Ropes Wealth Reviews Jobs, Rates, Tech Earnings, and Groundhogs

This week delivered a full plate of information for the market to calibrate, including today's jobs report, the Fed's decision on interest rates, and earnings from major tech companies. But first things first: Punxsutawney Phil, the 132-year-old world-famous groundhog, failed to see his shadow when he was abruptly woken from his sleep in Gobbler's Knob in western Pennsylvania early Friday. Hallelujah--spring is near.

Now don't get out the bathing suits just yet — kind of like economists and market prognosticators, Phil has only been accurate about 40% of the time over the past 100 years. In fact, over the past decade, the wannabe meteorologist has only been right three times — in 2014, 2016 and 2020, according to the National Centers for Environmental Information. But that doesn't stop us from wanting to believe the little fella that an end is nigh for the cold and snow.

Turning to other things we want to end; the market was hoping for Fed President Jay Powell to channel his inner Punxsutawney Phil and predict the end of high interest rates. Not quite what we got this week, but close. As expected, the Fed held interest rates steady for the fourth consecutive meeting in a range of 5.25-5.50%. They removed the likelihood of any additional policy firming and further inched open the door to eventual rate cuts. However, the Fed also said that amid *"solid"* growth, an upgrade from *"strong"* in December, *"strong"* job gains and *"low"* unemployment, inflation has come down but remains *"elevated."* Given such robust conditions, *"The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."*

With an economy accelerating beyond earlier expectations, a tight labor market, solid consumer, inflation still above target levels and sizable risks to the upside, there is no incentive for the Fed to take its foot off the brake, at least not yet. Policy need not remain at the terminal level forever, but the Fed made a mistake on the front end, allowing price pressures to become well established under the misguided assumption of *"transitory."* The Fed doesn't want to risk making a second error on the back end by prematurely removing sufficiently restrictive policy before the goal of price stability has been achieved.

Today's stunning jobs report gives further credence to that approach, as nonfarm payrolls rose by 353,000 in January, surging past the 185,000-gain expected by economists and marking the strongest pace of job creation since January 2023. The three-month average of job gains rose from 227k to 289k. Wage pressures remain strong, as average hourly earnings rose 0.6% in January, double the 0.3% gain expected. Year-over-year, wages rose 4.5%, marking the largest annual increase since September. The unemployment rate held steady at 3.7%, marking two full years below 4% which is the longest stretch since the 1960s.

Markets were flummoxed by this news, as Treasury bond yields surged higher and stocks struggled to reconcile the good news on jobs and earnings with the bad news that this means interest rate cuts may not be coming anytime soon. Stocks in the spotlight were Apple, Amazon, and Meta, who all delivered better-than-expected quarterly results last night, unlike their "Magnificent Seven" buddy Tesla last week. Amazon and Meta results received far more "likes" as both companies easily exceeded estimates and Meta announced a dividend for the first time. That could be evidence the company has faith in the reliability of its cash flow. Advertising, cloud growth, subscribership, retail, and other critical metrics for both companies all impressed analysts. In contrast, Apple stock weakened as a drop in Apple's China revenue and an outlook that appeared cautious about iPhone sales got a thumbs down from investors, even though Apple's revenue increased overall after four straight declining quarters.

While those three overall surpassed expectations, regional bank shares remained under pressure in the wake of poorly received quarterly results earlier this week from New York Community Bancorp (NYCB), which just took over the failed Signature Bank in 2023. The culprit was large losses on commercial real estate loans, and declining reserves. It was also notable that Tokyo-based Aozora Bank plunged more than 20% after warning of a loss tied to investments in US commercial property. And in Europe, Deutsche Bank AG more than quadrupled its U.S. real estate loss provisions to €123 million ($133 million) in the fourth quarter from a year earlier. It would seem the smoke hasn't necessarily cleared from last year's banking fire that toppled the likes of Silicon Valley Bank and First Republic. The banking sector and commercial real estate risks bear watching for investors otherwise euphoric over recovering corporate earnings and an otherwise robust economic picture.

We must also consider the rising geopolitical risk in the Middle East. American forces are expected to hit targets in different countries outside Iran in response to the drone strike by Iranian-backed militants, which killed three and also injured more than 30 service members. The operation figures to be Biden's most forceful response yet to militia groups that have launched more than 150 attacks against U.S. forces since the war between Israel and Hamas started Oct. 7. It is a challenging tightrope to walk, to show force even as efforts to rescue hostages in Gaza and pursue a diplomatic resolution continue. While the market's expectations for the impact of the attacks and more broadly, the Israel-Hamas war are still relatively muted, according to maritime advisory firm Sea-Intelligence, the disruptions to global shipping could rival that of the global shutdown during COVID. Already, there are reports of massive price increases, with shipping costs on containers traveling from Asia to the North American East Coast specifically up 130% and with several routes out of the Middle East Gulf showing double-digit gains.

All in all, there is a lot of good news for investors to feel confident about, with a tinge of caution as risks are lurking. But keep in mind the Fed has a lot of firepower back in its arsenal, if needed, to brace the economy for impact.

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