Seventy2 Capital
Wealth Management

Market Commentary

Looking Ahead: 2024

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The last few years have brought many surprises to investors, ranging from a global pandemic to high inflation to rising geopolitical tensions. We've experienced the shutdown of the global economy, supply chain bottlenecks, and the Federal Reserve's printing press which led to the highest inflation in decades, a tech sector crash, the worst year of bond performance on record, and a regional banking crisis. Separately, we have seen the start of two major world conflicts. Many of these events were impossible to foresee, but as we look ahead to next year, we don't expect a quiet backdrop. Here are the major themes that we believe will move markets over the next 12 months:

US Consumer Spending

Consumer Spending makes up approximately 70% of US GDP and is critical to the health of the economy in the short and medium term. According to the U.S. Bureau of Labor Statistics, we currently sit at 3.9% unemployment – a drastically low level from a historical perspective. While the labor market (consumers' primary source of income) remains very strong, we expect that it will deteriorate over the next 12 months as credit events (bankruptcies) and cost-cutting measures (due to a higher rate environment) force companies to increase layoffs. The residential real estate market also seems resilient as a result of the ongoing and severe shortage in housing inventory (consumers' primary assets on their personal balance sheets), so we don't anticipate a substantial drop in prices. While these two important factors look healthy for now, we are increasingly concerned about several trends that have been forming this year. Consumers have spent most of the excess savings that they accumulated during the pandemic, credit card debt is at all-time highs, and the number of consumers that are over 30 days late on credit card, auto loan, and mortgage payments is reaching levels similar to those which preceded the great financial crisis of 2008. Tracking trends in retail goods and service spending in the short term will be key to understanding which direction we are headed from here.

The Fed's Direction

At this point, we have seen evidence that inflation has declined substantially from its peaks in summer 2022 due to the Fed's tightening of financial conditions. Individuals and businesses alike are struggling to find affordable financing. While we are confident that the Fed is close to the end of its rate hiking cycle, what is unclear is whether they will keep rates at elevated levels or begin to bring them back down. Inflation has not fully returned to the Fed's 2% target, and since the labor market is resilient, the Fed is likely unable to justify dropping rates substantially. The longer that rates stay up, the more pain we will see in businesses that rely on debt financing and the bigger the current government deficit problem becomes. The US government currently spends more money annually on interest payments than on military spending – this is not sustainable. If rates don't come down, we will likely see cuts in government spending and an increase in taxes (whether that takes the form of corporate, individual, billionaire, or capital gains).

The Election

Election years typically bring a lot of uncertainty for markets, as investors are not confident in the direction of policy in the coming four years. We generally see more volatility during the year leading up to the election as well as speculative shifts in specific sectors that are brought to the forefront of policy talk. We will hear renewed discussions of healthcare and drug pricing reform, energy policy, national defense, and immigration. From where the US currently stands, the most probable outcome appears to be a repeat of candidates from the last election (although much can change very quickly). The Fed has a history of "not rocking the boat" as we approach these elections and, regardless of past electoral outcomes, markets typically perform well during the following year because investors are more certain in their outlook.

While these topics will certainly have some impact in 2024, we are confident that there are other surprises ahead. We stress active portfolio management to adapt to changing economic and market conditions. As always, please don't hesitate to reach out to your financial advisor with any questions or concerns.

-The Seventy2 Capital Team
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