Market Commentary

As of March 31, 2024

Economy & Market Review

First Quarter 2024

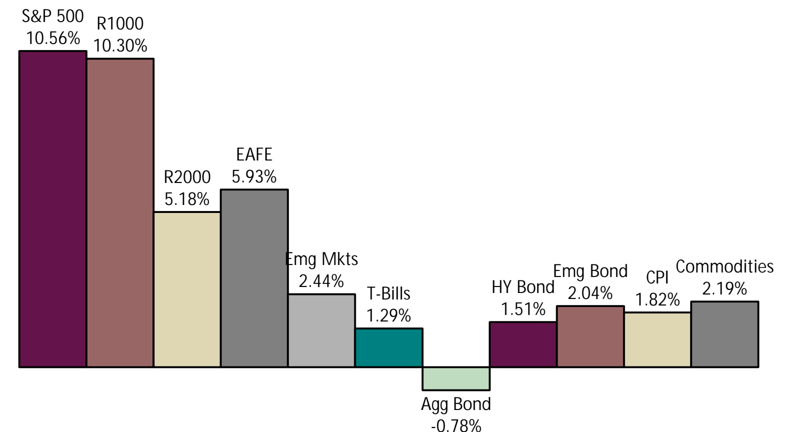
The beginning of 2024 brought rocket-like stock market performance. SpaceX comes to mind with discussion of rockets. SpaceX has revolutionized the cost of sending a rocket into space with its ability to recapture/reuse the booster rockets. The process is called a powered decent landing system. It allows for reentry and a controlled descent onto a platform. In a similar vein, the Federal Reserve (Fed) is attempting a controlled decent of the economy. So far, the Fed has done better than most expected with the unemployment rate still historically low and many more jobs than job seekers. Although the jury is still out if inflation has been controlled.

Economic growth in the US is still robust, GDP (Gross Domestic Product) grew 3.4% in the fourth quarter surpassing most expectations. Current Atlanta Fed GDPNow estimates for the first quarter are declining but still at 2.4%. Inflation concerns continue to reverberate. The Fed's favored indicator, Personal Consumption Expenditures Index (PCE) recorded a 2.5% year-over-year increase in February. Stripping away food and energy prices, Core PCE climbed to 2.8%. Even with inflation indicators above the Fed's 2% target, the Fed has signaled they will likely reduce rates at some point this year. March CPI remained elevated and recent underlying inflation reports have been mixed with March ISM services showing a drop in prices, but S&P Global services' PMI showing input and output costs rising sharply. The bond market remains somewhat bewildered. Above target inflation and yet a Fed call to lower short-term rates has provided added bond market volatility. The 10-year yield rose from 3.88% at year end to a recent 2024 high of 4.58%. This rate increase pushed the Bloomberg Aggregate Bond Index negative 0.78% during the quarter. With the Fed indicating a forthcoming rate reduction, the S&P 500 large cap stock index increased 10.6% during the quarter, nearly matching the 11% fourth quarter return. Large-cap stock dominance continued. As the Russell 1000 Index of large companies increased 10.3%, US small caps based upon the Russell 2000 Index were only up 5.2% return for the quarter. During the quarter, developed market international stocks increased 5.9% lagging US performance.

Global Market Performance

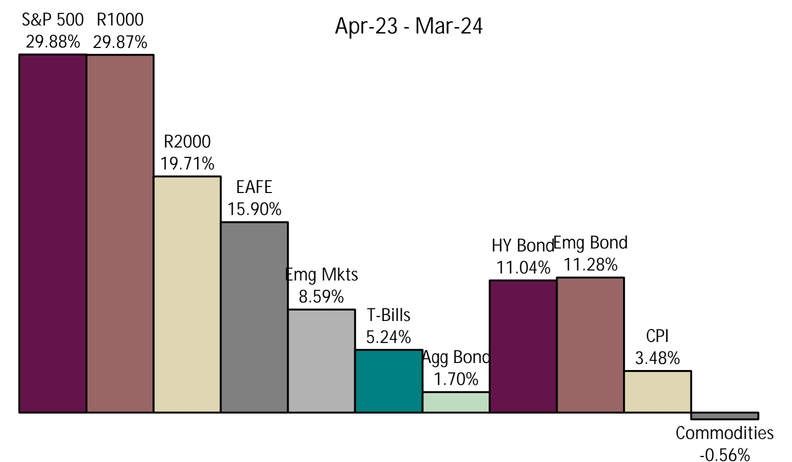
Quarter Performance

Jan-24 - Mar-24

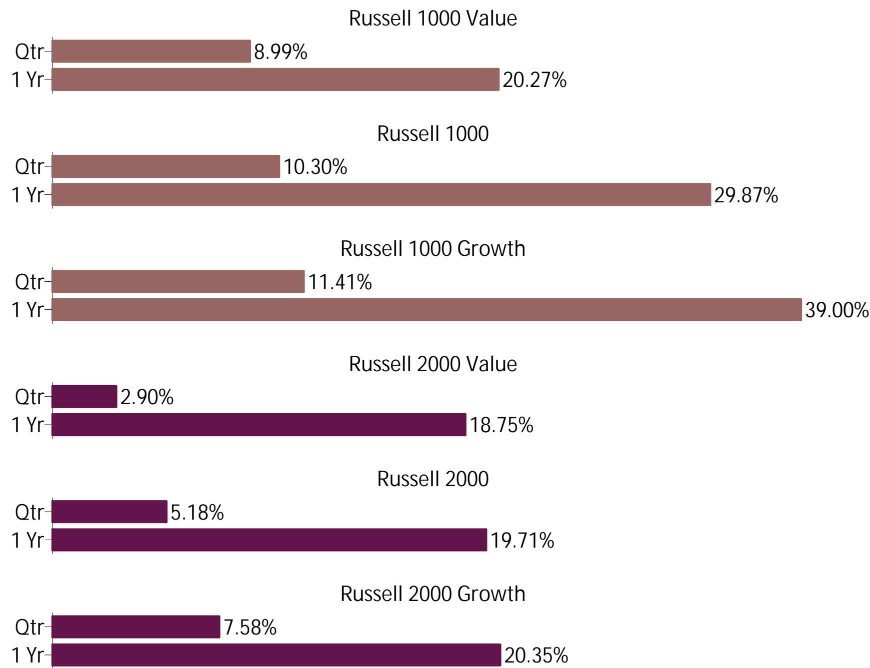


1 Year Performance

Apr-23 - Mar-24

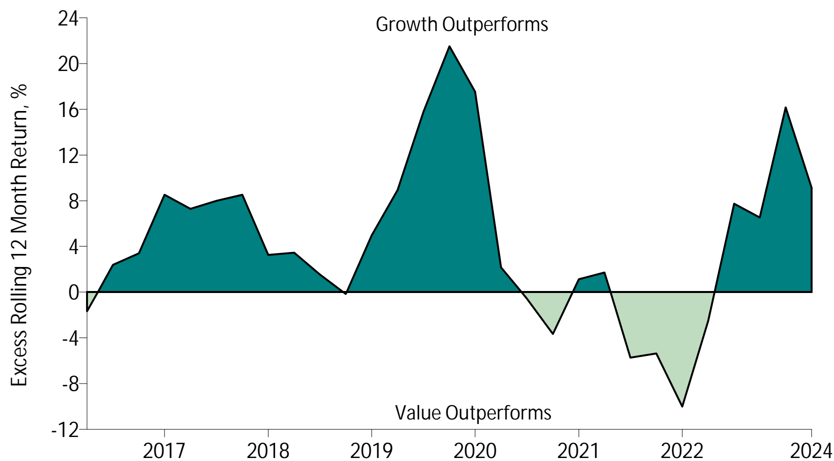


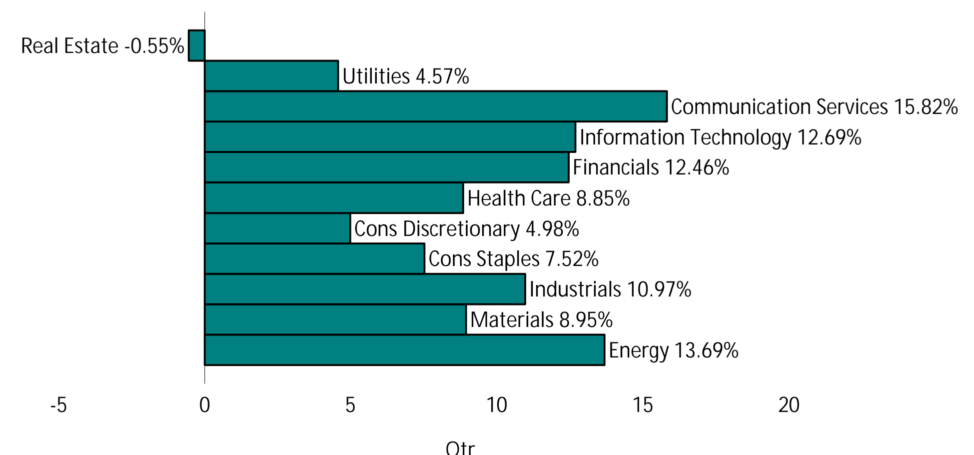
U.S. Equity Markets



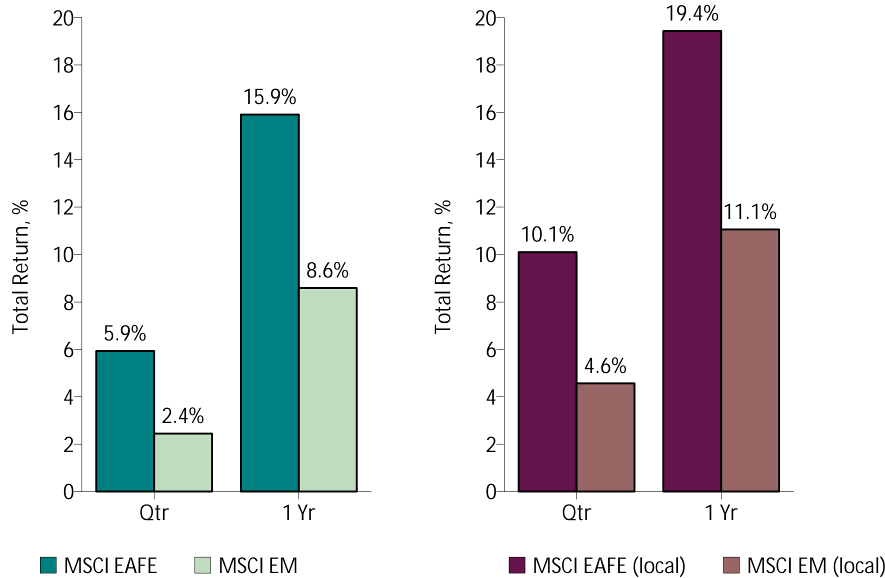
With a quarterly return of over 10%, the S&P 500 provided performance commensurate historically with an excellent annual return. Investor expectations always rise with high returns presuming that the party will endure or even improve in the future. Tempered expectations may be necessary with lingering inflation concerns. Small cap stocks were unable to sustain the outperformance from last year's final quarter. Small cap value (Russell 2000 Value Index) increased 2.9% and small cap growth (Russell 2000 Growth Index) was up 7.6% during the quarter, both well behind large companies. Growth stocks outperformed value at all market capitalization levels. Based upon most standard valuation measures, the stock market is more expensive than historical averages.

All sectors except Real Estate had a positive performance in the first quarter of the year. Hindered by both soft commercial real estate experience and higher rates from an interest rate sensitive sector, Real Estate was easily the worst performing of the group. The best performing sectors were Communication Services, Energy and Information Technology. Energy sector performance was aided by an almost 23% increase in WTI crude oil prices from $70/barrel at year end to over $86 in just one quarter.



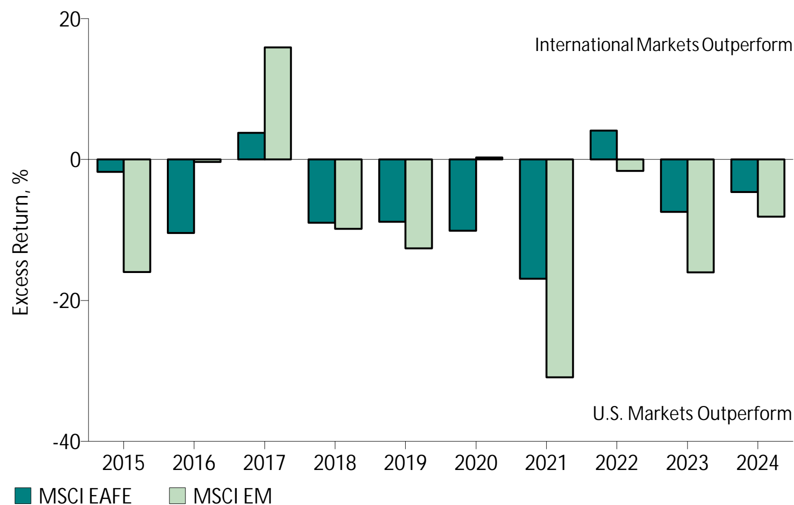


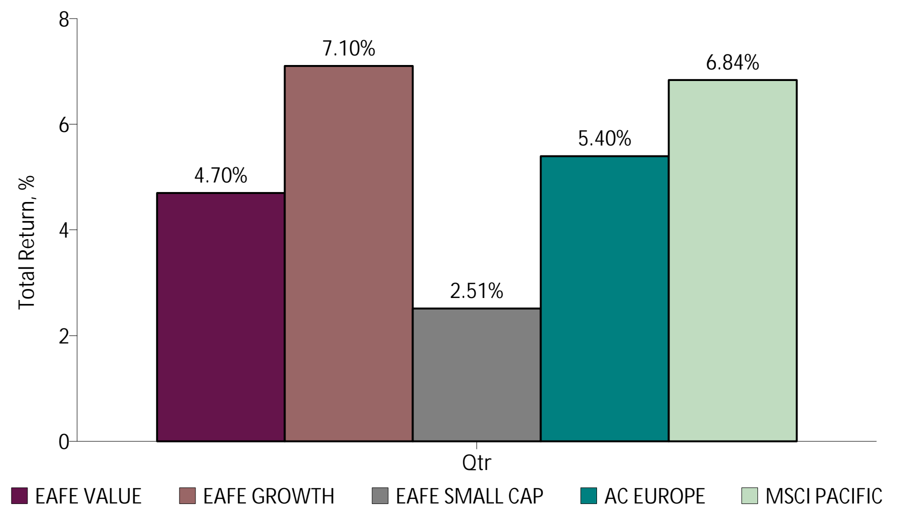
International Equity Markets



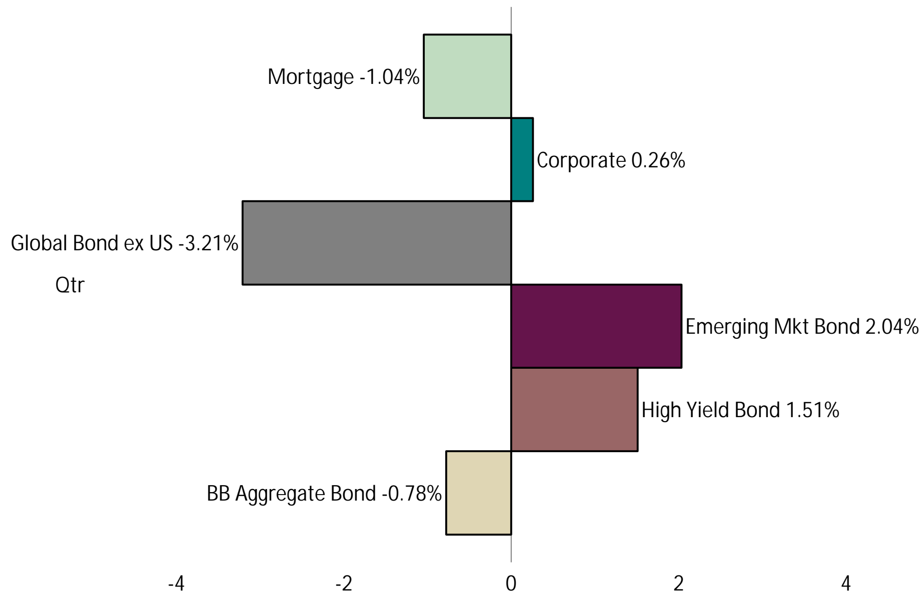
The best performing stock market wasn't the US. In local currency terms, Japan was the best stock performer up 19% during Q1. This follows its 29% performance in 2023. Over the last few decades, Japan's stock market has been overlooked, but persistent outperformance may be a challenge as growth and demographic issues remain. The MSCI EAFE (Europe, Australasia, and Far East) Index, a proxy for large international developed equity markets, was up 5.9% during the quarter. Europe continues to underperform relative to the US but was up 9.7% on a local currency basis.

China continues to struggle both from a market and economic perspective. Its stock market was down 1.7% in local currency terms for the quarter, down 10.6% in 2023, and down 60% from the early 2021 highs. It has been a double whammy for Chinese consumers as the real estate and domestic stock markets have been declining placing pressure on consumer balance sheets. As a result, income confidence has been declining over the last few years. Since China represents 25% of the MSCI Emerging Markets Total Return Index it was up only 2.4% for the quarter trailing other markets. China's stock market valuations seem appealing, but Chinese Communist Party actions are always in flux.



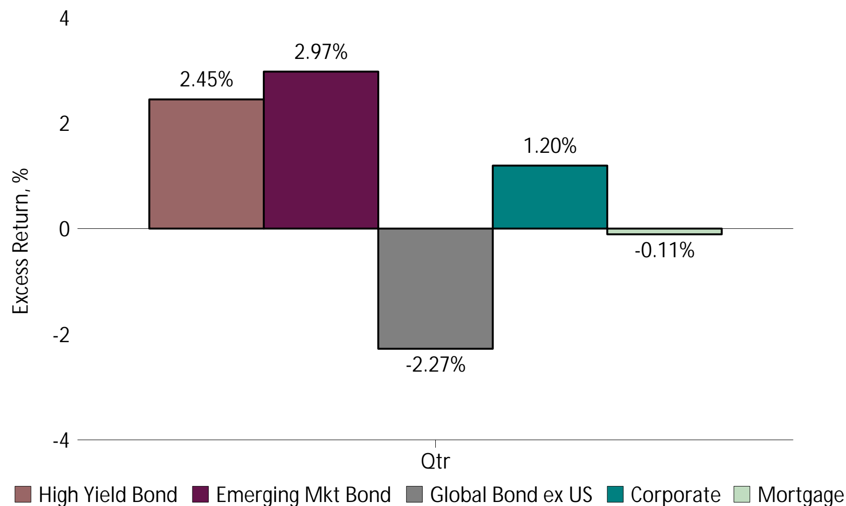


Fixed-Income Markets



Corporate credit valuation, based on additional spread above the US Treasury yield, doesn't appear very attractive. Simply using basic yields compared to historic equity returns, bonds may look somewhat more compelling. The reason corporate bond investors demand higher yields compared to treasuries is to account for default risk. At this point, there is little expectation of a default wave that would push spreads higher and negatively impact corporate bond performance. Corporate fundamental health appears quite strong hence the reason spreads have tightened this much. From a government perspective, inflation rates are well off their highs in both developed and emerging markets as supply chains have somewhat normalized. Although inflation remains high, the Fed still desires lower rates later this year.

Holding longer duration (sensitivity of a bond's price to interest rate changes) bonds haven't been helpful so far this year. As longer-term bond yields have risen again this year, it has provided a headwind to bond performance even with a higher starting coupon yield. With the Bloomberg Aggregate Bond Index up only 1.7% over the last year including the -0.78% first quarter return, investors are becoming impatient regarding their bond holdings.



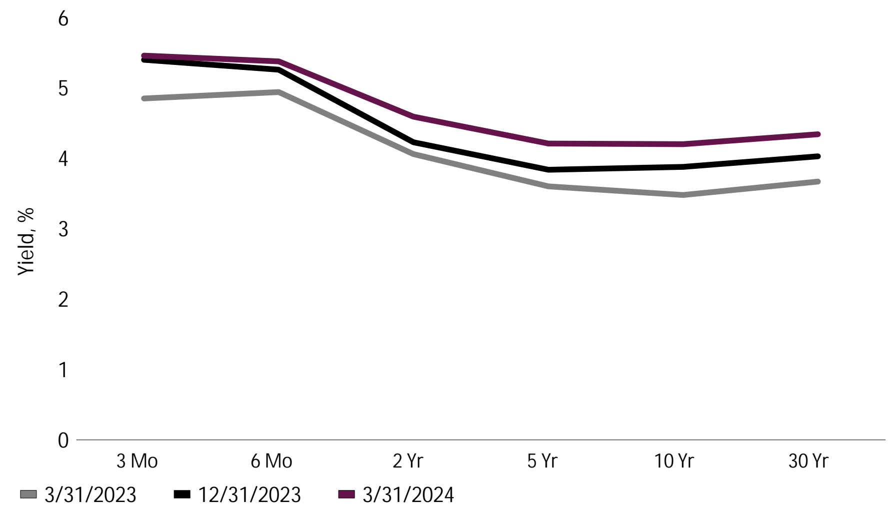


Chart of the Quarter

10 Yr Treasury Rate

1970 - 2024

A long secular bull market in bonds may have finally started a reversal. Bond performance has benefited from a tailwind since the early 80's. Over the last decade, the Fed poured gas on the fire with artificially low rates. This made it affordable for companies to lock-in debt at very low rates. Now that rates have rebounded to more normalized levels, the cost of capital has risen quite dramatically. This may place some pressure on global growth and/or profit margins if companies are unable to continue to pass along these higher borrowing costs. Consumers are already feeling the brunt of higher rates with average 60-month car rates at 8.2% and average credit card rates at 21.6%.

Periodic Table of Investment Returns

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	1Q24 YTD	Annualized Return
		Small Cap Stocks 21.31%	Emerging Mkt Stocks 37.75%		Large Cap Stocks 31.43%						
		High Yield 17.49%	International Stocks 27.77%		Small Cap Stocks 25.52%	Gold 24.61%					
		Large Cap Stocks 12.05%	Large Cap Stocks 21.69%		International Stocks 22.13%	Large Cap Stocks 20.96%			Large Cap Stocks 26.53%		
Large Cap Stocks 13.24%		Commodities 11.77%	Small Cap Stocks 14.65%		Emerging Mkt Stocks 18.90%	Small Cap Stocks 19.96%			Small Cap Stocks 16.93%	Large Cap Stocks 10.3%	12.57
Real Estate 12.49%		Emerging Mkt Stocks 11.60%	Gold 12.66%		Gold 18.43%	Emerging Mkt Stocks 18.69%	Commodities 27.11%		International Stocks 16.21%	Gold 6.54%	6.12
US Bonds 5.97%		Real Estate 8.76%	60/40 Blended Index 12.07%		60/40 Blended Index 16.50%	60/40 Blended Index 12.24%	Large Cap Stocks 26.45%		Gold 14.59%	Small Cap Stocks 5.18%	7.5
60/40 Blended Index 5.51%		Gold 8.10%	Intl/EM Bonds 10.41%		High Yield 14.41%	International Stocks 11.13%	Real Estate 22.18%		High Yield 13.46%	International Stocks 4.81%	4.69
Small Cap Stocks 4.89%	Real Estate 15.01%	60/40 Blended Index 7.85%	Real Estate 7.62%		Intl/EM Bonds 9.98%	Intl/EM Bonds 7.90%	Small Cap Stocks 14.82%		60/40 Blended Index 13.42%	60/40 Blended Index 4.11%	6.19
High Yield 2.50%	Large Cap Stocks 0.92%	Intl/EM Bonds 5.77%	High Yield 7.48%		US Bonds 8.72%	US Bonds 7.51%	60/40 Blended Index 10.05%	Commodities 16.09%	Emerging Mkt Stocks 10.27%	Emerging Mkt Stocks 2.44%	3.21
Intl/EM Bonds 2.08%	US Bonds 0.55%	International Stocks 5.01%	US Bonds 3.54%	Real Estate 8.35%	Commodities 7.69%	High Yield 6.17%	International Stocks 8.29%	Real Estate 7.46%	Intl/EM Bonds 8.4%	Commodities 2.19%	-0.87
Gold 0.12%	60/40 Blended Index 0.11%	US Bonds 2.65%	Commodities 1.70%	3-month T-Bills 1.87%	Real Estate 5.35%	Real Estate 1.17%	High Yield 5.36%	3-month T-Bills 1.46%	US Bonds 5.53%	High Yield 1.51%	4.56
3-month T-Bills 0.03%	3-month T-Bills 0.05%	3-month T-Bills 0.33%	3-month T-Bills 0.86%	US Bonds 0.01%	3-month T-Bills 2.28%	3-month T-Bills 0.67%	3-month T-Bills 0.05%	Gold 0.44%	3-month T-Bills 5.01%	3-month T-Bills 1.29%	1.35
Emerging Mkt Stocks (1.82)%	Intl/EM Bonds (2.42)%			Gold (0.93)%		Commodities (3.12)%	US Bonds (1.54)%	High Yield (11.22)%	Commodities (7.91)%	Intl/EM Bonds (0.61)%	1.16
International Stocks (3.44)%	Small Cap Stocks (4.41)%			High Yield (2.26)%			Emerging Mkt Stocks (2.22)%	60/40 Blended Index (11.35)%	Real Estate (12.02)%	US Bonds (0.78)%	1.69
Commodities (17.01)%	High Yield (4.64)%			Intl/EM Bonds (3.17)%			Gold (4.33)%	US Bonds (13.01)%		Real Estate (2.37)%	6.85
	International Stocks (5.25)%			60/40 Blended Index (3.71)%			Intl/EM Bonds (4.44)%	International Stocks (15.57)%			
	Gold (12.11)%			Large Cap Stocks (4.78)%				Intl/EM Bonds (18.17)%			
	Emerging Mkt Stocks (14.60)%			Small Cap Stocks (11.01)%				Large Cap Stocks (19.13)%			
	Commodities (24.66)%			Commodities (11.25)%				Emerging Mkt Stocks (19.74)%			
				International Stocks (13.78)%				Small Cap Stocks (20.44)%			
				Emerging Mkt Stocks (14.25)%							