

Weekly Market Commentary

January 16, 2024

The Markets

Is inflation retreating?

Last week, we received a lot of information about inflation. Some seemed to support the idea that inflation was sticky, meaning it wasn't moving lower, while other data suggested inflation was in retreat. Here's what we learned:

- **Headline inflation**, as measured by the Consumer Price Index, suggested inflation was headed in the wrong direction last month – higher. It showed prices rising more than expected (0.3 percent, month-to-month) in December 2023. In November, prices rose less (0.1 percent, month-to-month).
- **Core inflation**, which excludes volatile food and energy prices, showed inflation was steady. Prices rose by the same amount (0.3 percent, month-to-month) in November and December.
- **Producer prices** are the prices producers received for goods and services. Last week, the Producer Price Index showed inflation was headed in the right direction – lower. Producer prices fell (-0.1 percent, month-to-month) in November and December.
- **Conflict in the Middle East** could stoke inflation by sending the prices of oil and shipping higher.

The Federal Reserve (Fed) has been working to bring inflation down since March of 2022. Over that time, it has lifted the federal funds rate from zero to 0.25 percent to 5.25 percent to 5.50 percent, and inflation has dropped from a peak of 8.9 percent in June 2022 to 3.4 percent in December 2023. The Fed's goal is to lower inflation to two percent.

Markets are keeping a close eye on the Fed's success, because they want to see rates move lower. Lower rates put more money in the pockets of businesses and consumers, which supports economic growth and higher stock prices.

Last week, few investors expected the Fed to begin lowering the federal funds rate this month; however, about three-fourths of them anticipated rates would begin to drop in March, according to data from the CME FedWatch Tool.

Major U.S. stock indices finished the week higher. Yields on most maturities of Treasuries moved lower from last Friday to this Friday.

Data as of 1/12/24	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	1.8%	0.3%	20.1%	8.0%	13.1%	10.2%
Dow Jones Global ex-U.S. Index	0.4	-1.0	5.4	-2.4	3.6	1.5
10-year Treasury Note (yield only)	4.0	N/A	3.5	1.1	2.7	2.8
Gold (per ounce)	0.0	-1.1	9.2	3.7	9.7	5.1

Bloomberg Commodity Index	-0.7	-0.7	-11.7	6.7	4.2	-2.3
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S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WHAT DO YOU KNOW ABOUT RISING PRICES? When it comes to inflation, the United States is doing better than many countries around the world. In the U.S., prices were up 3.4 percent in 2023. In Argentina, prices rose 25.5 percent in December and were up 211 percent for the full year. See what you know about global inflation by taking this brief quiz.

- Since the 1950s, the highest U.S. inflation rate was 14.6 percent. In what year, did inflation rise that high?
 - 1951
 - 1974
 - 1980
 - 2022
- Hyperinflation occurs when prices rise so fast that the cost of a cup of coffee could double from one morning to the next. Hyperinflation tends to result from wars and poor central bank policy decisions. Which of these places experienced a monthly inflation rate of 79,600,000,000 percent (causing prices to double about every 25 hours)?
 - Zimbabwe
 - Yugoslavia
 - Germany
 - Greece
- Companies sometimes try to hide rising costs by holding prices steady while making packages or serving sizes smaller. Consumers pay the same price and receive less for their money. What is this practice called?
 - Miniaturization
 - Shrinkflation
 - Downsizing
 - Camouflage sales
- In the United States, the price of eggs more than doubled from 2022 to 2023. Which of the following caused the eggs to become more expensive?
 - Omelets were in high demand.
 - 8.1 million people became vegetarians.
 - An outbreak of the bird flu killed 5 million egg-laying hens.
 - Videos of parents cracking eggs on their children's heads became popular on social media.

Weekly Focus – Think About It

“How much good inside a day? Depends how good you live 'em. How much love inside a friend? Depends how much you give 'em.”

—*Shel Silverstein, A Light in The Attic*

Answers: 1) c; 2) a; 3) b; 4) c

Best regards,

Heritage Capital Advisors, LLC

P.S. Please feel free to forward this commentary to family, friends or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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- * All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), <https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM>.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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