1st Quarter Market Review and Comment
April 2024

Updated Market Performance

Returns	1st Quarter 2024	One Year	Annualized 3 Year	Annualized 5 Year	Annualized 10 Year
S&P 500	**10.56%**	**29.88%**	**11.49%**	**15.05%**	**12.96%**
DJIA	**6.14%**	**22.18%**	**8.65%**	**11.31%**	**11.76%**

Performance: January continued the upward trend set in December and rose 1.68%. February accelerated the upward trend posting a return of 5.34%. March's returns followed February's lead, rising by 3.22%. This left us with a 1st quarter 2024 total return of 10.56%.

After the 4th quarter 2023 gave us a gain of 11.57%, the 1st quarter 2024 started the year off strong leaving us with a return of 10.56%. The Dow Jones Industrial Average (DJIA) underperformed the SP500, posting a 6.14% gain over the same period. For the previous twelve months the SP500 returned 29.88%, outperforming the DJIA which returned 22.18% over the same period. The annualized three-year returns for the SP500 were 11.49%, the DJIA three-year returns trailed the SP500 posting 8.65%. Over the last five years the annualized returns are well above historical norms (around 10.26%), with the SP500 returning 15.05% and the DJIA posting 11.31%. The ten-year annualized numbers are running above long-term averages (around 10.26%), with the SP500 returning 12.96% versus the DJIA which turned in 11.76% for the same period.

Breaking down the returns for Q1 2024, we note that there were five outperforming sectors and six underperformers. **The best sectors were Communication Services (15.82%), Energy (13.69%), and Information Technology (12.69%). The underperformers during the quarter were Real Estate (-0.55%), Utilities (4.57%), and Consumer Discretionary (4.98%).** The best sectors over the last year were Information Technology (10.93%), Communication Services (10.38%), and Utilities (4.92%). Following behind were Financials (-9.55%), Real Estate (-1.40%), and Materials (-1.04%).

Economy: Growth in the economy increased in 2023 by 2.5% compared to an increase of 1.9% in 2022. 2023 continued to leave us with growth below historical trends (Historical growth is ~3.15%). We anticipate growth to modestly decelerate this year. The Fed has pivoted and is now in a holding pattern. They have also telegraphed rate cuts for this year if needed. Recession risks are currently moderate. We had a technical recession in the first half of 2022 which is defined as two negative quarters of GDP. We think a more meaningful recession will occur sometime in 2025. At the current moment, the recession looks to be shallow and short.

The advanced estimate of 1st quarter 2023 Gross Domestic Product (GDP) is 1.60%; according to the report released at the end of April by the Bureau of Economic Analysis (BEA). The latest estimate suggests that overall economic growth in the 1st quarter 2023 decreased to 1.60% from the 4th quarter 2023 third estimate of 3.40%. GDP for 2023 came in at 2.5%. While GDP for 2022 came in at 1.90% compared to 5.80% in 2021, -2.20% in 2020, 2.50% in 2019, 3.00% in 2018, and 2.50% in 2017.

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Currently, the Atlanta Fed (Forecast of U.S. GDP Growth) has forecasted 2024 Q2 GDP growth at 3.9%. Blue Chip consensus has forecasted 2024 Q2 GDP growth at 1.7%. By comparison, China says their GDP increased 5.30% in the 1st quarter of 2024. Increasing from 4th quarter 2023 reading of 5.20%. China's 2023 GDP was 5.20%, 3.00% in 2022, 8.10% in 2021, 2.20% in 2020, 6.70% in 2019, and 6.70% in 2018. China's GDP growth rate is forecasted to be 4.90% for the 2nd quarter 2024. Growth rates for the European Union (EU) and the Euro Area were 0.20% and 0.10% respectively in the 4th quarter 2023. For 2023, GDP grew 0.40% for the EU and 0.40% for the Euro Area. For 2022, GDP grew 3.40% for the EU and 3.40% for the Euro Area. For 2021, GDP grew 6.00% for the EU and 5.90% for the Euro Area. For 2020, GDP fell -5.60% for the EU and -6.10% for the Euro Area. For 2019, GDP rose 1.80% for the EU and 1.60% for the Euro Area. This is down from the 2.10% growth achieved by the EU and the 1.80% achieved by the Euro Area in 2018. GDP Growth forecasts for the end of the 1st QTR 2024 are 0.60% for the EU and 0.70% for the Euro Area.

Unemployment is continuing to trend below historical norms (~5.705%). According to the Bureau of Labor Statistics, March unemployment remained unchanged at 3.80%. Unemployment for 2023 came in at 3.63%, nearly unchanged from 2022. Unemployment for 2022 came in at 3.65% which is 1.71% below 2021's rate of 5.36%. Unemployment was 8.11% and 3.67% in 2020 and 2019, respectively. The number of unemployed was essentially unchanged at 6.4 million for March. The labor force participation rate held at 62.7% in February. In March, job gains occurred in healthcare, government, and construction.

Inflation increased 3.50% in March slightly, running above the average trend. After averaging 3.23% in the 4th quarter 2023, inflation as measured by the Consumer Price Index (CPI) increased to an average of 3.27% for the 1st Quarter 2024. The average rate of inflation for 2023 decreased by 3.88% to 4.13% from 2022's 8.01% and was above average by historical standards (~2.63% over last 30 years and 3.28% from 1914-2023). The index for shelter rose in March, as did the index for gasoline. Combined, these two indexes contributed over half of the monthly increase in the index for all items. The energy index rose 1.1% over the month. The food index rose 0.10% in March. The food at home index was unchanged, while the food away from home index rose 0.30% over the month.

Consumption is an important driver of the economy as it represented 67.7% of the 4th quarter 2023 nominal GDP. The U.S. Census Bureau announced in May that retail sales for April 2024 were virtually unchanged from March and were up 3.0% above April 2023. Non-store retailers were up 7.5% from last year, while the Food and Beverage Industry was up 5.5% from April 2023.

The manufacturing economy contracted in April. Economic activity in the manufacturing sector contracted for the month of April following one month of expansion following 16 consecutive months of contraction. The Purchasing Managers Index (PMI®) registered 49.2; a decrease of 1.1 from March's reading of 50.3. The nine manufacturing industries reporting growth in April in order were Nonmetallic Mineral Products; Printing & Related Support Activities; Primary Metals; Textile Mills; Electrical Equipment, Appliances & Components; Petroleum & Coal Products; Transportation Equipment; Chemical Products; and Plastics & Rubber Products. The seven industries reporting contraction in April in the following order were Miscellaneous Manufacturing; Machinery; Furniture & Related Products; Wood Products; Food, Beverage & Tobacco Products; Fabricated Metal Products; and Paper Products. A reading above 50 indicates that the manufacturing sector is generally expanding while below 50 indicates that it is generally contracting. Based on historical relationships between PMI and GDP, a PMI of 49.2 corresponds to a 1.90% increase in real gross domestic profit (GDP) on an annualized basis.

Home prices continued to increase in February. According to the S&P Case-Shiller Home Price Indices home prices in February increased 6.40% over the last 12 months, which is up 0.40% from the previous month's 6.0%. San Diego continued to report the highest year-over-year gain with an 11.4% increase in February, followed by Chicago and Detroit, with increases of 8.9%. According to the National Association of Realtors, the year-over-year change in existing home sales was 7.60% in April for Single family homes between $250,000-$500,000. Housing supply continued to remain tight in April with 3.4 months of supply.

Markets: The S&P 500 has hit 22 new closing highs year-to-date. At this time, the market will continue to be driven by dovish monetary policy, inflation, slowing economic growth, and geopolitical risks.

What will move the markets moving forward:

- **Earnings: Earnings growth for the SP500 is expected to increase 5.70% for the 1st quarter of 2024. If 5.70% is the actual increase for the quarter, it will mark the highest earnings growth since Q2 2022.** Looking at future quarters, analysts project earnings growth for the 2nd QTR 2024 to be 9.2%. Earnings growth for 2024 is projected to be 11.1%.
- **Valuations: Valuations rose meaningfully last year.** The Price to Earnings at the beginning of 2023 was 16.7. It has increased to 21.0 through the 1st quarter 2024. The 20 Year average P/E is 15.6, which is 5.4 below our current levels. There is not a lot of room for P/E expansion currently without meaningful earnings growth.
- **Interest Rates/Monetary Policy: Short Term Interest Rates have been stable since September and are right above historical averages. The average effective Federal Funds rate since July 1954 is 4.60%. The average over the last 10 years is 1.31%.** The Federal Reserve left rates unchanged at a range between 5.25%-5.50% in its latest meeting in April and is expected to lower rates only if the data warrants it and inflation moves down closer to the 2.0% target level. The Fed will continue reducing its holdings of Treasury securities, agency debt, and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet. The Committee is strongly committed to returning inflation to its 2 percent objective. The spread between the 2-year and 10-year Treasury yields is -0.44% as short-term rates have risen faster than long-term rates. The yield curve is currently inverted (2-year yield is higher than the 10-year yield) and financial conditions are currently tightening. **Eight of the last Nine recessions since 1955 have occurred during a rising interest rate environment when short term rates were higher than long term rates (Inverted Yield Curve), which leads to our ongoing concern of the Fed raising rates too far. It is not if, but when.**
- **Inflation: Inflation meaningfully decreased in 2023.** Currently the Fed has paused interest rate increases. Currently, we do not see the Fed needing to raise rates to continue to fight inflation. Slower economic growth should allow inflation to continue to slowly decrease.
- **Russia-Ukraine Conflict and other Geopolitical risks: The current conflict is continuing to weaken the European economy more than the US economy, with some speculation of a recession in some countries (especially Germany) as soon as the 1st quarter 2024.** At this time, it is hard to determine the total impact this conflict will have on the US. US-China relations remain tense. The conflict Israel and Gaza is continuing to drag on with no cease fire in sight. US-Iran relations remain tense.
- **Election Year:** Since 1952, the S&P 500 has averaged a 7% gain during U.S. presidential election years. While a 7% gain is far from disastrous, it is also well short of the 17% average S&P 500

gain in the year prior to an election year. It's also below the roughly 10% average annual total return for the S&P 500 in a typical year. Of course, it's important to remember that past performance does not guarantee future returns, and there have only been 17 presidential elections since 1952. The good news for investors heading into 2024 is that the S&P 500 has not declined during a presidential re-election year since 1952 and has averaged a 12.2% annual gain in re-election years.

Forecast:

We think the biggest threats to the stock market are interest rates continuing to increase, economic contraction, and geopolitical risks. We think the SP500 will end Q2 2024 between 5100 and 5200. At this juncture, we venture a guess that stocks will end the year somewhere between 8% and 10% for the year.

For the next six to twelve months, the Federal Funds rate will most likely decrease from its current range of 5.25%-5.50% to 4.75-5.00%. **The 10-year Treasury, which is currently priced at ~4.48% and should remain in a range between 4.25%-4.50% throughout the end of the 2nd quarter.**

As always, we appreciate your continuing confidence in our firm. Please let us know if you have questions.

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