



## QUARTERLY MARKET UPDATE

The equity markets continued their upward trajectory in the first quarter of 2024 returning 5.62% for the Dow Jones Industrial Average, 10.165 for the S&P 500 Index and 9.11% for the NASDAQ Composite Index. These gains were mostly attributable to excitement about the artificial intelligence and speculation that the Fed would cut interest rates at least three times this year. The fear of inflation and the consequent impact it has on Fed. policy continued to dominate public sentiment and spur equity investment.

Although much of the inflation data received during the quarter was mixed at best, strong but moderating GDP growth and steady unemployment helped send stocks to new all-time highs in March. In addition, at the Federal Reserve's March meeting they left interest rates unchanged and signaled that it still planned 3 rate cuts this year. This was all good news for the stock markets and despite rich equity valuations across the board, particularly in growth stocks, the equity markets continued to rally.

The bond markets were another story. Bond prices rallied at the end of 2023 with speculation that the Fed would cut interest rates 6 to 7 times in 2024. This drove the yield on the 10-year bond down below 4% by year end. Bond prices move conversely to interest rates and so bond prices looked great as last year closed. However, as inflation numbers came in after the first of the year showing that inflation was stickier than many thought it would be, bond yields began to creep higher causing bond prices to give up some of their year-end gains.

Deeper into the quarter, inflation numbers continued to come in mildly hotter than expected and with this, suddenly the market was pricing in just 3 interest rate cuts by year end. The 10-year benchmark U.S. Treasury closed the quarter at 4.21% a rise of .34% for the quarter causing a set-back for bond prices in the first quarter, with the Barclay's Global Aggregate Bond Index closing the quarter down 2.1%.

Valuations in the equity markets are a bit concerning as the broad S&P 500 Index has a forward price to earnings ratio (P/E ratio) of about 21. This is rather high considering the historical average P/E ratio of the index is 16.6. If we look at growth vs. value stocks, we see that the forward P/E for growth stocks is 27% while the P/E for value stocks is about 16.1%. This suggests that value stocks are currently reasonably priced relative to the S&P historical average and certainly compared to growth stocks which seem to be grossly overvalued.

We continue to overweight value stocks in our client's portfolios and to wait out this rise in interest rates with preference toward standard duration on the bond side of our client's portfolios.

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*All indices are unmanaged and may not be invested into directly. Investing involves risk including loss of principal. No strategy assures success or protects against loss. Bonds are subject to market and interest rate risk if sold prior to maturity.*

*Bond values will decline as interest rates rise and bonds are subject to availability and change in price.*

*Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.*



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