Financial Trends To Watch in 2024 and What They Mean for You

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Americans haven't had much good news over the last few years when it comes to their finances. Rising interest rates, explosive inflation and mounting debt have contributed to a historically difficult financial situation in the U.S. However, according to many financial experts, 2024 could change that.

We at the MarketWatch guides team researched what these experts are saying about potential financial trends for the year and dug into the data to get a better understanding of what is to come in 2024. Our team also spoke directly with financial experts to get their perspective and a few tips on how people can navigate what is likely to be an eventful year for Americans and their money.

Key Findings

- The federal funds rate is expected to drop by 150 basis points (1.5%), from 5.3% to 3.8%, by the end of 2024.
- Commercial lending rates are almost certain to drop alongside the federal funds rate, providing an opportunity for borrowers to refinance high-interest loans.
- With decreases to the federal funds rate expected as early as March, the best CD rates and returns on high-yield savings accounts are likely to be available in Q1 of 2024.
- Record-high household debt could complicate an otherwise optimistic financial outlook for 2024.
- Slowing inflation and falling interest rates could provide Americans with an opportunity to save or invest more in 2024.

5 Financial Trends to Watch in 2024

By most predictions, 2024 should bring some significant changes to some fundamental aspects of the American financial picture. Through our research, we were able to identify five expected developments this year that are likely to have the biggest impact.

1. The Federal Funds Rate is Likely to Come Down

In an effort to temper runaway inflation, the Federal Reserve began a policy of raising the federal funds rate in March 2022. The federal funds rate is the rate at which lenders borrow money to finance banking and lending operations. It sets a benchmark that most consumer lending and savings rates are based on. The higher the federal funds rate, the higher mortgage and personal loan rates are likely to be.

At the time rate hikes began, the rate had sat at 0.08%. By August 2023, the rate had reached 5.3% — a 562.5% increase. This rate increase resulted in similar increases to consumer lending rates, such as those for mortgages, auto loans and credit cards.

Increases to consumer lending rates added substantial costs for people who borrowed money to make purchases at a time when inflation was still driving up the price of goods and services, compounding expenses for American households.

But the Fed made the last of those rate hikes in July 2023, and the federal funds rate has remained steady since. Federal Reserve Chair Jerome Powell has been insistent that the rate would not go down until the target of 2% inflation was reached.

Nonetheless, financial experts and even some Fed officials themselves have predicted that the Fed will begin a series of rate drops in 2024 — despite the inflation rate remaining at 3.9% at the time of publication.

Most predictions peg the first rate drop to happen at the March 19-20 meeting of the Federal Open Market Committee (FOMC). The general consensus prediction is that the Fed will drop the rate by 150 points (1.5%) in 2024, reaching a rate of 3.8% by the end of the year.

2. Inflation Is Expected To Continue Cooling

Powell's use of the federal funds rate as a tool to reduce inflation has had its intended effect, to some degree. After peaking at 9.1% in mid-2022, inflation began to cool in mid-2023, a little over a year after the rate hikes began, coming in at an estimated 3.4% by the end of the year.

Experts predict that this trend will continue in 2024. The combined average predicted inflation rate for 2024 from nine of the country's largest financial firms is 2.5%, based on information collected by Reuters.

3. Student Loan Debt Relief Will Lighten the Debt Load for Many

Student loans have made headlines over the last several years due, in part, to the massive amount of student debt Americans are holding — reaching $1.6 trillion in 2023. But they've also been a fixture in the news because of the back-and-forth fighting between different factions in the federal government over forgiving those loans.

Thousands of people got significant relief near the start of the year when it was announced in January that the government would fast-track its forgiveness program. The Biden administration revealed that it would forgive the debts in February of anyone who borrowed $12,000 or less and have been paying towards that debt for 10 years or more. This plan also includes a graduated forgiveness rollout for people who borrowed more.

4. Presidential Elections Have Unique Effects on Financial Markets

Americans will also head to the polls in November 2024 to cast their vote for president. While there is relatively little difference between market growth in election years compared to non-election years when looking at year-on-year data, closer inspection reveals a more dynamic pattern.

The first half of presidential election years tend to be bearish. Historical data for the Dow Jones Industrial Average shows that the Dow's year-to-date performance is -0.7%, on average, at the midpoint of election years. This is a full five percentage points below its average gain of 4.3% during non-election years.

However, things tend to heat up in the second half of election years. In non-election years, the Dow's average second-half returns average 3%. But in election years, the Dow averages 8.6% in returns for the second half of the year.

5. Record Levels of Household Debt Could Complicate Things

Many of the expected financial trends for 2024 would be good news for most Americans. However, some of that optimism may be tempered by a dark financial cloud looming over the country — record levels of household debt.

Americans entered 2024 holding $17.3 trillion in household debt, which includes mortgages, credit cards, auto loans, student loans and other types of loans. This figure is the highest in the history of the country, exacerbated by soaring interest rates over the last two years. While interest rates are expected to go down over the course of 2024, even the predicted lower rates would still be high in comparison to previous years.

This means paying those debts down will still be a tall task for many Americans. Millions at increased risk of falling behind on payments or defaulting could complicate an otherwise optimistic financial outlook for 2024.

2024 Could Bring Relief and a Chance To Save

Americans' savings rate spiked briefly in 2020 and 2021, but rising interest rates and inflation quickly brought those rates down to earth in the years since. But then, the personal savings rate saw a slight uptick in Q4 2023. If some of the aforementioned commonly-held

predictions come to fruition, that trend could continue as 2024 could provide an opportunity for Americans to get their savings back on track.

Lower Interest Rates Would Allow Borrowers to Refinance High-Interest Debt

With experts predicting a 1.5% drop in the federal funds rate by the end of the year, consumer lending rates are also likely to decrease. That means that borrowers who took out mortgage and auto loans at high interest rates could be able to refinance and reduce the overall cost of their loan. This could also result in lower monthly payments, leaving more room in the budget for savings.

Credit card interest rates should also start to decline alongside the federal funds rate. If so, borrowers would see their interest costs go down and potentially have the ability to pay down balances more quickly.

Tempered Inflation Could Leave More Room in Household Budgets

Inflation has been one of the biggest factors putting a strain on budgets over the past two years. As the cost of goods and services has increased — at times, by as much as 9.1% — Americans have had less room in their budgets to pay down debts and save money.

However, if inflation continues on its current downward trajectory, the costs of goods and services would remain relatively stable. They could even start to come down in some sectors. This would, at the very least, help to stabilize living expenses. It could also open up some room in the budgets of cash-strapped Americans, providing an opportunity to increase savings or put more towards paying off debt.

Tips for Managing Your Finances in 2024

We talked to three financial experts to learn how Americans can use the 2024 economy and its predicted financial trends to their advantage. They provided some salient tips on how to avoid building up debt, putting money aside and making smart money moves in the coming year.

1. Create and Stick To a Budget

The first step towards saving money or investing is setting aside the money to do it. Building a spending plan is a good way to budget effectively, leaving room for debt payments or saving, said Dr. Mary Carlson, adjunct professor of financial planning, housing and consumer economics at the University of Georgia

"Creating a spending plan can help anyone set a plan for how and where they want their money to go," she said. "Spending plans allow for dynamic flexibility that, given the unique situations that can arise in individual months, affords the ability to be able to navigate changes that are necessary during tight times."

2. Develop a System

There are many ways to budget one's income, but many experts recommend creating a system to help keep things organized. A relatively simple setup of using multiple checking accounts to divide up your salary into different groups could be useful, said Dr. Wenyao Hu, assistant professor of finance and accounting at the New York Institute of Technology.

"A practical tip is to set up a separate account and arrange biweekly transfers aligned with your salary schedule, possibly through direct deposit," he said. "This system ensures a portion of your income is automatically saved."

3. Use Technology to Your Advantage

In 2024, Americans have many more options than just a spreadsheet for creating a budget and planning spending. Hu suggested trying out money management apps to help with budgeting tasks and keeping an eye on one's finances.

"Utilizing personal finance apps can be highly effective to prevent the accumulation of excessive debt," he says. "For instance, apps like YNAB (You Need A Budget) and Goodbudget offer robust budgeting tools that help track and categorize expenses, ensuring you have a clear understanding of where your money goes."

Carlson also recommends giving digital money management tools a try, but it may take interacting with a few before finding the right fit.

"Technology can be a great tool in helping stay on track with your spending," she said. "There are several different apps that can help with this. The best one is the one that works for you."

4. Build an Emergency Fund

Another vital step in the process, according to our experts, is creating and building up an emergency fund. Having a cash pool to draw from in the event of unexpected expenses helps keep people from having to go into debt to finance them, said Dr. William Emmons, adjunct lecturer at the Washington University in St. Louis Olin Business School.

"An emergency fund or buffer in your checking account is a good idea in all economic climates, not just today," he said. "In fact, it's essential for long-run personal financial stability. Running very short of cash can have serious financial consequences if that means missing

payments and incurring penalties."

5. Watch the Federal Funds Rate

When there is room in the budget for investing or saving, there are decisions to be made about where to put those funds. According to our experts, the best moves depend largely on movements with the federal funds rate and your own personal preferences and habits. Therefore, they recommend paying attention to when the funds rate moves and by how much.

Increases to the federal funds rate over the last two years have driven up consumer lending rates. But it has also pushed up consumer savings rates, with some banks offering as much as 5% paid interest on high-yield savings accounts. Emmons says that while savings rates are still high, people have a unique opportunity to earn significant interest from their savings accounts or with stable investments like CDs.

"What is unusual about today's circumstances is that having an emergency fund or buffer is also a good investment," he said. "It has been almost 20 years since short-term interest rates were this high. A money-market mutual fund or a high-rate bank deposit account always makes sense. Today, it's a no-brainer."

If the funds rate starts to go down, however, savings rates will come down alongside it. This means other investments may start to be more fruitful. Carlson says that periods in which interest rates are falling or low in general are often a good time to look towards market investments.

"When interest rates drop, it typically leads to a boost in the stock market, especially in blue-chip stocks," she said. "Lower interest rates make borrowing cheaper, encouraging spending and investment, which can drive up sales in retail and other sectors. Therefore, investors can take advantage of dropping interest rates by investing in stocks, particularly in strong, well-established companies."

Financial Outlook 2024: Change is Inevitable

Despite the concerning state of household debt, most expert predictions for 2024 are on the optimistic side. The last two years have been nothing if not difficult for Americans. If predictions hold, 2024 could bring newfound opportunity for people to improve their financial situation — whether that means paying down debt, saving more or finding smart ways to invest.

However, predictions are not guarantees. There is always a chance that the Fed may decide not to lower rates, or that inflation could start to ramp back up. But the predictions of falling rates and cooling inflation are based on mountains of data related to current and historical

financial trends. They're also made with tens or even hundreds of millions of dollars or more at stake.

If they don't hold, it will likely be due to some major unexpected event or shift in the economy. In any case, 2024 is likely to be a very eventful year for the financial world and Americans' wallets.

Methodology

Our team used government data and interviewed experts in order to provide our readers with an accurate and useful picture of the financial outlook for 2024. While none of these predicted trends are guaranteed to come to fruition, they are based on our exhaustive research and the stated opinions of some of the country's foremost financial experts and institutions.

The data sources used in this study include:

- Board of Governors of the Federal Reserve System (US), Finance Rate on Consumer Installment Loans at Commercial Banks, 2003-2013
- U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, 2003-2023
- Board of Governors of the Federal Reserve System (US), Student Loans Owned and Securitized, 2013-2023
- Federal Reserve Bank of New York, Household Debt and Credit Report, Q3 2023
- Hulbert Ratings, Presidential Election Years vs. Non-Election Years Averaged, 1896-2020, via Barron's
- U.S. Bureau of Economic Analysis, Personal Saving Rate, 2003 – 2023

Our Experts

Dr. Mary Carlson, adjunct professor of financial planning, housing and consumer economics at the University of Georgia

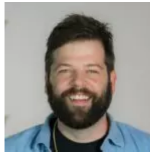
Dr. Mary Bell Carlson, CFP®, AFC®, is a financial behavior expert, well-known speaker, podcaster and storyteller. From the bowels of the Pentagon to the halls of Capitol Hill to the main streets of counties, Mary's work has influenced countless individuals and families to improve their financial well-being. Mary is the president and founder of Financial Behavior Keynote Group, a speaking, consulting, and education firm providing thought leadership on financial behavior change. Mary is the co-host of the Real Money, Real Experts podcast and an adjunct faculty member for the University of Georgia.

Dr. Wenyao Hu, assistant professor of finance and accounting at the New York Institute of Technology

Wenyao Hu is an assistant professor in the Department of Law, Economics, Accounting, and Finance in the School of Management. He obtained his Ph.D. in Management (Finance Concentration) from the Lally School of Business at Rensselaer Polytechnic Institute. His research interests include fintech, capital markets, corporate disclosure, and ESG engagements. Before joining New York Tech, Wenyao Hu was a postdoctoral researcher at Saint Mary's University in Canada.

Dr. William Emmons, adjunct lecturer at Washington University in St. Louis Olin Business School

William R. (Bill) Emmons, Ph.D., has been speaking and writing about the economy, banking and bank regulation, financial markets, housing, household finance and economic policy for more than 30 years. Audiences have included economists, financial regulators, bankers, financial and real estate professionals, attorneys, engineers, public officials, educators, and the general public. His media exposure includes live interviews on national and local radio and television networks (NPR, PBS, Bloomberg Radio, Scripps TV, local media outlets) and dozens of news articles highlighting his research (Wall Street Journal, New York Times, Washington Post, Bloomberg, Reuters, American Banker, Forbes, Time, etc.).



David Straughan Contributor

David Straughan is a content manager and veteran journalist who specializes in crafting features about industry and finance that capture their impact on people and society. With more than 13 years of experience in China and the U.S., David combines rigorous data analysis, exhaustive research and conversations with high-level experts to reveal the human stories behind the numbers.

When he's not obsessively reading everything he can get his hands on about the automotive and finance industries, David spends his time cooking, baking, making coffee, and serving as a butler to his two cats in his hometown of beautiful Durham, North Carolina.

Expertise

- Automotive industry trend analysis
- Banking and personal finance industry trend analysis
- Social impact of industry developments
- Commercial lending
- Auto insurance

Previous Experience

- Senior Contributor, MarketWatch
- Senior Automotive Journalist, Automoblog
- Senior Automotive Contributor, Quartz
- National Hot Rod Association (NHRA) Drag Racing Journalist, Various Publications

Andrew Dunn Senior Editor
Andrew Dunn is a veteran journalist with more than a decade of experience in the business and finance arena. Before joining our team, Andrew was a reporter and editor at North Carolina news organizations including The Charlotte Observer and the StarNews in Wilmington. In those roles, his work was cited numerous times by the North Carolina Press Association and the Society of Business Editors and Writers. Andrew completed the business journalism certificate program from the University of North Carolina at Chapel Hill.