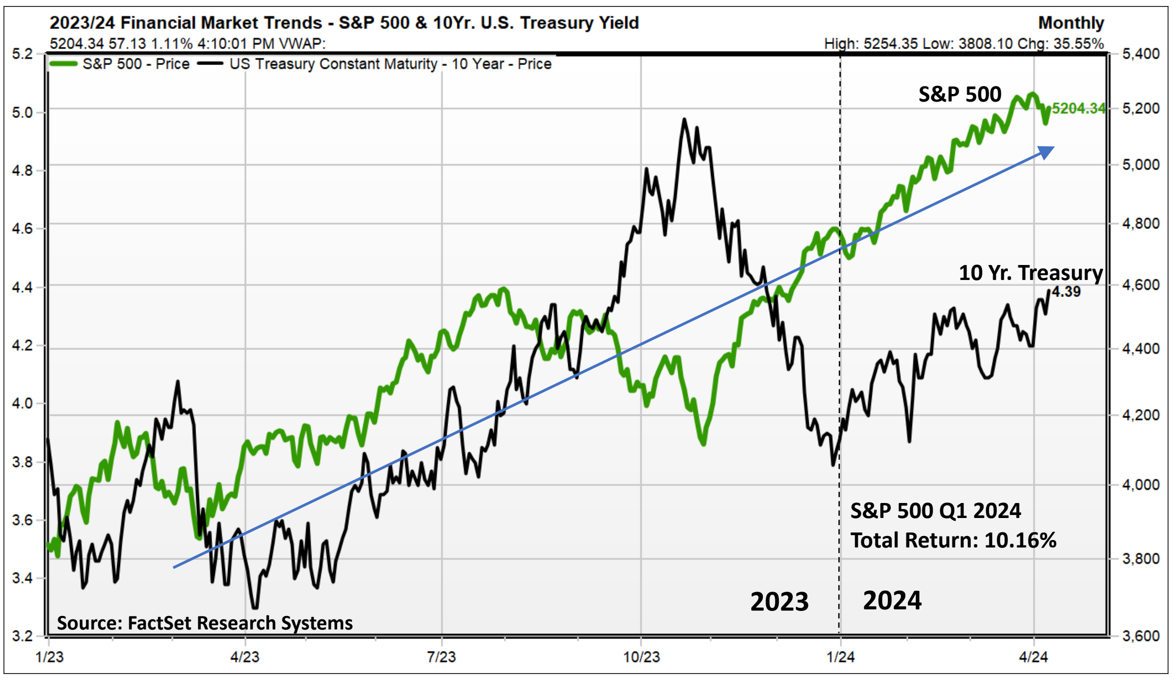
FINANCIAL MARKET OBSERVATIONS
2024 – THE FIRST 90+ DAYS

Current Environment

Despite continuing uncertainties and holdover recession expectations, the U.S. economy remained positive and resilient during 2024's first quarter. Rather than experiencing a recessionary decline's "hard landing" the U.S. will report growth for the seventh consecutive calendar quarter[i]. The current estimate[ii] is for +2.5% GDP growth.

This trend of economic buoyancy combined with declining inflation, positive corporate profit growth, a tight labor market, and the Federal Reserve's willingness to gradually reduce interest rates if inflation eases further has renewed investor interest in equities and boosted the market to new highs. Throughout the first three months of the year, the S&P 500 reached record highs on 22 separate days[iii].

During the quarter's impressive move in stock prices, several technology stocks like Nvidia and Microsoft had exceptional returns driven by enthusiasm for artificial intelligence. However, the market has been broader based with individual S&P Sectors such as Industrial, Financial, Communication Services, and Energy stocks outperforming[iv] the Technology Sector and the entire S&P 500 Index's return of +10.16%[v].



Although interest rates on the benchmark 10-year U.S. Treasury note have declined from the October 2023 high, (chart above) they have increased since the beginning of the year as economic data strengthened and the number of anticipated 2024 Federal Reserve rate cuts declined. The current 4.39% yield on the 10-year Treasury is modestly above the long-term average yield of 4.25%[vi].

For illustration purposes we use the 10-year Treasury Note because it is a benchmark for the direction of interest rates. It is important to note that the average maturity of the bond portion of client portfolios is much shorter (4-5 years) and thus is less volatile than the 10-year issue.

Looking Forward

Despite current "stretched" equity valuations (see below on page 3) and other considerations, we continue to think in terms of a longer perspective, not just the next quarter. In the following few pages, we share with you graphics that shape and reinforce our optimistic views, as well as some that require close monitoring which could alter shorter term tactics.

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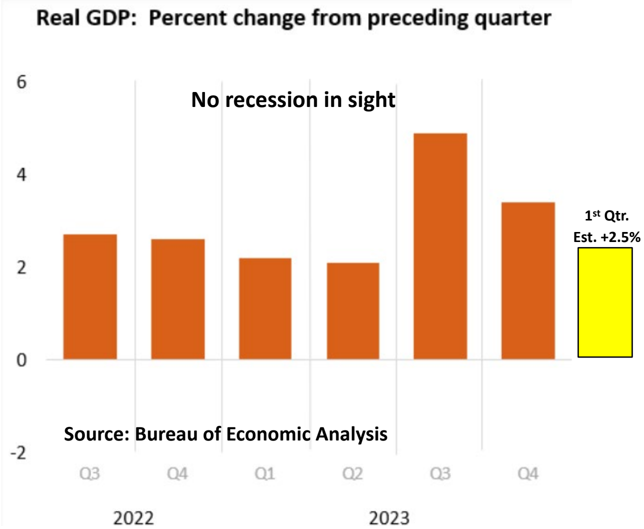
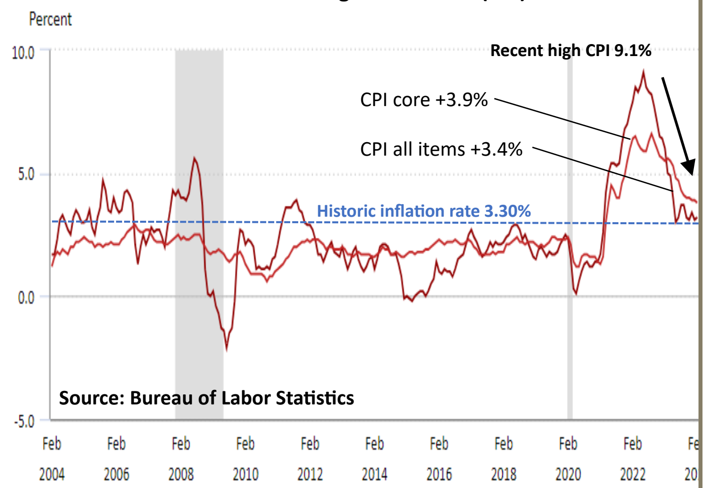
Encouraging Trends

Positive Economic Growth

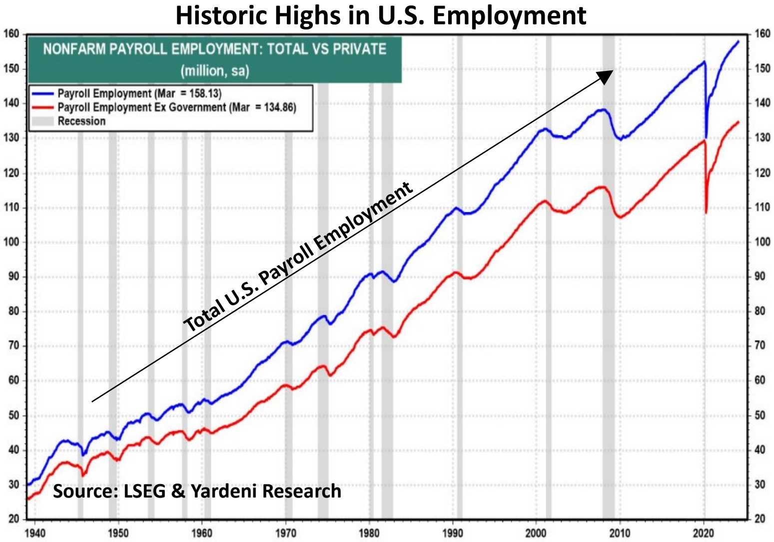


Declining Inflation

12 Month % Change in inflation (CPI)



Historic Highs in U.S. Employment

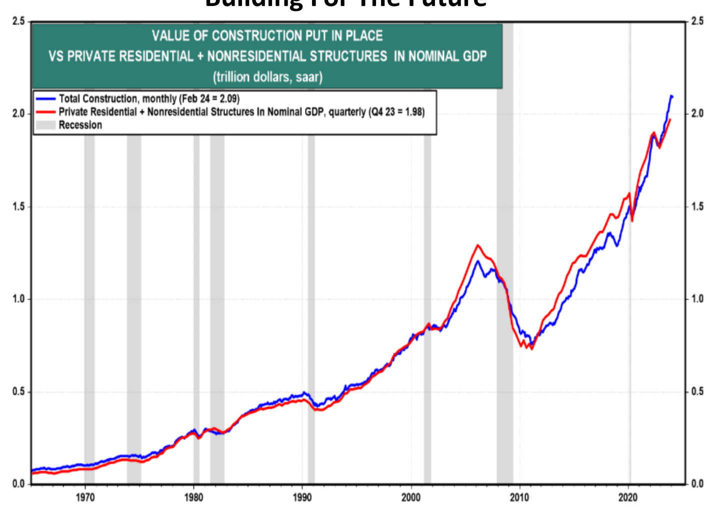


The U.S. economy resisted all expectations of recession and continued to expand in 2023. It will be positive again in the 1st quarter (top left chart) of 2024 for the 7th consecutive quarter. Overall, the economy remains on track despite elevated geopolitical risks that are difficult to quantify and require close monitoring.

This economic strength is supported by high levels of employment (left), declining inflation (right above) and growing consumer confidence.

The combination of the above factors should endure and raise consumer sentiment to encourage further long-term investment and not deter spending.

Building For The Future



All aspects of the U.S. economy are important to grow, maintain a high level of employment, keep inflation dampened, improve the standard of living, and maintain access to critical manufacturing and logistic capabilities.

Consumer spending (68% of GDP)[vii] is the most critical component of U.S. GDP. However, the recent commitment to accelerate spending on manufacturing structures and capabilities to meet reshoring, onshoring, and technology goals have increased meaningfully in importance. This importance stems from the trends ability to be a long term creator of jobs, wages, productivity, and independence.

The concept of onshoring/reshoring and enhancing worker productivity is critical to our optimistic long-term outlook.

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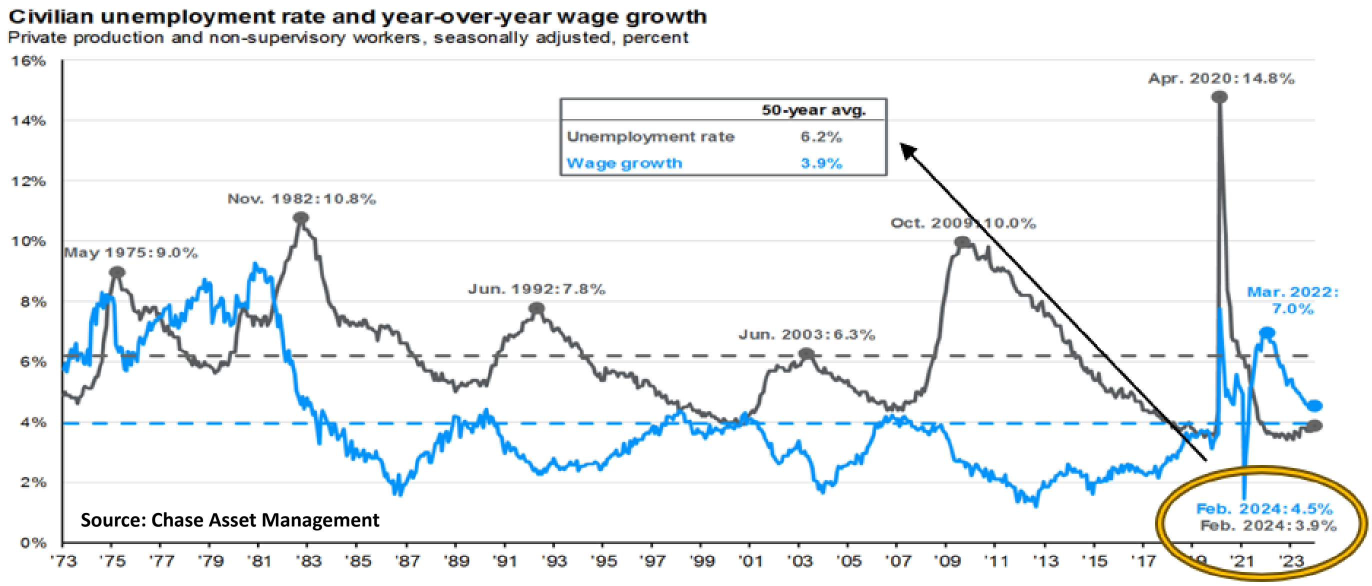
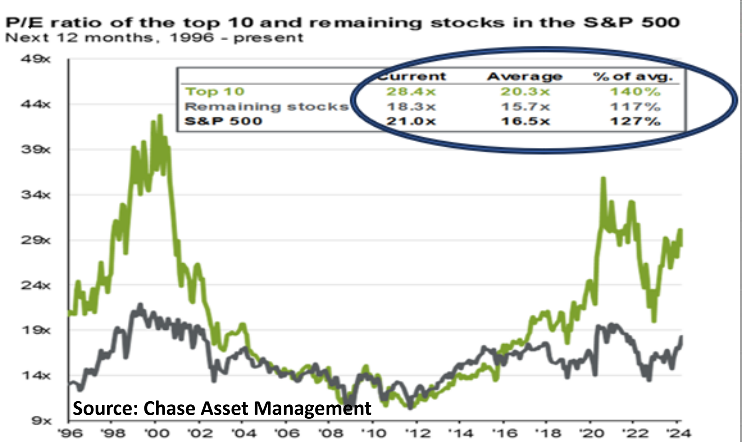
The chart below is a good example of the current positive environment because it reflects the impact on American workers and their families. Unemployment is significantly below the long-term average and wage growth is above the long-term average. Never a perfect environment, but this is a strong positive.



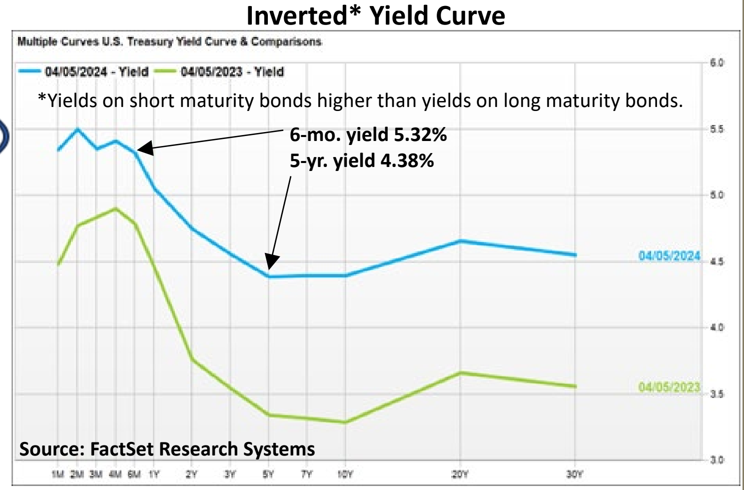
Conditions To Watch Carefully

While encouraged by current trends, the expectation they will remain in place for the near future, and our philosophy that requires thinking about longer-term opportunities not the recent past or the next several months, we are cognizant of conflicts which challenge our outlook.

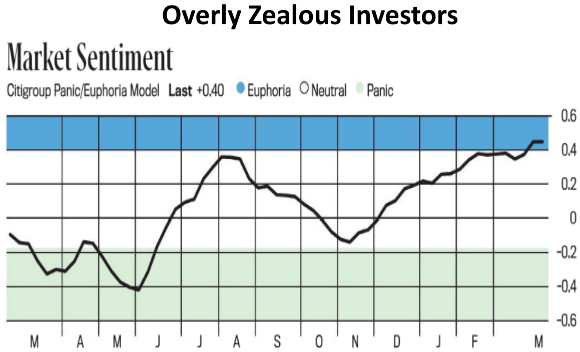
Extended Stock Valuations



Inverted* Yield Curve



Overly Zealous Investors



Source: Citigroup Investment Research

Improved economic fundamentals, the prospect for lower interest rates, growing corporate profits, and AI enthusiasm reignited investor sentiment and sent equity prices and values to elevated levels. The high valuations and exuberant level of investor interest can be seen in the charts at left and above.

Interest rates are always a competitor for stocks. When short interest rates exceed longer maturity rates, they become even more competitive and will keep a lid on further equity upward moves.

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Geopolitical challenges persist, with Ukraine and The Middle East being among the most visible, but issues also exist in Africa, China, Southeast Asia, Latin America, and other parts of Europe. These issues are at the top of our monitor list. Additionally, the price and availability of crude oil is also a top monitoring priority because the world is so dependent on it for transportation as well as for thousands of other products and because it becomes "an additional tax" on consumers.

The Bottom Line

You may recall that, contrary to the consensus, we believed the U.S. would avoid a recession in 2023 and 2024, that inflation would continue to ease, and that the Fed would begin to cut interest rates in the first half of 2024. As a result, we remained cautiously optimistic in our management of investment portfolios and stayed fully invested within the asset allocation guidelines established within the investment policy statements of individual clients.

The U.S. economy did avoid recession, inflation has continued to ease, and the combination of these two factors pushed equity prices to record highs in a short period. As a result, equity exposure again exceeded the upper levels of most client guidelines, so we reduced exposure to several equity positions that had exceptional performance and reinvested those proceeds in short term reserves for future equity investment.

Interest rates have remained at extended levels, and because of the stronger economy, the Federal Reserve will delay rate cuts until it is convinced inflation will not resume at higher levels. In anticipation of declining interest rates, we have modestly extended the average maturity of client bond portfolios to preserve higher yields.

As previously mentioned, we remain constructive in our longer-term outlook and will continue to manage with that premise with need to help preserve and grow client assets foremost in our minds.

We appreciate your confidence, and we highly value our relationship and friendship. We look forward to any comments, questions, or critique you have, and we look forward to seeing you again soon.

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[i] Trading Economics, 4/6/2024
[ii] Federal Reserve Bank of Atlanta, GDPNow
[iii] New York Times, 4/7/2024 Business section
[iv] Bespoke Research, 4/5/2024
[v] The Wall Street Journal, 3/30/2024
[vi] Macrotrends.net, 4/7/2024
[vii] JP Morgan, Guide to the Markets, 4/5/2024