Market Update

APRIL 2024

HARD LANDING, SOFT LANDING, NO LANDING?

March was a remarkable month in the U.S. equity markets, with the S&P 500 index rising 3.2% and reaching new all-time highs in nine of the twenty trading days. The index's first quarter return was a robust 10.6%. Most of the March action occurred in the second half of the month after another Federal Reserve Open Market Committee (FOMC) meeting and Federal Reserve Chairman press conference. The FOMC's eponymous "Dot Plot" showed a strong consensus for at least two and perhaps three Fed Funds rate cuts in 2024 with more to come as confidence builds for inflation returning to the 2% target. Moreover, during that press conference Fed Chairman Powell indicated a willingness to slow the rate of quantitative tightening to ensure adequate banking system reserves, which the Fed deems as still healthy. Lower interest rates and easier financial system liquidity are strong tailwinds for both stock and bond markets.

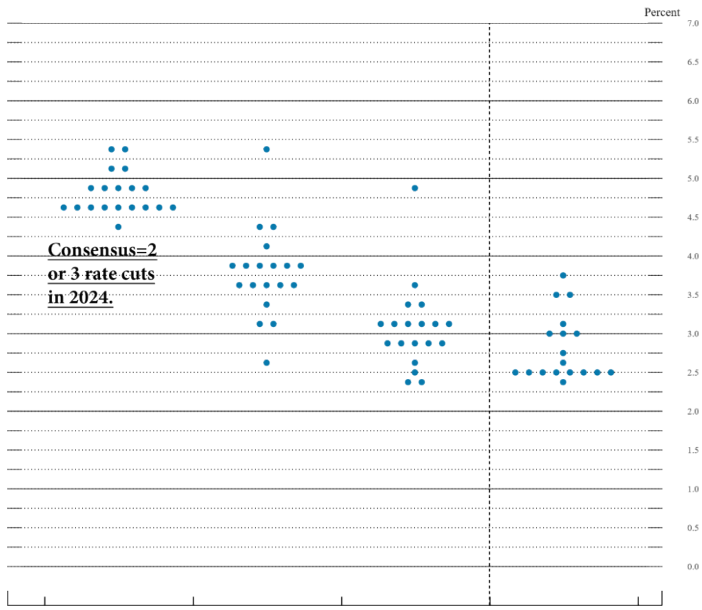
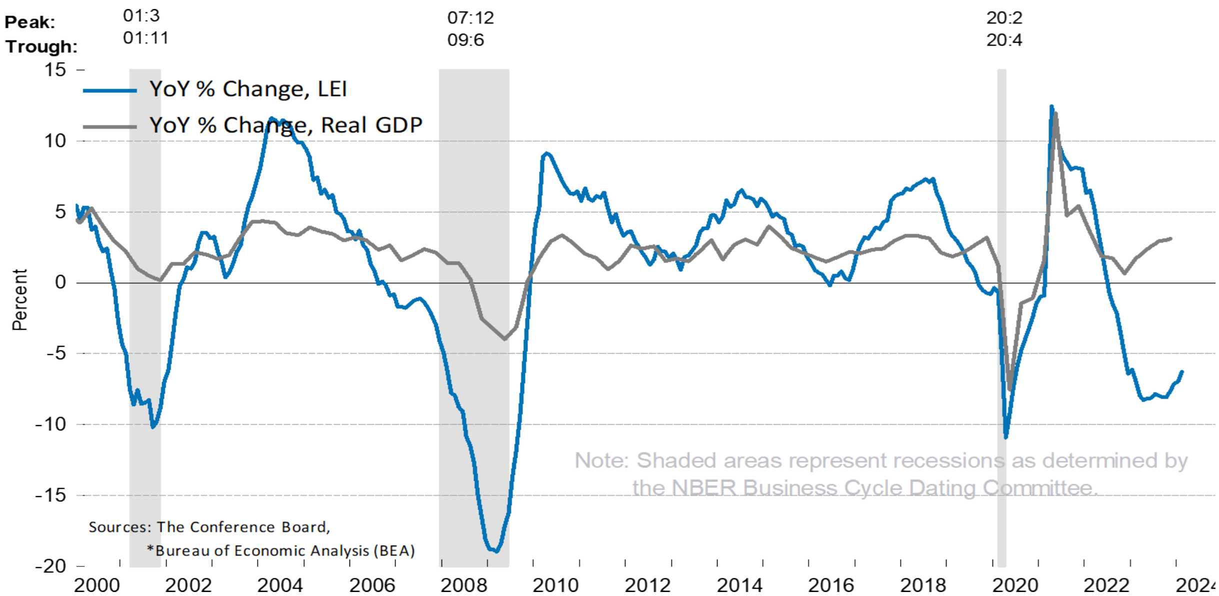


Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate. Source: U.S. Federal Reserve

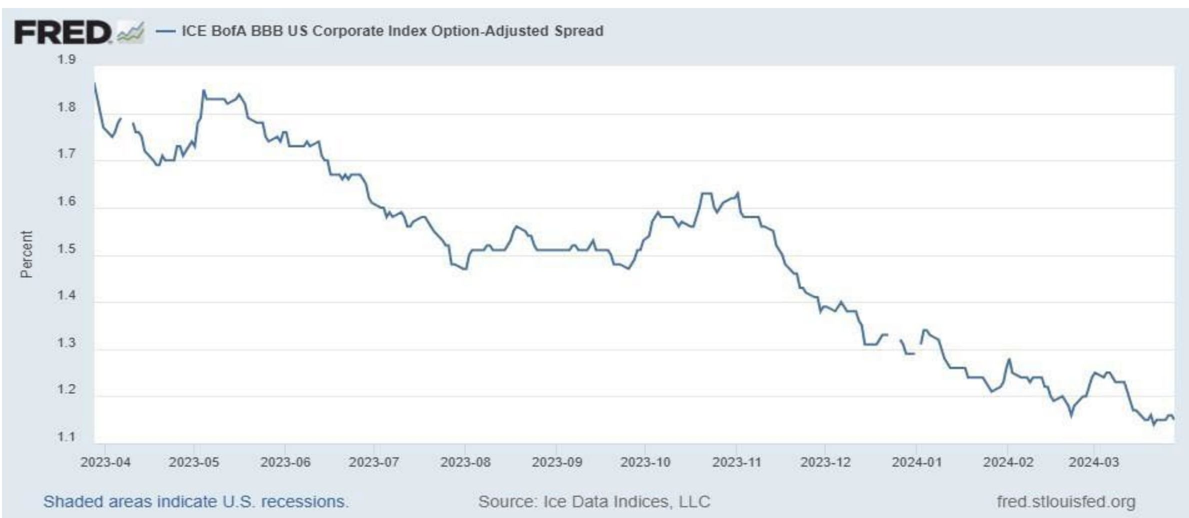
Market breadth was healthier in March than we've seen recently with all the sectors delivering positive returns. The best performing sectors were energy, utilities and materials and the laggards were information technology and consumer discretionary. Client portfolios benefited from market weightings and strong stock selection in energy, utilities, and materials, while also benefiting from under-weightings in information technology and strong stock selection in consumer discretionary. This is a marked change from what we've seen over the last year, and we view these return dynamics as indicative of a market no longer concerned about economic recession in the U.S. and much less concerned about the magnitude of interest rate cuts.

With the recent uptick in leading economic indicators, tightening corporate bond spreads, and a recent steepening in the yield curve, market indicators suggest an economy on solid footing.

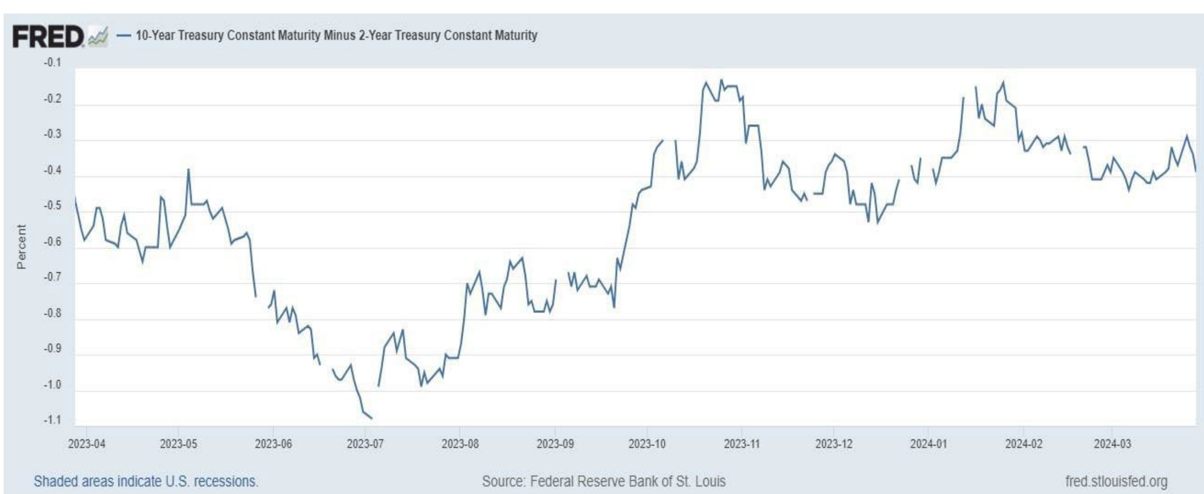
The Conference Board Leading Economic Indicators (LEI)



Source: Sources: The Conference Board and Bureau of Economic Analysis (BEA)



Source: Federal Reserve Bank of St. Louis



Source: Federal Reserve Bank of St. Louis

While the news for markets has generally been good, as risk managers we always must ask ourselves how much of the good news is fully factored into asset prices. For equities we think more of the good news is now reflected across a broader swath of the market, while at the same time we view certain sectors like technology and communications services as having pockets of overvaluation. Therefore, we are sticking with our current sector weightings, always hunting for new opportunities that market volatility gives us. For fixed income, our view remains that the best values are at the shorter end of the yield curve in 2–5-year maturities. With corporate spreads tightening we are using a mix of corporate and treasury bonds within this maturity range. As always at Seacoast Wealth, we adhere to two basic rules over our typical 3-5 year investment horizon: Rule # 1: stay laser focused on downside protection, and Rule # 2:….see Rule 1.

If you have any questions, please do not hesitate to reach out to your trusted investment advisor.