MARKET REVIEW & OUTLOOK

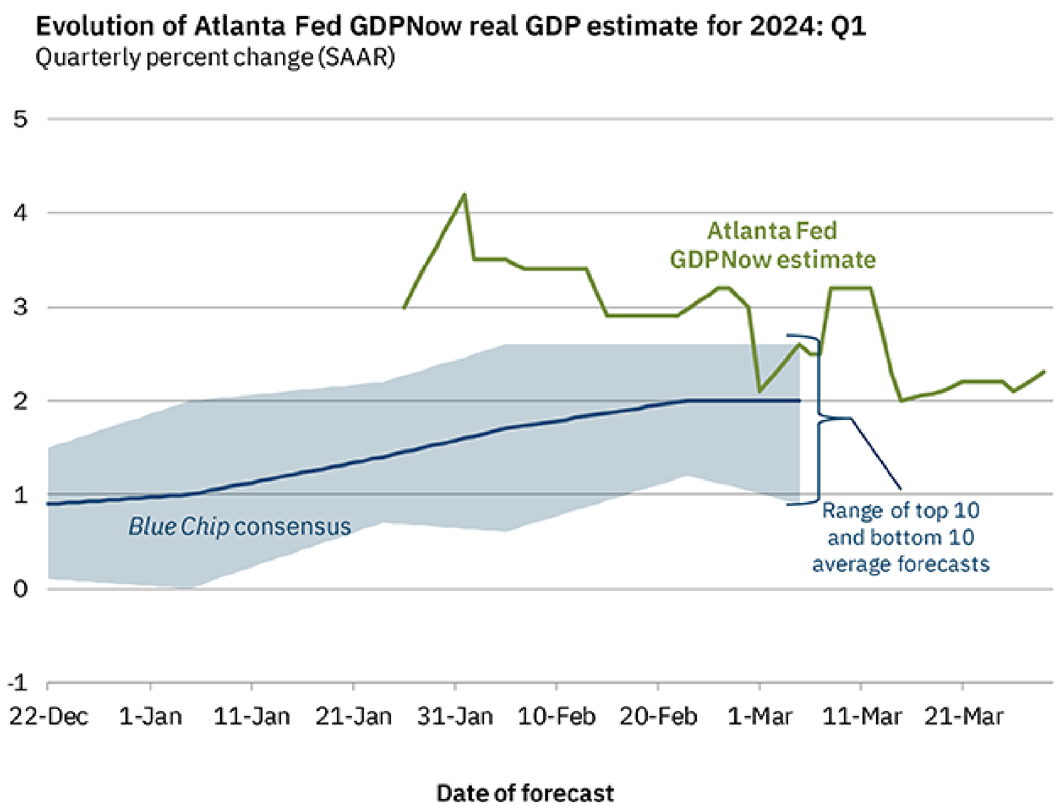
MARCH 2024

KEY TAKEAWAYS

- The equity markets continued a stair step march up, with big jumps and then a little back filling only to be repeated over and over.
- The U.S. 10-year Treasury Yields oscillated around the 4.25% mark during the month.
- Crude oil finally sustained a break above $80.

The U.S. Economy

The third look at 4th quarter GDP came in stronger at 3.4%, beating expectations of 3.2%. The core PCE, the imbedded inflation measure, returned to the initially reported 2.0%. Looking to the 1st quarter estimates for GDP from GDPNow is down to around 2% and the Blue-Chip consensus forecast is holding at the 2% level, as shown in the chart below. Economic activity remains good, and the PCE deflator has moderated to the sweet spot of "2%" inflation. The data seems reasonable, and the Fed is continuing to back away from the market's view of lower sooner, rather than higher for longer as inflation firms.

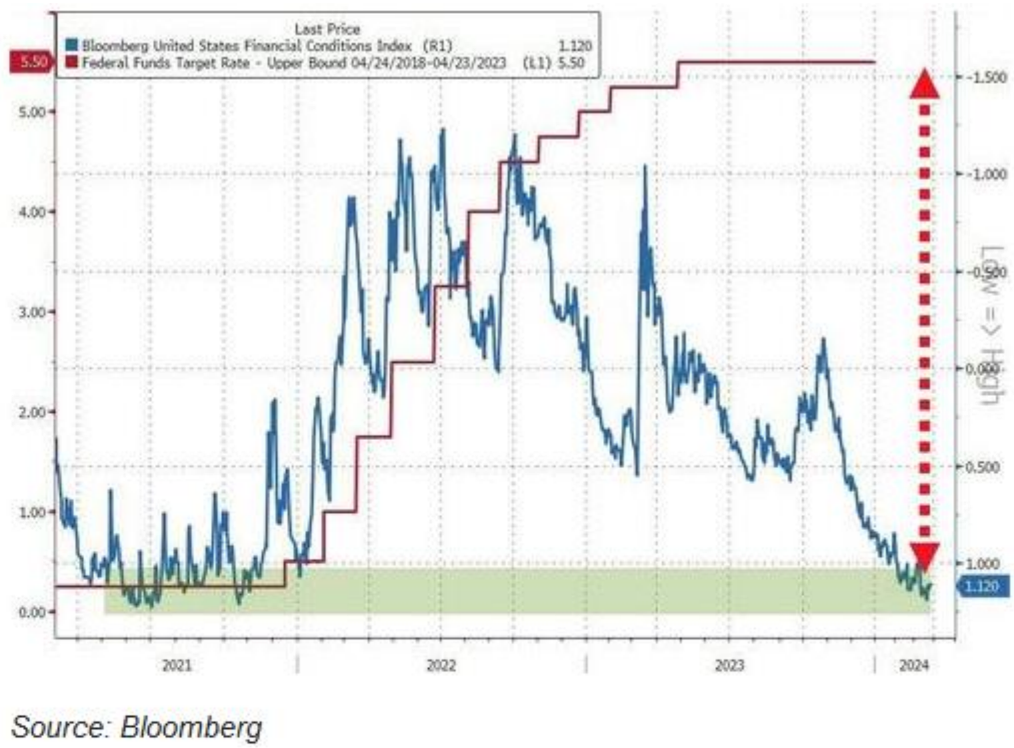


Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Source : https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

The U.S. 10-year Treasury yield basically traded flat for the month, rates dipped about 13 basis points to start the month and then rallied about 26 basis points into mid-month, before easing to basically where we started. The Fed keeps talking about no rush to cut rates and that they want more confirmation that inflation has been re-anchored lower. The data isn't providing convincing evidence, and the rate market keeps reducing the number and start of cuts for 2024. However, financial conditions just keep easing, which is holding back the Fed, but is propelling the equity markets higher. As shown in the chart below, financial conditions are as easy as they were when the Fed started raising rates in 2021. Stable yields provided support for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF gained +0.99% for the month, as higher base yields make monthly coupons more noticeable. The U.S. 10-year Treasury bond yield ended the month at 4.21%, down modestly from February's close of 4.25%.



Source : https://www.zerohedge.com/markets/stocks-gold-crypto-soar-q1-despite-rout-rate-cut-expectations

The Dow Jones Industrial Average increased +2.08%, the S&P 500 rose +3.10%, and the small cap iShares Russell 2000 ETF rallied +4.32%. The international markets traded similarly with the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index jumped +3.54%, and the MSCI Emerging Markets iShares Core ETF Index climbed +2.61%.

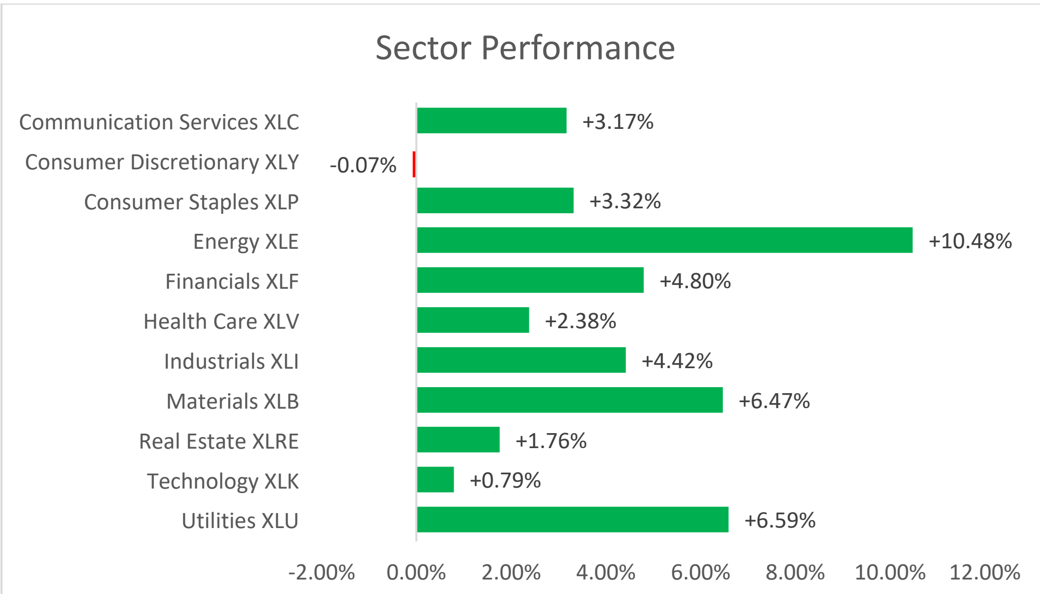
March's performance was generally green and Energy very green! 😊

The best performers were…

- Energy: +10.48%
- Utilities: +6.59%
- Materials: +6.47%

The "worst" relative performers were…

- Consumer Discretionary: -0.07%
- Technology: +0.79%
- Real Estate: +1.76%



Source: https://www.morningstar.com

Oil Report

The oil market had its longest sustained pricing over $80 since early November, with prices holding $80+ the last half of the month. As mentioned last month, the oil market had been stymied by the $80 level. From a technical perspective a sustained break above $80, has a measured move back into the mid-$90's which would likely exceed the highs seen in September 2023 and could test levels last seen in late July 2022 on the heels of the early days of the start of the Russia/Ukraine conflict. The current NYMEX WTI Crude Oil futures settled at $83.12 posting a gain of over 6% from the prior month's close of $78.26 a barrel. The tight supplies continued to support RBOB gasoline, which finished with a gain of over 5% vs. February's close. The combination of tight gas supplies along with continued cuts in crude production from OPEC+, is showing up with meaningful increases in pump prices. A big driver of inflation is energy prices, the scene is starting to set a case for wishful thinking that inflation is going to continue to abate. If inflation does not continue to abate, then the projected Fed rate cuts likely continue to recede, which is something that Fed head Powell referenced in his speech on Friday. This statement looks truer today than even last month, "Stock up, it looks like oil and gas could get pretty expensive this summer".

The Rest of the Data

The February ISM Manufacturing Index decreased to 47.8 from January's reading of 49.1. The ISM Services Index decreased to 52.6 in February, from January's print of 53.4. The prices paid component for Services eased off elevated levels and Manufacturing prices held at neutral levels. Any reading below 50 generally indicates deteriorating conditions and any reading above 50 generally indicates improving conditions. Consumer confidence was essentially flat at 104.7 in March, which compares to another downwardly revised figure of 104.8 in February. The unemployment rate jumped to 3.9%, while the economy added a strong 275,000 jobs in February, handily beating expectations of 200,000 jobs, though January was revised down by 124,000. The Consumer Price Index for All Urban Consumers (CPI-U) increased +0.4% in February, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate increased to +3.2% on a non-seasonally adjusted basis. The CPI ex Food and Energy eased to 3.8% over the last year. Same news, the economic data remains solid, employment reports are good/strong, and inflationary pressures are flattening out, and still higher than the Fed target of 2%. The only sign of slight weakness remains in the Manufacturing sector. The market is now backing off expectations for a June rate cut, and taken rate cut expectations down to 3 from 6 previously for 2024. However, given the continued robustness/strengthening of the economic data and initial signs of inflation firming, it seems hard to see rate cuts happening soon without an exogenous event. Last months, potential catalysts, the end of the banking support mechanism and the near depletion of the Reverse Repo Reserves, came and went without notice. However, clearly the equity market is focused on financial conditions and not much else. We will continue to monitor economic activity along with inflation reports.

Summary

Rinse and repeat. The equity markets continue to be happy go lucky. The financial conditions continue to ease, which is supporting equities along with economic growth. The fixed income market is stuck in neutral, unsure if the Fed will cut rates or if inflation will gain more strength. The number of potential issues to scare the market seems large, but nothing has distracted the markets from new all-time highs. At some point, the debt racked up through so much deficit spending will hurt, either with higher rates being a drag or the extra spending stops, pulling support from the economy. Oil prices are likely the early warning signal for inflation, if prices keep moving up, the likelihood of inflation gaining upside momentum increases.

As always, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/war vs. growth and growing debt, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

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