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# Investment Insights Monthly

From The Desk of Jack Kraft, CFA, Investment Strategist

March 2024



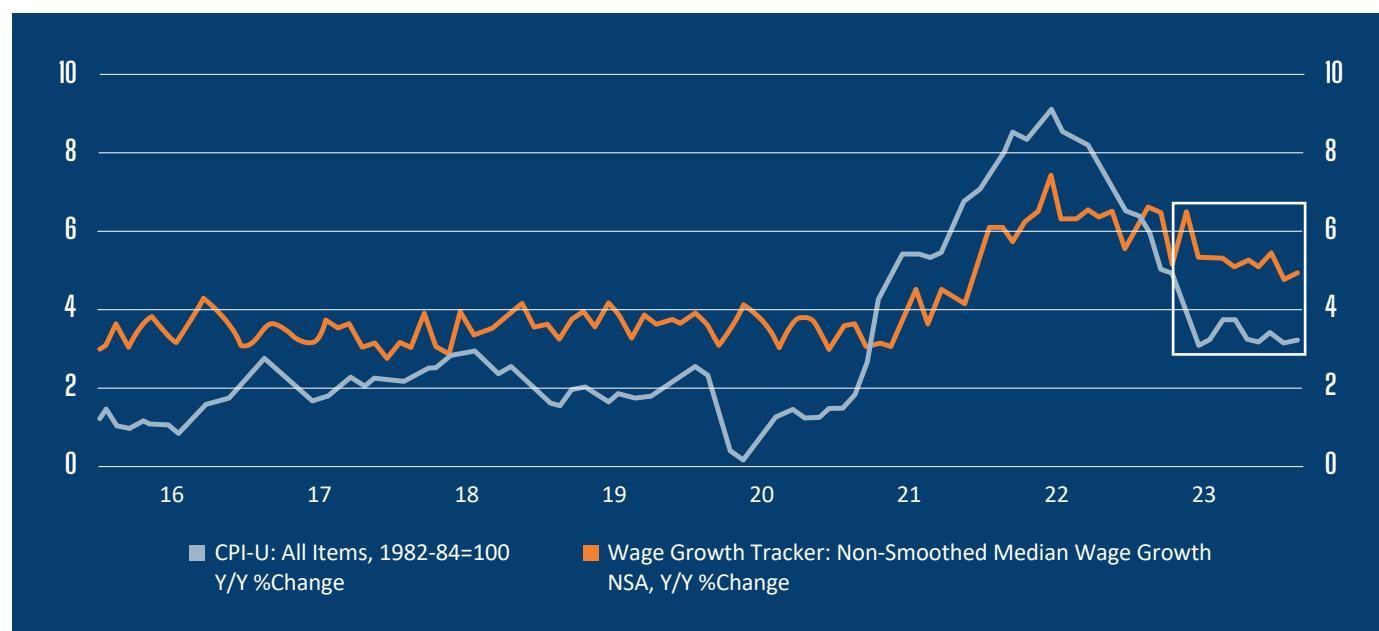
## Stock Rally Riding on Promised Rate Cuts

The bull market in U.S. equities has not missed a step in 2024, with the S&P 500 blowing past the 5,000-point mark with an impressive 8%+ gain as of mid-March. New highs are the new normal as the market has seemed to somewhat broaden from last year's concentrated gains in the Magnificent Seven. Investor focus has shifted from risks such as inflation and calls for a recession to pounding the table on a resilient consumer, lower rates and growing earnings per share. The U.S. Federal Reserve (Fed) ultimately holds the power to keeping this rally sustained based on how restrictive it wants to be with monetary policy. The Fed will be looking for clues on economic growth, labor market stability and arguably most important, normalizing inflation data.

Overall, Fed speak has been more cautious as 2024 has played out with expectations for rate cuts shifting later into the year. Initially, cuts were forecasted to come as soon as March but have been postponed to what looks like June. Not only have rate cuts been pushed out to later in the year, but the market is expecting just three 25-basis-point cuts in 2024 versus the six rate cuts that were previously expected in December 2023. The market has even started to get cold feet about a June rate cut as inflation data has come in hotter than anticipated. According to CME Group's FedWatch Tool, market expectations for a June rate cut have declined from 80% one month ago to 60% at the time of this writing.



Furthermore, the war on inflation has hit a stalemate in the first two months of data in 2024. The Consumer Price Index has come in hotter than expected on both headline and core measures (which strip out volatile food and energy prices). Also concerning on the data front, is the hotter-than-expected Producer Price inflation numbers. This data point is more of a leading indicator and shows “pipeline inflation” that manufacturers are seeing in raw, intermediate and finished goods. If this trend continues into March, I would be cautious of counting on a rate hike in June. One positive the Fed can point to is the benefit the consumer is feeling from the disinflationary environment since inflation peaked at 9% and has since declined to roughly 3% annualized. During the middle of 2023, real wage growth turned positive and has stayed positive, which enables an environment where wages keep pace above inflation, thus boosting consumer confidence, and supports spending.

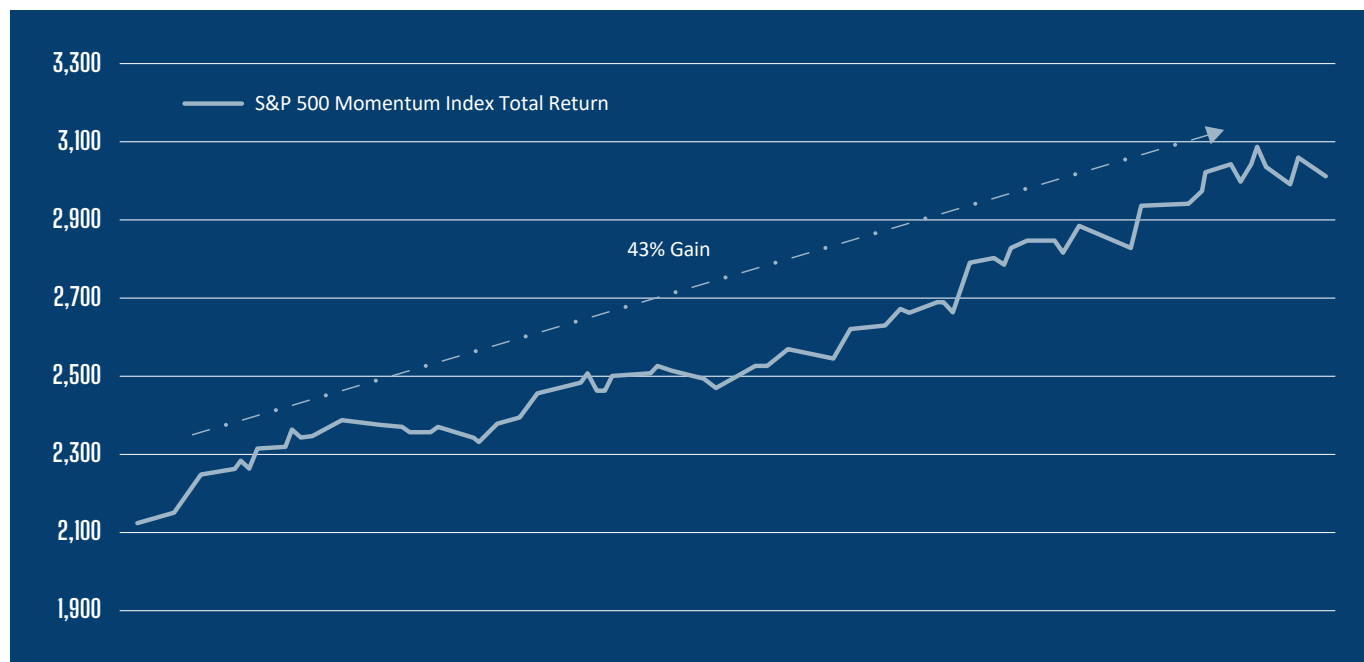


Sources: BLS, FRBATL/Haver

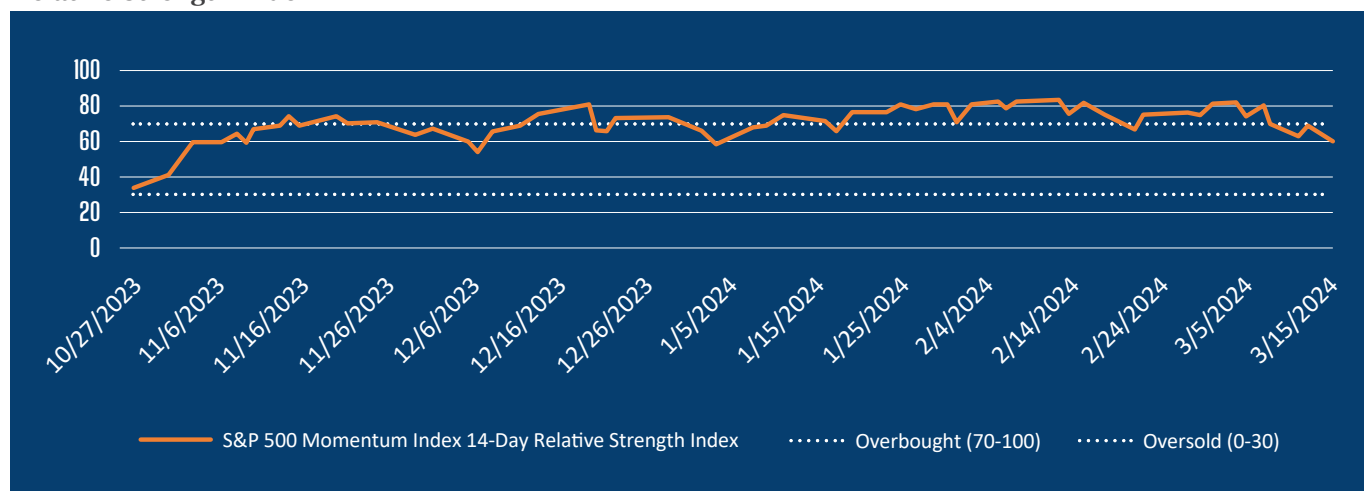
The stellar performance of the S&P 500 this year has led to one pocket of the market getting undoubtedly frothy, as measured by the S&P 500 momentum tracker. This index tracks the performance of approximately 100 stocks in the S&P 500 Index that have the highest "momentum score." This momentum score is based on winning stocks that have performed well in the short term. Since it is a measure of the near-term best performing companies, the index has a high turnover rate. Currently, the index is mainly comprised of stocks that have two distinct factors—large in size and high growth. The factor index is up 21% year-to-date and roughly 44% since the end of October when investment sentiment shifted more to a risk-on approach.



### S&P 500 Momentum Index Total Return



### Relative Strength Index



Source: YCharts

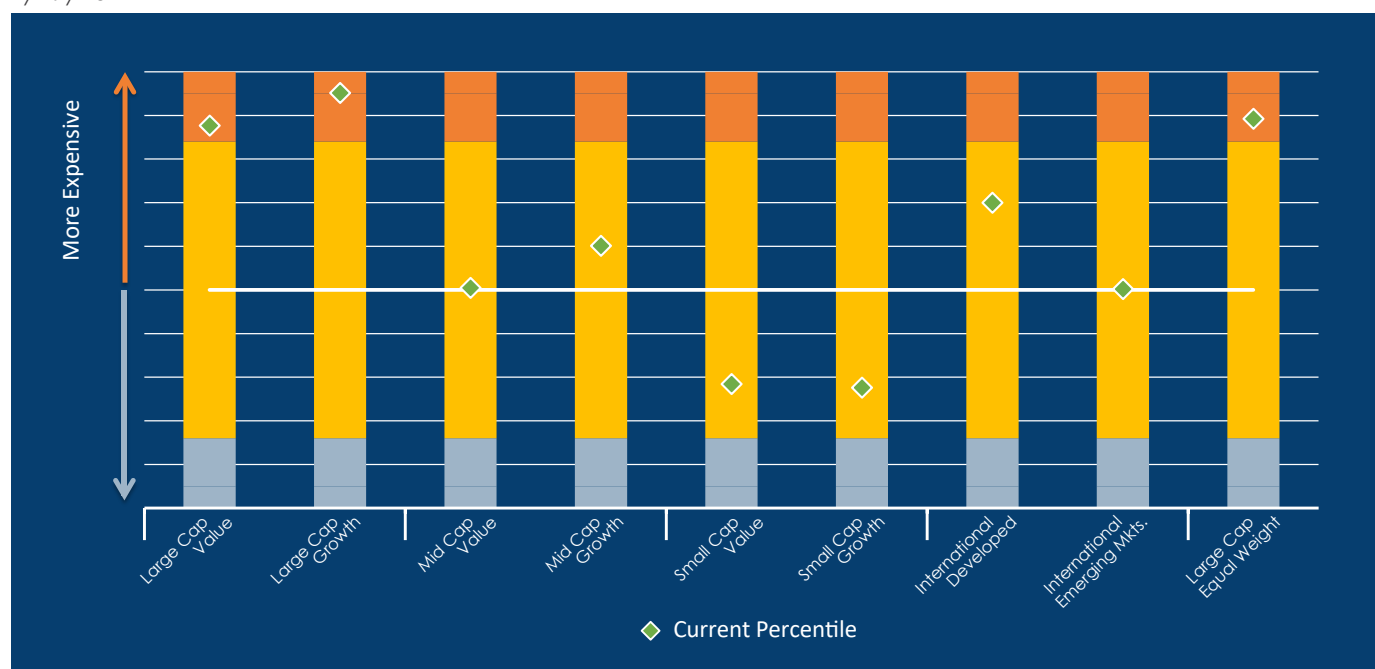
Additionally, the S&P 500 momentum ETF has spent the majority of its time trading in overbought (above 70) territory since December 11, 2023, as measured by the relative strength index, a technical factor that measures positive trading days versus negative trading days. JPMorgan has noted that its momentum crowding index has reached the 99th percentile and saw its fastest increase ever in the past month following euphoria for artificial intelligence stocks. The largest risk here is that momentum-oriented stocks can be prone to sharp reversals in short periods of time given a slight change in the narrative or investor sentiment. There also runs the risk of this reversal affecting broader areas of the market given that the momentum index is currently concentrated with companies that are larger in size by market capitalization.



Although there are certain pockets of the market that have gotten a bit ahead of themselves, other areas of the market seem to be relatively healthy. Looking at the market by style value seems to be more reasonably priced. Additionally, mid-cap stocks and small-cap stocks look very attractive relative to their large-cap counterparts. These stocks are more interest-rate sensitive and have the opportunity to benefit when the Fed determines the right time to lower interest rates. Fixed income also looks particularly attractive as yields, measured by the 10-year Treasury rate, have moved back up to the 4.3% range. When investing in fixed income historically, it has been beneficial for future returns when the starting yields are higher.

### Equity Asset Classes Value Rank to Own History

2/29/2024

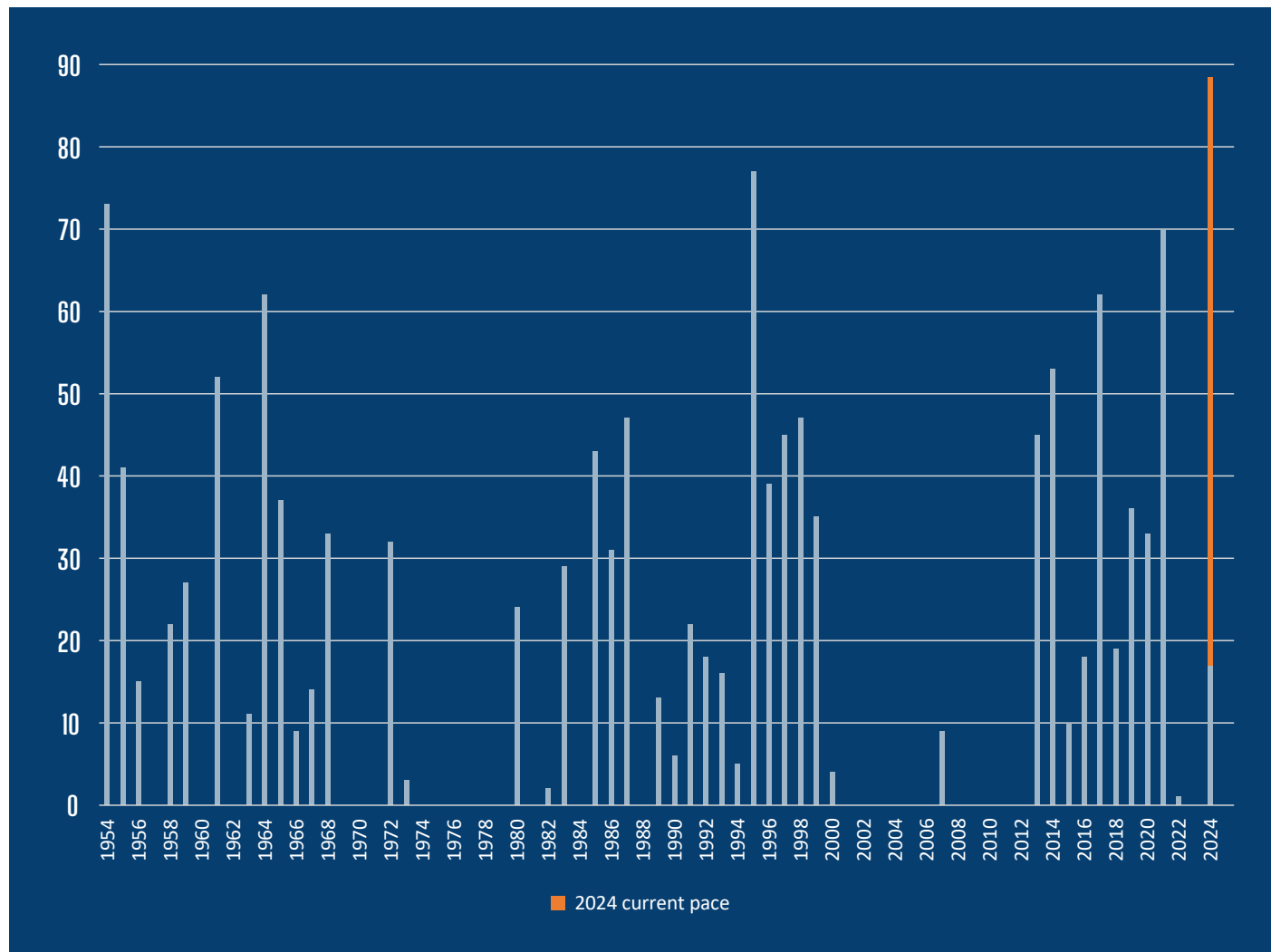


Source: Bloomberg

The rally in stocks this year has been nothing short of impressive, with flashing headlines of all-time highs in the S&P 500 reiterating the bullish sentiment felt across Wall Street. This year alone, the S&P 500 has notched 17 new record levels and is on track for more than 80 record closes at the current pace. Given economic risks, political risks and higher valuations, keeping this pace without some sort of consolidation is wishful thinking. Despite these record highs, people with cash on the sidelines may feel like they missed the rally. The good news is, historically when the S&P 500 notches a new record high, additional record-breaking days are on the horizon. In fact, JPMorgan did a study that shows that average long-term returns are virtually the same if you invested any random day versus when the S&P 500 was at a record high.



### S&P 500 All-Time Highs By Year



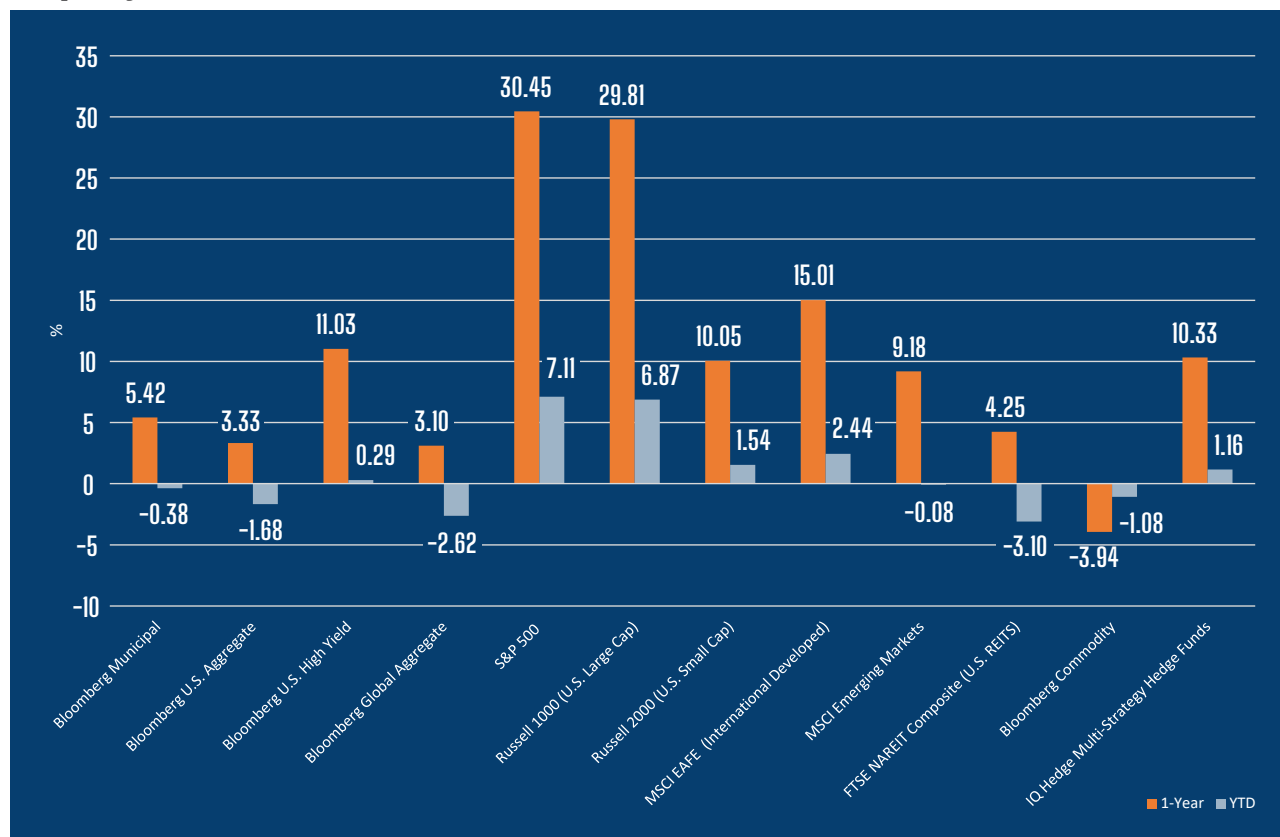
As of March 8, 2024

Sources: Bloomberg Finance, L.P.



## Asset Class Returns

Comparing Recent 1-Year and Year-to-Date Total Returns



As of February 29, 2024

Source: Conway Investment Research

## Fixed Income

- U.S. Treasury and other sovereign debt yields rose across the board in February, creating a headwind for core fixed income. Munis held in better due to favorable technical factors.
- Credit bucked the trend with gains in floating rate loans and high yield. Spread tightening occurred within high yield, investment grade and emerging-market debt securities.
- U.S. dollar strength acted as another headwind against non-U.S. assets.

## Equities

- The equity market rally broadened out in February, similar to what occurred at the end of 2023.
- Small caps led large caps in February, and growth trounced value across the entire market-cap spectrum.
- Outside of small-cap value, all other segments of U.S. equities are positive in 2024.
- Non-U.S. equities posted positive returns last month, but they lagged their U.S. counterparts.
- Similar to the U.S., large caps outperformed small caps and growth beat value.
- For the first time in months, emerging markets outperformed other developed markets, largely due to the strong rebound in China.

## Alternatives

- REITs continue to struggle on concerns over “higher for longer” interest rates and high vacancy rates in the office sector.
- Oil has risen to a four-month high on the extension of OPEC+ production cuts, but commodities are negative for the year.



February 29, 2024	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
<b>Fixed Income Indices</b>							
Bloomberg Municipal	0.13%	-0.38%	-0.38%	5.42%	-0.21%	1.91%	2.68%
Bloomberg US Govt/Credit Intermediate	-0.36%	0.02%	0.02%	4.58%	0.10%	1.41%	1.24%
Bloomberg U.S. Aggregate	-1.41%	-1.68%	-1.68%	3.33%	-3.16%	0.56%	1.43%
Bloomberg U.S. High Yield	0.29%	0.29%	0.29%	11.03%	1.84%	4.16%	4.34%
S&P/LSTA Leveraged Loan	0.91%	1.59%	1.59%	11.49%	5.69%	5.26%	4.49%
Bloomberg Global Aggregate	-1.26%	-2.62%	-2.62%	3.10%	-5.52%	-1.03%	-0.13%
<b>U.S. Equity Indices</b>							
DJ Industrial Average	2.50%	3.84%	3.84%	22.03%	10.25%	10.86%	11.62%
S&P 500	5.34%	7.11%	7.11%	30.45%	11.91%	14.76%	12.70%
NASDAQ Composite (Price)	6.12%	7.20%	7.20%	40.47%	6.85%	16.39%	14.09%
Russell 1000	5.40%	6.87%	6.87%	29.81%	10.66%	14.43%	12.39%
Russell 1000 Growth	6.82%	9.49%	9.49%	45.93%	12.49%	18.77%	15.66%
Russell 1000 Value	3.69%	3.80%	3.80%	14.01%	8.41%	9.38%	8.74%
Russell Mid Cap	5.59%	4.08%	4.08%	15.46%	5.51%	10.35%	9.45%
Russell 2500	5.44%	2.68%	2.68%	12.25%	2.15%	8.84%	8.36%
Russell 2000	5.65%	1.54%	1.54%	10.05%	-0.94%	6.89%	7.13%
Russell 2000 Growth	8.12%	4.66%	4.66%	14.18%	-4.59%	6.50%	7.33%
Russell 2000 Value	3.27%	-1.42%	-1.42%	5.61%	2.49%	6.62%	6.55%
<b>Non-U.S. Equity Indices</b>							
MSCI World	4.28%	5.55%	5.55%	25.59%	9.17%	12.22%	9.64%
MSCI ACWI	4.33%	4.96%	4.96%	23.76%	7.30%	11.05%	8.93%
MSCI ACWI Ex-U.S.	2.55%	1.54%	1.54%	13.09%	1.81%	5.95%	4.45%
MSCI EAFE	1.84%	2.44%	2.44%	15.01%	4.97%	7.29%	4.89%
MSCI EAFE Growth	3.39%	4.61%	4.61%	17.02%	2.70%	8.06%	5.92%
MSCI EAFE Value	0.20%	0.15%	0.15%	12.91%	6.96%	6.05%	3.60%
MSCI Europe	1.57%	1.47%	1.47%	13.33%	6.62%	7.95%	4.57%
MSCI Japan	3.00%	7.76%	7.76%	27.42%	3.41%	7.65%	6.60%
MSCI AC Asia	4.58%	2.82%	2.82%	13.13%	-4.03%	4.15%	5.18%
MSCI EAFE Small Cap	0.40%	-1.25%	-1.25%	6.79%	-1.42%	4.64%	4.67%
MSCI ACWI Ex-U.S. Small Cap	1.02%	-0.70%	-0.70%	10.46%	0.57%	6.14%	4.88%
MSCI Emerging Markets	4.77%	-0.08%	-0.08%	9.18%	-5.93%	2.28%	3.39%
MSCI EM Asia	5.87%	0.35%	0.35%	7.28%	-8.05%	2.94%	4.70%
MSCI China	8.39%	-3.11%	-3.11%	-13.96%	-20.78%	-5.92%	1.15%
MSCI EM Eastern Europe	4.05%	1.54%	1.54%	41.75%	-31.37%	-18.64%	-8.71%
MSCI EM Latin America	-0.15%	-4.93%	-4.93%	23.14%	12.33%	3.38%	2.82%
MSCI EM Small Cap	2.76%	1.00%	1.00%	22.15%	5.26%	9.19%	5.70%
MSCI Frontier Markets	0.06%	1.06%	1.06%	11.22%	0.05%	2.78%	2.03%
<b>Hedge Fund Indices</b>							
IQ Hedge Multi-Strategy	1.46%	1.16%	1.16%	10.33%	0.91%	3.00%	2.60%
<b>Real Assets Indices</b>							
FTSE NAREIT Composite	1.82%	-3.10%	-3.10%	4.25%	3.34%	4.09%	6.53%
Alerian MLP	4.33%	8.96%	8.96%	30.90%	30.42%	11.23%	2.74%
Bloomberg Commodity	-1.47%	-1.08%	-1.08%	-3.94%	7.15%	5.66%	-1.84%
S&P Global Infrastructure	0.01%	-3.14%	-3.14%	1.90%	5.40%	4.43%	4.99%
<b>Other</b>							
CBOE Market Volatility (VIX)	-6.62%	7.63%	7.63%	-35.27%	-21.73%	-1.94%	-0.44%

Source: Morningstar





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