March 2024 Market Update

Special points of interest:

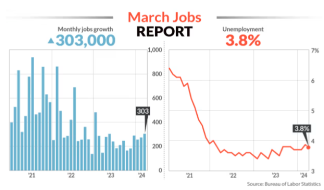
- Markets in March continued to drive higher, with all major indices posting gains for the month.
- Labor market strength and higher inflation readings than expected are driving fresh rate worries.
- Inflation may run a bit higher for longer than the Fed wants, which likely delays rate cuts further.
- Over the longer term, though, inflation is projected to decline meaningfully while corporate profits rise.

Inside this issue:

The Markets in March 2024

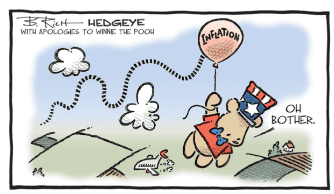
Markets in March continued to drive higher even as inflation remains seemingly just out of reach of the Fed's target. For the month, the S&P500 index skipped 3.1% higher while the Dow Jones Industrial Average and the Nasdaq indices rose by a more modest 2.1% and 1.8% respectively. Meanwhile, the yield on the 10-year Treasury Note traded roughly in line for the month, modestly increasing from 4.182% at February's end to 4.206% by the end of March.

Largely, this market performance is due to underlying strength in our economy. According to the Labor Department, employers



added 303,000 jobs in March, ahead of expectations for 200,000 new jobs and an increase from February's 270,000 jobs. Meanwhile, in a helpful nod to inflation, hourly wages rose by a relatively modest 0.3%. The increase in wages over the past year has now slowed to 4.1% from 4.3% the prior month.

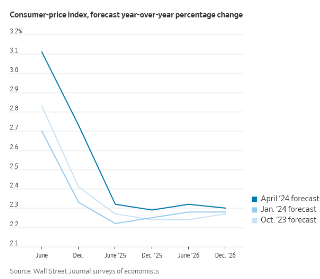
Still, inflation is not declining quickly to the Fed's hoped-for 2% target. The Labor Department reported recently that its measure of goods and services prices across the economy (CPI) rose 3.5% in March from a year earlier, the third straight month of prices coming in hotter than the Fed has anticipated. On its own, the March report is probably not significant but the year-to-date trend is clearly a bit worrying.



Inflation readings came in slightly higher than expectations in March, leading to speculation about the pace of rate cuts.

A Look Ahead

Fed rate cuts continue to be the subject of wild speculation in both markets and economic news. To me, the bigger picture is often lost amidst the panic. Yes, inflation may run a bit higher for longer than the Fed wants and this may cause them to delay interest rate cuts further. One headline I saw recently said that Fed rate cuts are now a matter of If, not When. But even that arti-



cle is talking about this year, not generally. As can be seen here, economists expect inflation to come down meaningfully over the next 12 months or so, and it's hard to imagine that this happens without the Fed removing some pressure from their brakes over time. Further, U.S. companies are expected to report their third straight quarter of earnings growth shortly—according to FactSet, projections are for a 3.2% profit rise from the year earlier period. To me, growth + falling inflation = an investment case.

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