

## January 29, 2024 – Investment Commentary

### Wave of Data Coming

Last week, stocks and bonds traded in positive territory. The MSCI EAFE (non-US developed) and MSCI Emerging Markets indices outperformed the S&P 500. The best performing sectors in the S&P 500 were energy, communication services, and financials. As for fixed income, the 10 year treasury yield rose 1 basis point (bps) on the week to 4.15%.

There is an abundance of economic and earnings releases to watch this week. The Federal Open Market Committee (FOMC) will announce its interest-rate call on Wednesday afternoon. While it's widely expected to keep the Fed funds target rate unchanged at 5.25%-5.50%, attention will be on whether the message from the meeting is dovish enough for traders to price in a first rate cut as soon as March. The commentary will be especially interesting since over the last three months, core PCE has advanced just 1.52% at an annual rate. Over the last six months, core PCE has climbed just 1.86%. In other words, the momentum under core inflation is soft and below the Fed's 2% target inflation goal.

Separately, approximately 20% of the S&P500 companies will report earnings this week including, five of the Magnificent 7 stocks. The economic and earnings releases we will be paying attention to include...

Tuesday. Eurozone consumer confidence, U.S. JOLTS/consumer confidence, China PMI, Google, Microsoft

Wednesday. Fed meeting, U.S. ADP, Japan/China PMIs

Thursday. Eurozone CPI, U.S. ISM, Apple, Amazon, Meta

Friday. U.S. jobs report

The 2 year Treasury yield (a proxy of forward-looking Fed policy) reached as high as 5.20% in October of 2023, and now stands at 4.35%. Powell was very dovish to end 2023 and other FOMC members have walked back some of it over the last several weeks. The Fed will likely be able to make an argument for cuts based on inflation decelerating alone, but that seems already baked into the bond market. To see further cuts from here, we likely need to see the employment picture deteriorate.

The challenge is determining if the world is returning to pre-pandemic/post Great Financial Crisis (GFC) levels of 2% inflation or even lower. Reasons exist to believe circumstances might have changed, including labor markets rendered perpetually tight by population aging (every day 10,000 people turn 65, which is roughly equivalent to the size of Los Angeles over a year), large government deficits, and new global trade and supply frictions. We believe inflation and interest rates will stabilize at the "old normal" of pre-GFC higher levels.

### Rest of the World

Last week, China took its first meaningful step to ease monetary policy with a 0.50% reserve ratio requirement cut and there is a rumor of a substantial stimulus plan. The MSCI China equity index was down -12% already to start the year before rebounding and ending this week -7%. Copper prices also rallied as much as +3% on the week and commodities more broadly ended the week higher. China certainly can stimulate as they are experiencing very modest inflation if not deflation. The government/central bank is going to need to help investors regain trust in the markets and policy, though, especially as the courts ordered China's Evergrande to liquidate its \$240 billion in liabilities. China's illness is also spreading to Germany's economy (4<sup>th</sup> largest in the world), which is also sick where the car sector is struggling with weak sales in China, the U.S. and European markets but is complicated by social unrest with farmer and rail strikes.

### Portfolio Considerations

The risk to stocks are higher bond yields, further reduction in Fed cut expectations, and/or continued downward earnings revisions/guidance. As a result, we deliberately construct and risk manage portfolios with a bias towards quality, US holdings and larger/medium sized businesses.

#### *Disclosures*

*Investment Commentary Sources: Bloomberg. Investment advisory services offered through Robertson Stephens Wealth Management, LLC ("Robertson Stephens"), an SEC-registered investment advisor. Registration does not imply any specific level of skill or training and does not constitute an endorsement of the firm by the Commission. This material is for general informational purposes only and should not be construed as investment, tax or legal advice. It does not constitute a recommendation or offer to buy or sell any security, has not been tailored to the needs of any specific investor, and should not provide the basis for any investment decision. Please consult with your Advisor prior to making any Investment decisions. The information contained herein was carefully compiled from sources believed to be reliable, but Robertson Stephens cannot guarantee its accuracy or completeness. Information, views and opinions are current as of the date of this presentation, are based on the information available at the time, and are subject to change based on market and other conditions. Robertson Stephens assumes no duty to update this information. Unless otherwise noted, any individual opinions presented are those of the author and not necessarily those of Robertson Stephens. Indices are unmanaged and reflect the reinvestment of all income or dividends but do not reflect the deduction of any fees or expenses which would reduce returns. Past performance does not guarantee future results. Forward-looking performance targets or estimates are not guaranteed and may not be achieved. Investing entails risks, including possible loss of principal. Alternative investments are only available to qualified investors and are not suitable for all investors. Alternative investments include risks such as illiquidity, long time horizons, reduced transparency, and significant loss of principal. This material is an investment advisory publication intended for investment advisory clients and prospective clients only. Robertson Stephens only transacts business in states in which it is properly registered or is excluded or exempted from registration. A copy of Robertson Stephens' current written disclosure brochure filed with the SEC which discusses, among other things, Robertson Stephens' business practices, services and fees, is available through the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). © 2024 Robertson Stephens Wealth Management, LLC. All rights reserved. Robertson Stephens is a registered trademark of Robertson Stephens Wealth Management, LLC in the United States and elsewhere.*