OBSERVATIONS

- Markets were mixed last week with the S&P 500 losing -0.2% and the tech-heavy NASDAQ losing -1.2%, but small caps (Russell 2000 Index) gained +0.3%. The yield on a 10-year Treasury fell -10 basis points to 4.08% as market cheered the jobs report and Fed Chair Powell's Congressional testimony.[1]
- Market leadership and breadth continues to widen. Since the week of February 5th, the S&P Equal Weighted Index, Russell Mid-Cap Index, and Russell 2000 Index (small caps) have all outperformed the S&P 500 Index, with small caps notching superior gains over large caps in four of the past five weeks.[1]
- ISM Services PMI declined in January to 52.6—missing expectations—down from December's 53.4 figure. Despite the decline, any figure above 50 denotes expanding economic activity in the sector suggesting the US service sector remains on solid footing.[1]
- Job openings remain plentiful as the December Job Openings and Labor Turnover survey showed that 8.863 million jobs were available in December (the most recent data available), which was down slightly from November's 8.889 million but slightly better than expectations for December.[1]
- Unemployment claims remain low—unchanged at 217k last week from the previous week's revised figure.[1]
- The February jobs report reinforced the strength in the labor market, with 275k new jobs created. However, the unemployment rate ticked up to 3.9% from the previous month's 3.7% level and January's job figure was revised down from the initial estimate of 353k jobs to 229k.[1]
- Other metrics of the labor market were largely in line with expectations—labor force participation was unchanged at 62.5% and average hourly wages fell to 4.3% YoY from January's 4.4%YoY figure.[1]

EXPECTATIONS

- Fed Chairman Powell underscored to Congress last week that the Fed will likely cut rates later this year, but that officials wanted to see additional evidence that inflation was continuing to ease towards the Fed's 2% inflation target and that they were willing to be patient before beginning to ease interest rates.[1]
- Super Tuesday primary voting concluded last week and all but made official what was long anticipated—a rematch of the 2020 election of Biden versus Trump in November. With close to half of Republican delegates awarded thus far, Trump has gained 1,057 delegates—he officially needs 1,215 to secure the nomination—but his only rival left in the primary race, Nikki Haley with 92 delegates, announced that she would be ending her campaign. Meanwhile, President Biden has secured 1,564 delegates—he needs 1,968—and both he and Trump should cross their respective delegate thresholds by the end of the month.[2]

ONE MORE THOUGHT: *China Annual Two Sessions Meetings Layout 2024 Economic Goals & Global Policy Vision*[1]

China's legislature, the National People Congress (NPC), began its annual session last week along with the meeting of the annual advisory body the Chinese People's Political Consultative Conference, which together are typically referred to as the "Two Sessions" and together provide a rare public window into official Communist Party thinking around the economic agenda for the year. These meetings take place amid a backdrop of weak economic growth, falling prices, poor consumer and business sentiment, and a real estate crisis well into its third year. During the NPC, Chinese officials laid out a real GDP growth goal of 5% this year and set the official budget deficit at 3% of GDP, but they also outlined steps that would increase the deficit an additional 1% of GDP to help with indebted local governments. They also outlined programs to encourage households and businesses to upgrade to more energy

[1] *Bloomberg, LP 3/8/2024*

[2] *NBC News – Decision 2024 Delegate Tracker accessed 3/6/2024*

efficient products—a wide ranging cash for clunkers type program. The Chinese Central Bank also can further ease interest rates and many analysts expect that given the depths of China's economic problems additional monetary and potentially fiscal stimulus will be needed if China wants to come close to its 5% growth goal. Despite the problems in the economy, China is pressing ahead with key strategic initiatives. Chinese President, Xi Jinping has charged Chinese regulators to pursue financial reforms that develop a "financial culture with Chinese characteristics" which downplay market forces, but promote activity aimed at long-run development. China at home is focused on high quality development—code for moving up the value spectrum in terms of global supply chains—and self-reliance, which is really about being a self-sufficient producer in high-end semiconductors, AI, and other high-tech equipment. Abroad, China remains keen to promote its multi-polar vision of the world in which the US is largely unable to impose the rules of global trade, law, and diplomacy on other countries. In this light, Beijing has pledged to increase spending by about +7.2% to $230 billion ($1.7 trillion yuan or about 1.6% GDP) on defense and speeches at this year's NPC highlighted the need to accelerate defense modernization. While some of the speeches at the NPC could have been considered hawkish and implicitly anti-American, China's second-in-command, stressed that China's official goal remains achieving a "peaceful reunification" with Taiwan—a phrase that at times had disappeared from some official speeches and reports. As the US heads into its election season, expect a steady chorus of confrontational policies vis-à-vis China to emerge on the campaign trail from both parties. From additional tariffs and technology restrictions to additional military sales to Taiwan and others in the region, it is unlikely that the relationship between Beijing and Washington will warm over the coming year. It is more likely that no matter which party holds the 2025 Presidency they will inherit a more contentious relationship with Beijing.

CHART OF THE WEEK

China: Policy Indicator	2024-Target	2023-Target	2023-Actual
Real GDP Growth	≈5%	≈5%	5.2%
CPI Inflation	≈3%	≈3%	0.2%
Fiscal Deficit (% of GDP)	3.0%	3.8%	3.8%
Defense Spending	$232 billion	$220 billion	$221 billion
Monetary Policy (RRR)	Large banks: 8.0% Medium-sized banks: 6.0% Small banks: 5.0%	Large banks: 9.0% Medium-sized banks: 7.0% Small banks: 5.0%	
Total Social Financing (YoY)	+10.0%	≈10.0%	+9.5%
Housing Policy	Further demand easing in tier 1&2 cities; increased liquidity for project completion; accelerated investment in public housing and urban village renovation		Moderate demand easing in tier 1&2 cities (lower mortgage rates and down payment ratio, reduced purchase restrictions)

Source: Clearstead, Economist, WSJ, Goldman Sachs 3/6/2024

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