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Weekly Commentary

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Holding pattern

If the fourth quarter measure of gross domestic product (GDP) is any indication, the U.S. economy might have a large airstrip for a soft landing. GDP grew 3.3% year-over-year (y/y) in the fourth quarter of 2023, beating economists and market forecasts for a 2% gain. The major reason was strong consumer spending, itself boosted by the resilient labor market. Inflation is also nearing a sweet spot. The headline Personal Consumption Expenditures Index rose 2.6% and core 2.9% y/y through December 2023, the latter declining significantly from its 3.2% reading in November.

For the Federal Reserve, the narrative could hardly be better: the economy grew even as inflation declined. That doesn't mean the Fed can put policy on autopilot. Guiding the economy to the runway will require correct timing of rate cuts when it pivots sometime this year. Too many cuts could put too much air under the economy's wings, leading inflation to reverse course. Too few could steer it to a recession as rates would remain restrictive.

The post-pandemic economic recovery has defied conventional wisdom, but the present situation puts the Fed exactly where it wants to be: in the cockpit with a great chance to pilot the U.S. economy through the inflation storm to a smooth landing.

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

The Personal Consumption Expenditure Index: A measure of consumer inflation at the retail level that takes into account changes in consumption patterns due to price changes.

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