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INVESTMENT MANAGERS

ECONOMIC UPDATE MARCH 2024

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Stocks continued their climb in February. Large cap stocks in the S&P 500 index rose 5.3% in February and are now up 7.1% year-to-date. Small cap stocks in the Russell 2000 gained 5.7% in February erasing their previous loss and resulting in a year-to-date gain of 1.5%. On the international front, developed country stocks in MSCI EAFE witnessed a rise of 1.8%, pushing their cumulative annual gain to 2.4%. Notably, emerging market stocks jumped 4.8% within the month. However, despite this leap, they remain marginally negative at -0.1% for the year so far. The yield on the 10-year Treasury bond concluded February at 4.25%, a noteworthy increase from the previous 3.97% as of the end of January. The higher yield for the Barclays US Aggregate Bond Index consequently led to a loss of -1.4% for February and -1.7% year-to-date.

GDP growth was revised down to 3.2% in its "second" estimate for the fourth quarter of 2023. Initial estimates had been for 3.3% growth. Full year GDP growth was 3.1% for 2023. Looking at 2024, growth is projected to be slower but many analysts believe the probability of recession is now less likely, especially since it is a "re-election year". Incumbents will likely want to pass legislation that is good for the economy to increase their chances of being re-elected. A strong economy also helps stock prices. Stocks have had positive returns every re-election year since 1940.

Corporate earnings continue to show positive results for the fourth quarter. Now 80% of the companies in the S&P 500 have reported and earnings are up 4.9%. In our last report, earnings growth of 2.4% was being projected. For the full year 2023, earnings are down -3.8% but are currently projected to be 11.1% higher in 2024.

Growth stocks continue to dominate against value stocks in 2024. The technology and communications sectors have double digit returns while utilities and real estate have negative returns.

The inflation trajectory is reflecting steady improvement. The 12-month price change recorded in January was 2.8%. compared to 2.9% in December. The Fed's 2% inflation target is getting closer but could be challenging to reach if significant fiscal stimulus is implemented. As it is a re-election year, incumbents may be more prone to approve stimulus to keep the economy positive.

Unemployment is currently just 3.7%. As long as workers believe their jobs are secure or that they can easily find a new job, they are likely to continue spending which will provide support to economic growth.

The Fed has indicated that future rate cuts are expected but not until later in the year. Strategas Research projects the first of three rate cuts for the year won't happen until June.

The presidential election is shaping up to be a re-match of 2020. So far, the markets are not indicating better odds for one candidate over the other.

We continue to encourage investors not to try and time the market by trading in and out and instead invest according to risk tolerance. If you have questions about the strategy for your account, please contact your advisor.