Market Commentary – First Quarter of 2024

During the first quarter equity markets picked up right where they left off at the end of 2023 as the S&P 500 reached a new all-time high. This quarter the top performing sectors were Energy, Communication Services, and Financials. The worst performing sectors were Real Estate, Consumer Discretionary, and Utilities. The table below shows first quarter of 2024 and trailing 12 months returns (percentages are for total returns):

Time Period	Dow Jones Industrial Average	S&P 500 Index	Nasdaq Composite	Barclays U.S. Aggregate Bond
First Quarter	6.1%	10.6%	9.3%	-0.8%
Last 12 Months	22.2%	29.9%	35.1%	1.7%

Equity Markets

Stocks continue to make new all-time highs, as it appears the fear of a recession has eased and there is an extended runway for a soft landing. There has been a rotation in leadership as market gains began to broaden out with the gains in the Magnificent-7 stocks finally cooling down. The "Magnificent 7" has now been replaced with the "Fab Four" (Nvidia, Meta, Amazon and Microsoft) with Tesla being the worst performing stock in the S&P 500 this year, down 27%. The Real Estate, Utilities, and Consumer Discretionary sectors likely struggled due to their high sensitivity to interest rates. The stock market rally has been broad based and modest growth is expected for the upcoming earnings season, but some volatility can be expected.

The Economy and Current Trends

The U.S. economy has continued to perform well, although there is much going on below the surface. The Federal Reserve (Fed) is waiting for inflation to drop sufficiently and remain lower before cutting interest rates, but lingering concerns about potential inflation pressures have put the timing of rate cuts in question. Meanwhile, a manufacturing recovery appears to be underway globally. The U.S. job market is on fire. Yet Americans continue to dismiss the good economy. In a February CNN poll, nearly half of people surveyed said they believe the economy remains in a recession. This past week, a Wall Street Journal poll showed Americans' approval rating of the U.S. economy was underwater by a stunning 31 percentage points. The reason: stubborn inflation. Although price hikes have subsided dramatically over the past year, higher prices still sting. Gas prices are on the rise again, with a national average marching toward $3.60, the highest in six months. Grocery prices have remained frustratingly high, and dining out still far outpaces overall inflation, even as the surge in overall food inflation has subsided. That's not a problem that the Fed can easily solve. Historically high interest rates have punished the economy, sending mortgage rates to 7% which negatively impacts the housing market. The rate of inflation has come down to near-normal levels from a four-decade high. The more speculative areas of the market like bitcoin are getting attention by traders. The upswing in energy prices appears to be correlated with the tensions in the Middle East. Last, the buzzword AI (artificial intelligence) is capturing much investor attention. It is over-hyped, but it will definitely be impactful to business and Americans as it is further developed and adopted.

Outlook for the Remainder of 2024

The economy seems to be on track for average growth this year. The most recent jobs report showed that in March, the unemployment rate stayed relatively the same at 3.8% and 303,000 jobs were added in March. Fed chairman Powell recently stated that the current inflation rate of 3.1% is "along the lines" of what the Fed is anticipating, though still above their historical target of 2%, and the economy is expected to grow by 2.5% in 2024. We do expect some volatility in the markets for the remainder of the year, with the upcoming Presidential Election, the uncertain pace of interest rate cuts and ongoing geopolitical tensions. We stress periodic rebalancing by adding at low prices and trimming (selling) at high prices. We thank you for your ongoing confidence and trust. We look forward to connecting with you soon via a live meeting, voice, or video call.