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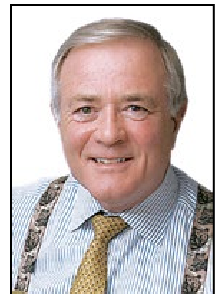

William Rutherford

OP-ED: Despite burgeoning pessimism, economy remains strong

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In a replay of the good-news-is-bad-news scenario, those claiming we are in recessionary times were dealt a body blow by the latest jobs report. Despite the Federal Reserve's valiant efforts to slow the economy, U.S. jobs soared by half a million in January. This was reported just a week after the chairman of the Federal Reserve, Jerome Powell, staked out an aggressive position for tapering off interest rate hikes.

The U.S. economy beat forecasts and delivered once again. U.S. payrolls increased 517,000 for January, nearly triple the consensus forecast of 185,000. The unemployment rate of 3.4 percent is now the lowest in 53 years.

Chairman Powell had hoped for an economy that was slowly slowing, but instead received these strong numbers. The market seized upon the "good news" and considered it "bad news." The likely result is that interest rates will remain high for the time being and longer too, as the Fed struggles to slow the economy.

In January, the Nasdaq Composite registered its fastest start to a new year in 20 years. The tech-heavy index finished up 10.7 percent for the full month of January, compared to an 8.96 percent tumble for the month of January 2022. This year's gains were helped by expanding price-earnings multiples that investors, particularly individuals, were willing to pay for growth stocks, due to their optimism for continued declines in inflation and expectations of the Federal Reserve winding down rate hikes.

The S&P 500 also had its best start since 2019, ascending 6.18 percent in January after declining almost 6 percent at the start of 2022. The Dow Jones was up as well, registering a 2.83 percent gain this past month.

What's driving this year's Nasdaq run? Within the Nasdaq 100, Warner Bros Discovery (WBD), MercadoLibre (MELI), Atlassian (TEAM), NVIDIA (NVDA) and IDEXX Laboratories (IDXX) were big gainers by percentage.

NVIDIA is the only true mega cap among that list. However, Google parent Alphabet (GOOGL), Amazon.com (AMZN) and Tesla (TSLA) were all outperforming the Nasdaq in 2023. Apple (AAPL) was roughly in line, while Microsoft (MSFT) was lagging.

Inflation was another bright spot in the new year. Both the Consumer Price Index (CPI) and personal consumption expenditures (PCE) reports were more favorable than many observers expected. The PCE registered 5 percent annual inflation in December, a deceleration from November's 5.5 percent reading and October's 6.1 percent.

Is the market in a relief rally or a dead cat bounce? Chairman Powell has taken a stern stance against inflation, vowing to see his struggle against inflation to the end. However, in a good-news-is-bad-news scenario, even with inflation abating somewhat, the economy has provided a strong jobs report, much stronger than the Fed would have liked.

Inflation is sticky. Yet to come for the market is the reopening of China, which is expected to be inflationary as demands for goods, both by households and manufacturing, will put upward pressure on prices globally. Our trade with China has just reached a record high. As supply chain issues choke distribution, higher commodity prices will result in continued higher interest rates. The ongoing war in Ukraine will also fuel inflation. Other than some moderation in energy prices, there just doesn't seem to be any good news on the inflation front, and a strong job market doesn't help inflationary pressures.

Chairman Powell has a conflicting job. He wants a weaker economy so he can have a soft landing, but full employment is one of the primary mandates of the Fed. And the jobs report was strong because the economy is strong. With the war raging and with China reopening, inflationary pressures will remain high.

In additional troubling news, the U.S. is approaching its debt ceiling after which the Treasury would be unable to pay its bills on time. It is hard to imagine the consequences of the U.S. failing to pay its bills. Chaos would ensue. Chairman Powell says it is not the purview of the Fed to raise the debt limit. Congress must do that. So, with Congress locked in a stalemate, we appear headed toward a major problem, with the consequences uncertain. Once again, we find ourselves in a dilemma. Can the debt crisis be avoided? Time will tell, but historically the budget crisis gets solved at the last minute. That time is fast approaching.

An adage of the marketplace is that it is better to be in the market than to time the market. In other words, time in the market rather than market timing. It still holds. Investors are still wise to have a diversified portfolio.

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