

April 2024

Market Update

March saw every broad asset class move higher, with strong returns especially in real-asset and equity asset classes. The US mega cap tech and communications companies were positive, but in a turn of events were the lowest performing stock asset class. Over the last several months investors have enjoyed guessing the number of interest rate cuts the Fed would declare in 2024. However they may have counted their chickens before they hatched. Inflation has seen an uptick over the last several months, and even the measure the Fed said it preferred to watch in 2022, the so-called SuperCore inflation measure, is up 1.3% in just the first two months of 2024. While inflation has slowed from the 9% level of mid-2022, a 3%+ inflation rate is on top of the 16% inflation we experienced from 2020-2022 and is still above the Fed's stated target. We may not end up getting those numerous rate cuts the market wanted.

For the month the S&P 500 was up 3.2%, while US large growth stocks were up 1.8% and US large value stocks were up 5.0%. International equities grew 3.3%, and emerging market stocks were up 2.5%. Small caps were up 3.6%. The broad bond market was up almost 1% and every income asset class rose between 0.3% to 1.2%. For real assets, REITs rose 1.8%, MLPs were up 5%, commodities were +3%, and gold +8%.

Looking back at 2023 earnings, we see that the S&P 500 set a record, just barely. The full year's operating earnings came in at \$214, just clearing the previous record of \$208 in 2021. Overall this is positive and backs up the positive Gross Domestic Product (GDP) numbers we saw last year. However, while earnings barely cleared a new bar, prices have been jumping even higher bars over the last year and a half. The S&P is now 10% higher than it was at the end of 2021 (13% higher including dividends), and that year was swimming in stimulus and financed with 0% rates. With prices rising faster than earnings, especially for many tech/AI names, valuations are moving meaningfully higher and well above historical averages. While earnings are expected to set another record high in 2024 and provide some support to stock prices, the US large cap growth part of the market is priced for near perfection with little margin of safety. For us this is an issue we are watching closely and are purposely underweighting the most expensive parts of the market.

As the market has become less concerned about recession, the number of stocks participating in the last few quarters' move higher has grown and included smaller companies and internationals. These areas of the market remain more fairly valued and are close to or below their longer term averages. These names are more sensitive to slowdowns as a slowing economy will have a greater effect on their earnings.

Our base case for 2024 is that GDP will slow from 2023's level. While we didn't experience the recession many feared, higher interest rates and higher debt pressure on US households will begin to have a slowing effect on spending and growth. Household net worth will remain bolstered by home values which have remained high and higher investment account balances. Inflation should continue receding but may not get to the 2% target. The Fed will be under pressure from politicians and large investors to lower interest rates, but we hope they hold the line to drive inflation lower and disincentivize rampant 2021 style market speculation.

Performance Summary – YTD

The S&P 500 is up 10.6% while small caps are now up 5.2%. Developed international markets are up 5.8% while core bonds are down -0.8%. Growth stocks outperformed value stocks in both US and internationally, although the gap has narrowed. REITs are still down -1.3%, MLPs are up 13.9 and gold is now up 7.4%. Commodities are mixed with energy up and agricultural and metals down.

Disclosures

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All earnings data comes from Standard and Poors' S&P 500 Earnings and Estimates Report as of 3/31/2024. Asset class performance numbers come from Morningstar as of 3/31/2024.

The S&P 500® is widely regarded as the best single gauge of large cap U.S. Equities There is over USD 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 3.4 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

GDP is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year. GDP growth rate is an important indicator of the economic performance of a country.

REITs, or real estate investment trusts, are companies that own or finance income-producing real estate across a range of property sectors.

A master limited partnership (MLP) is a business venture in the form of a publicly traded limited partnership. It combines the tax benefits of a private partnership with the liquidity of a publicly traded company.