

Market Update

MARCH 2024

VALENTINES MONTH

Entering the month on the back of a Fed meeting that all but sapped the market of its overzealous rate cut expectation, the S&P 500 Index nonetheless rose 5.2% in February. Despite Federal Reserve Chairman Powell even taking to 60 Minutes days later to communicate the Board's rhetoric of "higher for longer," the market seemed more inspired by the promises of AI and Ozempic alchemy to cure what ails.



Source: Bespoke Investment

No longer able to rely on aggressive rate cut expectations to fuel gains, bullish investors instead pivoted to the prospect of sustained positive earnings results, and corporate management obliged on fourth quarter earnings calls. For some companies it has been about doing more with less, such as Masco and Williams-Sonoma, where managements are focused on driving earnings growth despite top line weakness.

S&P 500 INDEX		Reported	Sales Surprise	Earnings Surprise
Surprise	Growth			
Sector (BICS)				
11) All Securities	489 / 500		1.22%	7.3%
12) > Materials	28 / 28		0.73%	3.8%
13) > Industrials	70 / 70		1.36%	7.1%
14) > Consumer Staples	31 / 38		0.91%	5.2%
15) > Energy	25 / 25		-0.71%	9.7%
16) > Technology	79 / 80		1.19%	5.7%
17) > Consumer Discretionary	50 / 53		2.66%	13.7%
18) > Communications	23 / 23		1.57%	5.2%
19) > Financials	59 / 59		1.41%	10.3%
20) > Health Care	64 / 64		3.11%	8.8%
21) > Utilities	30 / 30		-10.08%	-1.8%
22) > Real Estate	30 / 30		-7.55%	0.7%

Source: Bloomberg

At the other end of the spectrum reside the Generative AI-fueled beneficiaries Microsoft, Applied Materials, and Broadcom where top line growth is of primary interest to investors. These expectations have been supported by managements' commentaries confirming this developing growth driver and culminating in a resounding manner by industry leader Nvidia's impressive results. This has helped not only instill confidence in investors who are looking to participate in the anointed next great tech boom but also more broadly in the overall market, pushing valuations to historically high levels.

Regarding Gen AI's growth opportunity, we will continue looking for ways to prudently participate while also acknowledging that this growth is likely to come in multiple stages and evolve over time as it did with the internet's development in the 1990's/2000's. At each stage there will be winners and losers and the road is likely a long and winding one.

We should also highlight the impact fiscal policy has had on corporate results and ultimately in countering the tightening conditions the Fed has enacted over the past two years. With \$2 trillion annual budget deficits becoming the norm over the next decade, fiscal support remains in place.



Source: Bloomberg

Given this backdrop, along with the structural drivers of inflation remaining largely in place (energy transition, reshoring of manufacturing/deglobalization, geopolitical, demographics), we prefer maintaining a shorter duration schedule to our fixed income investments to protect our clients from interest rate risk. This meshes well with our owning companies with strong free cash flow and reliable prospects on the equity side of portfolios.

Those with a myopic view have certainly performed well in this market. We will continue to don our bifocals ensuring a balance between current market enthusiasm and long-term market awareness. We remain vigilant in preparation of when (not if) the fickle audience shifts its gaze to the next big thing.

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

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Sources: JP Morgan Asset Management; NASDAQ; FactSet; Bloomberg; Broadridge. Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit

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