Insights for Investors

April 1, 2024

Financial News for the First Quarter

The first quarter of 2024 is already behind us, and the markets have had some interesting results. The S&P 500 as of this writing was up over 10%, the Dow is up over 5%. Bonds, based upon the bellwether 10-year US Treasury have declined in price (which means they increased in yield) by about 2.5%. The stock market is made up of 11 sectors and every sector was positive except for real estate (which is mainly real estate investment trusts and real estate firms). Communication Services was the leader, with an almost 16% return (examples of stocks in that sector are Google, Facebook, Netflix, Disney, the phone companies such as ATT, Verizon and T Mobile among others). Technology, Industrials, Energy and Financials all had double digit returns for the quarter as well.

Oil prices were up over 13% and gold was up over 5%. The US dollar, to the amazement of many was up over 2% after having a similar return for all of 2023. Japan was the leading international market with a return of over 11% year to date. A stronger dollar tends to work against international equities, but such was not the case for many international markets, Japan in particular.

Mortgage rates averaged close to 7.75% which is interesting because despite the perception that mortgage rates are quite high, that is close to the average rate for the past 50 years. Rates did reach an all time low in the early 2020s so many homebuyers understandably have that concern. There has been so much liquidity (money available) for the past few years that it increased demand and thus prices substantially. The demand for housing, particularly first-time homebuyers continue to grow, and an outstanding question is if the current rate of construction is meeting the demand.

What about interest rates, particularly where the Federal Reserve is concerned? The Fed has held its short term (overnight rate) to 5.25-5.50% although pointed out in its March meeting that they foresee up to three rate cuts in 2024. Short term rates (one year or less CDs, money market mutual funds) continue to pay approximately 5%. By contrast the 10-year US Treasury pays approximately 4.25%. The longest-term US Treasury pays approximately the same. The question on many minds is how long will the low to no risk rate be in favor? Enter the Federal Reserve dot plot, or where rates are expected to be and by when. Currently the dot plot puts the overnight rate at 4.5 to 4.75% by year end. It is much harder to ascertain what long term rates will do so watching the 10-year US Treasury (which many banks use to price mortgages and other loans) makes most sense to us. There is a lot in the financial media regarding the longer-term dot plot, perhaps as low as 3.5% by 2025 as noted on Bloomberg Wall Street Week this past week.

When the market has a strong return, particularly over an increasing period, many people begin to think about valuations. In other words, is the market getting more expensive relative to earnings. That seems to be the case as the price of stocks to earnings is near an all-time high. Earnings have been growing year over with the S&P

averaging close to 12%. Its 10-year average earnings growth rate has been about 8.4%. Stocks typically follow earnings. What might be fueling that? There are several things: Innovations such as artificial intelligence (AI), the growth in energy demand, productivity gains, efficiency gains, a strong dollar and finally, the rate of inflation continued to decrease.

A few key points for investors bear repeating: Timing the market is next to impossible. They don't ring a bell at the top and they don't ring a bell at the bottom. FOMO, or fear of missing out can consume anyone but it is not an emotion that serves investors. Know what you own, why you own it, where you own it and for how long do you need or want to own it. Asset allocation should be based upon the three keys of investment objection, risk tolerance and time frame.

Maurice Stouse is a Financial Advisor and the branch manager of The First Wealth Management/ Raymond James. Main office located at The First Bank, 2000 98 Palms Blvd, Destin, FL 32451. Phone 850.654.8124. Raymond James advisors do not offer -tax advice. Please see your tax professionals. Email: Maurice.stouse@raymondjames.com.