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MARKET MINUTE

MARCH REVIEW 2024

This month's Market Minute reflects the views of our Investment Office and was composed by
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OVERVIEW

As the month progressed, investors' interpretations of the environment improved and witnessed, in general, rather positive returns in March. The February jobs report reinforced the strength in the labor market, with 275k new jobs created.[1] Although inflation data remains sticky at current levels, the outlook remains for inflation to decline. The Federal Reserve reinforced the upbeat sentiment and held steady with their outlook for three rate cuts in 2024. With visions of falling inflation, lower interest rates, and solid corporate earnings, investors continued to reflect a pro-risk attitude.

Since the beginning of February, US equities have quietly seen a broadening out of gains beyond just a small percentage of mega-cap, tech names. Conversely, despite the challenges facing a few stocks, over 80% of the S&P 500 have traded above the 200-day moving average, which is an obvious sign of a broad-based stock rally.[1] There have also been other signs of market breadth behind the momentum of the recent stock market gains. All these measures point to the conclusion that the stock market rally of late is less dependent on a few high-flying stocks and more reflective of improving fundamentals across a broader swath of US equities.

With declining interest rates, corporate bond spreads at levels not seen since the Fed started raising rates in 2022, and U.S. stocks hitting record highs, March left investors thirsty for more and showing little concern for headwinds that may interfere with their parade.

U.S. EQUITY MARKETS As of March 31, 2024

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	2.2%	6.1%	6.1%	22.2%
S&P 500	3.2%	10.6%	10.6%	29.9%
Russell 2000	3.6%	5.2%	5.2%	19.7%
Russell 1000 Growth	1.8%	11.4%	11.4%	39.0%
Russell 1000 Value	5.0%	9.0%	9.0%	20.2%

March was another good month for equities across the board. The S&P 500 ended the month at a record high—capping off the strongest Q1 for the index since 2019—and market leadership continued to broaden out beyond the US tech sector.[1] For the month, the S&P 500 gained +3.2%, but mid-cap stocks (Russell Midcap Index) gained +4.3% and US small caps (Russell 2000 Index) gained +3.6%. In contrast, the tech-heavy NASDAQ gained only +1.9% for the month. Similarly, while every sector notched gains in March, the best performing sector was Energy (S&P 500 Energy Sub-Index) which gained +10.6%, whereas tech stocks (S&P 500 Tech Sub-Index) gained only +2.0%. For the month, value stocks across the cap spectrum outperformed growth stocks. This broadening of market leadership can be considered a normalization from last year's pattern where a small number of mega-cap tech stocks drove the preponderance of large cap equity returns. So far in 2024, we are witnessing the "catch-up" of most of the rest of the market vis-à-vis last year's magnificent seven.

INTERNATIONAL EQUITY As of March 31, 2024

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	3.1%	4.7%	4.7%	13.3%
MSCI EAFE	3.3%	5.8%	5.8%	15.3%
MSCI Emerging Markets	2.5%	2.4%	2.4%	8.2%
MSCI EAFE Small Cap	3.7%	2.4%	2.4%	10.4%

International equities also had a strong month in March. International developed equities (MSCI EAFE Index) gained +3.3%, while Emerging Market equities (MSCI EM Index) gained +2.5%. EM equities continued to be weighed down by the percentage of Chinese stocks (MSCI China Index), which gained +0.9% in March, but are still down -2.2% for the quarter. Chinese markets remain hostage to problems in the Chinese property sector and, in March, markets grew concerned over the solvency of China's second largest property developer China Vanke. Similar to the US equity market, value stocks (MSCI ACWI ex US Value +3.6%) outperformed growth stocks (MSCI ACWI ex US Growth +2.8%). Overall, the US dollar was steady for the month and did not materially impact the US dollar-based returns for non-US equities.

FIXED INCOME As of March 31, 2024

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	0.9%	-0.8%	-0.8%	1.7%
BarCap Global Aggregate	0.6%	-2.1%	-2.1%	0.5%
BarCap US High Yield	1.2%	1.5%	1.5%	11.2%
JPM Emerging Market Bond	1.9%	1.4%	1.4%	9.5%
BarCap Muni	0.0%	-0.4%	-0.4%	3.1%

In general, bond investors witnessed a pleasant month as short-term interest rates held steady while further out on the curve interest rates declined modestly. Reflecting on the decline in interest rates, the Bloomberg U.S. Treasury index was up +0.6% for the month, but risker assets such as high yield bonds (Bloomberg U.S. Corporate High Yield index +1.2%) and emerging market debt (J.P. Morgan Emerging Markets Bond index +1.9%) delivered superior returns. Much like large cap growth stocks trading at high valuations, high yield bonds are trading at relatively tight spreads to Treasury bonds. As long as the economy and corporate fundamentals remain stable, spreads can remain tight, and investors can enjoy the attractive level of yield being earned in today's markets.

CONCLUSION & OUTLOOK

As we look forward, the forecast appears most favorable. Our outlook for an economic soft landing has not changed although we expect stronger growth in the first half of the year followed by a slightly weaker second half. The continued disinflation trend could be choppy, but inflation should be lower at year's end. Supported by a positive earnings outlook, broadening market leadership, and near-term momentum, equity market sentiment is bullish. Interest rates have likely seen their highs, but the Treasury market will be volatile and most likely trade sideways as the Fed loosens the monetary reins at a slow and methodical pace. But corporate bonds should continue to draw interest as the absolute level of yields remains attractive even though the spread over Treasury yields remains tight. For now, this environment is supportive of risk-taking, but as the saying goes, "don't get too far over your skis," for one never sees that mogul that sends you flying off course and praying for mercy. We are always suspicious when the thundering herd is all running in the same direction.

SOURCES

1 Bloomberg LP