final two months of last year despite headwinds of increasing credit card debt and student loan repayments. A double-win today for Fed policymakers with inflation on target this month and real consumer spending keeping economic growth on track now and in the future. There is no recession in the economy's future as far as consumers are concerned. Bet on it.

Dec 2022 Weight	Year-Year % Change				Monthly % changes			
	Dec 2020	Dec 2021	Dec 2022	Dec 2023	Sep 2023	Oct 2023	Nov 2023	Dec 2023
1.000	1.4	6.2	5.4	2.6	0.4	0.0	-0.1	0.2
0.080	3.9	5.7	11.1	1.5	0.3	0.2	-0.1	0.1
0.025	-14.6	47.3	1.6	-3.0	2.4	-4.6	-5.6	-0.2
0.019	2.6	10.2	15.7	-1.0	0.6	0.5	1.7	0.9
0.876	1.6	5.2	4.9	2.9	0.3	0.1	0.1	0.2
Durable goods								
0.021	1.8	11.5	7.0	1.0	0.3	-0.1	-0.1	0.3
0.013	10.3	37.0	-8.1	-1.3	-2.5	-0.8	1.6	0.5
0.026	3.6	8.5	4.9	-3.1	-0.4	-0.2	-1.2	-0.1
0.036	-1.2	1.1	-1.5	-5.1	1.2	-0.4	-1.2	-1.7
Nondurable goods								
0.028	-4.4	5.6	2.9	0.9	-0.6	0.0	-1.4	-0.1
0.027	-2.4	0.0	1.8	3.3	-0.7	0.8	0.5	-0.4
0.010	-0.3	0.4	8.1	3.7	0.4	0.3	-0.5	-0.9
0.229	0.1	6.2	3.1	-0.1	-0.1	0.0	-0.4	-0.3
0.647	2.1	4.9	5.5	4.0	0.5	0.2	0.2	0.3
0.034	2.3	3.3	8.3	6.5	0.5	0.5	0.5	0.4
0.116	2.2	3.8	7.5	6.3	0.6	0.4	0.5	0.5
0.160	2.6	2.7	2.6	2.4	0.0	0.4	0.2	0.1
0.033	-2.9	8.8	12.4	3.9	1.4	0.3	1.0	-0.1
0.038	1.6	4.3	5.8	4.9	0.6	0.2	0.2	0.9
0.061	4.3	6.7	7.6	5.1	0.4	0.4	0.4	0.3
0.011	-8.1	20.0	2.5	0.4	3.4	-2.3	-0.8	0.4
0.072	2.7	7.1	3.8	3.1	0.5	-0.2	-0.1	0.5
0.083	1.5	2.8	3.9	2.7	0.1	0.0	0.0	0.1
0.030	2.2	13.3	8.7	4.7	1.9	-0.7	-0.4	0.6

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