THE ECONOMY AT A GLANCE

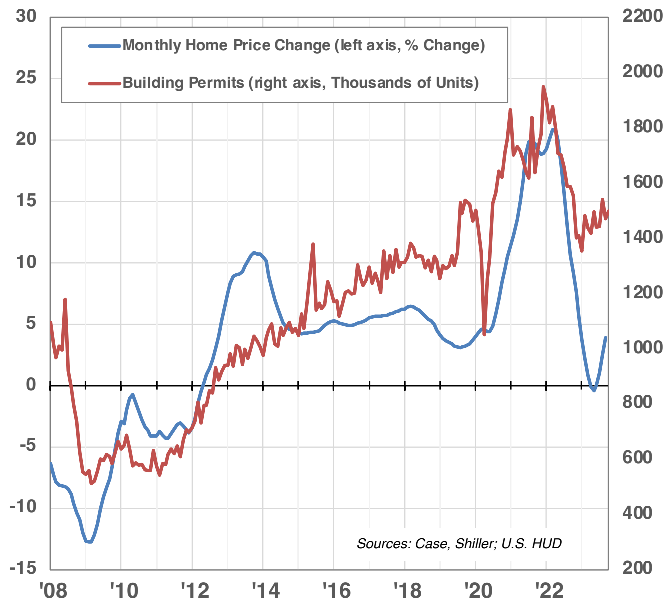
ECONOMIC HIGHLIGHTS

January 1, 2024
Vol. 91, No. 2

DECLINING MORTGAGE RATES A GIFT FOR BUILDERS

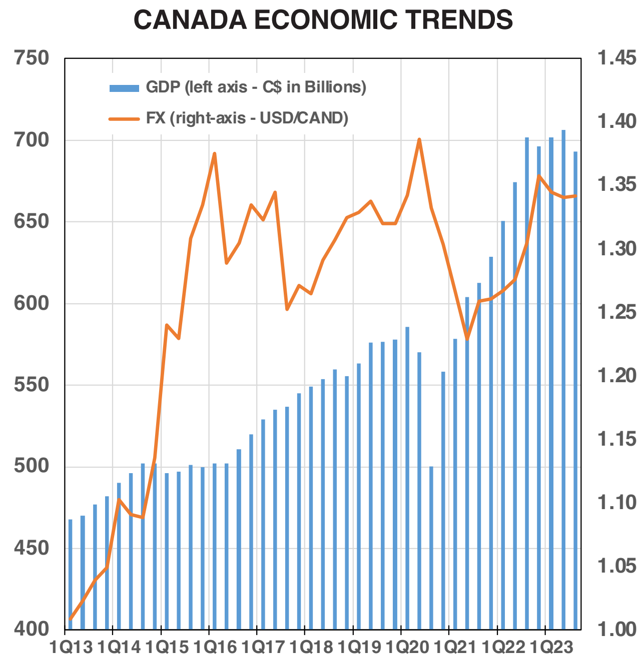
Recently, the 30-year mortgage rate dipped below 7% for the first time since August and the 10-year Treasury yield dropped below 4% for the first time since July. Earlier this month, Douglas Yearley, the CEO of luxury homebuilder Toll Brothers, said he was "encouraged" by the recent decline in mortgage rates. "With inflation easing over the past few quarters, we believe rates may drop further and the timing of the rate decline is setting up nicely for the upcoming spring selling season," he added. On November 13, the Federal Reserve Bank of Philadelphia released its Survey of Professional Forecasters. Survey participants expected the 10-year Treasury note to yield 4.47% in 1Q24 and 4.39% in 2Q24. If interest rates remain lower than the 1Q24 and 2Q24 levels that forecasters expected, interest-rate-sensitive sectors, such as housing, could perform better than the survey participants expected. New housing starts could surpass the approximately 1.35 million seasonally adjusted annual rate (SAAR) that was predicted for 1Q24 and 2Q24. The Residential Fixed Investment component of GDP could exceed the $726 billion (SAAR) that survey participants expected for 1Q and the $723 billion (SAAR) they expected for 2Q.

HOUSING MARKET TRENDS



BANK OF CANADA HOLDS RATES STEADY

In early December, the Bank of Canada maintained its target overnight interest rate at 5.00% after a similar move in September, with the central bank noting that "The global economy continues to slow and inflation has eased further." In a sign of that slowing, the Canadian economy unexpectedly contracted by an annualized 1.1% in 3Q, well below the 0.2% growth rate expected and down from a revised increase of 1.4% in 2Q, as higher interest rates took their toll and led to flat consumer spending, while exports and inventory accumulation also weighed to the downside. Lower energy prices, with crude oil contracting some 25% since late September, could also turn into a significant headwind, given the Energy sector's outsized contribution to the Canadian economy. Similar to the U.S., a majority of Canadian economists see the Bank of Canada beginning to cut interest rates by mid-2024 as the lag effect of higher rates begins to have a greater impact on housing and other sectors. We believe select companies in our Canadian coverage continue to offer investment opportunities, with the potential for lower rates in 2024 helping the Financial Services sector in particular.

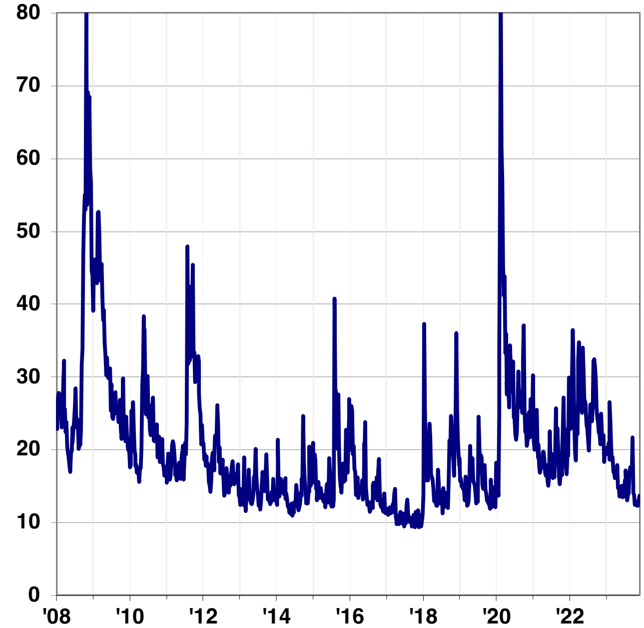


FINANCIAL MARKET HIGHLIGHTS

ON TRACK TO BE A BULL?

By one popular definition, the stock market began a new bull market in June after the S&P 500 rose 20% from its bear-market lows set in October 2022. But there's another theory that says a bear market doesn't end until stocks reclaim all-time highs. By our thinking, equities are in the early stages of a bull market. Still, volatility is an issue due to geopolitical developments, high interest rates, the risk of recession, and the upcoming 2024 U.S. presidential election. On the positive side, we anticipate that the U.S. economy will steer clear of recession into 2025, the Federal Reserve will start to lower interest rates in 2024, and earnings growth is poised to accelerate over the next few quarters. The VIX Volatility Index is currently sending a more-optimistic signal. The current fear index reading is around 14, which is below the 15-year average of 20.5 and signals that investors aren't overly worried about the outlook.

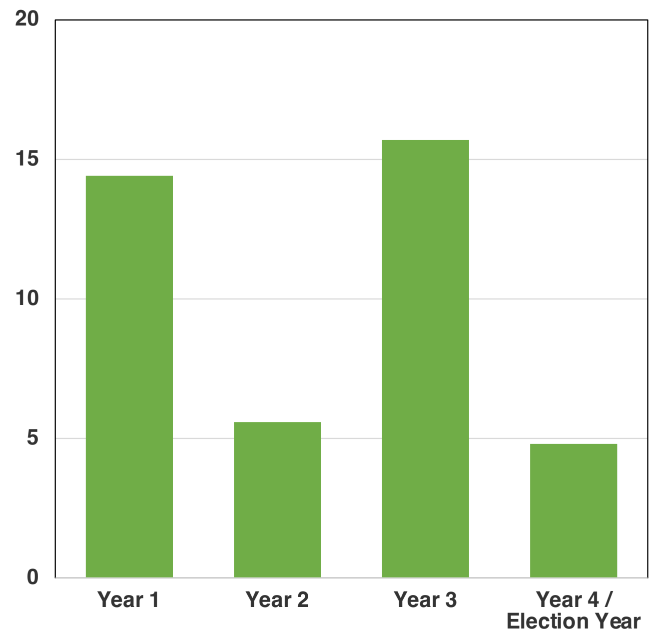
VOLATILITY INDEX (WEEKLY CLOSE)



ELECTION YEAR WORST OF FOUR FOR STOCKS

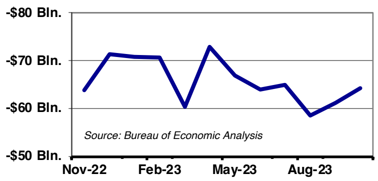
Of the four years in a presidential term, the last year (the election year) has been the worst for investors in terms of outright performance. Since 1980, S&P 500 returns in the fourth year of the presidential term have averaged 4.8%, compared to average returns of 14.4%, 5.6%, and 15.7%, respectively, in years one through three. It is true that there have been some solid returns in the fourth presidential year, including 1980, 1988, 1996, 2012, and 2020. But there have been clunkers, too, such as 2000 and, most ominously, 2008. Why does performance drop off? The likely reason is uncertainty. Investors favor continuity, and an election year offers a real risk for change in direction, whether to fiscal policy, trade rules, antitrust philosophy, or regulatory focus. We note that incumbents typically win re-election, but the early odds out of the U.K. favor former President Donald Trump by about 6/5; President Joe Biden's odds are 2/1. Should Trump win, industries likely to benefit could include Aerospace & Defense, which did well under his presidency, and Energy. Should Biden win, sectors such as Clean-Tech, Med-Tech, and Business Services may do well. Also, laws passed under Biden supporting infrastructure building and semiconductors should remain intact, offering opportunities in those industries. We're not going to get too worked up about the impact of this fall's election on stocks, as we note that the batting average for positive years in the fourth year of a presidential term is 80%.

STOCK MARKET ANNUAL RETURNS
THROUGH THE PRESIDENTIAL CYCLE (%)

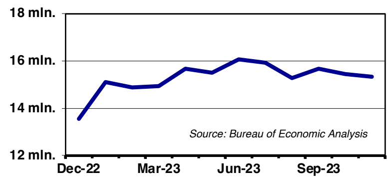


ECONOMIC TRADING CHARTS & CALENDAR

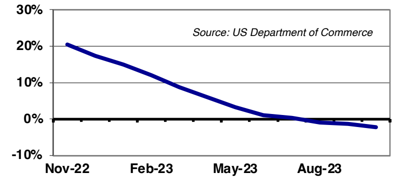
Release:	**Trade Balance**
Date:	1/9/2024
Month:	November
Previous Report:	-$64.3 Bln.
Argus Estimate:	-$65.0 Bln.
Street Estimate:	-$64.0 Bln.



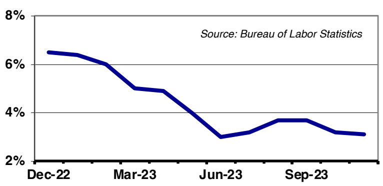
Release:	**Total Vehicle Sales**
Date:	1/9/2024
Month:	December
Previous Report:	15.32 mln.
Argus Estimate:	15.60 mln.
Street Estimate:	15.50 mln.



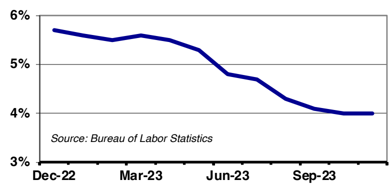
Release:	**Wholesale Inventories**
Date:	1/10/2024
Month:	November
Previous Report:	-2.3%
Argus Estimate:	-3.1%
Street Estimate:	NA



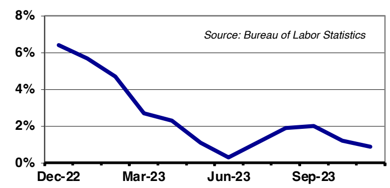
Release:	**Consumer Price Index**
Date:	1/11/2024
Month:	December
Previous Report:	3.1%
Argus Estimate:	3.3%
Street Estimate:	NA



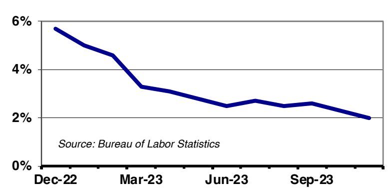
Release:	**CPI ex-Food & Energy**
Date:	1/11/2024
Month:	December
Previous Report:	4.0%
Argus Estimate:	3.9%
Street Estimate:	3.8%



Release:	**PPI Final Demand**
Date:	1/12/2024
Month:	December
Previous Report:	0.9%
Argus Estimate:	0.8%
Street Estimate:	NA



Release:	**PPI ex-Food & Energy**
Date:	1/12/2024
Month:	December
Previous Report:	2.0%
Argus Estimate:	1.8%
Street Estimate:	NA



Previous Week's Releases and Next Week's Releases on next page.

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
2-Jan	Construction Spending	November	10.7%	10.4%	NA	NA
3-Jan	ISM Manufacturing	December	46.7	48.0	47.1	NA
	ISM New Orders	December	48.3	49.0	NA	NA
5-Jan	Nonfarm Payrolls	December	199 K	145 K	160 K	NA
	Unemployment Rate	December	3.7%	3.8%	3.8%	NA
	Average Weekly Hours	December	34.4	34.3	34.4	NA
	Average Hourly Earnings	December	4.0%	3.9%	3.9%	NA
	ISM Services Index	December	52.7	52.0	52.5	NA
	Factory Orders	November	-2.1%	3.2%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
17-Jan	Retail Sales	December	4.1%	NA	NA	NA
	Retail Sales ex-autos	December	3.6%	NA	NA	NA
	Business Inventories	November	0.6%	NA	NA	NA
	Import Price Index	December	-1.4%	NA	NA	NA
	Industrial Production	December	-0.4%	NA	NA	NA
	Capacity Utilization	December	78.8%	NA	NA	NA
18-Jan	Housing Starts	December	1,560 K	NA	NA	NA
19-Jan	Existing Home Sales	December	3.82 Mln.	NA	NA	NA
	U. of Michigan Sentiment	January	69.70	NA	NA	NA

Investors