Monday, June 3, 2024

SUMMARY-

I. Stock and bonds see modest pullback last week.

II. Inflation rate on expenditures remains flat but too high for Fed.

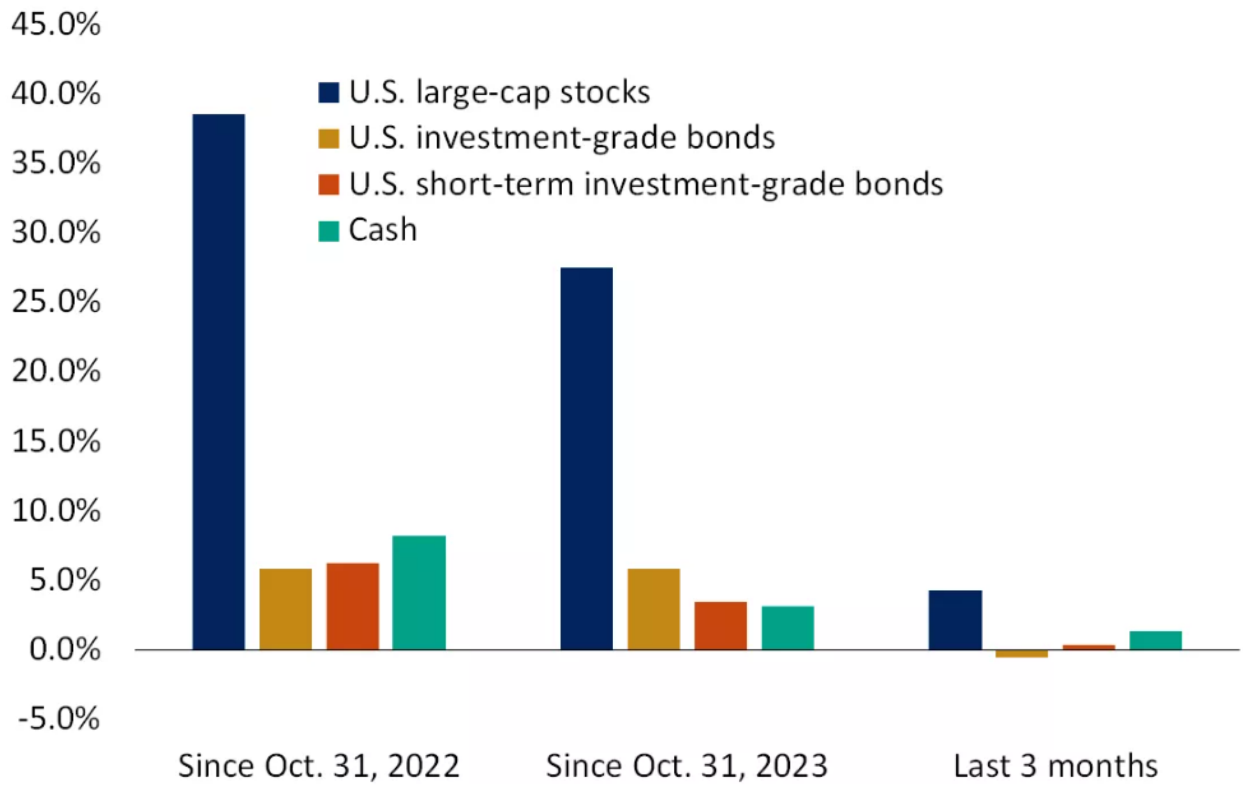
III. Stocks market volatility unusually low this year.

IV. Broadening sector participation still offers opportunity in 2024.

Good morning:

Stocks slipped a bit in last week's holiday-shortened trading action with most major large-cap averages losing about 1% or less. However, the Dow managed to pare its losses and post its best day of 2024 on Friday with a large surge in the final hour due to significant volume coming from institutions repositioning on the final day of the month. Markets remain focused on the economy and when the data may allow the Fed to start cutting short-term interest rates. With the recent realization that rates may stay "higher for longer," bond yields have ticked up and left fixed income investors significantly underperforming equity market returns. When rates start to fall, bonds should experience better total returns yet still may lag stock returns that will also celebrate lower rates.

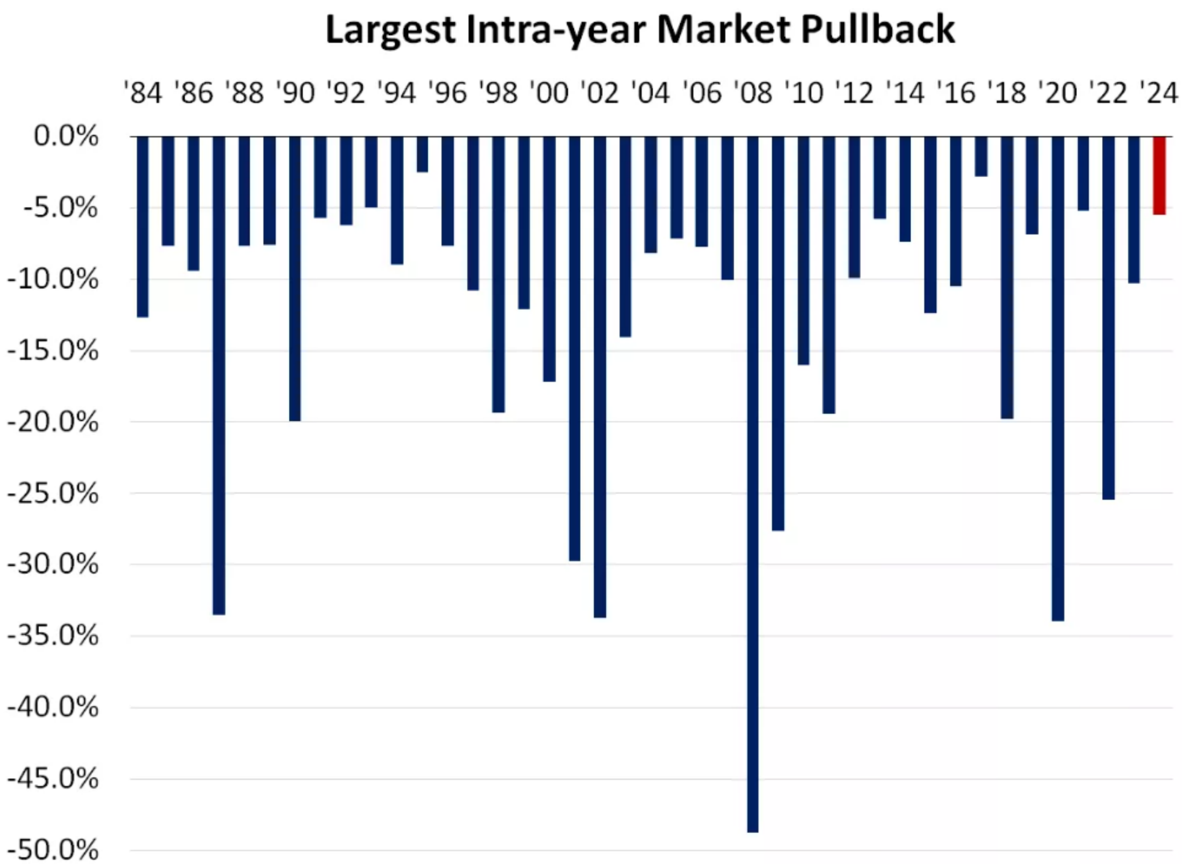
Equity vs. Fixed Income Returns



Source: Morningstar

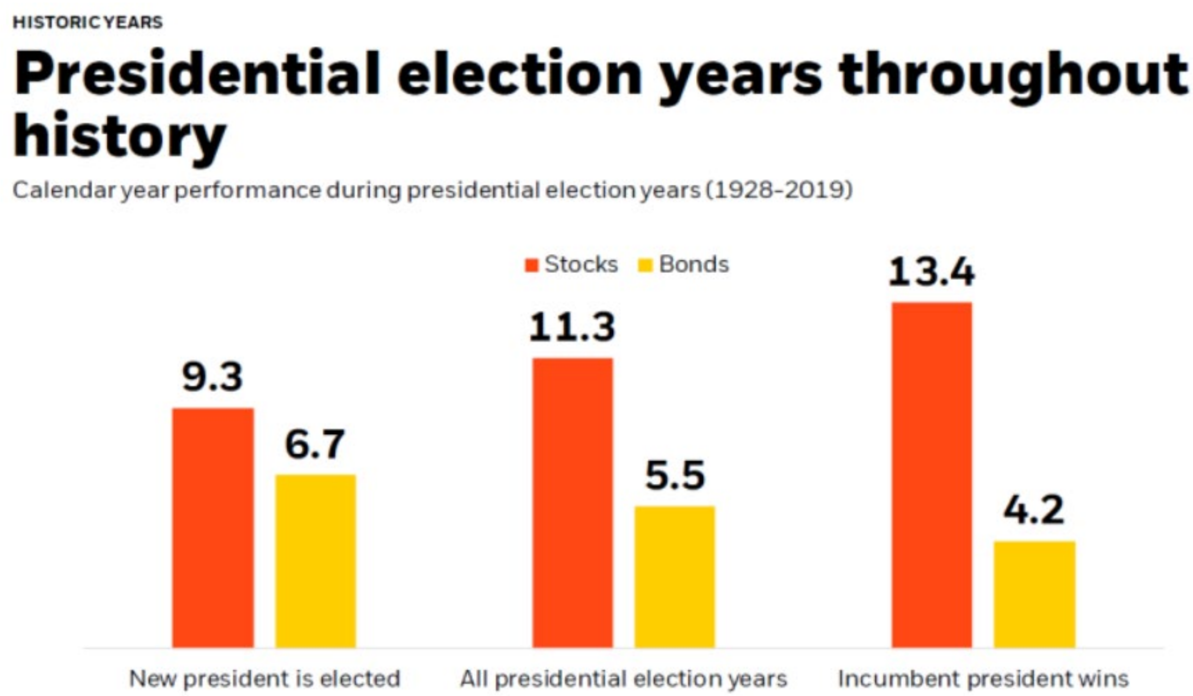
The U.S. Federal Reserve's preferred gauge for tracking inflation was little changed from the previous month and remained well above policymakers' 2.0% long-term target rate. The Personal Consumption Expenditures Price Index (PCE) rose at a 2.7% annual rate in April—the same as in March. Excluding food and energy prices, the rate has been stuck at 2.8% for three months in a row. While the lack of a resurgence of higher price increases is positive, the lack of any progress towards further disinflation is somewhat disappointing in that it likely extends the timeline for the Fed's easing campaign.

As we start June, it is worth noting how resilient the market has been this year so far. With expectations for as many as six rate cuts in 2024 at the start of the year now ratcheted down to perhaps only one, many would have thought a significant temper tantrum would have ensued. Instead, strong corporate earnings and guidance, along with a steady labor market, and enthusiasm surrounding the prospects for A.I. have combined to keep equities on track. As we have all learned, pullbacks and volatility are a normal part of equity investing. But as we approach the halfway mark for the year, 2024 is currently treading in somewhat abnormal waters. With all that's transpired so far in 2024, including a string of higher-than-anticipated inflation readings, a jump in interest rates, a dramatic adjustment (delay) to expectations for Fed rate cuts, and escalating geopolitical tensions in the Middle East, one could reasonably assume there would have been noteworthy setbacks. And yet, the stock market has only endured a small and fleeting dip. Year-to-date, the largest pullback has only been a scant 5.5%. In the last 40 years, there have only been four years (1993, 1995, 2017, 2021) in which the maximum intra-year pullback was smaller than that (the best being 1995 and 2017, which never even experienced a 3% drop).



Source: FactSet. Price return of the S&P 500 Index.

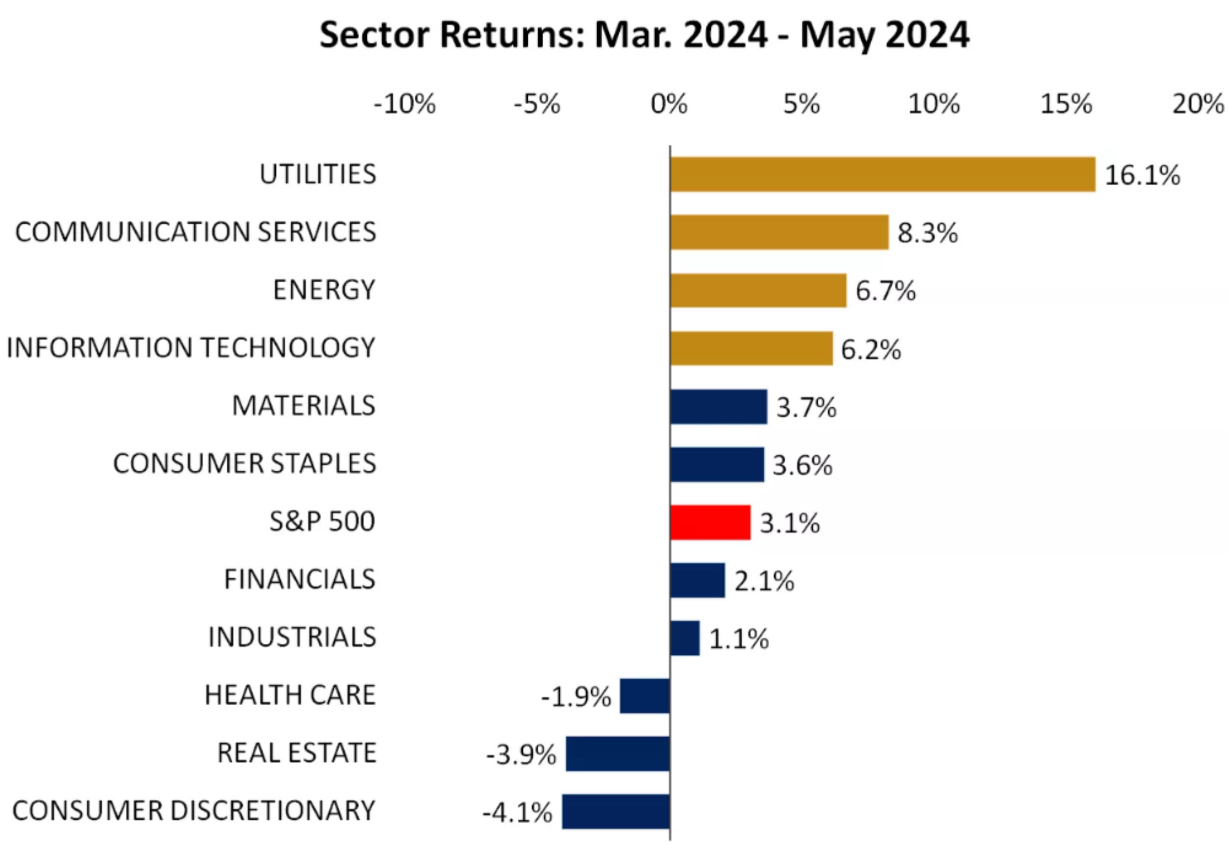
We are not suggesting that a more significant correction is imminent, perhaps just a bit overdue. This is likely due to how significant of a bear market was experienced in 2022, along with the expectation that rate cuts are merely delayed and remain on the near-term horizon. In addition, despite the fair amount of political uncertainty, division, and anxiety this year's election cycle is already bringing, history would suggest that presidential election years are generally positive for investors and may also be helping to keep any protracted pullback at bay.



Source: Morningstar

Politics have long been a topic which elicits emotions from both sides of the aisle. Allowing these emotions to drive investment decisions can derail a well-devised financial plan. Likewise, trying to predict the outcome of the elections and the market's response may not be a worthwhile endeavor. We suggest keeping eyes on the bigger picture and taking a long-term view towards achieving financial goals.

This week will see a slew of new reports from the U.S. Bureau of Labor Statistics which will give further indications about the health of our economy and the inflation situation. Barring any new inflationary indicators, markets could get back on track to the upside with the path of least resistance continuing to be higher. As the chart below illustrates, there are still many areas of opportunity as the market continues to broaden out. Over the past three months, for example, utilities significantly outperformed the technology sector despite garnering little fanfare in the process. Diversification still has its benefits!



Source: FactSet.

Have a great week!

Mark and Jeff

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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.

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.

Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

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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