

THE CAPITAL MARKETS

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The Dow Jones Industrial Average (DJIA) finished February at 38,996, up +1.22 % for the month and +3.47% so far in 2024. The S&P 500 closed February at 5,096, up +5.17 % for the month and +6.87% year-to-date. The NASDAQ Composite gained +6.12% in February, up +7.20% for the year. Small-company stocks as measured by the Russell 2000 ended February up +5.52% for the month, up +1.37% so far for the year. Consumer Cyclical (+8.12%) was the best-performing sector in February.

“Investors in recent weeks have grown more confident that the U.S. economy can avoid a recession as Washington completes its inflation fight. The optimism is fueling a 2024 rally that has expanded beyond the massive tech firms that propelled the stock market higher last year.”

(The Wall Street Journal, David Uberti, March 12, 2024)

DONT' CALL IT A BUBBLE — BUT MARKETS ARE GETTING FROTHY

The S&P 500 gained another +5.2% in February, up over +8.5% in 2024 at the time of this writing and coming off a +24% return in 2023. While we are as happy as any investor to see the stock market has recovered from a miserable 2022 and is marching to new highs, as markets continue their climb higher, the risk does increase that an eventual correction may occur. One driver of recent market optimism has been the expectation for a “soft landing” on inflation, or the outcome where inflation declines toward a 2% target without the economy falling into recession. While it's become less likely the economy will fall into recession in the immediate term, with a still-robust jobs market and healthy consumer spending, the current level of optimism in markets around expected corporate earnings growth and the pace of interest rate cuts is viewed by some as close to being overly optimistic at this time. As we discussed last month, a 5% to 10% correction in markets is a very common occurrence, and investors should not be surprised if this occurs in 2024. The best way to be prepared for a correction is to have any immediate cash needs in money markets, and ensure that assets exposed to the stock market are for long-term growth.

BONDS CONTINUE TO LOOK ATTRACTIVE

While stock market valuations are becoming stretched by a number of measures, we've recently been reminding balanced investors that the bond portion of their portfolio has one of the more optimistic medium-term outlooks that we've seen in some time. With the current yield-to-worst on the Bloomberg U.S. Bond Index at around 4.5%, and bonds poised to realize capital appreciation on top of that income when rates eventually fall — the next 3 to 5 years for the bond portion of the portfolio looks particularly favorable. Safe and high-quality bond portfolios should also hold up well and provide some portfolio upside if investors do become more fearful, and if stock market volatility picks up. In our view, it may be a good time to consider rebalancing portfolios to Investment Policy targets after a period where high-equity returns may have driven the weight of stock holdings higher. Rebalancing typically results in selling some of your recent winners — in this case, stocks — and buying your relative laggards — in this case, bonds and cash. Regular rebalancing, along with broad diversification and low fees, is an investing discipline empirically shown to support more efficient risk-adjusted returns and greater investor success over time.

“For investors, price is still the question today. I don't see the scale of speculation that was so obvious in 1929, 1999, China in 2015 or parts of the U.S. in 2020-2021. There is also a genuine productivity story to tell about artificial intelligence, even though the scale of efficiency improvements from AI remains a matter of guesswork, given the obvious drawbacks of current systems.”

(The Wall Street Journal, James Mackintosh, March 13, 2024)

ECONOMIC UPDATE

In a sign that optimism remains high among market participants, markets have mostly shrugged off recent inflation numbers, which are signaling a bit of a flattening as inflations push lower.

For example, core CPI inflation was 4.1% in September 2023 and came in at 3.8% in February. At that pace, the path toward 2% will take much longer than markets are currently expecting.

Despite these recent higher-than-expected inflation reports, markets have continued to march higher, confident that the Fed will still begin lowering interest rates in the near term and considering any risk of recession a remote possibility given the strength in the jobs market and consumer spending.

The market shrugging off these yellow lights heightens the risk of more volatility if the disappointing reports continue, and the narrative reverses.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 1/31/2024	CLOSE AS OF 2/29/2024	CHANGE PREVIOUS MONTH END	2024 YTD % CHANGE
Dow Jones Industrial Average	38,150.30	38,996.39	+846.09	3.47%
S&P 500	4,845.65	5,096.27	+250.62	6.84%
NASDAQ Composite	15,164.01	16,091.92	+927.91	7.20%
RUSSELL 2000	1,947.34	2,057.30	+109.96	1.37%
Fed Funds Rate	5.25% - 5.50%	5.25% - 5.50%	UNCHANGED	
2-Year Treasury	4.27%	4.64%	+0.37	
10-Year Treasury	3.99%	4.25%	+0.26	
Crude Oil \$ per Barrel	75.85	78.26	+2.41	9.23%
Gold \$ per Troy oz.	2,067.40	2,054.70	-12.70	-0.83%
UK Point in U.S. \$	\$1.2735US=1£	\$1.2649US=1£	\$ STRONGER	-0.77%
Euro in U.S. \$	\$1.0863US=1€	\$1.0822US=1€	\$ STRONGER	-2.04%
Canada \$ per U.S. \$	\$1.33605C=\$1.00US	\$1.35635C=\$1.00US	\$ STRONGER	2.86%
Japan Yen per U.S. \$	146.175¥=\$1.00US	149.67¥=\$1.00US	\$ STRONGER	6.16