April 15, 2024

Quarter Ending March 31, 2024

Quarterly Performance	Q1 Index	YTD	Close
Dow Jones Industrial Average	5.6%	5.6%	$39,807.37
NASDAQ Composite Price	9.1%	9.1%	$16,379.46
Standard & Poor's Averages	10.2%	10.2%	$5,254.35

The first quarter of 2024 saw a continuation of many of the same storylines as 2023. Last year's regional bank turmoil and fears of a recession were put on hold. Labor markets remained historically strong and economic growth (although slowing) remained near long-term trends. Investors turned their focus to the Federal Reserve Board and its Chairman, Jerome Powell.

During the Fed's December meeting, Powell suggested that "the rate-hiking cycle is over and that up to 75 basis points in policy rate cuts are possible in 2024." Investors responded to this news by pushing equity indices to all-time highs. It is important to note that the economy is being fueled by large amounts of government deficit spending and past stimulus. Over the last two years, the Federal Reserve has been going through a quantitative tightening cycle, hoping to reign in runaway inflation. Investors were eagerly anticipating more stimulus in hopes of pushing the markets higher.

We believe the market has been overly optimistic about its rate cut expectations. Back in January, market participants were anticipating seven or more interest rate cuts by the Fed. As of the end of March, Powell had pushed any interest rate decisions to the Fed's June meeting.

We've now found ourselves in a "bad news is good news" paradox. In order for the Fed to reduce rates and increase economic stimulus, it needs to see economic data continue to deteriorate. As long-term investors, we do not view deteriorating economic data as a positive for the equity markets.

At QAM, we are long-term value investors and would not consider ourselves "market timers". However, at certain times, we often look to other successful investors as a guidepost. Over the last few years, Warren Buffet's Berkshire Hathaway has been building up its arsenal of cash. Its cash pile surged 30% at the end of last year alone. In his recent annual letter, Buffett wrote: "There remain only a handful of companies in this country capable of truly moving the needle at Berkshire, and they have been endlessly picked over by us and others. Some we can value; some we can't. And, if we can, they will have to be attractively priced."

Investor optimism on the benefits of future Fed rate cuts is a bit overextended. We are anticipating more volatility heading into the summer months. A silver lining? Some sectors of the market have already corrected and offer opportunities to put cash to work.

Market corrections can be prolonged. More importantly, we would not be surprised to see a market that will trade "sideways" for an extended period of time. We will continue to focus our investments on good quality names that trade at reasonable valuation. Just as important: most of our investments will continue to focus on positions that produce cash flow and income.

We hope you have a great Spring, Summer is coming!

Regards,

Jeffrey L. Farni, Sr. John C. Farni