W A I N W R I G H T   I N V E S T M E N T   C O U N S E L , L L C

FINANCIAL MARKETS HIGHLIGHTS

First Quarter 2024

During the first quarter 2024, the S&P 500 index of large and mega-sized U.S. stocks gained 10.6%, continuing last year's strong rally. Over just the last five months, from November through March, the index has surged 26.1%. Euphoric market action like this may be a call for caution and prudence. "To be fearful when others are greedy and greedy only when others are fearful," Warren Buffet advised, but it is also a reminder that the capital markets cannot be "timed" and that Corporate America is the envy of the world. As corporations grow their earnings, assets and dividends, stock prices follow. Not in a straight line and not without bumps in the road, some big ones, but over time the stock market climbs a wall of worry.

One worry at present is market valuation. The traditional, market-capitalization weighted S&P 500 trades at ~26x trailing earnings, high by historical standards. However, the equal-weighted S&P 500 (thus lessening the outsized impact of the "Magnificent Seven" technology companies that constitute ~30% of the index) trades at a more reasonable ~21x trailing earnings. Valuation is high because technology stocks, as a group, continue to perform remarkably. They, along with the Communication Services, Energy, and Financial sectors led first quarter performance. The tech-heavy NASDAQ index appreciated 8.7%. During the quarter, growth stocks outperformed value stocks, large-company stocks outperformed small-company stocks, and the domestic markets outperformed the international markets. These trends have been persistent for quite some time.

Bullish sentiment has been attributable to strong earnings and economic growth as well as expectations that the Federal Reserve ("Fed") would soon begin to cut interest rates. Standard & Poor's reports that fourth quarter and full year earnings growth for the S&P 500 index holdings were 21% and 11%, respectively, and U.S. Real GDP Growth (after inflation) was 4.9% during Q3 2023 and 3.4% during Q4 2023. For the full year, Real GDP increased 2.5%. Late in 2022, and into 2023, most economists, pundits and market "experts" were calling for the U.S. to be in a recession by now, or even towards the end of last year. The fear was that five percentage points of Fed interest rate hikes, over just 16 months, would certainly induce a business slowdown. The "experts" underestimated the strength of the economy, the ability of the consumer to keep spending and businesses to keep hiring (unemployment remains near historic lows at 3.9%). While there are some areas of the economy that have shown weakness, overall the data looks good.

The Fed has continued to signal several cuts to its Target Fed Funds rate this year, due to Inflation waning and concern that interest rates that are too high for too long

Selected Index Returns (%) as of March 31, 2024 (Source: Morningstar Direct). 3, 5, 10 year returns are annualized.

	Jan.	Feb.	Mar.	QTR	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	1.68	5.34	3.22	10.56	10.56	29.88	11.49	15.04	12.96
S&P 400	-1.71	5.94	5.60	9.95	9.95	23.33	6.96	11.71	9.99
Russell 2000	-3.89	5.65	3.58	5.18	5.18	19.71	-0.10	8.10	7.58
Wilshire U.S. REIT Index	-3.78	2.36	1.52	-0.01	-0.01	12.43	4.53	4.41	6.68
MSCI EAFE	0.58	1.83	3.29	5.78	5.78	15.32	4.78	7.32	4.80
MSCI Emerging Markets	-4.64	4.76	2.48	2.37	2.37	8.15	-5.05	2.22	2.95
Bloomberg U.S. Aggregate Bond	-0.27	-1.41	0.92	-0.78	-0.78	1.70	-2.45	0.36	1.54
Bloomberg High Yield	0.00	0.29	1.18	1.47	1.47	11.15	2.19	4.21	4.44

could weigh on the economy. The market has thought more "easing" to be likely this summer and fall, but inflation remains somewhat sticky, and the economy is stronger than many Fed members likely expected given the rapid interest rate hiking cycle. The Consumer Price Index increased 3.2% for the trailing 12 months ended February, down from 6% a year prior, but stubbornly unwilling to breach 3%. That said, the Fed's preferred inflation measure, Personal Consumption Expenditures, increased 2.5% over the same period and Fed Chairman Jerome Powell commented that those figures were "along the lines of what we would like to see." Commodity prices are playing a role in inflationary pressures, notably oil and its byproduct, gasoline. Oil prices increased more than 10% during the quarter and the daily national average gasoline price increased almost 7% in the month of March alone. The flow-through effect across industries is far-reaching, increasing transportation and distribution costs for businesses and consumers alike.

Inflation measures and solid real economic growth pushed the 10-year Treasury interest rate from 3.9% to 4.2% during the quarter, and that weighed on the bond market. The Bloomberg Aggregate Bond Index declined -0.8% during the quarter, but credit-oriented high yield corporate bonds held up, gaining 1.5%. Mortgage rates are largely set from the 10-year Treasury rate and the rate for a 30 year fixed rate mortgage remains near 7%. The U.S. is confronting a serious housing affordability issue, as prices have not softened materially due to limited supply.

Reflecting some inflation concerns as well as geopolitical events, Gold and Silver were up during the quarter, 6.5% and 3.2%, respectively, and Bitcoin rocketed ~65% higher during the quarter. The U.S. dollar appreciated 2.2% against a broad, trade-weighted basket of currencies compiled by the St. Louis Federal Reserve.

The team at Wainwright wishes you a pleasant spring season. Remember, the market climbs a wall of worry, and timing the market is a fool's errand. Holding a thoughtfully structured portfolio, consistent with one's investment constraints and objectives, and holding that portfolio long-term is likely to lead to successful outcomes. Please be in touch should you require anything.

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