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MARKET REVIEW

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WATCH EPISODE

MARKET COMMENTARY

Economic growth in 2024 should continue to slow as the lagged impact of high interest rates is fully absorbed. With inflation decelerating towards the target range, central banks are expected to hold interest rates steady over the near term and then pivot to rate cuts later next year.

For the first time since the rate hiking cycle commenced in March 2022, U.S. Federal Reserve Chair Jerome Powell indicated that officials were turning their attention to interest rate cuts because inflation has declined much faster than they expected. He noted that holding rates steady as inflation falls would lead “real” rates to rise and policy to become too restrictive. The reaction from both the stock and bond markets was overwhelmingly positive.

Lower interest rates and corporate earnings growth are required for stocks to hold their price gains and further appreciate next year. Market participants are now expecting the U.S. Fed to start easing in March 2024 and continue to trim interest rates as the year progresses. Based on consensus estimates, earnings for the S&P 500 companies are expected to be up a meager 2.5% this year with profit growth accelerating to 11% next year, suggesting a soft landing for the U.S. economy.

Macroeconomic forecasting is highly unreliable and financial markets tend to be volatile and reactive when actual outcomes deviate from expectations. Therefore, investors should stay invested within a portfolio asset mix that meets their risk tolerance level, return objectives, and liquidity needs, and let the benefit of time and compounding grow their wealth over the long term.

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