Monday, April 1, 2024

SUMMARY-

I. First quarter results show broadening equity leadership.

II. Inflation data in line with expectations keeping summer rate cutting narrative intact.

III. Week ahead looks to jobs report to support soft landing thesis.

IV. Market valuation remains attractive in some sectors, while still far from bubble territory in more expensive areas.

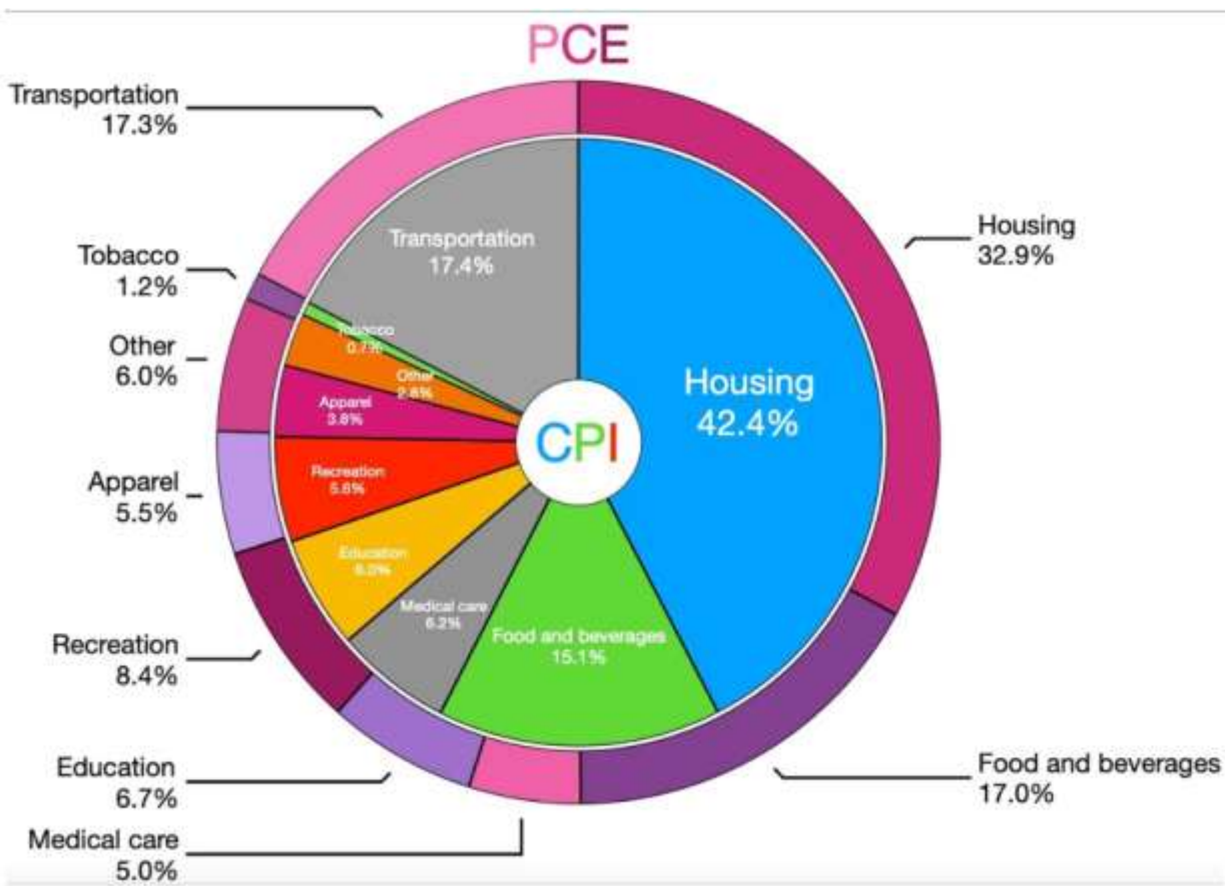
Good morning:

The first quarter ended last week with most major equity averages gaining fractionally. Only the NASDAQ posted a modest decline with a loss of 0.3% by the close of the holiday-shortened trading week. Overall, improving economic growth and corporate earnings, along with anticipation of a Fed easing cycle helped stocks continue the rally that began last fall. Importantly, this year's move in stocks has been far broader than anything seen in 2023. As we kick off the second quarter today, let's review first quarter performance among the major domestic equity averages.

First Quarter 2024 Results-

S&P 500 Index-	10.16%
Dow Jones Industrial Average-	5.62%
NASDAQ Composite-	9.11%
Russell 2000 Index-	4.81%
Wilshire 5000 Index-	9.56%

With markets closed for Good Friday, the Commerce Department released its personal consumption expenditures price index (PCE) data. The report revealed that excluding food and energy, prices for this basket of goods increased 2.8% over the past year and 0.3% from the prior month. Both numbers matched Dow Jones estimates. With this inflation data rising in line with expectations, most see this as supportive to the Fed's plan to commence rate cuts this summer. In earlier comments, Chairman Powell revealed that inflation does not need to decline all the way back to their 2.0% target before they start to lower rates, just merely be on a trajectory towards it. Recent contributors to the inflation picture will continue to be closely monitored in coming months to see whether they persist or start to moderate. These include air transportation, insurance, motor vehicles and parts from the February report. Perhaps reflective of rising prices, consumer spending also shot up 0.8% on the month, well ahead of the 0.5% estimate.



Source: Wikimedia Commons

The biggest economic report this week will be Friday's jobs report. The U.S. economy is expected to have added 205,000 jobs in March, down from the 275,000 in February. A figure in this range or better should bolster the "soft landing" narrative in which inflation moderates after the aggressive Fed tightening campaign but the economy avoids a severe downturn. Hope remains high for such a scenario to unfold after last month's meeting where the Fed maintained its view of three rate cuts this year while upgrading its outlook for economic growth.

Our expectation is a continuation of equity outperformance of other financial asset classes. We are looking for further rotation into areas that offer more attractive valuations in the coming weeks and months. Many sectors that trade at far lower Price Earnings ratios (P/E), particularly those that pay and increase their dividends annually, still could play catch-up and narrow the performance gap that emerged early last year. Likewise, higher quality small and particularly mid-cap stocks have historically been among the strongest areas of the market in the 12-18 months following the Federal Reserve rate hike. In this case, though, they have lagged so far since the Fed's last hike in July of last year suggesting a potential near-term surge if history is to prove true.

It is always important to stay focused on long-term financial plans and portfolio objectives, regardless of whether short-term market direction is up, down, or sideways. When economic conditions are healthy and improving, and interest rates are stable or declining, often the biggest risk for equity investors is paying too much for stocks. This was true in the mid to late 1990s when excitement about the internet fueled a tech-led market bubble now often referred to as “dotcom mania.” Many companies without revenue, let alone profits, drove averages like the NASDAQ to stratospheric heights only to come crashing back to Earth when the bubble burst. Fortunately, the recent A.I. stock craze is far more legitimate. Most such companies are generating significant sales and profit growth which makes their elevated P/E ratios justifiable, so long as their growth remains robust. Now that it appears overall economic conditions will be improving, capital rotating back into cheaper areas of the market may just serve to keep A.I. stocks from getting too far ahead of themselves. While we are always ready for a short and shallow pause in the rally, we do not see any bubbles, and are optimistic for continued healthy markets as the year unfolds.

Have a great week!

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S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market.

The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.

The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

The Wilshire 5000 Index is an unmanaged index of 5000 stocks traded on NASDAQ and the exchanges.

Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

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