

Stock Market Recap – Feb. 2024

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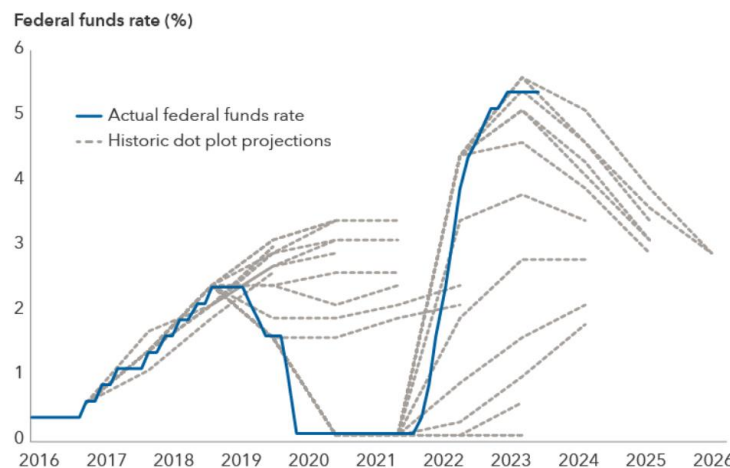
Month in Review

- Rally continued for stocks in February, with the key development of broader participation- for example, US small cap stocks had a strong month.
- String of inflation data and commentary from the Federal Reserve pushed bond yields higher during February.
- The inflation report released during the month (January CPI) showed prices rising more than expected, driven by higher housing related costs.

Attention on Interest Rates

Investors are curious as to when the Federal Reserve will start lowering interest rates. During February, investors recalibrated expectations once again for the start of rate cuts, believing that the first reduction will be pushed back to June 2024. This change makes sense for various reasons: inflation continues to remain somewhat firm, and the labor market remains very strong.

Historically, forecasting the path of interest rates has been notoriously difficult to do and ultimately, introduces unwarranted noise into investors' outlooks. The chart below shows how even the Federal Reserve struggles to predict its own interest rate decisions.



Source: Capital Group, Bloomberg. As of February 23, 2024. Federal funds rate data from January 2016 to February 2024. Forward looking dot plot projections are reported quarterly from September 2016 through December 2023.

What's on Deck for March?

- Inflation data will be in focus as investors watch for any signs of continued increases of prices. The February CPI report is released on March 12th and expected to show declining inflation.
- The Federal Reserve's March meeting (FOMC) will be closely watched for commentary around the outlook for growth and inflation. Fed Chair Jerome Powell has already indicated a March rate hike is off the table.
- As of February 29th, 97% of the S&P 500 companies had reported earnings, with the remainder wrapping up in March. With 97% of companies reporting, year-over-year earnings growth came in at +4%.