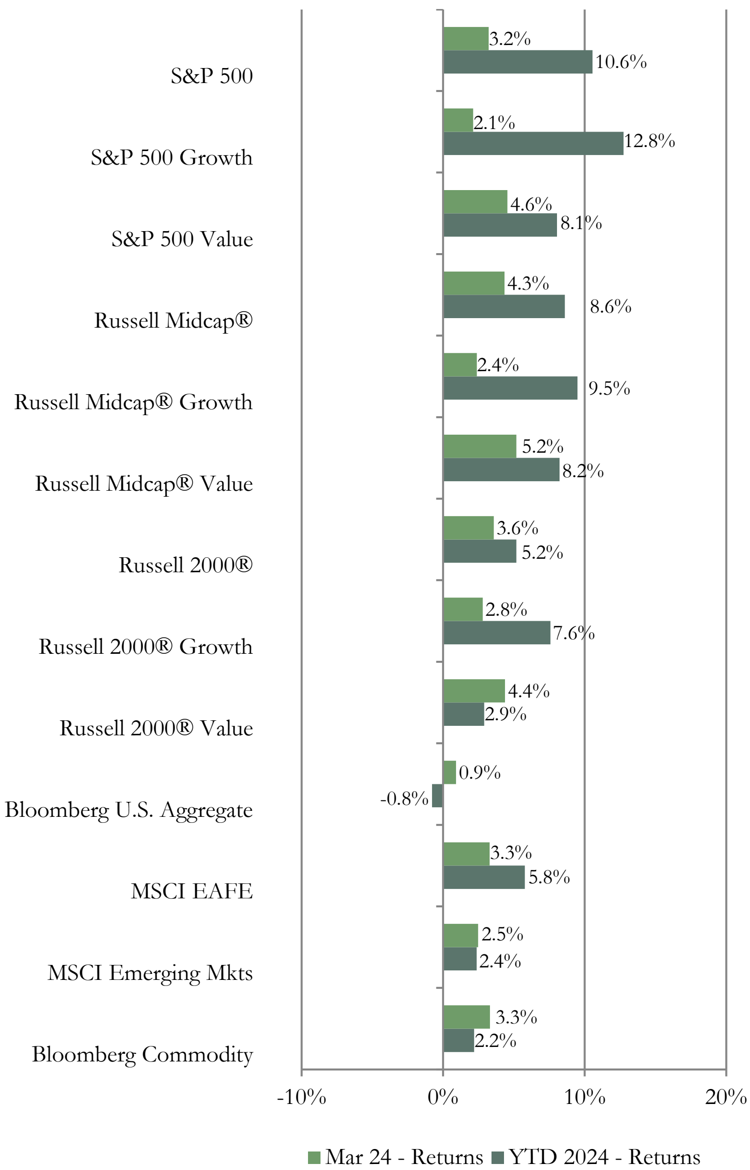
Monthly Market Summary – March 2024

More records were set in financial markets in March as investors continued to price in expectations for interest rate cuts coming in early summer. In the U.S., the S&P 500 and Nasdaq Composite indices hit new all-time highs while the Russell 2000 index of smaller sized company stocks hit a 52-week high after the Federal Reserve's set of updated projections still indicated three interest rate cuts in 2024 despite signs of a resilient economy, a strong labor market, and sticky inflation. Outside the U.S., the STOXX 600 index of European stocks and the Nikkei 225 index of Japanese stocks set all-time highs. The U.S. dollar reached a 52-week high. Gold rose to an all-time high of $2,241. March was the fifth consecutive month of gains for major U.S. equity indices. Developed international and emerging market indices also had a gain for the month as did broad fixed income and commodity market indices.

Market Indices – March 2024



Fears about a recession in the U.S. have largely subsided with a string of data showing a resilient economy. However, that resilient data also drives concerns about inflation. Growth in U.S. gross domestic product (GDP) in the fourth quarter of 2023 was revised higher to 3.4%. This suggests high interest rates are not pressuring the economy as much as some analysts expected. One reason for the better than expected economic growth is that the labor market continues to be strong which supports consumer spending. The monthly payroll report was again surprisingly strong showing that 275,000 new jobs were added in February. Even though the unemployment rate ticked up to 3.9%, there were still 8.9 million job openings. In addition, wages grew at a 4.3% year-over-year rate. In another sign of resilience, housing market data came in strong and above expectations. Housing starts rose 10.7%, building permits increased 1.9%, and existing home sales increased 9.5% in February over the prior month. However, the latest inflation reports also came in above expectations. The consumer price index (CPI) was up 0.4% over the prior month and 3.2% over the prior year. The core CPI moved up to a 3.8% year-over-year increase. One of the most concerning points on the inflation front is that shelter costs continue to rise sharply with a 5.7% increase on an annual basis in February. The producer price index also came in higher than expected for the second consecutive month with an increase of 0.6% over the prior month.

The steep increase in crude oil prices in March fueled concerns that inflation may be harder to bring down going forward.

In the U.S. equity markets mid and small-capitalization (cap) indices outperformed the larger cap S&P 500 index for the second month in a row. Expectations for lower interest rates and the expanding benefits of resilient economic activity provided a boost to smaller sized company stocks at the same time that certain mega-cap stocks came under pressure due to regulatory and legal issues and falling sales in Chinese markets. Value stocks outperformed growth stocks in each market cap category. Energy was the top performing sector in each market cap category reflecting the jump in oil prices. Materials and utilities were other top gainers. Consumer discretionary had the lowest return among the 11 industry sectors in the S&P 500 index due in large part to the double-digit decline for the stock of Tesla. Communications and healthcare were lagging sectors in the mid and small-cap indices respectively.

Both the MSCI EAFE index of developed international equities and the MSCI Emerging Markets index (EM) posted a positive return for March. The EAFE outperformed the EM index. Local currency returns were higher than dollar based returns due to the strengthening U.S. dollar. Value outperformed growth in the EAFE with energy and financials leading with the top sector returns. Growth outperformed value in the EM index with information technology sector posting the best return among the 11 industry sectors. On a geographical basis, among developed international markets, the Euro Area index outperformed the Pacific and Asia regions. Among emerging markets, Taiwan was the performance leader boosted by strong performance of semiconductor stocks. Korea was another top performing country also boosted by the technology sector. Emerging Europe was the weakest region among emerging markets. The China index did post a small positive return of under 1% even though the property sector slump continues to pressure economic activity and stock prices offsetting some improving data on industrial production and retail sales.

U.S. bond market sector returns were positive for March. Yields moved up and down in reaction to economic news and comments by Federal Reserve members during the month but ended the period down modestly and bond prices were up. With yields ending lower, longer-term bond indices posted the largest positive returns while shorter-term Treasury bond indices had small positive returns. New issuance of corporate bonds was high. However, demand was strong for the higher yield available on corporate bonds which pushed prices up in that sector. The Bloomberg U.S. Corporate High Yield Bond index had a return of over 1%. The municipal bond index was the laggard with an essentially flat return. The average 30-year fixed mortgage rate was little changed in March and was 6.8% at month-end according to Freddie Mac.

The Bloomberg Commodity index had a positive return for March. Most of the sub-indices we track also recorded a positive return with only the livestock sub-index posting a negative return. The precious metals sub-index had the top return boosted by a strong gain for silver in addition to gold setting new record highs on expectations for an interest rate cut in June. The petroleum sub-index was another strong performer up over 6% as oil prices rose. West Texas Intermediate crude oil moved up to over $84 per barrel during March on forecasts for higher demand and tighter supplies. The price was $79.22 as of the end of February.

Vogel Consulting, LLC (Vogel) Tactical Recommendations

The risk of recession has likely eased since the rate of inflation continues to slow, economic growth and corporate earnings have been generally solid, and increasing use of artificial intelligence could power productivity improvement. However, the robust labor market and still strong wage growth keep inflation as a main focus for investors. Rising energy prices are another inflation risk. Therefore, inflation could be more sticky than many investors seem to currently expect. Sticky inflation could mean high for longer interest rates that could pressure consumer and business spending. Therefore, markets may experience large swings in reaction to clues to the path of interest rates in economic data reports and comments by company executives in upcoming earnings reports especially since valuations are not cheap after the strong upward trend in prices over the past five months.

Our neutral view on growth relative to value remains in place as we prefer to have exposure to sectors benefiting from longer-term secular growth trends along with some exposure to cyclicality. We retain our neutral weight position recommendation for U.S. equities and our underweight recommendation for international developed and emerging markets equities. The strengthening U.S. dollar could be a headwind to returns from foreign equities. Since bond yields are still attractive, we retain our equal weight recommendation for fixed income. We favor short to intermediate maturity bonds due to the inverted yield curve. We recommend an underweight allocation to hedge funds. We continue to recommend an overweight to cash reserves to avoid having to sell assets in a down market period to cover spending needs.

The statistical information contained in this commentary has been compiled from publicly available sources and is presented to you for your review and for discussion purposes only. The information contained in this commentary represents the opinion of the author(s) as of its date and is subject to change at any time due to market or economic conditions. These comments do not constitute a recommendation to purchase, sell or hold any security, and should not be construed as investment advice or to predict future performance. Past performance does not guarantee future results.