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➔ A Strong U.S. Economy Produces Stubborn Inflation Q4 2023 Earnings-Growth on the Horizon

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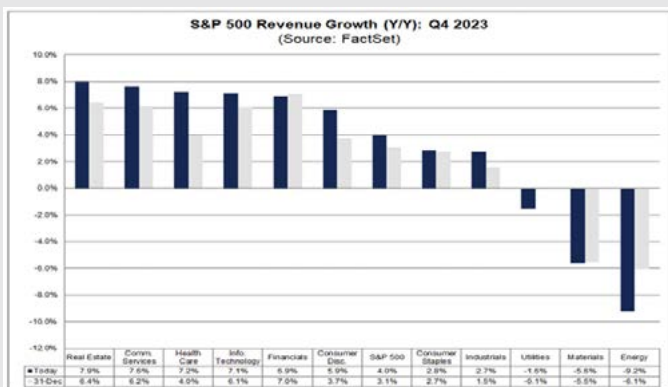
As we commence the last part of the Q4 2023 earnings season, approximately 97% of the S&P 500 companies have reported results. Of those that have filed results, 73% of S&P companies have reported a positive earnings per share (EPS) surprise and 64% have reported a positive revenue surprise. Earnings growth rate is 4% and marks the second straight quarter of S&P corporate earnings growth. Annual EPS estimates for 2024 by Standard & Poors, as of November 2023, had been as low as \$220 compared to the current EPS of \$245.¹ Revenue growth is projected to come in at 4.2%, marking the 13th consecutive quarter of revenue growth for the index.² Of the 11 sectors of the S&P, positive revenue growth for Q4 2023 have been led by Real Estate, Communication Services, Financials and Technology. Sector laggards for Q4 2023 revenue growth were Materials, Energy and Utilities. As a result, the S&P 500 is up 7%, the Dow is up 2.6%, and the NASDAQ composite is up 6.56% YTD.

Inflation

The January 2024 inflation rate came in higher than expected at 3.1% versus the expected inflation rate of 2.9%. Though January's inflation was a 0.3% decline from December 2023, the year-over-year (YOY) annual core inflation (inflation rate minus food and energy) rate came in at 3.9%, which was also 0.2% higher than expected. Market reactions created a 1.37% selloff in the Dow and S&P 500 on February 13 while sending bond yields climbing with the 10-year Treasury going from 4.15% to above 4.30%. This reduced any chance for a March 2024 the Federal Reserve (Fed) rate cut and amplified doubts of a May 2024 Fed rate cut. The inflation numbers for February, reporting on March 12, will determine if the Fed remains higher for longer or prepares for its first rate cut since March 2020. The CME FedWatch Tool measures the likelihood of changes in the Fed rate as implied by the 30-Day Fed Funds futures pricing data. Based on the table below, the probability of a rate cut in May is currently 9.6%, compared to a 62.5% probability rate cut in the June Fed meeting.

Jobs Are Still Available

The Initial Jobless Claims numbers on February 22 showed the number people claiming unemployment benefits came in at 201,000 with an expectation of 218,000. This drop in unemployment claims suggests that unemployed individuals are still having an easier time in finding a suitable job. Most important, the ability to find employment so quickly has created a "spenders' mindset" for U.S. consumers who are unfazed by the odds of not bringing home a paycheck. This may suggest that many households will continue their spending habits with some households using credit cards to backfill their "buy-now-pay-later" lifestyle.



Source: S&P Earnings Growth by FactSet

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➔ The Importance of Rebalancing

Eric Krueger, Synovus Trust Senior Portfolio Manager

In the world of investing, achieving financial goals requires more than just picking the assets — it involves careful management and maintenance of your portfolio. One crucial strategy that often gets overlooked is portfolio rebalancing. By periodically adjusting the allocation of assets within your portfolio, investors can reap numerous benefits, including optimizing returns and managing risks effectively.

In the late 1990s I worked for a large pension fund. It was a remarkably interesting time, also known as the “dot com bubble.” I worked in the economics department, and we were in charge of asset allocation, among others things. They took an extremely disciplined approach with formal ranges for each asset class and during that time, as equities moved outside the top of their given range, they would sell and buy one or more of the underperforming classes (typically bonds) to get the allocation back into range. It was a lesson I will never forget. They did not try to “bet” on which way the market would go “knowing” the market was overvalued. They adjusted slowly over time, enjoying the gains the market provided, while not bearing the full brunt of the equity correction from 2000-2002. Buy low, sell high.

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➔ \$3 Trillion Market Capital Club Next?

Daniel Morgan, Senior Portfolio Manager

On January 25, Microsoft stock price closed above the mythical \$3 trillion market-cap level, joining Apple, which was the first company to reach this milestone on June 30, 2023. So, the question of technology investors now: Which heavyweight technology stock is poised to eclipse this milestone next – Alphabet, Amazon or Nvidia?

Amazon (AMZN) (Market Cap \$1.81 trillion) is the leader in eCommerce and Cloud Computing with AWS (Amazon Web Services), the leading provider of datacenter IaaS cloud services. Services including Prime memberships, third-party sellers, advertising and AWS (these segments will collectively account for 24% of 2024 total revenues) are key drivers of growth and margin expansion. Grocery, healthcare initiatives, media/entertainment and logistics services expand AMZN’s footprint. After a near doubling in capacity in 2019-21 during the COVID-19-demand surge, operating leverage is improving on regionalization, driving lower cost to serve.

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*Past Economic Insights newsletters are available at: <https://www.synovus.com/personal/plan-and-invest/economic-insights/>

¹ <https://seekingalpha.com/article/4652543-fall-2023-snapshot-of-expected-future-s-and-p-500-earnings>
² <https://insight.factset.com/sp-500-reporting-year-over-year-revenue-growth-for-13th-straight-quarter>

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