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Investment and Financial Consultants

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FIRST QUARTER 2024 ECONOMIC AND FINANCIAL MARKETS REVIEW

The stock market appreciated during the first quarter of this year as investors looked past troublesome world events and focused on the potential for lower interest rates later in 2024. Late last year, the stock market began to rally when it became evident that the Federal Reserve Board would no longer continue raising interest rates to fight inflation. This year, the stock market is appreciating, hoping that the Fed will actually begin lowering interest rates. Lower interest rates are generally good for stock prices because the cost of borrowing declines for individuals and corporations, which is positive for the economy and corporate earnings. It also makes yields on bonds and other fixed-income vehicles less attractive relative to stocks. As a result of this anticipation of lower interest rates, stock market indexes finished the first quarter positively, with the S&P 500 Index up 10.16% and the Dow Jones Industrial Average up 5.62%. However, the Bloomberg Intermediate U.S. Government/Credit Bond Index declined 0.15% during the first quarter.

The Fed raised interest rates during most of 2022 to fight inflation, which was rising dramatically. Now that inflation appears to be subsiding, investors are optimistic that the Fed will reduce interest rates, which would help the economy grow. However, investors may be pricing in steeper rate cuts than the Fed will actually implement this year. The Fed recently signaled that they will reduce interest rates, but perhaps not as fast or as much as the market currently anticipates. If this is the case, the stock market will likely decline in the short term as investors become disappointed that interest rates will not fall as quickly as anticipated.

In addition to interest rates being a focus of investors this year, the upcoming election is also at the top of investors' minds. Election years are typically good for stocks because market participants anticipate that the government will not pass any legislation that is harmful to the economy, such as raising taxes or reducing spending. However, this election cycle may be different because it will likely become more contentious and uncertain than typical elections. Investors may become nervous about election uncertainty and sell stocks in response. Hopefully, once the election is over, the uncertainty will subside, and the bull market in stocks will continue.

The good news for stocks over the longer term is that recent market gains appear to be broadening out. Last year, a small number of large technology stocks primarily focused on artificial intelligence appreciated significantly. These stocks carry a very large weighting in the market-weighted S&P 500 Index, which is one of the reasons this index performed so well last year. However, many other companies in other industries were left behind. This year, small-size, mid-size, and foreign companies in many different industries are performing better. Healthy stock market advances are typically broad-based, and the stock market gains appear to be broadening beyond the "Magnificent Seven" stocks that led the market by such a large margin last year.

Although the stock market gains have been broadening, we continue favoring large-company U.S. stocks that can generate profits globally. However, we may try to take advantage of opportunities in smaller companies if they continue to perform well. Finally, if it appears that interest rates are going to decline this year, we may recommend lengthening the duration of bonds, as falling interest rates are more favorable for longer-term bonds than shorter-term bonds. To summarize, we anticipate increased market volatility leading up to the election and a continuation of the bull market once the uncertainty subsides.

As always, we will continue to monitor ongoing economic and financial market conditions. In the meantime, please contact us if you have any questions regarding your portfolio or the financial markets in general.

** Index returns were obtained from the Wall St. Journal and Bloomberg on March 29, 2024.*