Market Perspectives
February 2024

KEY HIGHLIGHTS

- Performance Update
- Stocks
- Bonds
- Economic Update

PERFORMANCE UPDATE

The market's strong start to 2024 continued in February. So far the positive news on corporate fundamentals, steady economic data, and positive trends in inflation data have been enough to keep the bullish narrative intact. The S&P 500 Index gained 5.34%, which puts year-to-date performance at 7.11%. Bonds, as measured by the Bloomberg Aggregate Bond Index were lower in February, down 1.41% as interest rate volatility persisted. The prevailing trends in artificial intelligence continued to press tech stocks higher as the NASDAQ gained 6.22%. Small Cap stocks, which tend to be more economically exposed, rallied nicely to finish the month up 5.65% while international stocks moved higher gaining 1.84%.

Stocks

The stock market has benefitted from a number of macro

Consumers now expect future inflation in a range of 2-2.5%, which has historically been a positive sign for stock performance.

trends that continue to fuel investor optimism. Disinflationary trends are still well entrenched with inflation expectations returning to pre-pandemic levels. With inflation expectations "anchored," the Fed has moved to a neutral stance on interest rates and is positioned to start cutting rates in the coming months, although not as much as the market once expected. The market not long ago expected around six rate cuts while the Fed since December has telegraphed three cuts for 2024. As of today, the market and the Fed are nearly aligned in terms of rate-cutting expectations. The market's adjustment from six to three cuts hasn't resulted in increased volatility in stock prices, which is notable. Normally when you get such a strong adjustment lower in rate cutting expectations stock prices react negatively. Instead prices have been buoyed by trends in technology and microchip stocks, e.g. the Magnificent 7 stocks, as well as continued positive economic data. Encouragingly we've started seeing participation from non-tech and small cap stocks which is a positive sign for market health. This trend may be in its initial stages as of

Index	MTD	QTD	YTD	1 Year	2023
S&P 500	5.34	7.11	7.11	30.45	26.29
Dow Jones Industrial Average	2.50	3.84	3.84	22.03	16.18
Russell 2000	5.65	1.54	1.54	10.05	16.93
NASDAQ Composite	6.22	7.33	7.33	41.63	44.64
Europe, Australia, & Far East (EAFE)	1.84	2.44	2.44	15.01	18.85
MSCI Emerging Markets	4.77	-0.08	-0.08	9.18	10.27
Bloomberg Barclays U.S. Aggregate Bond	-1.41	-1.68	-1.68	3.33	5.53

As of 2.28.24; Returns in percent

Longest Streaks for Equal-Weight S&P 500 Without a New High

Date Streak Ends	Consecutive Days Without New High	Forward +1 Year Performance
4/27/2011	963	-2.6%
12/26/2003	653	16.1%
3/5/2024*	544	?
3/4/1991	295	17.7%
7/13/2016	288	11.3%
8/11/2000	272	2.1%
2/14/1995	260	29.9%
3/4/2012	213	15.4%

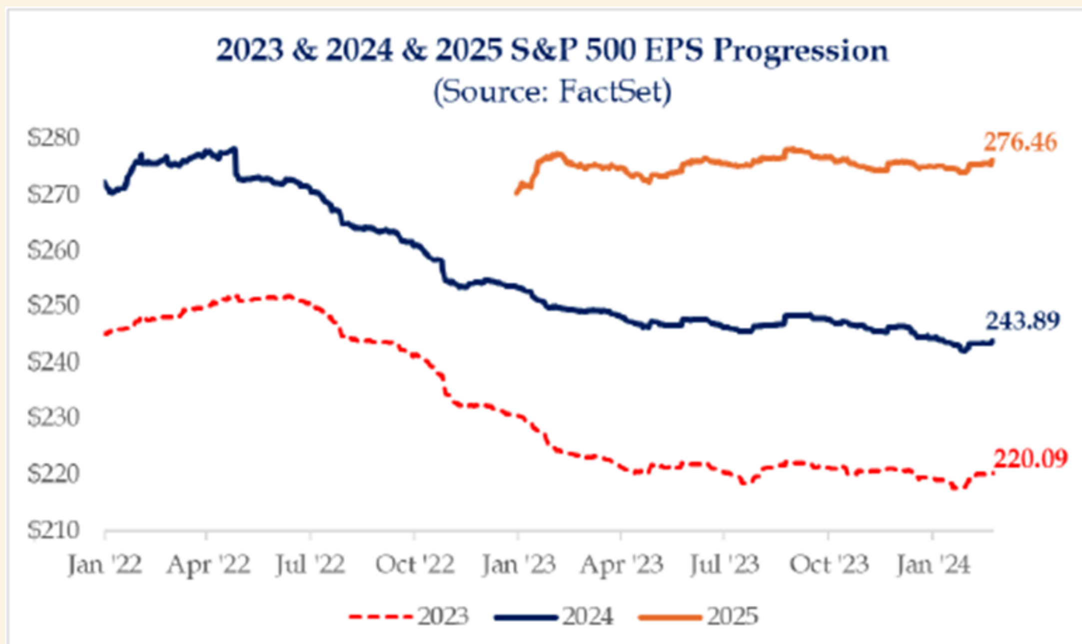
***Remarkably, just 1 basis point away from closing above the 1/4/22 high.**

Source: Strategas; As of March 2024

early March there were 143 new large cap companies making new all-time highs. The chart above depicts times in history when the S&P equal-weighted index made new highs after a prolonged streak without. The forward performance has historically been strong once a new high is made. We believe stock market performance must broaden out into other areas beyond AI related technology in order to see sustainable gains going forward.

Despite the concentration in the market amongst the top 10 largest names, currently amounting to 33.6%, historical analysis tells us that in previous periods of concentration the S&P 500 has performed well over the next 12 months, averaging gains of 14.4%.

In addition to the macro forces mentioned above, stocks have also been lifted through 4th quarter earnings season, which showed that corporate fundamentals are still quite good. Compared to earnings expectations at the start of the year, 9 of 11 sectors in the S&P 500 had higher earnings growth than expected. Compared to a year ago, 4Q earnings grew 9.8%. Looking ahead, consensus estimates are holding steady calling for 10.8% earnings growth or $243.89 of earnings per share for the S&P 500 Index in 2024. We continue to maintain a more conservative yet still attractive expectation for 6-7% earnings growth, particularly since such a heavy percentage of the expected earnings are attributable to the Magnificent 7. This is a big change from 2023 earnings which were up an anemic 0.5%. This is critical because we believe stock market performance this year will be tied to earnings growth.



Source: Strategas and FactSet; As of March 2024

International stocks had difficulty keeping pace amongst their peers in February. Economic growth forecasts continue to get cut with the ECB now forecasting GDP growth of 0.6% in 2024 down from recent estimates of 0.8%. The booming technology sector has certainly added some lift to the U.S. stock market but broad economic growth in the U.S. has also been stronger than overseas, which has led us to favor U.S. over Non-U.S. in portfolios.

Bonds

February was a down month for bonds which lost 1.4% as represented by the Bloomberg Aggregate Bond Index. The main culprit for weaker performance was interest rate volatility, with key rates rising, including the 10yr Treasury finishing February near 4.3%. The primary cause for the lift in interest rates was stronger than expected economic data and inflation readings that came in ahead of expectations. We do not foresee a change in the disinflationary trends and would expect stable to lower rates as we progress further through the year. The tick up in yields has been useful for putting cash to work in client fixed income portfolios where a combination of short and long-term bonds has provided an optimal mix of exposure. As the Fed loosens monetary policy and considers the potential for slowing the quantitative easing process we believe lower trends in rates will prevail. Historically rates have started moving lower well before the first rate cut from the Fed. The chart below summarizes this phenomenon over the last six easing cycles going back to 1984 and shows the average 12-month returns for investments in municipal bonds up to 3 months before and 3 months after the first rate cut. There's a clear benefit to returns by investing early. Uncertainties around Fed policy on interest rates, as well as the path of rates across all maturities, still pose the biggest threat to markets in the near term.

Source: Bloomberg, US Federal Reserve, and AllianceBernstein; As of December 2023

Economic Update

Economic data reported over the month of February was generally stronger than expected. The February jobs report came in ahead of expectations with an estimated 275k new jobs added during the month while wage growth slowed, and January's strong job growth was revised downward. This is a "Goldilocks" job scenario for markets and was cheered by investors. Importantly, it's hard to find more vital economic indicators than labor as an employed consumer is a consumer that is more likely to continue fueling our economy through spending. Some recent data has signaled a potential slowdown in the strong pace of job gains in the manufacturing sector but there continues to be strength in service focused sectors like hospitality. Taken as a whole, the jobs market remains strong but it must strike a balance otherwise it runs the risk of pushing off rate cuts for fear of inflation. Over the intermediate to long-term we must consider the effects of poor fiscal policy as the U.S. government continues to run some of the largest ever peacetime spending deficits nearing 7% of GDP. As new debt needs to be issued it will put an increasing stain on the budget, as well as upward pressure on interest rates, with interest expense now forecast to grow to 26% of tax revenues by 2032. The depressing reality is that the national debt has been moving higher at an increasing rate as shown in the chart below.

Time Required to Reach Total U.S. Debt Levels	
Of:	
$10 Trillion	232 Years
$20 Trillion	9 Years
$30 Trillion	5 Years
Last Trillion $	100 Days
Latest Level	$34.4 + Trillion

Source: Strategas; As of March 2024

The day is approaching when difficult decisions on tax hikes, spending cuts, and changes to entitlement programs must be considered.

As we move further into 2024, and uncertainties remain regarding Fed policy, interest rates, and economic growth, we continue to believe a balanced portfolio of stocks and bonds, and US and Non-Us investments is a prudent approach for investors.

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Sources: Ned Davis Research, Bespoke Investment Group, CME Group, St. Louis Fed, FRED, Strategas, JP Morgan Asset Management, S&P Dow Jones Indices.