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First Quarter Market Watch

The S&P 500 rose on the final trading days of the first quarter, capping off its best first-quarter performance since 2019. The S&P 500 gained 10.6%, the Dow Jones Industrial Average added 6.1%, and the Nasdaq rose 9.3% through March 2024.

Many investors were optimistic about the financial markets into 2024, coming off significant returns in stocks led by mega cap technology and internet stocks, but few predicted how powerful the rally would be. Companies in the S&P 500 have added more than $9 trillion in market value since last October's low. A broad range of asset classes from stocks to bitcoin to gold marched to new records. Volatility was subdued throughout the quarter, as the S&P 500 clinched 22 all-time closing highs in Q1. Excitement about artificial-intelligence, resilient corporate profits, and expectations for interest-rate cuts by the US Federal Reserve all lifted bullish sentiment among investors.

In contrast to 2023, where most of the gains were concentrated among a few mega cap stocks, the rally in the first quarter of 2024 was more broad-based. More than half of the stocks in the S&P 500 have reached new 52-week highs so far in 2024. All S&P 500 sectors, except real estate, reported gains in the first quarter. Communication Services was the top performer at 15.8%, followed by Energy, which gained 13.7% after a difficult 2023. Other cyclical parts of the market such as Financials and Industrials also outperformed the broad market index, rising 12.5% and 11.0%, respectively.

The Magnificent Seven, which powered market gains in 2023, showed signs of divergence in Q1 2024, with sharp pullbacks in Tesla and Apple. However, AI-related companies continued to post strong results, led by Nvidia (82% return year-to-date), Meta (40% return), and the broader semiconductor sector (29% return).

Market returns in the first quarter were even more impressive when considering the changing expectations of interest rate cuts from the Federal Reserve. Coming into the year, investors expected the Fed to cut its benchmark short-term interest-rate six times in 2024. That turned out to be overly optimistic, as strong economic data and stalling disinflation led to a reduction in rate cut expectations from six cuts to three this year. The bond market saw greater impact, as the bellwether 10-year US Treasury yield rose from 3.88% to 4.2% during the quarter.

Market resiliency occurred in the backdrop of strong economic data, as the US economy grew faster than expected in Q4 2023, based on the US government's revised estimate for GDP. Consumer confidence increased to its highest levels in three years, according to the survey by The University of Michigan. US consumers are still spending briskly, with total spending rising 0.8% in

	Date	1 Quarter Ago		1 Year Ago	
	3/29/2024	12/31/2023	% chg	3/31/2023	% chg
DJIA	39,807.37	37,689.54	6.1%	33,274.15	24.3%
S&P 500	5,254.35	4,769.83	10.6%	4,109.31	32.5%
NASDAQ Composite	16,379.46	15,011.35	9.3%	12,221.91	38.4%
Russell 2000	5,280.03	5,037.79	5.2%	4,479.63	21.9%

	Date	1 Quarter Ago		1 Year Ago	
	3/29/2024	12/31/2023	% chg	3/31/2023	% chg
Japan Nikkei 225	40,369.44	33,464.17	12.4%	28,041.48	34.9%
MSCI EM (Emerging Markets)	1,040.39	1,023.74	2.2%	990.28	9.5%
MSCI EAFE	2,346.84	2,236.16	5.8%	2,092.60	17.8%
MSCI AC World	783.17	727.00	8.3%	646.76	26.1%
FTSE 100	8,594.29	8,264.89	3.0%	7,929.62	17.9%
SSE Composite Index	3,041.17	2,974.93	0.3%	3,272.86	-5.3%

US Equity Sector

	Q1	1-yr ret.
Consumer Discretionary	5.0%	23.9%
Consumer Staples	7.5%	5.2%
Energy	13.7%	17.9%
Financials	12.5%	33.3%
Health Care	8.8%	16.0%
Industrials	11.0%	26.6%
Information Tech	12.7%	39.0%
Materials	8.9%	17.5%
Communication Services	15.8%	42.1%
Utilities	4.6%	0.3%

US Equity Style

	Q1	1-yr ret.
Russell 1000 Value	9.0%	24.0%
Russell 1000 Growth	11.4%	44.6%
Russell 2000 Value	2.9%	21.8%
Russell 2000 Growth	7.6%	24.2%

Commodity Prices

	Mar 2024	1 Qtr Ago	1 Yr. Ago
Gold	2,261.40	2,071.80	1,954.00
Crude Oil	83.88	71.65	100.28
UD Dollar Index	104.72	101.03	98.36
Commodity Index	99.49	98.65	1,954.00

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February, above the 0.5% estimate. Meanwhile, the labor market remains strong, with unemployment still below 4%. In addition, bullish sentiment among fund managers in March reached the highest level since the beginning of 2022, according to a survey conducted by Bank of America.

The strong economy in the US has led to a stalling in the disinflationary trend that began in late 2022. CPI reached a peak of 9.1% in 2022, and dropped precipitously to 3.0% in June 2023. However, further progress toward the Fed's target of 2.0% has proved challenging, as inflation has hovered between 3.0% and 3.5% so far in 2024.

Meanwhile, crude oil ended March 2024 at $83 per barrel, notching a 16% gain year to date. Gains were driven by concerns over tighter global supply due to escalating conflicts in the Middle East and between Russia and Ukraine, ongoing production discipline among publicly traded US producers, and extended production cuts from OPEC. Gold prices also extended its record run at the end of the first quarter, rising to an all-time high of $2,262.19.

Turning to the political landscape, US presidential-election years have historically ended in stock-market gains. Since 1950, the S&P 500 has risen in a presidential-election year 83% of the time and has averaged a 7.3% gain in those years, based on DOW Jones Market Data. Additionally, historical returns have been strong across various combinations of Democrat and Republican control of the White House and Congress.

After the unexpected strong start to 2024, the economy and financial markets head into the second quarter facing both headwinds and tailwinds. The economy is expected to book solid gains, investor expectations of corporate earnings remain strong, and AI adoption continues to charge forward. However, some risks lie ahead. Investor confidence in the disinflationary trend has waned toward the end of Q1, valuations remain elevated, and some investors worry the divergence in the mega cap technology stocks is a sign of exhaustion in the market rally.

US Treasury Bond Yields

	Mar '24	Dec '23	1 Yr. Ago
90 Day	5.35	5.35	4.75
2 Year	4.62	4.25	4.06
5 Year	4.22	3.85	3.61
10 Year	4.20	3.88	3.49
30 Year	4.34	4.03	3.69

Interest Rates

	Mar 2024	1 Qtr Ago	1 Yr. Ago
Prime Rate	8.50	8.50	8.00
Federal Funds Rate	5.33	5.33	4.82
30 Year Fixed Mortgage Rate	6.87	6.61	6.32

Foreign Exchange

	Mar '24	1 Qtr Ago	1 Year Ago
Euro per U.S. Dollar	0.926	0.905	0.920
British Pounds per U.S. Dollar	0.792	0.784	0.809
China Renminbi per U.S. Dollar	7.227	7.092	6.872
Indian Rupee per U.S. Dollar	83.403	83.214	82.183
Japanese Yen per U.S. Dollar	151.345	140.980	133.090

Economic Data

	Mar '24	Dec '23	Mar '23
Unemployment Rate	3.90	3.50	3.80
Inflation Rate (12-month CPI)	3.48	3.35	4.99

With the first quarter earnings season approaching rapidly, the focus is shifting to corporate profits. With expectations elevated, some investors are showing signs of caution on whether earnings can keep pace with the bullish sentiment. The areas to watch for include for trends of underlying orders, pricing power, and the supply chain conditions. Wall Street analysts expect that companies in the S&P 500 will report an earnings increase of 3% year-over-year in Q1, which would be the third consecutive quarter of earnings growth. For 2024, analysts expect earnings to grow 11% over 2023 levels. Stocks could appear overvalued if profit growth is slower than expected. The S&P 500 is trading at 22 times its forward earnings, above the five-year average of 19 times. If fundamentals fail to catch up with expectations, the momentum in gains can quickly reverse.

Giving the crosscurrents in the markets and uncertainties ahead, our investment professionals remain vigilant of the myriad of risks in the market. Monitoring portfolio liquidity and maintaining diversification, while taking a highly selective approach to new investment opportunities, will allow us to strike an appropriate balance between risk and return in this environment.

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