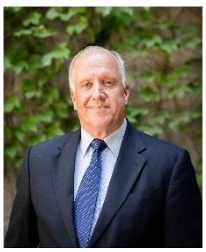
2024 – 1st Quarter Review & Outlook

Economic and Investment Review



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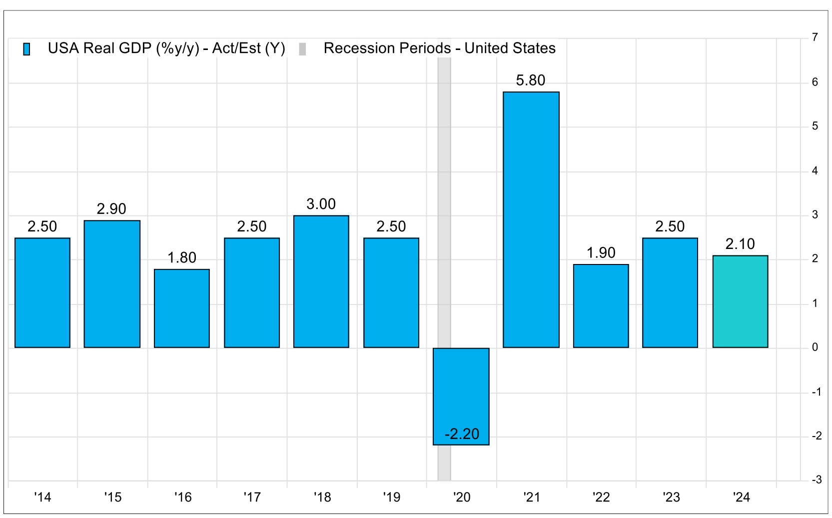
Economic Growth: The U.S. economy has proven more resilient than most economists and strategists predicted. GDP for 2023 ended up being considerably stronger than expectations at the beginning of the year. Minimal growth of just 0.5% was forecasted at the beginning of 2023 but GDP growth of 2.5% was ultimately posted for the year.



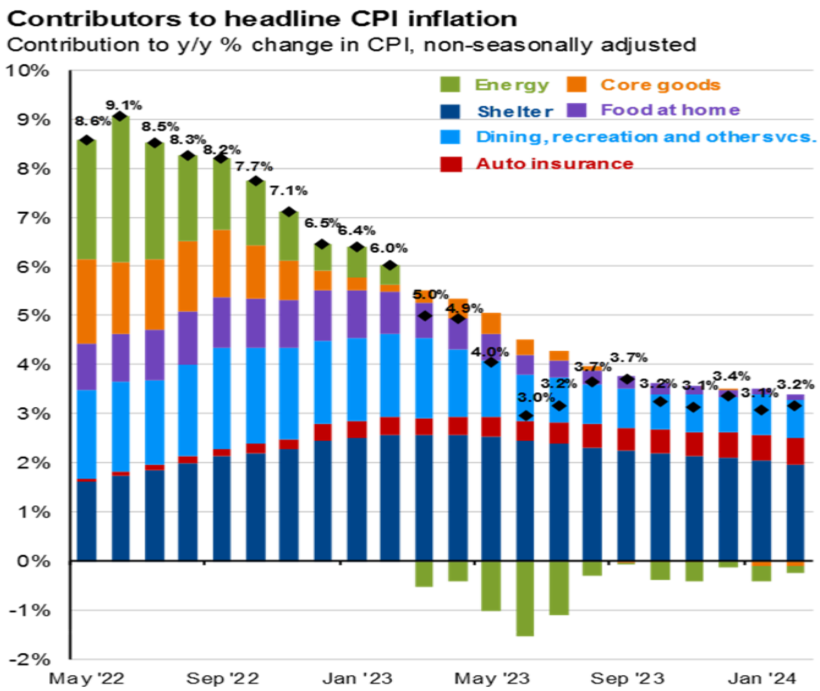
Source: FactSet

The pace of decline in the rate of inflation has been more gradual than was hoped for, and interest rates have stayed higher than previously anticipated; even so, expectations for economic growth for the current year have trended up. The consensus forecast for 2024 bottomed at 0.7% last September but has since risen to 2.1%. Consumers have continued to show strength in the face of challenges, underpinned by a continued tight labor market. Consumer spending may moderate during the year if wage growth continues to slow. Additional headwinds to spending include rising credit card balances and declining savings rates; however, record household net worth should be a steadying force.

Business spending has held up better than feared as lending standards have tightened. Private credit has moved quickly to fill the lending gap left by banks as they manage their credit quality. Higher lending rates from private credit may put additional margin pressure on that market segment. Capital expenditures may be challenged in some areas; however, AI spending, as well as government spending related to the CHIPS and Science Act, and infrastructure spending, will act as an offset.

The U.S. labor market continues to surprise and add jobs at an impressive rate. March payrolls expanded by 303,000, well ahead of the 205,000 estimate. In addition, the two prior months were revised up a net 22,000 jobs. The concentration of job growth was in government and healthcare jobs. At the same time, unemployment dropped slightly from 3.9% to 3.8%. Labor supply has been bolstered by the nearly unchecked flow of legal and illegal migrants, which in turn has reduced the rate of wage growth.

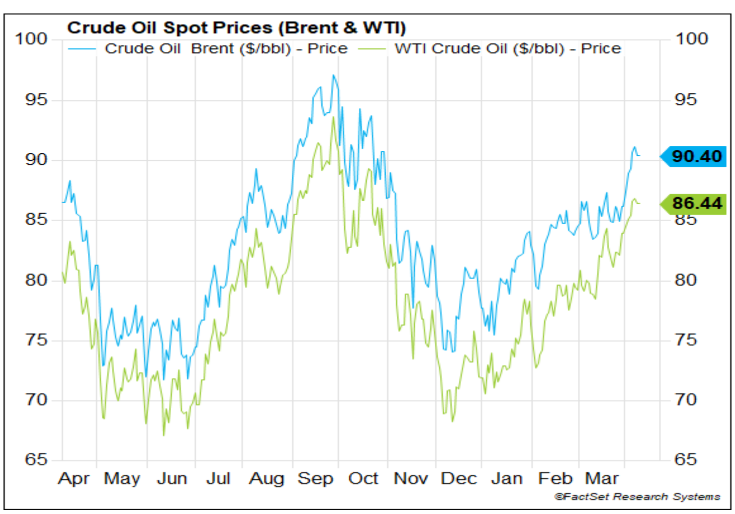
Inflation moved down from its June 2022 peak of 9.1% at a brisk and sustained pace until last fall. Since that time the decline has been minimal. However, most economists and strategists forecast lower inflation by year-end. CPI rose from 3.2% in February to 3.5% in March but the consensus estimates indicate inflation is expected to drop to 2.1% in Q4 and 2.7% for the full year.



Source: JPMorgan Asset Management

Supply chains are described as functioning well; however, shipping obstacles remain in the Red Sea and the port of Baltimore. Food prices continue to ease and shelter inflation is expected to trend down. Core services inflation has stalled in recent months but is expected to move lower later in the year.

The continued decline in inflation may be hampered by the rise in the price of crude oil. Oil prices have hit their highest levels in months with Brent crude



Source: FactSet

futures climbing 17% so far this year to exceed $90 a barrel for the first time since October. Production cuts from OPEC and the potential for a wider regional war in the Middle East have had an impact on oil prices.

The Federal Reserve has hit the pause button since the last rate hike in July of 2023. The Fed left rates unchanged once again at a range of 5.25% to 5.50% at its March meeting. The number of rate cuts expected for 2024 has declined from as many as six, 25 basis point (0.25%) cuts signaled last year, to three indicated at the March meeting. One or two of the Fed governors even threw out the idea of zero rate cuts for 2024 recently.

International economies generally finished 2023 on a sluggish note. Dr. David Kelly, Chief Global Strategist at JPMorgan Asset Management, recently stated that "depressed sentiment in China continues to challenge both domestic and global growth and that Europe remains burdened by weaker consumption and business activity." However, he goes on to state that "other markets, such as Mexico, India, and Taiwan have benefited from positive secular trends, including supply chain diversification and semiconductor manufacturing related to AI." He sees potential for the growth differential between the U.S. and other global markets to narrow in the future.

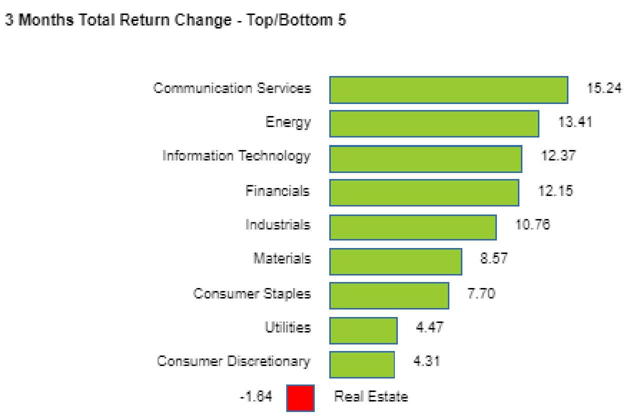
Equity Markets

Equity markets have continued to power higher despite sticky inflation and higher interest rates. The continued expectation for lower rates in the future, strong earnings growth estimates for the next two years, and the anticipated catalyst of AI have provided support. The S&P 500 moved up 10.56% for the quarter and 29.88% for one year. Growth stocks outpaced value stocks in the quarter and for the past year.

2024 Q1 Returns				
EQUITY	Q1 2024	YTD 3.31.24	1 Year 3.31.24	3 Years Annualized
S&P 500	10.56	10.56	29.88	11.49
S&P 500 Value	8.05	8.05	25.58	12.17
S&P 500 Growth	12.75	12.75	33.73	10.19
Dow Jones Ind Avg	6.14	6.14	22.18	8.65
NASDAQ Composite	9.31	9.31	35.08	8.17
S&P Mid Cap 400	8.60	8.60	22.35	6.07
S&P Small Cap 600	2.46	2.46	15.93	2.28
MSCI EAFE	5.67	5.67	14.37	4.08
MSCI Emerging Mkts	2.09	2.09	7.86	-5.14

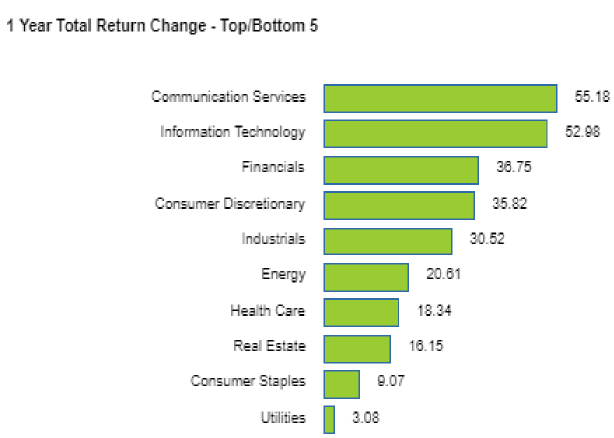
Source: FactSet

Every sector of the S&P 500 except Real Estate was positive in Q1. Communication Services and Information Technology continued to be among the leading sectors; however, participation broadened out as Energy, Financials, and Industrials joined the party.



Source: FactSet

Every sector was positive for one year. Communication Services and Information



Source: FactSet

Technology led the way but Financials, Consumer Discretionary, and Industrials were extraordinarily strong.

The 10 largest stocks in the S&P 500 represent 32.6% of the index. All of those stocks except for Apple have recently pushed the market higher.

S&P 500 - 10 Largest Stocks	YTD %Chg	12Mo %Chg
(Through April 8,2024)		
Microsoft Corporation	12.80%	45.50%
Apple Inc.	-12.50%	2.30%
NVIDIA Corporation	75.90%	222.20%
Amazon.com, Inc.	22.00%	81.70%
Meta Platforms Inc Class A	47.20%	141.10%
Alphabet Inc. Class A	10.70%	42.60%
Berkshire Hathaway Inc. Class B	17.20%	33.70%
Alphabet Inc. Class C	10.70%	43.30%
Eli Lilly and Company	33.00%	110.50%
Broadcom Inc.	19.20%	113.70%

Source: FactSet

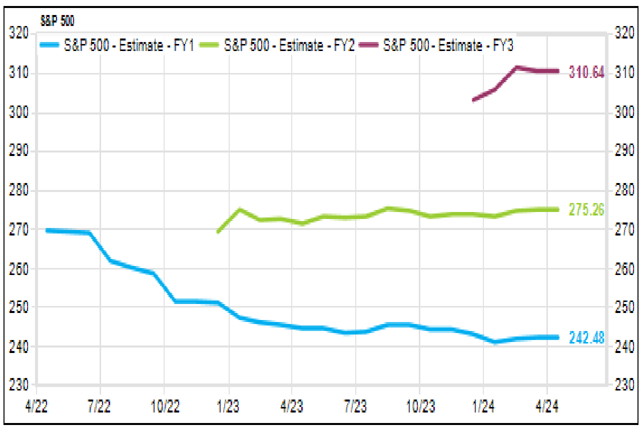
The NASDAQ index continues to be the domestic leader for one year with a return of 35.08%. Small-cap stocks lagged in the quarter as interest rates and related borrowing costs increased. Economic factors such as interest rates, inflation, and GDP growth can impact small-cap stocks disproportionately. The S&P Small Cap 600 was up just 2.46% in Q1 but was up 15.93% for one year.

Developed International stocks (MSCI EAFE) performed well in Q1 and for the year ending March 31, 2024, but continued to lag the S&P 500. The index was up 5.67% for the quarter and 15.93% for the year. International markets continue to look attractively priced compared to the U.S. in both absolute terms and relative to their histories.

Earnings growth for the S&P 500 has outpaced the international index by a considerable amount over the years. The S&P 500 has had positive earnings growth in 11 of the past 14 years compared with just 5 of the past 14 years for the international index. However, the MSCI EAFE index is forecasted to have earnings growth of 5.60% in 2024 and 9.29% in 2025. The NTM (Next Twelve Months) PE multiple for the international index is 14.3X compared with the NTM PE multiple of 20.8X for the S&P 500. The NTM PE for international index equal to its 10-year average, while the S&P 500 is considerably above its 10-year average of 18.0X.

Emerging market stocks (MSCI EM) once again lagged considerably due to poor returns in China. The MSCI China benchmark was up 0.49% for the quarter and down -10.74% for one year. Emerging markets ex-China performed much better. The related benchmark index increased 3.9% in Q1 and 18.9% for one year. Valuations for the benchmark look to be in line with the average for the past 10 years. EPS growth is forecasted to be strong for the next two years. The consensus forecast for 2024 is 18.5% and 15.0% for 2025.

Expectations for 2024 and 2025 S&P 500 earnings growth have been relatively stable over the past



Source: FactSet

quarter. Earnings growth is forecasted to be 11.2% in 2024 and 13.5% in 2025.

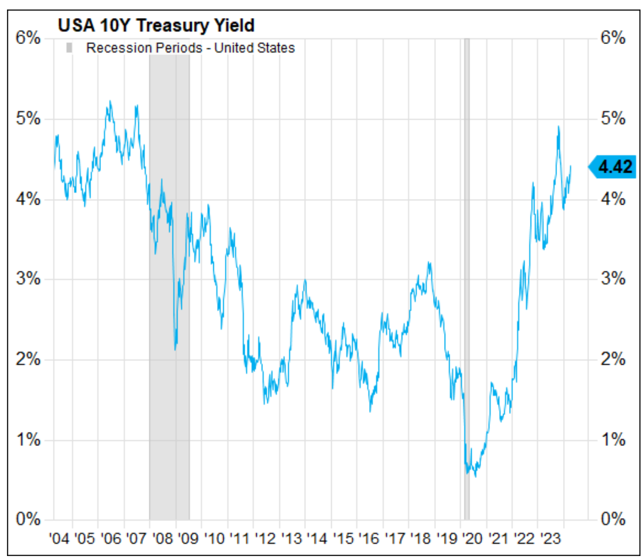
The S&P 500 is currently at about 5,200 and is trading at 21.5X the 2024 consensus earnings estimate of 242.48 and 18.9X the 2025 estimate of 275.26. As a comparison, the S&P 500 ex-Magnificent 7 is trading at 19X 2024 EPS estimates.

We forecast the S&P 500 to remain near 5,200 at year-end 2024 and increase slightly to 5,300 in twelve months. The forecast is based on 10.2% earnings growth in 2024, compared with the consensus estimate of 11.2%, and 12.0% earnings growth in 2025 compared with the consensus estimate of 13.5%. P/E multiples are forecasted to regress slowly towards the long-term mean but remain elevated due to the expectation for declining inflation and interest rates, strong EPS growth, and increased AI efficiencies.

Goldman Sachs forecasts that the S&P 500 will reach 5,200 in twelve months with lower earnings growth expectations of 8.4% in 2024 and 6.1% in 2025. Raymond James recently raised their year-end target from 4,850 to 5,200. Ed Yardeni, president of global strategy company Yardeni Research, forecasts the S&P 500 to reach 5,400 by year-end based on stronger than 2024 consensus earnings expectations and a list of improving economic data points. However, even he has expressed some concern about how quickly the market has risen in Q1.

Fixed Income Markets

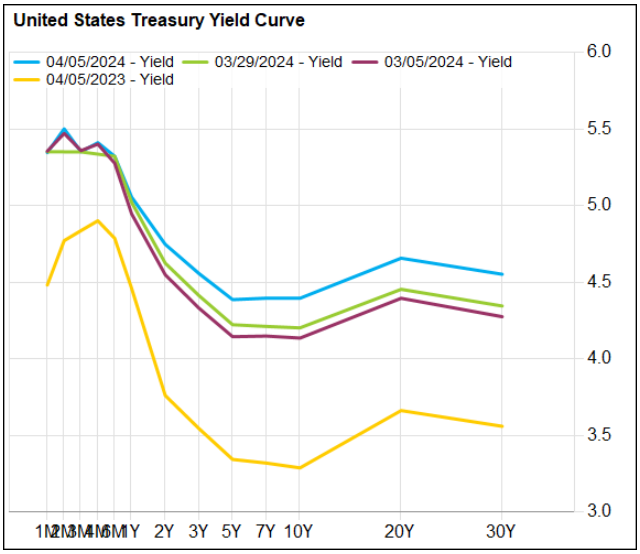
It was anticipated that interest rates would be trending down and bond prices would be moving up by this point in the year. However, inflation has not declined as rapidly as previously expected and the Fed has remained on hold. Interest rates have remained elevated and have recently even moved higher. The 10-year U.S. Treasury yield reached the



Source: FactSet

5% level in October 2023. Interest rates moved lower to about 4.0% through Q4 2023 but have since retraced a portion of the move to 4.42%. Since the Fed has remained on hold, the shape of the Treasury yield curve remains inverted with short-term rates higher than long-term rates. The shape of the yield curve is expected to begin to flatten out as a result of Fed rate cuts later in the year.

The year-end consensus estimate for the 10-year U.S. Treasury of 3.90% indicates an expectation for a 0.52% change from the current yield. If this is indeed the case the shape of the yield curve may not change much through year-end, the curve would just shift slightly lower.



Source: FactSet

The bond market declined in Q1 as interest rates increased. The Bloomberg US Aggregate Bond Index adjusted down -0.75% in the quarter but remained positive for one year at 1.70%.

Municipal bonds were down -0.43% for the quarter but were up 2.76% for one year. High-yield bonds have a higher correlation to equities than investment-grade bonds. The high yield benchmark was up 1.13% in Q1 and 10.14% for one year.

Investors may be tempted to leave excess balances in money market funds following the poor showing by bonds and intermediate fixed-income funds in Q1. However, when the Fed does begin to reduce rates, money market funds rates will also adjust down quickly. Investors would be well advised to take advantage of acquiring bonds and funds with higher intermediate-term rates now.

We remain most positive on higher quality credits and municipal bonds.

Real Assets

The Dow Jones Real Estate Index declined -1.17% in Q1 following a strong showing in Q4 2023. The index is up 9.26% for one year. Office and retail-related sectors are still struggling but the multi-family and industrial sectors have been stable-to-positive.

2024 Q1 Returns				
Real Assets	Q1 2024	YTD 3.31.24	1 Year 3.31.24	3 Years Annualized
Dow Jones U.S. R/E	-1.17	-1.17	9.26	2.35
S&P GSCI	10.36	10.36	11.14	18.05

Source: FactSet

Commodities nearly gained what they lost in Q4 2023 with a 10.34% return in Q1. The move in both directions was led by energy.

Asset Allocation

Many investment portfolios may have become overweighted to the equity asset class over the past year due to strong performance in the U.S. equity market. It may be tempting to maintain the overweighted position or even change to a more aggressive asset allocation strategy; however, it remains important for investors to review their situations and goals and maintain appropriate strategies. It may be a good time to rebalance portfolios to bring them more in line with identified risk tolerances relative to return and income goals.

Disclosures

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