Week in Review

Equity Markets:

The major indices continued their march higher. The S&P 500 finished the week up 0.99%, moving its year-to-date return to 7.97% through the first two months of the year. The NASDAQ rose 1.76 for the week and on Thursday surpassed its previous record high from November 2021. Growth continues to be favored over value as the Russell 1000 Growth closed the week up 1.27% while its value peer finished the week up 0.72%[1]. The year-to-date spread continues to widen with growth up 10.63% while value is up a modest 4.24%[1].

Earnings season is essentially complete with only 3% of the S&P 500 yet to report. So far, 73% of companies have beaten earnings expectations and 64% have exceeded revenue estimates. Companies have reported earnings better than feared with earnings expected to grow 4% for the quarter, above the 1.5% estimate at the beginning of the quarter[2]. Despite the improvements, the earnings beat rate is below the 5-year average of 77% and the 10-year average of 74%[2].

Fixed Income Markets:

Yields made a modest move lower last week as inflation reports came in near expectations. The 10-year Treasury yield finished the week at 4.19%, down 0.07% from the prior week's close of 4.26%. The yield curve also had a slight steepening with the 2's/10's spread narrowing to -0.35% with the 2-year Treasury Yield falling 0.13% to 4.54%.

The muted reaction to the inflation reports was likely due to market expectations. So far this year the market has priced in anywhere between seven rates to where we currently sit at three. The Fed Fund's Futures Market was stagnant last week with the probability of a continued pause at the policy meeting later this month remaining at 95%+[3].

Economic:

The Fed's preferred inflation gauge, The Personal Consumption Expenditures Index (PCE) came in near expectations last week. In January, Core PCE which excludes food and energy rose 0.4% and 2.8% from a year ago. This marks the slowest rate of annual growth in the index since March 2021[4]. The headline reading had a monthly growth of 0.3% and at a 2.4% annualized pace. Other notable numbers from the report showed personal income rose by 1%, well above the 0.3% forecast, and personal spending unexpectedly declined 0.1%. The second reading for fourth-quarter GDP was revised down slightly to 3.2% from the original estimate of 3.3%. The Consumer Confidence Index fell to 106.7 from January's reading of 110.9. The decline marked the end of a 3-month streak of improvement. The University of Michigan Consumer Sentiment Index was revised lower to 76.9% for the month of February as consumer expectations softened.

Looking Ahead

Equity Markets:

The market has been a tear recently and it seems as if nothing can knock it off its track. Valuations, sticky inflation, higher rates, etc. have done little to slow the year-to-date rally. We believe investors should keep a composed view of the markets not only during weakness but also in times of euphoria. The market is currently trading at 21x forward four-quarter earnings[5]. Earnings weakness has continued to be pushed out further on the calendar. Full-year 2024 earnings estimates have been cut by 12%[5]. Also, we are seeing a larger number of companies (73%) with negative pre-announcements relative to positive (23%)[5].

The market can continue for some time in a euphoric environment. As disciplined, long-term investors our objective is to ignore the short-term noise which can help with over-exposing our portfolio to unnecessary risks. The '*Fear & Greed Index'* currently sits at 78, near the highest levels over the past year[6]. The culmination of factors pushes us to believe investors should remain convicted to their strategic allocations and today is not the environment for unnecessary risk-taking.

Fixed Income Market

Market expectations have fallen into line with the Federal Reserve's outlook, which we believe is a positive environment for the fixed-income markets. Alignment should reduce volatility going forward until a pivot takes place. Our view was that the market was too optimistic in the rate cut outlook, and the 5-plus cuts the market had priced in were positive for bonds but would likely accompany a severely weakening economic and equity market environment. Policymakers still have the opportunity to 'thread the needle' and achieve the elusive soft landing. Improvement in the inflationary environment has been robust, and despite the stickiness as of late, we believe that the Fed can achieve its 2% percent target by keeping rates where they are.

Going forward, we may see rates stay elevated in the short to intermediate term but this provides bond investors the opportunity to capture yields that should present attractive real returns over a multi-year timeframe. Also, the current level of the bond market should provide a significant negative correlation benefit when the equity market does experience recessionary weakness. We may avoid a recession right now, but eventually, the economy will experience another.

Economic:

The labor market will be the highlighted portion of economic reports this week. On Wednesday we will get the ADP National Employment Report along with the Job Openings and Labor Turnover Survey (JOLTS). Thursday the weekly unemployment claims report will be released and to end the week, the Non-Farm Payrolls report on Friday. Other notable reports will be the Services PMI from ISM and the consumer credit report on Thursday.

**** *See Important Disclosures on the following page*

Sources:

1)JP Morgan Asset Management
https://am.jpmorgan.com/content/dam/jpm-am-aem/americas/us/en/insights/market-insights/wmr/weekly_market_recap.pdf

2) Factset Research Inc
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5) LSEG I/B/E/S
https://lipperalpha.refinitiv.com/wp-content/uploads/2024/03/TRPR_82221_737.pdf

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https://www.cnn.com/markets/fear-and-greed

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