WEEKLY ECONOMIC UPDATE FEB. 26, 2024

Stocks vaulted to new heights last week on the back of an artificial intelligence (AI) semiconductor company, marking investors' belief that AI has the potential to transform the U.S. economy.

Stocks Rally To Record Highs

Stocks traded in a fairly tight range for the first half of the short week, yawning at the lack of economic data while awaiting earnings results from one key company that creates chips that power the artificial intelligence operations of many firms.

A strong Q4 corporate report and long-term message from Nvidia Corp. pushed the S&P 500 and Nasdaq to new closing highs on Thursday.

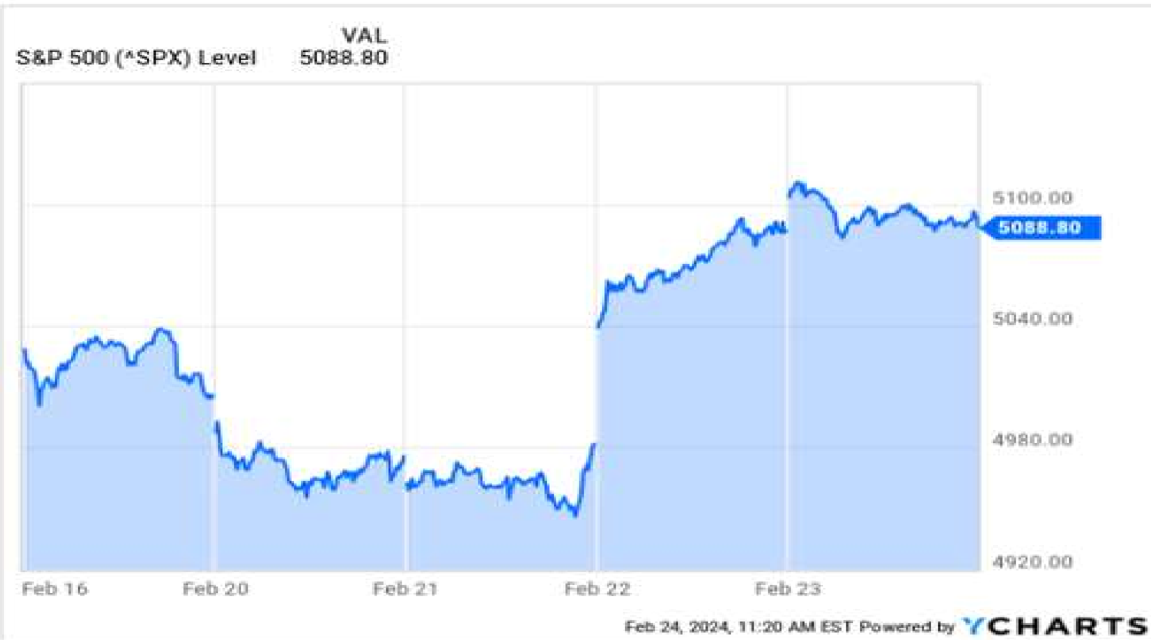
Nvidia's market cap rose by $277 billion on the news, pushing it to a $2 trillion valuation. To put that in perspective, Nvidia's market cap is now roughly the same size as Canada's economy. Its 16% gain on Thursday was the largest one-day market cap increase by any U.S. company.[1,2] Remember, companies mentioned are for illustrative purposes only. It should not be considered a solicitation for the purchase or sale of any company connected with AI.

Weekly Market Insights (WMI)

Major Index Return Summary

Name	5D TR	1M TR	YTD TR	1Y TR
Dow Jones Industrial Average	0.92%	3.41%	4.10%	20.54%
MSCI EAFE	1.38%	4.78%	2.51%	14.67%
Nasdaq Composite	0.57%	3.79%	6.67%	39.14%
S&P 500	1.17%	4.76%	6.91%	28.88%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 02/23/24	4.26%	4.14% 4.42% 3.88%	2.90% ▲ -3.62% ▼ 9.79% ▲

Source: YCharts.com, February 24, 2024. Weekly performance is measured from Friday, February 16 to Friday, February 23.

ROC 5 = the rate of change in the index for the previous 5 trading days.

TR = total return for the index, which includes any dividends as well as any other cash distributions during the period.

Treasury note yield is expressed in basis points.

Inflection Point?

Nvidia's seismic increase in market cap gave investors pause for reflection, wondering whether this marked an inflection point for artificial intelligence.

The main story that investors took away was that, because of its market dominance as the leading global provider of AI computer chips, Nvidia served as a proxy for AI. Some of the world's most influential companies rely on Nvidia technology to power their own AI initiatives. Investors appear to have concluded that AI's impact may just be starting and anticipate it will be a driving economic force in 2024 and beyond.[3,4]

This Week: Key Economic Data

Monday: New Home Sales. Two-year Treasury Note Auction.

Tuesday: Durable Goods. Case-Shiller Home Price Index. Consumer Confidence.

Wednesday: GDP report (second estimate). Petroleum Status Report.

Thursday: Jobless Claims. Personal Income and Outlays.

"There is nothing which I dread so much as the division of the republic into two great parties."

– John Adams

Of Note

We are living in a time of economic bewilderment. The pandemic has given us an unprecedented shock, but we have also seen a surprisingly swift recovery. Inflation has risen to the highest level in decades, but has been declining while unemployment sits at its lowest in years (if you believe the government data). Central banks have raised interest rates at breakneck pace, yet markets continue to soar to new heights. How is this possible?

The answer lies in the realization that we are not experiencing a typical business cycle, but rather a cycle of illusion. This is not a cycle driven the by organic macro processes as outlined in our economics textbooks and forecasted by our DSGE (Dynamic Stochastic General Equilibrium) models, but one marked by huge disruptions in demand and supply, by logistical chaos and geopolitical tensions, by pent-up demand and increased savings, by mismatches in the labor market and strong wage growth, by vacant commercial real estate and shortages of residential real estate, by China offloading their excess capacity overseas and the West trying to rebuild its own capacity. It is a cycle that constantly gives false signals about the state of the economy and the prospects for the future.

The hope that inflation will gently recede to around 2 percent has been gaining a lot of ground since November. Such a scenario seemed completely unattainable in October. Decreasing risk premiums and heightened expectations for a 'normalization' of monetary policy were the outcomes. But will we finally get a normal business cycle?

It appears not. We are still in a transitional phase, wherein the global economy grapples with adapting to a new, harsher geopolitical reality. Risks such as the war in Ukraine, the crisis in the Red Sea, or escalating tensions between China and the United States are not isolated incidents. They are not some unlucky draws from the same tail of the distribution of risks we’ve always had. Instead, we have seen a shift in the entire distribution of those risks. This not only leads to more supply shocks but will also introduce new macroeconomic paradoxes. The cycle of illusion, it seems, is far from over.

So the economy is playing tricks with us, and markets and policymakers have fallen for them. Only a very, very brave analyst would at this stage forecast a couple of rate hikes instead of cuts. Yet some of this month’s data do tell that different story. Take the US, for example. In January, non-farm payrolls surged by 353,000, initial claims fell, and core inflation proved stubborn at 3.9% y/y. The producer price index (PPI) jumped by 0.5% month-on-month, University of Michigan inflation expectations rose, and the prices paid index of the ISM services survey hit 64. That's not exactly rate-cutting territory.

However, things may do a 180 again in February, as this economy is like magic. You see what you want to see; the reality is too complicated anyway.[5]

Footnotes And Sources

1. MarketWatch.com, February 22, 2024.
2. US News & World Report, February 22, 2024.
3. CNBC, February 21, 2024.
4. The Wall Street Journal, February 22, 2024.
5. zerohedge.com/markets/cycle-illusion-you-see-what-you-want-see