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FAMILY OFFICE

Monthly Market Insights

April 2024

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Key takeaways:

- The S&P 500 registered its fifth consecutive monthly gain in March, ending the first quarter up 10.16% and marking its best start since 2019.[1]

- Benign volatility in Treasury yields helped to support stock prices in the first quarter. However, the outlook for yields and Federal Reserve ("Fed") rate cuts is more uncertain given strong economic data and abating disinflation.

- We have an increasingly cautious view regarding the near-term outlook for the market as yields, inflation, positioning, and sentiment all remain key risks.

The S&P 500 registered its fifth consecutive monthly gain in March returning 3.10% while the Nasdaq rose 1.79%.[2] Both the small-cap Russell 2000 Index and the S&P 500 Equal Weight Index outperformed the market-cap weighted S&P 500 in March, returning 3.39% and 4%, respectively.[3] March's gains capped an impressive first quarter for stocks with the S&P 500 ending the quarter up 10.16%, marking its best start since 2019. While artificial intelligence ("AI") enthusiasm remains a dominant theme, this year's market advance is more broad-based than last year's. At quarter end, 85% of US stocks closed above their 200-day moving average, representing the highest percentage of stocks trading in an uptrend in over three years.[4] Investors are embracing a wide cohort of stocks, as evidenced by the energy, materials, and financials sectors being amongst the best performing sectors in both March and on a year-to-date basis. The widening participation of stocks is a welcome development that usually bodes well for the market going forward, and history suggests that stocks perform well in the remainder of the year after such a strong start. However, we are growing increasingly cautious with the near-term set-up for the market as yields, inflation, positioning, and sentiment all remain key risks.

Benign volatility in Treasury yields helped to support stock prices throughout the month of March. Treasury yields traded in a defined range, and most of March's Treasury note and bond auctions were well-received by investors. The US dollar was mixed on the month, declining against the euro but rising against the yen. WTI crude rose 6.3% for its third consecutive monthly gain, and gold was up 8.9%, closing the month at a new all-time high of $2,238.40 per ounce.[5] Not to be outdone, Bitcoin gained 13.6% in March and made an all-time high earlier in the month before pulling back modestly.[6]

Although yield volatility, as measured by the MOVE Index[7], has declined substantially this year, Treasury yields were up broadly in the first quarter. The 2-year yield rose 37 basis points to 4.62% while the 10-year yield rose 40 basis points to 4.20% in the quarter; surprisingly,

1. Bloomberg, return indicates index's price return.
2. Id.
3. Id.
4. Verrone, Christopher. "Strong 1Q Complete, Signs of Leadership Rotation Continue." Strategas Research, 1 Apr. 2024, www.strategasrp.com/Document/Index?strResearchProductID=ShUSPnnW6jIK2W75iC3w%2Bw.
5. Bloomberg.
6. Id.
7. The MOVE index is calculated from the implied volatility of 1-month US Treasury options at different maturities of the US yield curve. These volatilities are aggregated and weighted as follows: 20% for 2-year Treasuries; 20% for 5-year Treasuries; 40% for 10-year Treasuries; and 20% for 30-year Treasuries.

stocks performed admirably amid rising yields. Investors have not been deterred by the move in yields; rather they have seen higher yields as a reflection of a healthy economy that is heading towards a no-landing scenario. Gross Domestic Product ("GDP") in the fourth quarter of 2023 was a robust 3.4%,[8] and we estimate it is tracking towards 2% in the first quarter. Talk of an impending recession has all but disappeared as the job market remains firm and consumption continues apace.

While the strong economy is constructive for the corporate earnings outlook, it is likely complicating the fight against inflation. So far this year, the disinflation trend has abated and crude oil has rallied significantly, calling into question earlier Fed rate-cut projections. When the year began, investors were expecting six Fed rate cuts with the first one coming in March. Market expectations are now inline with Fed projections that call for three rate cuts this year starting in June. At the conclusion of the Fed's last meeting in March, Fed officials maintained their projections for three rate cuts this year despite modestly raising their forecasts for growth and inflation. Chairman Powell still seems committed to a June rate cut, but some Fed officials are calling for more patience since the economy and the stock market are performing so well. As the second quarter begins, Treasury yields are trading near year-to-date highs, and we see a growing probability that Fed rate cuts may be pushed further into the future.

Delayed rate cuts and a continuation of recent economic and inflation data trends could push yields higher and become the catalyst for profit-taking in stocks. Furthermore, we are not oblivious to the message coming from gold's recent surge. Gold tends to be a "risk-off" asset and may be signaling something ominous about the unsustainability of government deficits. While less certain, Bitcoin may also be signaling this same message. In the near term, we believe that any equity correction will be modest in nature as investors are likely eager to add equity exposure at lower prices. However, the sharp five-month rally in equities has been somewhat predicated on an economic soft-landing that sees inflation back to near-2% and interest rates significantly lower. If any of those presumptions prove incorrect, the equity market would be more susceptible to a substantial drawdown.

8. Bloomberg.

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