MONTHLY MARKET UPDATE

January 2024

OPAL WEALTH ADVISORS

Markets in January followed up a very strong end to 2023 with a bit more of a mixed bag across the financial markets. As opposed to the "everything rally" in November/December last year, January saw global equity markets post respectable gains largely thanks to the U.S. while bond markets began the year in the red. The USD began the year posting a healthy 1.9% gain on the back of encouraging growth indications coming out of the U.S. while commodity markets were up thanks to a 6% rise in crude oil.

There were several key market drivers in the month including a heated debate on the path for monetary policy, turmoil in the Middle East, resilient U.S. economic growth, and continued equity market leadership from a small number of large companies at the top end of the S&P 500.

The FOMC worked hard to walk the market back from its aggressive rate cut expectations in 2024 to some success as futures markets have pushed back the timing of the first cut to May/June and the magnitude of cuts from six down to just over four.

Flash conflicts in the Middle East translated to heightened tensions surrounding the Israel-Hamas conflict as well as surging freight costs for global trade.

Fourth quarter U.S. GDP (3.3%) surprised to the upside while composite and services PMI readings remained well in expansionary territory and manufacturing readings are slowly improving. Headline labor market data remained strong, but some early signs of labor market weakening are building. The disinflation trend continued with 3-month and 6-month average inflation reaching the Fed's 2% target, but sticky wages, healthy growth, and rising pricing data in PMI surveys may pose a 'last mile' challenge to the Fed in declaring victory.

Commercial real estate loans continue to be a material source of concern for investors and policy makers, particularly for small and regional banks, with the post-Covid office sector in shambles across several markets globally.

The S&P 500 climbed 1.7% while the Equal Weight S&P 500 fell 0.85%. U.S. small caps were down 3.9% and large cap growth stocks (+2.44%) handily outpaced large cap value stocks (+0.06%). Developed international markets were up 0.58% thanks to a 4.6% rally in Japanese stocks. Emerging markets lost 4.6% with India's 2.4% gain paced by struggles in China (-10.6%) and Brazil (-5.9%).

Long bond yields moved sharply higher in January while maturities inside of five years were relatively flat. The 10-year Treasury yield closed just shy of 4% while both 2-year and 3-month yields stayed measurably higher (inverted) on a relative basis. High yield credit spreads widened from 3.34% to 3.59% in sympathy with the volatility seen on the smaller and lower quality side of the market but remained well below the long-term average credit spread of 5.37%.

Market Anecdotes

- More of the same? Through January, the top 10 names in the S&P 500, which are 33% of the index, accounted for 64% of the index's monthly return.
- 42 Macro noted that in only two of the prior nine Fed tightening cycles was a 'soft landing' achieved and in both instances the three common denominators were a surge in productivity, stimulative fiscal policy, and a clear dovish pivot willingness on the part of the Fed.
- Despite higher interest rates pressuring corporate debt coverage levels, leveraged loan default rates have remained below historical averages due to a significant increase in 'distressed exchanges' which include out of court restructurings, exchanges, and sub-par paybacks.
- January saw Taiwan elect VP and DPP candidate Lai Ching-te President surely to the dismay of Chinese officials who refer to Lai as a "separatist". Tensions are expected to remain high.
- The National Association of Realtors drew attention to the generationally diverging paths of declining home affordability alongside high and rising home prices.

- BCA's Geopolitical team's annual look at low probability, high impact market risks include a Chinese recession, oil shock in Iran, and military conflicts with Russia/East Asia.

- To put a number on higher mortgage rates, a mortgage loan today is over 2% higher than any time since 2011 which equates to $385/mo on a $300,000 conforming 30-year loan.

- BCA noted the fall in oil prices in the back half of 2023 can be partially attributed to an 880k b/d surge in U.S. production to record high levels thanks to a flood of DUC shale wells coming online.

- Cerulli noted the investment industry reached a major milestone in 2023 where capital invested in passive funds ($13.252t) surpassed capital invested in active funds ($13.244t) according to Morningstar data.

Economic Release Highlights

- January's Jobs Report came in far above expectations (353,000 vs 185,000) and consensus range of 120,000-200,000. The unemployment rate stayed at 3.7% (3.8% expected) while average hourly earnings climbed more than forecast MoM (0.6% vs 0.3%) and YoY (4.5% vs 4.1%).

- The pace of headline (core) PCE inflation fell registering 2.6% (2.9%) YoY and MoM readings of 0.2% (0.2%), both generally in line with consensus. Personal Consumption exceeded forecasts (0.7% vs 0.4%) and Personal Income growth of 0.3% was in line.

- Headline and core CPI registered 3.4% and 3.9% respectively while MoM readings both came in at 0.3%. Headline and core PPI registered 1.0% and 1.8% respectively with MoM readings of -0.1% and 0%.

- Retail Sales beat on headline (0.6% vs 0.4%), Ex-Vehicles (0.4% vs 0.2%), and Ex-Vehicles & Gas (0.6% vs 0.3%).

- Fourth quarter ECI was in line with consensus (0.9% vs 1.0%) and in the middle of the forecast range of 0.8% - 1.0%. Wages grew 4.2% YoY.

- The JOLT Survey reported a slight increase in job openings from 8.925M to 9.026M, a contrast to the consensus forecast of a decline to 8.70M.

- The first estimate of 4Q GDP came in well above consensus (3.3% vs 2.0%) and the high end of the forecast range (1.3% - 2.5%).

- January U.S. PMI (C, M, S) registered 52.3, 50.3, 52.9 where both services and manufacturing readings came in well above consensus forecasts and the high end of their respective ranges.

- January non-U.S. PMI (C, M, S) last week included relatively constructive readings in the Eurozone (47.9, 46.6, 48.4) and UK (52.5, 47.3, 53.8).

- The January ISM Manufacturing Index beat to the upside (49.1 vs 47.4) and registered above the high end of the forecast range. The ISM Services Index registered 53.4, higher than the consensus reading of 52.1 and above the upper end of the forecast range of 51.5-53.0.

- Consumer Confidence reading for January improved from 108.0 to 114.8, slightly ahead of consensus and toward the high end of the range.

- Consumer Sentiment Index in January improved from 69.7 to 78.8, above the spot forecast 69.2 and consensus range 66.5-72.5.

- The NFIB Small Business Optimism Index improved slightly to 91.6, beating the spot consensus forecast of 90.6.

- Housing Market Index climbed to 44 from prior month reading of 37 and ahead of consensus forecast of 38. Case-Shiller Home Price Index appreciated 0.1% MoM and 5.4% YoY, both slightly less than consensus forecasts of 0.4% and 5.8%, respectively.

- Housing Starts (1.460M vs 1.425M) and Permits (1.495M vs 1.478M) both came in slightly ahead of forecasts.

- New Home Sales of 664k came in ahead of the forecast of 660k and increased slightly over the prior month's 615k pace. Pending Home Sales jumped 8.3% MoM handily ahead of the 1.3% spot consensus and 0.7%-3.9% forecast range. Existing Home Sales of 3.78M were down 1% MoM and -6.2% YoY.

Outlook

Our current view is to maintain a policy neutral stance with respect to risk assets in the short-term but remain more cautious when looking out over our 12-24 month forecast horizon. We still see a likelihood for trend growth and economic conditions to deteriorate by the latter half of 2024 due to higher interest rates and persistent inflation with the "last mile" proving itself difficult for policy makers.

Start-stop conditions should continue favoring periodic tactical (0-6 months) asset allocation shifts and rebalancing/profit taking. We are not anchored to a decided pro-growth or defensive investment posture and remain neutral on the growth/value style dimension. From a geography perspective, we are favoring quality U.S. markets over non-U.S. due to currency and relative growth dynamics. Recommended fixed income positioning is neutral from a duration perspective and underweight below investment grade fixed income and bank loan markets over our forecast horizon.

Equity	**Level**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
Dow Jones	38150	1.31	16.04	1.31	14.36	10.58
NASDAQ	15164	1.04	18.24	1.04	31.99	5.90
S&P 500	4846	1.68	16.01	1.68	20.82	10.99
Russell 1000 Growth		2.49	18.70	2.49	34.99	10.03
Russell 1000 Value		0.10	13.62	0.10	6.08	9.23
Russell 2000		(3.89)	17.62	(3.89)	2.40	(0.76)
Russell 3000		1.11	16.40	1.11	19.15	9.10
MSCI EAFE		0.58	15.80	0.58	10.58	5.11
MSCI Emg Mkts		(4.63)	7.08	(4.63)	(2.55)	(7.15)
Fixed Income		**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate		(0.27)	8.23	(0.27)	2.10	(3.17)
High Yield		0.02	8.42	0.02	9.21	1.88
Municipal		(0.51)	8.26	(0.51)	2.90	(0.78)

Commodities	**1/31/24**	**11/30/23**	**8/31/23**	**5/31/23**
Oil (WTI)	73.21	75.66	83.55	68.11
Gold	2053.30	2035.50	1942.30	1964.40

Currencies	**1/31/24**	**11/30/23**	**8/31/23**	**5/31/23**
USD/Euro ($/€)	1.08	1.09	1.09	1.07
USD/GBP ($/£)	1.27	1.26	1.27	1.24
Yen/USD (¥/$)	146.26	147.87	145.68	139.78

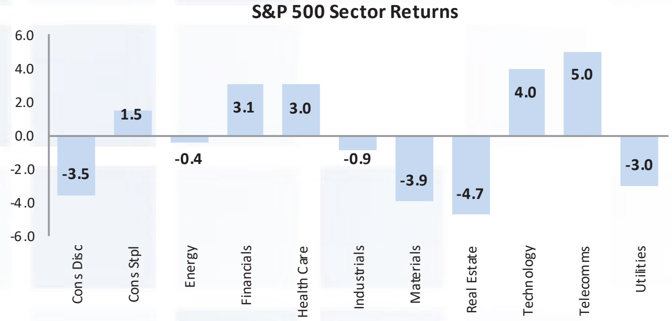
Treasury Rates	**1/31/24**	**11/30/23**	**8/31/23**	**5/31/23**
3 Month	5.42	5.45	5.56	5.52
2 Year	4.27	4.73	4.85	4.40
5 Year	3.91	4.31	4.23	3.74
10 Year	3.99	4.37	4.09	3.64
30 Year	4.22	4.54	4.20	3.85

Style Returns

MTD

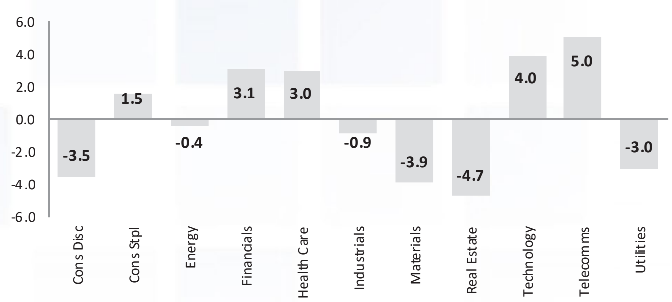
	V	B	G
L	0.10	1.39	2.49
M	-1.79	-1.42	-0.54
S	-4.54	-3.89	-3.21

S&P 500 Sector Returns



YTD

	V	B	G
L	0.10	1.39	2.49
M	-1.79	-1.42	-0.54
S	-4.54	-3.89	-3.21



Please remember that past performance is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Opal Wealth Advisors, LLC ["OWA]), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from OWA. OWA is neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or accounting advice. A copy of the OWA's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request or at www.opalwealthadvisors.com. **Please Remember:** If you are a OWA client, please contact OWA, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. **Please Also Remember to advise us** if you have not been receiving account statements (at least quarterly) from the account custodian.

Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your OWA account holdings correspond directly to any comparative indices or categories. **Please Also Note:** (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your OWA accounts; and, (3) a description of each comparative benchmark/index is available upon request.

Opal Wealth Advisors / 2 Jericho Plaza / Suite 208 / Jericho, NY 11753 / t. 516.388.7980 / f. 516.388.7968 / **opalwealthadvisors.com**