Weekly Market Flash

Sometimes, Good News Is Good News

March 8, 2024

The US equity market has been at one of those junctures recently that could go one of two ways. Glass half empty, or glass half full? Happily for those of us who like to see the stock prices trending in the upward direction, the glass half full crowd seems to be winning the day. The central point of contention has been thus: can Mr. Market overcome his bitter disappointment at once again being wrong, so very wrong, about how many interest rate cuts are in store for 2024, and learn to love the idea of a strong economy?

Well, the market is up this week on a string of upbeat numbers for the economy: a Purchasing Managers Index (PMI) report on Tuesday showing a healthy and better than expected composite expansion, followed by a final revision of Q1 productivity growth that was well ahead of economists' estimates, and finally today's jobs report from the Bureau of Labor Statistics clocking in with nonfarm payroll gains of 275,000 versus a forecast of 200,000 (the unemployment rate did tick up to 3.9 percent, though, and the blockbuster January payroll numbers were revised down to 229,000). At least for the time being, good news for the economy does seem to be good news for the market. But will it last?

The Fed's Tough Love

The standard mantra for market pundits singularly focused on the direction of interest rates is "good news is bad news" – because when the economy is running strong, the Fed has less urgent need to start swinging the axe and cutting rates. At the beginning of this year, for reasons we continue to not understand at all, the market had priced in six interest rate cuts for 2024. This, despite the Fed's own summary projections of just three cuts in the December FOMC materials, this despite the apparent lack of a brewing recession and this despite the fact that cutting rates six times in a presidential election year would drag a politics-abhorring Fed into the toxic mess of electoral finger pointing.

This week the Fed was all over the airwaves reminding everyone that, no, not six nor five nor perhaps even three rate cuts were in store. Regional Fed chiefs from Atlanta and Minneapolis opined that two, maybe one would be sufficient, sometime later in the year. Fed chair Powell, who had the very unenviable task of spending the better part of two days briefing members of Congress about matters financial, reiterated what he had said at the FOMC press conference a few weeks ago: don't expect a rate cut in March, and don't get out over your skis about what might be coming later (as if the bond market, especially, could restrain itself).

All That's Left Is Growth

So there will be no rate cut pony out back. We will admit to being pleasantly surprised at how calmly the market is adjusting to this new reality (new, that is, for the six rate cut crowd – but an old reality for anyone who was not partaking of the market's rate cut Kool-Aid last December). All that's left to do is to be cheerful about the good growth numbers. Today's jobs report marks the 39th straight month of job gains, and also the longest stretch for a sub-four percent unemployment rate in decades. Productivity – the only plausible source of long-term economic growth – is higher than it has been anytime since the turn of the century. The Fed appears to have engineered a dramatic increase in interest rates without sending the economy into recession. So yes – sometimes good news really can be good news.

Masood Vojdani
President & CEO

Katrina Lamb, CFA
Head of Investment Strategy & Research