Calming Down

January 9, 2024

Financial markets got off to a slow start at the beginning of 2024 after an above-average 2023. There was no economic news that pushed the market lower but many of the stocks that had rallied sharply in November and December took a breather. A few months back, we wrote about the factors that could have an impact on stock prices. We identified those factors as oil prices, inflation, and the value of the dollar. Since that time the stock market has experienced a broad rally and these indicators have proven to be good proxies for a favorable market environment.

The price of oil at the end of September (29th), peaked at $90.79 per barrel. Subsequently, the price fell to $71.04 per barrel, a decline of 21%! The decline has lowered the price of gas at the pump and contributed to improving consumer confidence. Domestic oil production rose to record levels while U.S. September gasoline consumption fell to the lowest level in two decades (according to IEA). These factors may continue to keep oil prices in a narrow range given the fact that the U.S. economy continues to grow at a reasonable pace.

Falling inflation has been a major contributor to the market rally as various measures of inflation have fallen below the Fed's 2% target. For example, the consumer price index (CPI) fell at a 0.1% rate in the month of November. Falling inflation has led to forecasts of a lower fed funds rate for the balance of 2024, a factor that usually helps to sustain stock market rallies. Also, interest rates generally fall during that time when the Fed eases credit conditions and bonds become less attractive relative to stocks.

For 2023, the U.S. dollar weakened by about 2% vacillating between a high of 106.81 on October 1st and a low of 100.56 on July 13th. At the beginning of the year, the dollar's index was 103.17 and, as of January 8th the index was at 102.25, a change of 0.9% not much change at all given the rising global volatility brought about by two wars.

Another valuable indicator of market volatility is the Chicago Board Options Exchange (CBOE) VIX index. Early in 2023, the bankruptcy of Silicon Valley Bancshares sent shivers through financial markets. Would this be another 2008-like financial collapse? The VIX peaked at 26.52, the highest for the year. Actions taken by the Fed to dampen that bankruptcy led to a sharp decline in that index. The second peak occurred on October 20th when the VIX hit a high of 21.71. Since that time, the index has been in a downtrend, reaching a level of 13.07 at this writing.

The price of gold has usually been an indicator of pending inflation. For 2023, the price of gold paralleled the rise in stocks. From a low point on October 5th at $1,831 per ounce, the price of gold rose to $2,041 per ounce on January 8th, a gain of 11.4% i.e., not much inflation.

These various indicators have settled down recently giving us greater confidence that volatility for both bond and stock markets has declined from pandemic levels. We continue to monitor these indicators to assess the environment for investing.

109 East Bay Street, #1E, Charleston, SC 29401

843-342-3044 www.vcm.us.com