Ropes Wealth Sees All Steak, No Sizzle in Q4 GDP

Back in the day on a trading desk in NYC, one of my jobs was to run around and research ideas and stats from my head trader to prep for the next day's morning meeting. During that meeting, each head trader, representing a different corner of the market, would pitch ideas to the chief strategists and portfolio managers who listened, asked questions, and would occasionally accept and more often reject our theories and send us back to the drawing board. One of those portfolio managers loved the expression, "all sizzle, no steak" when he thought our ideas were thin or disappointing. Occasionally, he would reverse the expression and when he did, it was a thrill. The "all steak, no sizzle" blessing really meant something, and not just a trip to Peter Luger's.

Q4 GDP delivered up a prime cut of strong growth across all categories in a report way better than the market expected. GDP expanded 3.3% quarter-over-quarter to close out 2023, bringing the year-over-year rate of growth up to 3.1%, the best annual gain in seven quarters. The consumer remained the driving force for growth, government spending continued its advance, external trade made a positive impact, and private investment (both business and residential) was positive. Personal consumption rose 2.8% quarter-over-quarter on a 2.4% increase in services spending and a 3.8% gain in goods spending. As has been the theme in 2023, government spending was the second-largest contributor to the final GDP tally, up 3.3% quarter-over-quarter which added 0.6% to the GDP result. Federal non-defense and state and local continued to lead. External trade added 0.4% to GDP as exports rose 6.3% quarter-over-quarter and imports rose just 1.9%. Accounting for the divergence in the two was a drop in export prices which boosted the real result. For its part, business investment rose a more modest 1.9% quarter-over-quarter and residential investment gained 1.1%. Rounding out the good news, the headline GDP price index fell from 3.3% to 1.5%, its lowest level in 17 quarters; it was expected to slow to just 2.2%. Excluding food and energy, the core PCE price index held at 2.0% as expected.

In other good news, S&P Global reported *"an encouraging start to the year"* for the U.S. economy, with a *"marked acceleration of growth alongside a sharp cooling of inflation pressures."* The Manufacturing PMI rose from 47.9 to 50.3 in January's preliminary report, the best reading in 15 months. The Services PMI improved from 51.4 to 52.9, a seven-month high. Combined, the increases pushed the Composite PMI up from 50.9 to a seven-month high of 52.3. The press release noted a *"broad-based improvement in demand"* that helped *"push business confidence for the year ahead to a 20-month high."* It also cited *"emerging reports of customers having worked through their buffer stocks,"* as one factor boosting orders. Regarding the Fed's dual mandate, employment gains were, *"only marginal overall and the second-softest since last August,"* and *"average prices charged for goods and services ... post[ed] the smallest monthly rise since May 2020."*

Today the Fed's preferred inflation gauge was released and reflected a continuation in the improvement trend. Headlines prices were 2.6% higher than a year ago, unchanged and in line with estimates. The annual rate of core inflation eased from 3.2% to 2.9%, the slowest yearly gain since March 2021. Notably, primary rents had the smallest increase since 2021, and non-housing core services inflation was still below stronger readings from the first half of the year. Meanwhile, personal income rose 0.3% month-over-month in December, in line with economists' expectations but on the lower side of growth over the last twelve months. On a year-over-year basis, real disposable income growth remains very strong, up 4.2%. On the spending side, personal spending jumped 0.7% in December, and November's tally was revised up from 0.2% to 0.4%. Adjusting for inflation, real spending rose a strong 0.5% in December, matching the best result since January. However, with headline spending outpacing income, the savings rate declined 0.4% to 3.7%, the lowest rate of the year.

There was one notable disappointment on this week's menu of data releases and earnings reports, and that was Tesla's miss on both earnings and revenue growth and their weak guidance for 2024. Cutting prices to boost sales is unsustainable, and even with that approach, sales fell well short of the 50% target Musk promised. Instead, vehicle deliveries rose "just" 38%, and management provided guidance of only a 20% increase for 2024. Shares of Tesla lost significant ground and are down almost -27% in 2024. Meanwhile, shares of Intel were also clobbered after they missed on sales and issued weak 2024 guidance. While CEO Pat Gelsinger said that his company is "relentlessly focused on achieving process and product leadership," the jury is out whether Intel can compete at the AI "big kids" table. Are these reports from Tesla and Intel a sign the AI-fueled tech rally is losing some of its sizzle? We shall see.

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