2023: We Stayed Afloat — and 2024 Might Be Even Better

industry update economy

Summary: Contrary to popular belief, the Global Financial Crisis in 2023 didn't happen — and likely won't happen in 2024. We detail topline reports summing up year-end data and share expectations for the market this year, particularly for the banking sector.

Remember Thomas the Tank Engine? He "never, never, never" gave up, "even though the going's tough." The famous character from the 1945 "Railway Series" books by Wilbert Awdry and his son Christopher was later featured in two TV series, the first narrated by Ringo Starr and the second by George Carlin. Thomas was beloved by children in many countries for many reasons, including his persistence to always keep "puff puff puffing along."

Much like Thomas the Tank Engine, the economy is also just puff puff puffing along.

In fact, reports of year-end 2023 economic conditions represented hope, confusion, and disbelief, especially for eternal pessimists. Going into the year amid historic inflation and great uncertainty, more than a few economists were predicting a downturn — possibly even a full-blown recession. But as the year came to a close and 2024 rang in, all indications were that the economy just refused to give up.

One of the top headlines in the December reports was that inflationary headwinds continued to decline MoM and YoY. While consumer spending at year end was lower than the year before, the good news was that retailers actually posted a strong holiday shopping season. Moreover, general consumer confidence metrics showed that people are a little more optimistic about the economy and general cost conditions.

Consumers Feeling Hopeful

Consumers, in particular, are breathing a collective sigh of relief about lower gas prices. The national average is around $3.08 per gallon as of last week, and 30 states had prices averaging below $3 per gallon, according to AAA. Consumers also kept up their spending on travel and leisure, as was reflected by strong occupancy rate, and the average savings account was above pre-COVID-19 levels.

According to the University of Michigan, consumer sentiment "soared" 14% in December, reversing all declines from the previous four months. "These trends are rooted in substantial improvements in how consumers view the trajectory of inflation," wrote Surveys of Consumers Director Joanne Hsu. "All five index components rose this month, which has only occurred in 10% of readings since 1978. Expected business conditions surged over 25% for both the short and long run. All age, income, education, geographic, and political identification groups saw gains in sentiment this month."

Housing Trends

The housing market continued to perform well, as reflected in construction activity, despite an elevated cost of borrowing. While consumers have mixed expectations for which direction mortgage rates will go this year, more homeowners believe, as of December, that rates will trend down rather than up. Accordingly, Fannie Mae reported that the Home Purchase Sentiment Index® increased by 2.9 points last month, bringing the index to 67.2 points, a total increase of 6.2 points YoY. Says Mark Palim, Vice President and Deputy Chief Economist at Fannie Mae, “Homeowners have told us repeatedly of late that high mortgage rates are the top reason why it's both a bad time to buy and sell a home, and so a more positive mortgage rate outlook may incent some to list their homes for sale.”

Economic Trends

For 2024, despite all general economic incongruency reflected in the divergence of business and consumer sentiment, growth expectations remain positive. The cost of borrowing is expected to decline in 2024, due to the growing prospect of the Federal Reserve engaging in rate cuts in the first half of the year. Indeed, the number of global central bankers who speak about rate cuts has only grown over the last month, as inflationary headwinds continue to decline. Additionally, the general outlook for the Chinese economy remains mixed, and European economies continue to be impacted by demographics and lower demand conditions.

Lastly, it is expected that bank M&A activity will pick up this year due to lower yield expectations, strong corporate cash levels, a weak IPO market in 2023, and the belief that the private equity firms will be looking to put their cash to work — $2.6T of global dry powder — after sitting on the sidelines in 2023.

Well, the sky didn’t fall after all in 2023, and it likely won’t this year. While uncertainty will still linger in the air, prospects look positive, particularly in the banking industry, with likely rate cuts by the Fed as inflation continues to lower its ugly head, and M&A activity picks up.

EXCESS LIQUIDITY THAT YOU WANT TO INVEST?

ECONOMY & RATES

Rates As Of: 01/18/2024 10:13AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.47	0.07	0.07
6M	5.20	-0.06	-0.06
1Y	4.79	0.03	0.03
2Y	4.33	0.08	0.08
5Y	4.04	0.19	0.19
10Y	4.15	0.27	0.27
30Y	4.38	0.35	0.35

FF Market	FF Disc	IORB
5.33	5.50	5.40
SOFR	**Prime**	**OBFR**
5.32	8.50	5.32