

Review of the Markets

First Quarter, 2024

Market Commentary

Stocks maintained their momentum from 2023 throughout the first quarter of 2024. The S&P 500 increased 10.6%. Unlike the first part of 2023, performance was not entirely on the back of only a few stocks.

International stocks, as measured by MSCI EAFE, increased 5.8% in the first quarter. A strengthening U.S. dollar weighed on returns for U.S.-based investors, as those stocks increased by about 10% in their local currencies.

The Bloomberg Aggregate Bond index fell 0.8% as government bond rates increased for all but the shortest of maturities. Price declines from increases in interest rates were dampened by decreases in credit spreads for corporate bonds. When these credit spreads decrease, this means corporate bonds are becoming more expensive relative to credit-risk-free bonds.

While, broadly, commodities only increased a modest amount, oil prices climbed more than 15% as concerns about conflict in the Middle East continued, and OPEC+ implemented production cuts – presumably in anticipation of a global economic slowdown in 2024.

Economic Outlook

The economic backdrop in the United States makes rate cuts from the Federal Reserve look less likely over the short term. Futures markets indicate that the probability for multiple rate cuts during 2024 has fallen fairly drastically since the beginning of the year. Readers of our year-end *Review of the Markets* may recall that the market was pricing in rate cuts of 1.25% to 1.50% in 2024 at that time. Currently, the market is pricing in only 0.50% to 0.75% of cuts by the Fed by the end of this year. While inflation has meaningfully decelerated since 2022, it has not yet fallen to a rate acceptable to the Fed such that they feel the fight against inflation has been won. Paradoxically, the expectation of rate cuts has eased financial conditions so much that economic data has reaccelerated which removes the impetus for the Fed to actually need to start cutting rates.

We take Chairman Jerome Powell at his word when he says, “The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably down toward 2 percent.”¹ This means that, if the labor market starts to slip at a time when inflation has not abated, the policy response will not likely be a swift cut in the fed funds rate. This will remain in sharp focus as job openings (which reflect employers’ demand for labor) have been trending downward, as has the number of new hires as a percentage of total employment.

Elsewhere in the economy, manufacturing and trade industry sales, as well as industrial production, seem to be coming off of recent highs, though these declines are modest and do not yet look concerning. Other areas, like retail sales, seem to be rebounding.

As we prepare to join forces with Wealth Enhancement Group, our commitment to helping clients achieve and maintain financial independence, unaffected by the unexpected remains stronger than ever. We welcome discussions with our clients on how their asset allocation can help to drive their financial plan going forward.

Please contact us at fingroup-info@wealthenhancement.com.

¹ <https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20240320.pdf>