



Northport Investment Management, LLC

A Registered Investment Adviser

Page 1 of 2

## Market Commentary – 1st Quarter 2024

It was a strong quarter for stocks, as enthusiasm around the prospects for artificial intelligence, resilient corporate profits, and hopes that the Federal Reserve will cut interest rates, helped to fuel market gains. The three major stock indices have now advanced for five consecutive months. The Dow gained 5.6% for the first three months of 2024, while the NASDAQ Composite advanced 9.1%. The S&P 500 index was the best performer, up 10.2 % in Q1 (+10.6% with dividends). It had its best start to the year since 2019, while setting 22 record closing highs. Ten of the eleven S&P 500 sectors were positive for the quarter. Communication Services (+15.6%) and Energy (+12.7%) were the best sectors; Real Estate (-1.4%) and Utilities (+3.6%) were the worst. Mid-cap, small-cap, international and emerging market equity categories, all were positive but all lagged the S&P 500 for Q1. The S&P 500 Growth Index maintained its outperformance relative to the S&P 500 Value Index, however, the gap narrowed, as the market rally broadened out during the quarter.

U.S. bond prices fell slightly in the first quarter, as interest rates rose. The Federal Reserve did not lower interest rates in their March meeting, as some had expected. The benchmark ten-year Treasury note yield closed the quarter at 4.19%, up from 3.86% at the end of 2023. Investors are recalibrating their overly optimistic expectations coming into 2024, having expected the Fed to cut its short-term benchmark rate six times in the year. The Fed still has three rate cuts planned for 2024. Interest rates will be higher for longer than the market expects. It is unfortunate that the stock market has become conditioned to overly focus on every interest rate move by the Fed. It is hoped that this unhealthy addiction ends at some point.

I expect at least one interest rate cut by the Fed this year, if only to send a message to the markets that inflation is subsiding. Interest rates seem high compared with the past (artificially low) ten years, but they are relatively normal when compared with the past twenty years. Higher (normal) interest rates indicate a strong economy, and they put a cushion back into the Fed's main recession fighting tool, the ability to lower rates significantly, if need be. Although recent bond performance has paled in comparison with recent stock performance, bonds are now providing positive real yields, above the current rate of inflation. The cash flow and relative stability from fixed income yields (north of 5%) are an attractive option for balancing portfolios.



Northport Investment Management, LLC  
A Registered Investment Adviser

Q1 2024  
Page 2 of 2

The fact that stocks are performing well, and the economy is growing, despite this higher interest rate environment, indicates that interest rates are normal, rather than excessively high. Too much optimism however, may be priced into this stock market. Excess speculation has grown in some risky areas of the market (Bitcoin, IPOs, etc.). This is concerning. It's hard to describe the current market environment. Despite borrowing rates climbing to a 23-year high, a regional banking crisis, two wars overseas, a housing slump, and widespread predictions of a recession, the S&P 500 has more than doubled since the lows of the pandemic. It has rallied nearly 30% since its October 27, 2023 low. The resilient U.S. economy, strong job market, and prospects for artificial intelligence, all contribute to this optimism. It is warranted. The question becomes how much positivity is already priced into this market? Is the stock market priced for perfection? The answer depends upon earnings. The S&P 500 is trading around 21 times earnings, versus its historical average of around 16 times. According to FactSet, S&P 500 earnings are expected to grow by roughly 11% this year. Corporate earnings will need to meet/exceed expectations for the market to hold current levels.

A strong first quarter for stocks usually portends a higher year for stocks, however, market pull backs should be expected before stocks reach the year-end finish line. Years with the best first quarters average double-digit retreats before most finish the year with double-digit advances. Very strong starts have historically implied frightening volatility, despite fulfilling full-year performance. The average stock market reversal in a non-recession year is 13%, which is the norm. How should we cope with inevitable market volatility, without trying to market time?

As always, it pays to maintain a steady course. It is rewarding to see the expectations expressed in my last letter playing out in the first quarter. Stock market performance has broadened out, having more participants, and value stocks are starting to close their performance gap with growth stocks. I remain a believer in our value-oriented equities and our total return approach. Value stocks have lower valuations, higher dividends, and are currently under-owned. Value stocks stronger balance sheets could help shield them from the likely fallout, should accelerating inflation prevent the Fed from delivering on the three interest rate cuts anticipated for 2024. The closer the Fed gets to its inflation target, the harder it will be to achieve. Sooner or later, we'll get a stock market pull back. When it occurs, the most extended stocks will have the largest fall. The characteristics of our value stocks should help us outperform as they did during the 2022 market mayhem.

John M. Grib, CFA, CFP®