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# sacramento BUSINESS REVIEW

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## MESSAGE FROM THE CHIEF ECONOMIST

Dear Friends,

The year ended on a celebratory note, with the pendulum swinging wildly back from the negative aftertaste of a dismal 2022. The economy and markets defied conventional wisdom and surprised on the upside. We even saw one of the strongest Santa rallies in the stock market!

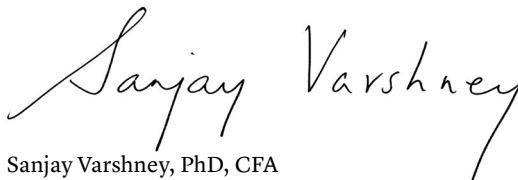
I would like to first take a quick victory lap (read my commentary and predictions from last year): We were right about no recession, strong economic growth despite higher rates, lower and continued declining inflation, stronger labor market keeping the consumer resilient, the Fed pause and pivot on rates, and market pricing in rate cuts in 2024. It is hard to be so accurate on so many fronts! The stock market closed out with the S&P 500, Dow, and Nasdaq rising 24%, 14%, and 43% respectively. The Magnificent 7 now command a market capitalization that exceeds that of the UK, Canada, and Japan combined. Inflation is down to 3.1%, but closer to 2% without the housing component.

2024 will prove to be a year of consolidation: Despite being unsustainable, government spending will cushion any economic slowdown due to the consumer petering out — as we watch delinquencies rise, savings decline, and the job market continue to weaken, but not collapse. Barring some external shock, we should see a soft landing, with corporate earnings expanding and markets normalizing as rate cuts will provide some tailwinds. Election years tend to be economically uneventful as both parties behave for the vote — we expect the same this year.

I will reiterate my pessimism regarding the several socio-economic challenges confronting Sacramento: housing unaffordability, a fragile and recovering service sector economy, rising homelessness and crime, slow return to the office, and, of course, any fallout due to our overexposure to California's projected budget deficit.

Overall, I expect 2024 to be a good year for the economy, markets, jobs, inflation, Wall Street, and Main Street.

Warm regards,



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