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Wealth Management

1st Quarter 2024

Market Summary: The stock market continued its unrelenting climb through the first quarter, reaching new highs on the backdrop of surprising strong economic data and the expectation of rate cuts by the Federal Reserve. Once again, US Large Cap stocks led the charge with a handful of "AI" stocks dominating. But other stock sectors such as Value and Small cap also participated on the expectation of interest rate cuts. However, economic growth has remained resilient, defying every economists' (including the Fed) expectations for slowing growth, and therefore has put into question the timing and magnitude of any rate cuts this year. The Bond market is grappling with this conundrum as the realization of 'higher for longer' on interest rates has caused Bond prices to decline and long term interest rates to rise this quarter. At the same time the rate of inflation, though moderating, remains well above the Fed's 2% target. With stronger growth and sticky inflation, a case can be made for no rate cuts. In sum, interest rate cuts have been the primary fuel to this 5 month long rally in stocks (outside of the 'AI' hype) and any significant change in rate cut expectations could give pause to the stock market.

Index Returns:	QTD	YOY		QTD	YOY		QTD	YOY
US Blend Equity (Equal Weight)	7.78%	19.09%	U.S. Growth	11.88%	42.99%	U.S. Short Bond	0.05%	2.95%
Foreign Developed	5.86%	15.25%	U.S. Value	8.96%	18.77%	Intermediate Corp Bond	-1.01%	1.24%
Emerging Equity	2.16%	6.95%	Small Blend	5.04%	19.51%	High Yield Bond	1.51%	9.14%

Market Outlook: Is it Goldilocks? Fact: Earnings growth over the last 12 months for the S&P 500 is expected to be about +3.6%; however the broad market has appreciated by over +19%. This means that most of the appreciation in stock prices over the past 12 months has been price inflation or P/E expansion. To be fair the market always is looking ahead by at least 9 to 12 months to calculate expected earnings growth. With today's valuations investor sentiment is extremely bullish as a lot of good news about future earnings is already baked into current stock prices. The 'Goldilocks' scenario of strong economic growth declining inflation and interest rates is the expectation. Any deviation from this scenario will cause market gyrations with the magnitude of moves amplified by investor fear and greed. Given this backdrop we are neutral on stocks. However we remain slightly bearish on longer term bonds which means we expect rates to move slightly higher. We are bearish for two reasons: sticky inflation and the tsunami of US Debt issuance that is growing exponentially. As more and more public debt is poured into the markets it will crowd out private borrowing and put upwards pressure on interest rates.

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