Investment and Economic Update
First Quarter 2024

We should probably get this out of the way at the beginning: nobody should expect that 10% quarterly gains in the stock market will continue forever, or even for the rest of the year, unless you believe that stocks will become 40% more valuable into the foreseeable future. But we can celebrate a generous quarter of returns, nonetheless.

Double-digit and near-double-digit gains were abundant in this unusual quarter. The widely quoted S&P 500 index of large company stocks gained 10.16% during the year's first quarter. Meanwhile, the Russell Midcap Index gained 4.68% in the first three months of the year. As measured by the Russell 2000 Small-Cap Index, smaller companies posted a 5.18% gain in the year's first three months. The technology-heavy Nasdaq Composite Index has gained 10.78% so far this year.

Foreign markets have provided more modest gains. The broad-based EAFE index of companies in developed foreign economies gained 4.15% in the first quarter of 2024. Emerging market stocks of less developed countries, as represented by the EAFE EM index, gained 1.69% in dollar terms so far this year.

The bond markets, in contrast to what was happening with stocks, were relatively calm. Yields on 10-year Treasury bonds have dropped modestly, from 4.76% at the start of the year to 4.32% currently. 30-year government bond yields have risen incrementally from 4.03% to 4.46% in the first quarter. But the yield curve remains sharply inverted; 12-month Treasuries offer a higher 5.07% rate, and 6-month government bonds are yielding 5.34%.

It is wise to be a bit wary when stock markets are achieving new highs seemly on a weekly basis, but there are not a lot of dark clouds on the current economic horizon. Interest rates in the U.S. are currently at a 25-year high, with the Fed Funds rates at 5.25-5.55%, but the recent Federal Reserve Board announcement reassured investors that the rates would go down, not up in the current year. Inflation remains at 3.2%, which is a full percentage point higher than the Fed is targeting but it has not been rising lately. Unemployment is up slightly, to 3.9%, but anything under 4% is considered full employment by economists, and the U.S. economy added a robust 275,000 new jobs last month. America's GDP grew at a 3.4% rate last quarter, which is above both expectations and recent historical averages.

But there is a bit of a creepy feel to the enthusiasm of quick-twitch investors whose buys and sells drive markets up or down, seemingly at random, on a daily and even hourly basis. The insiders are calling the bull market we are experiencing an 'AI' boom, meaning that there is perhaps more enthusiasm for how artificial intelligence will impact the world economy than can be realized by the actual facts on the ground. And one wonders if consumer spending can continue to grow at a 3% rate when there is evidence that consumers, in aggregate, are taking on increasing amounts of debt.

All of this is to say that, after a robust first quarter, it might be time for the buy-and-hold, long-time-horizon investors to fasten their seat belts. Nobody gets a totally smooth ride on the investing roller coaster, and we all know what happens on the amusement park rides after your car climbs up a long summit. The only difference is that roller coasters end where they began, while the markets, through all the ups and downs, have generally ended higher at the end over full market cycles.

Several factors could impact the U.S. stock market in 2024. Some key events and trends that we will be watching:

1. **It's a Presidential Election Year**: As the U.S. presidential election heats up, many investors wonder about its potential impact on the stock market. Elections can sometimes spark volatility, so keeping an eye on political developments is crucial.
2. **Economic Data and Federal Reserve Policy**: The stock market has been performing well, with the S&P 500 posting its best first quarter since 2019. Concerns about a U.S. economic recession have eased, and investors are optimistic. However, the timing of the Federal Reserve's pivot from monetary policy tightening to easing remains critical. Progress in bringing down inflation will be essential for sustained market momentum.
3. **Sector Performance**: In the first quarter of 2024, technology, consumer cyclical, and consumer defensive sectors led market gains. However, the real estate sector finished the quarter in the red. We are keeping an eye on sector-specific developments and earnings reports.
4. **Individual Stocks**: Some individual stocks have seen significant gains, while others faced challenges.
5. **Inflation and Interest Rates**: High inflation, recession fears, and potential rate hikes from the Federal Reserve could create market uncertainty. However, some experts also foresee a bull market continuing, citing potential rate cuts, earnings growth, and historical trends around election years.

Keep in mind that the stock market is influenced by a complex interplay of global events, economic indicators, and investor sentiment. Staying informed and maintaining a long-term perspective will help you navigate the market's twists and turns. Even when the stock market is performing well, it is natural to feel cautious, waiting for potential setbacks. Balancing your perspective is crucial. If you would like to discuss your specific financial situation, do not hesitate to reach out to us. We are here to help and always welcome your calls.

Below, we have summarized some of the widely quoted indexes for your reference. As a reminder the challenge is, the DJIA is not the same as the S&P 500, which is not the same as the NASDAQ – and none of these indexes perfectly match your own distinct mix of assets and their expected returns, especially if you own a globally diversified portfolio with exposure to stocks and bonds, large and small companies, value and growth companies, and U.S. and non-U.S. based companies. The following returns are quarter and a rolling one year; respectively:

S&P 500: 10.16%, 29.71%
Dow Jones: 5.62%, 21.15%
NASDAQ Composite: 9.11%, 36.34%
Russell 2000 (Small-Cap): 4.81%, 20.14%
MSCI EAFE (International): 4.95%, 14.83%
Barclay's Capital US Aggregate Bond: -0.78%, 1.70%