HILGER
WEALTH STEWARDSHIP OF
RAYMOND JAMES®

April 5, 2024

Dear Friends,

The first quarter of 2024 ended with the US stock market, as defined by the S&P 500 average, closing at near record levels. The S&P 500 index was up 10.16% for the quarter led by large technology and semiconductor stocks. This was quite a feat given the many worries coming into the year about fears of recession, concerns over inflation and the level of interest rates. As we look forward to the next quarter and remainder of the year, these issues remain plus we have the added distraction of the upcoming Presidential election and its impact on markets and investor psychology.

The year opened with the markets on an upswing. At the end of last year, many analysts predicted at least six interest rate cuts by the Federal Reserve as it was anticipated that inflation would fall further towards the Fed's 2% target. However, inflation has proven to be stubborn and while certainly lower than in 2022 and 2023, has not come down to the Fed targets. To date, no reductions in interest rates have occurred and current predictions are now for three rate cuts this year. The market has absorbed the disappointment about Fed activity well, and the anticipation continues to underpin market values. We would expect this to continue unless the Fed becomes openly bearish and actively moves to tighten monetary policy.

It will be interesting to watch the Fed's actions and the market's reactions as we move further into the year. Currently market anticipation is that the Fed will cut at the June meeting, The challenge to that is that the Fed has stated that it will be data dependent regarding interest rate cuts and a cut without corresponding data showing reduced inflation or economic weakness will be seen as a political move. Historically the Fed has been apolitical and taken pains to not be seen as being politically motivated. Failure to provide this June rate cut may affect investor sentiment and create short term market volatility. Providing this rate cut seems to be fully anticipated by investors and may not be adequate to propel levels higher.

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As we entered 2024, surveys of institutional investors indicated that a majority held the belief that the US would suffer a mild recession, as the impact of previous Fed tightening would result in reduced earnings and lower inflation. This hasn't happened, and as we close the quarter, sentiment has shifted indicating that less than half of the institutional investors surveyed are now of the opinion that the economy will continue to experience modest growth and that the Fed has engineered the fabled soft landing that was desired. Indeed, the US economy has remained remarkably resilient in the face of high interest rates and higher inflation. This shift in sentiment is another factor driving capital flows and supporting market levels.

US economic statistics indicate that unemployment remains low and corporate earnings reported this quarter have been positive and mostly with strong forward expectations. Artificial Intelligence has been a major focus for investors and a strong positive impact on sentiment. The large technology companies and semiconductor companies that are deeply involved in AI were the market leaders as we entered 2024 and continue to attract investor focus and capital. While there is significant conversation about valuations on some of these companies, almost every investor recognizes the potential that AI can have for corporate productivity and earnings power over time. This is a great long-term story, yet it is important to recognize that there will be a significant time gap between a company embracing AI and realizing the benefits in earnings and share price. We want to be careful of chasing the AI exuberance and investing in overly high valuations in the near term.

Historically, the equity markets generally do well during the fourth year of the Presidential cycle, and we see no reason why that will be different this year. Typically, the incumbent president actively provides robust spending to attract voter support, and that seems to be the case as well. There has been a clear need for infrastructure spending and the administration passed a historic bill two years ago which is finally filtering into the economy. We should expect that continued government spending will further support economic activity and further supports the sentiment shift that there will be no recession. Coming out of a Presidential election, markets also tend to be positive as the clarity of forward leadership is resolved. Given that the US economy has experienced both Donald Trump and Joe Biden as leaders, there should be no major surprises for corporate leadership and investment analysts to infer, leading to continued economic stability.

We expect the markets to continue the pattern we have witnessed the past several months, remaining with an upward bias. We continue to opine that investors maintain a balanced portfolio, allocated among stocks, bonds, cash, and non-traditional alternative investments. The focus for bond investors should be to get capital invested in longer duration assets to avoid reinvestment risks associated with the lower rates in the future. The focus for equities should remain on US centric portfolios with large market capitalization as a focus. We want to be balanced between growth and value and if adding capital, we would emphasize dividends instead of growth at this time. We continue to favor holding onto the shares of large cap growth companies.

Thank you for your trust!

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Individual investors results will vary. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices rise. Investing in stocks involves risk, including the possibility of losing one's entire investment.

Dividends are not guaranteed, will fluctuate and must be authorized by the company's board of directors. U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value.

Alternative investments involve substantial risks that may be greater that those associated with traditional investments and are not suitable for all investors. These risks include, but are not limited to: limited liquidity, tax considerations, incentive fee structure, potentially speculative investment strategies and different regulatory requirements. Investors should only invest in alternative investments if they do not require a liquid investment and can bear the risk of substantial losses.