



370 Diablo Rd Ste #209  
Danville, CA 94526  
Phone: (925) 938-2800  
Fax: (925) 938-2802

Dear clients and friends,

At Perseus Wealth, it is important to us that you are well informed about what is happening in the markets. Here are a few of the key topics of conversation that deserve the most attention this month. We would love to participate in further discussions if you have any questions or would like additional details.

**What's Happening:** Jobs, inflation, and expectations around what the Federal Reserve may or may not do continue to be the focus of markets as 2024 begins. The latest jobs report showed December exceeded most economists' expectations, with the economy adding 216,000 jobs<sup>1</sup>, surpassing estimates by 41,000<sup>2</sup>. Further, wages rose more than anticipated, gaining 4.1% compared to December 2022<sup>1</sup>. While the unemployment rate remained steady at 3.7%<sup>1</sup>, the December monthly drop in labor force participation – the largest one month drop since the COVID shutdown - will be an area to watch. (The labor participation rate is the percentage of Americans over age 16 actively in the work force, either working or actively seeking employment; the U3 unemployment rate is the percentage of those in the labor force actively seeking employment in the last four weeks. One of the factors that can maintain a low unemployment percentage while labor participation rates are dropping can be due to workers who were actively but unsuccessfully seeking employment last month who are no longer looking for employment.) Overall, last year saw 2.7 million new jobs as the economy<sup>1</sup> defied strongly held expectations of a recession arriving sometime in 2023. Despite the stronger-than-expected jobs report, the overall gradual cooling trend continues to be the predominant belief across economists, though wage growth could spell trouble for dovish expectations around Federal Reserve policy in 2024.

On the inflation front, the headline Consumer Price Index (CPI) rose by 0.3% in December and 3.4% over the year<sup>3</sup>, both faster than the market had expected and an acceleration from November. However, year-over-year changes in core CPI, which excludes the more volatile food and energy components, continued to improve in December (barely), rising 3.9% versus 4.0% in November. Shelter, one of the most lagging components of the inflation calculation, continues to play a significant role in the headline inflation story, despite expectations throughout the year that it would slow. While one month's report does not indicate a trend, if a rising inflation trend were to form, the current market expectations for the Federal Reserve to begin cutting rates early this year could be in jeopardy. As the market has continued to show over the last year, changing expectations can quickly create ripples and volatility across capital markets.

---

<sup>1</sup> Bureau of Labor Statistics, <https://www.bls.gov/news.release/empsit.nr0.htm>

<sup>2</sup> Consensus estimate from Bloomberg's survey of economists.

<sup>3</sup> Bureau of Labor Statistics, <https://www.bls.gov/news.release/cpi.nr0.htm>



370 Diablo Rd Ste #209  
Danville, CA 94526  
Phone: (925) 938-2800  
Fax: (925) 938-2802

**The Bottom Line:** The market's growing consensus of a substantial dovish pivot from the Federal Reserve this year fueled the late 2023 market rally. However, those same expectations may set the stage for potential downside volatility if that picture were to shift again. The market experienced multiple consensus expectations shifts in 2023 and this year may be no different. While only time will tell, investors will likely stay focused on the upcoming inflation, retail sales, jobs and, especially, unemployment/labor participation rate reports to continue to take the temperature of the health of the consumer. At some point the relentless focus on the Federal Reserve will likely shift...but not yet.

Best always,

Sean and John

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested directly. The economic forecasts outlined in this material may not develop as predicted, and there can be no guarantee that any strategy will be successful.