OBSERVATIONS: *Markets mixed, housing data galore, low jobless claims still hint to a strong labor economy.*

- Markets were mixed last week, but the S&P 500 gained +1.2% which was just enough to close above 4,800 and set a new record high eclipsing its previous historic high from early January-2022, while small caps (Russell 2000) lost -0.3% and the yield on the 10-year Treasury moved up 18 basis points to 4.12%.[1]
- Retail sales rose by +0.6% month-over-month (MoM), which was better than consensus expectations. Similarly retail sales—excluding the variable auto and gas components—were also up +0.6% MoM nearly double the consensus expectations for December. Consumer sentiment also improved in recent weeks.[1]
- Homebuilder sentiment improved by 7 points to 44—the highest level since September 2023—thanks to declining interest rates. Despite the jump, sentiment remains below 50, which is considered negative.[2]
- New housing starts fell -4.3% MoM to 1.460 million (annualized rate) in December from November's 1.525 million figure, but new housing permits inched up +1.9% MoM in December to 1.495 million from November's 1.467 million figure. In total an estimated 1.413 million houses were started for the full year in 2023, which is down -9.0% from the 1.552 million houses started in 2022.[1]
- Existing home sales fell -1.0% MoM to 3.78 million (annualized rate) in December. For the full year 2023, existing home sales were 4.09 million which is the lowest number of home sales since 1995.[1]
- Initial claims were 187k on a seasonally adjusted basis last week down from the previous week's 203k figure—weekly initial unemployment claims below 200k have only been recorded 11 times since 1970.[1]

EXPECTATIONS: *Geopolitics getting headlines, Congress kicks the can, Q4 earnings season gets going.*

- Taiwanese elections resulted in Lai Ching-te of the ruling Democratic Progressive party (DPP) winning the Presidency—this is the first of several key elections around the world in 2024. Ching-te and the DPP are widely considered as the most hostile of the major political parties in Taiwan towards Beijing and China warned the US "to exercise extreme prudence in handling Taiwan-related issues and must not obscure and hollow out the one-China principle.".[3]
- Last week, Congress passed the bipartisan stopgap budget bill and provided funding for the federal government through to early March—when a budget deadline is set to once again be in the headlines.[1]
- About 10% of the S&P 500 has reported as of last Friday with only 62% reporting positive earnings surprises, which is below the 5-year and 10-year averages of 77% and 74% respectively.[4]

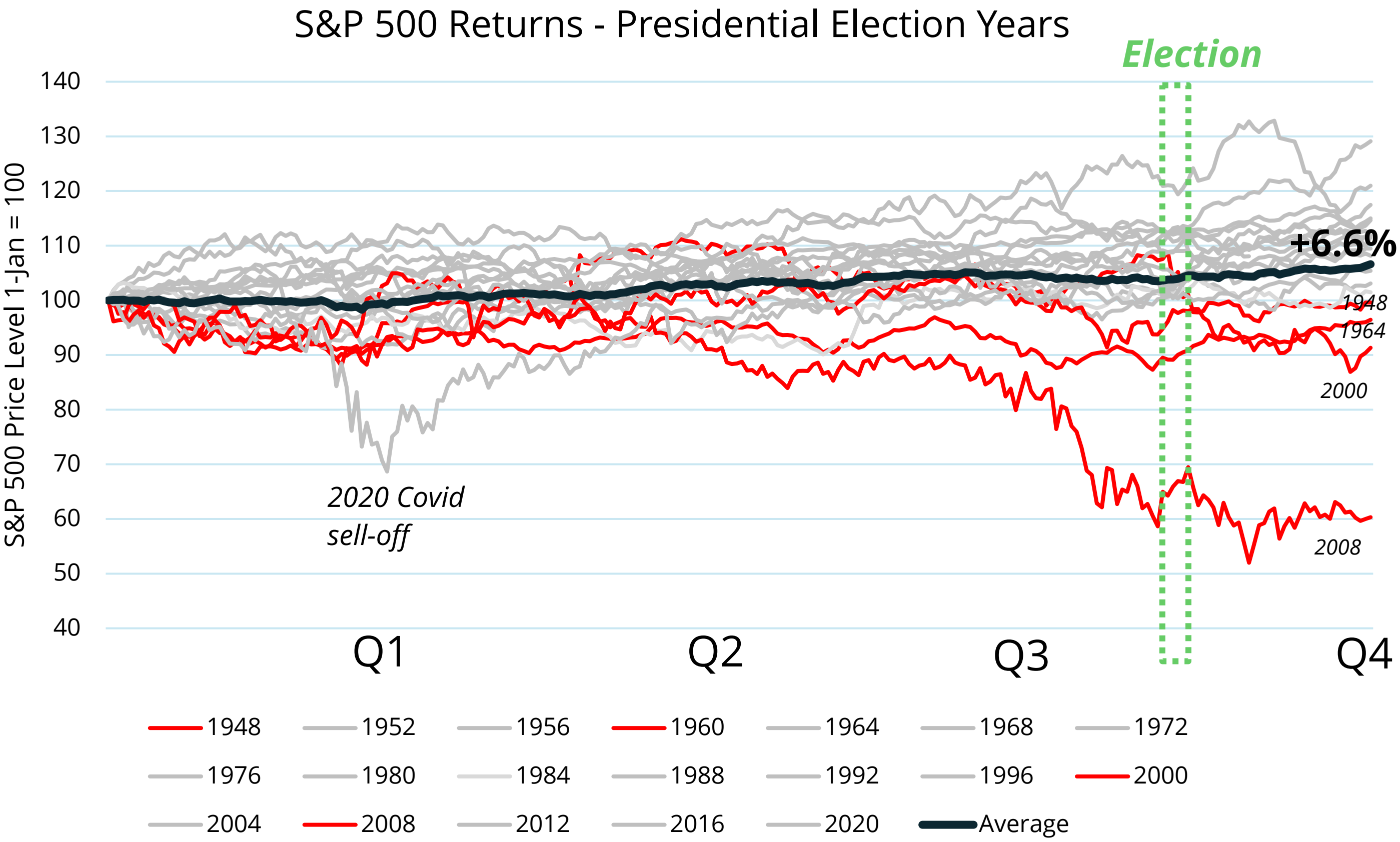
ONE MORE THOUGHT: *Presidential Election Years – Generally Positive; Normal Volatility*

The Republican Iowa Caucus is behind us, the New Hampshire primary is just around the corner, and it is highly likely that the Republican and Democratic candidates for 2024 will be almost certainly locked-in by mid-March—at this point it is already highly likely that 2024 is a redux of the Biden-Trump 2020 election. Many clients ask us at this time of year, what do elections mean for the markets, and do we change our investment outlook depending upon the presidential election cycle? Clearstead's analysis, along with many others, suggests that Presidential election years are highly similar to non-Presidential election years in terms of average market returns, volatility, and the key factors that drive global financial markets. We have looked at every Presidential election in terms of S&P 500 returns since WWII (see Chart of the Week) and in only 4 cases did the S&P 500 decline during an election year. The

[1] *Bloomberg LP 1/19/2024*
[2] *https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index, 1/17/2024*
[3] *https://www.ft.com/content/291c6a85-2b63-401a-8eff-feffffe837d2*
[4] *Factset Earnings Insight, 1/19/2024*

two most notable examples were in 2000 (after the internet bubble popped) and in 2008 as the Great Financial Crisis unfolded. Overall, the average return in a Presidential election year is +6.6%. Similarly, the volatility (variation of monthly returns) of the S&P 500 is nearly identical to non-election years. Nor is there any evidence that the party that wins the Presidency materially impacts the market's return. The takeaway for investors is that regardless of your political leanings it is important to remain invested and realize that the primary driver of market returns are the fundamentals of the economy. Given the relative strength of the US economy as we enter 2024 and the expectation that corporate America should see gradually improving fundamentals and positive earnings growth, there is good reason to anticipate that 2024 will be a positive year for investors.

CHART OF THE WEEK



Source: Clearstead, Bloomberg 12/31/2023

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