

## Equities in Review

The equity markets began the year extending the rally which produced double-digit returns in the final quarter of 2023. The continued bullishness resulted from the expectation of multiple Federal Reserve cuts in 2024, combined with optimism about artificial intelligence's impact on stocks.

Large capitalization, growth-oriented technology stocks led the way to start the quarter, but towards the end of March, investors abruptly turned to small cap and value stocks as valuations and earnings came back into focus.

Following are the quarterly, year-to-date, and 5-year average returns for the three equity indexes that we track:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
S&P 500	Large cap stocks	+10.6%	+10.6%	+15.1%
Russell 2000	Small cap stocks	+ 5.2%	+ 5.2%	+ 8.1%
MSCI World (excluding US)	Foreign stocks	+ 4.7%	+ 4.7%	+ 6.0%
Weighted Index Benchmark*	Diversified Equities	+ 8.3%	+ 8.3%	+11.9%

*\*The Index weighting is 60% S&P 500 Index, and 20% each Russell 2000 Index and MSCI World (excluding US) Index.*

**Update Since March 31:** After the strong first quarter described above, the markets have given back most of the gains in April as inflation concerns persist, and talks of interest rate cuts have subsided. Sharp increases in bond yields in the bond market made equities look less attractive relative to longer-term bonds. The yield on the 10-year Treasury started the year at 3.95%, drifted up to 4.20% by March 31, and spiked even higher to 4.65% by late April.

## Other Important Data

Headline CPI increased to 3.5% for the 12 months ending March 31, 2024. As noted above, the higher-than-expected inflation report led many investors to become pessimistic about the Fed cutting interest rates in 2024. Investors continue to closely monitor the Fed to see if it can manage a soft landing and avoid steering the economy into a recession.

The spread on the yield curve (the difference in yield between the 1-Year and 30-Year Treasury bond) has often been a reliable leading indicator of the likelihood of recession. During the first quarter, the spread remained negative (forecasting a recession), but narrowed a bit from 0.76% to 0.69%, and further narrowed to 0.45% by April 22. This narrowing inversion resulted from longer-term rates increasing more than shorter-term rates, following the persistently high CPI reports, and the renewed forecasts that rates would remain higher for longer. The spread at the end of the past six quarters (shown below) continues to be inverted. This is the result of investors locking in longer-term bonds at lower yields than shorter-term bonds. We will continue watching both the Fed and longer-term yields, which are determined by market forces.

- March 31, 2024 (0.69%)
- December 31, 2023 (0.76%)
- September 30, 2023 (0.73%)
- June 30, 2023 (1.55%)
- March 31, 2023 (0.97%)
- December 31, 2022 (0.76%)

## Equities Looking Forward

Following the strong first quarter, and the reversal over the first three weeks of the second quarter, we have the same view we had in the last Overview. We remain cautiously optimistic that the groundwork has been laid for stocks to reverse their recent course and move higher, but we are aware of the economic, political, and geopolitical obstacles which must be overcome.

## Hybrid and Hedging Assets

We believe that the Tax Managed Balanced Composite Hybrid Index offers the best benchmarks for hybrid and hedging assets. Returns are as follows:

INDEX	DESCRIPTION	Qtr.	Year-to-Date	5-Year Avg.
Tax Managed Balanced Composite	Hybrid (bonds and stocks)	+4.9%	+4.9%	+8.6%

Since the hybrid assets we own in our portfolios invest in a combination of securities including, but not limited to, bonds and stocks, the hybrid assets typically produce returns close to the average of the bond and stock index returns. This is the case for the quarter and for the annualized returns of the past five years.

Hedging assets like commodities or alternative strategies generally move with little, zero or negative correlation to the bond and stock markets. We believe hedging assets should play a role in diversified portfolios because, over the long-term, their limited or inverse correlation to bonds and stocks should reduce the volatility of overall portfolio returns.

## Bonds in Review

As we mentioned in the Update to the equity review, inflation fears ticked back up in late March and April, which led to pricing declines in the bond market (reminder that bond yields and bond prices move in opposite directions).

The quarterly and historical results for the bond indexes that we track are as follows:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
Bloomberg US Universal	US Gov't and Corporate Issues	-0.5%	-0.5%	+0.7%
Bloomberg Municipal Bond	US Municipal Issues	-0.4%	-0.4%	+1.6%
Bloomberg TIPS (0-5 Years)	Inflation Protected Gov't Issues	-0.1%	-0.1%	+2.5%
Weighted Index Benchmark*	Diversified Fixed Income	-0.4%	-0.4%	+1.2%

\*The Index weighting is 60% US Universal and 20% each Bloomberg Municipal Bond and Bloomberg TIPS (0-5).

## Bonds Looking Forward

The yield on the 10-year treasury steadily increased throughout the first quarter – from 3.88% to start the quarter to 4.2% at the end, and continued climbing into April. The yields on short-term bonds also increased, albeit at a smaller pace (thus the narrowing yield curve inversion), but they remain higher than longer-term yields. Because of this, we continue to believe shorter term bonds generally provide the best value in the bond market. We feel bond investors are best served to have the majority of their fixed income portfolio in short-term, high-quality debt with some combination of inflation protection, floating rate, and longer-term paper (18–20 years) to provide diversification and hedging against rates dropping in the near future.

## Our Asset Allocation Philosophy

It is our philosophy that investors with long-term time horizons are best served by using a disciplined, diversified asset allocation approach (investing in bonds, hybrid and other hedging assets and stocks) rather than trying to time the markets. It is important to periodically review your asset allocation and your target allocation and to rebalance your assets among the classes to keep the allocation close to the target. We will address the issues specific to you when we review your situation in the coming months. In the interim, if you would like to discuss these issues, please contact us at [howard@kadescheifetz.com](mailto:howard@kadescheifetz.com) or [steve@kadescheifetz.com](mailto:steve@kadescheifetz.com).

## Reminders

Please contact Kades & Cheifetz LLC if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Parts 2A and 2B of Form ADV and is available for your review upon request.

Kades & Cheifetz LLC has provided this overview for internal use and for use by our clients. We have prepared it using sources believed to be reliable. We do not guarantee the accuracy of the sources. We reserve the right to change our opinions (expressed above) without notice.

You should be receiving statements at least quarterly from your custodian. If you are not receiving these statements, or you need another copy of a statement, please call us and we will provide one to you. Clients are encouraged to review the information on the statements, especially the amount of fees deducted, and compare that information with any information provided by Kades & Cheifetz LLC. If there are any questions or discrepancies, please contact us as soon as possible.

### Important Disclosure Information

*Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Kades & Cheifetz, LLC (“Kades & Cheifetz”), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from Kades & Cheifetz.*

Additionally, please remember to contact Kades & Cheifetz, **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing or evaluating or revising our previous recommendations and/or services, or if you want to impose, add, to modify any reasonable restrictions to our investment advisory services. Kades & Cheifetz shall continue to rely on the accuracy of information that you have provided. **Please Note:** unless you advise, in writing, to the contrary, we will assume that there are no restrictions on our services, other than to manage the account in accordance with your designated investment objective.

Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Kades & Cheifetz account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Kades & Cheifetz accounts; and, (3) a description of each comparative benchmark is available upon request.

© 2024, Kades & Cheifetz LLC



1055 Westlakes Drive, Suite 300, Berwyn, PA 19312  
Howard Kades: 610.834.1487, [howard@kadescheifetz.com](mailto:howard@kadescheifetz.com)  
Steve Cheifetz: 610.679.9256, [steve@kadescheifetz.com](mailto:steve@kadescheifetz.com)  
[www.kadescheifetz.com](http://www.kadescheifetz.com)