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A View from the Bevy – 1Q24

Market Review

Stocks continued to rally in the first quarter, with many indices hitting record highs on multiple occasions. While many had expected some consolidation during the quarter, negative days were quickly followed by impressive rebounds. The S&P 500 had its best first quarter performance since 2019 and ended the quarter at an all-time high. All the major U.S. stock indices rose for the 5th straight month and second straight quarter.

As shown in the table below, stocks continued to rally around the globe, with the U.S. outperforming international markets. Bonds declined in the quarter after 2023's late-year rally.

Stock Market Indices	1st Quarter 2024
S&P 500	10.56%
S&P 500 (Equal-Weight)	7.91%
Dow Jones Industrial Average (DJIA)	6.14%
NASDAQ Composite	9.11%
Bloomberg US Aggregate Bond	-0.78%
Russell 2000	5.18%
MSCI World	8.88%
MSCI World ex U.S.	5.59%
MSCI Emerging Markets	2.37%

Source: AJO. Data supplied by FactSet Research Systems.

Technology stocks continued to lead the way, particularly Artificial Intelligence (AI) favorites Nvidia and Super Micro Computer, although these stocks did exhibit more volatility than the general market. Retail and consumer discretionary stocks have been particularly strong during this rally, while utilities and consumer non-discretionary stocks have lagged.

Perhaps the best explanation for the continued rally, other than the absence of a lot of negative news, was a good earnings season and a growing consensus that the economy will indeed have a soft landing, thus avoiding a recession.

The biggest news of the quarter was the dovish stance that the U.S. Federal Reserve (Fed) took after its last meeting on March 19-20. Even though the Fed kept interest rates unchanged for the third straight meeting, Chairman Powell confirmed that the Fed still expected to cut interest rates three times in 2024. This reaffirmation drove stocks to have their best week of the year, with many indices rising more than 2%. Even though the Fed reduced its estimate of the number of interest rate cuts in 2025 from four to three, investors are currently focusing on the good news, rather than the bad news.

Market Review

Markets enter the second quarter in an optimistic mood after a surprisingly strong first quarter. April is typically a seasonally strong month for stocks and first quarter earnings season is just a few weeks away. Earnings are expected to be strong overall, with FactSet anticipating that the S&P 500 earnings grow 3.4% for the quarter. We could see some consolidation of recent gains at the beginning of April, however, which would be a normal market reaction after the performance of the last year. In particular, the tech sector has had a strong run, up 39% in the last 12 months.

The Fed has acknowledged that while wholesale and consumer inflation ticked up in February, inflation has continued to cool despite sitting above the Fed's target level of 2%. Fed Chair Jerome Powell stated that the recent inflation reports "haven't really changed the overall story, which is that of inflation moving down gradually on a sometimes-bumpy road toward 2%."

The outlook for corporate profits remains strong and talk of a recession have faded. We are also in a presidential election year, which has historically been a positive for stock returns.

So, what can go wrong? While the fallout from the collapse of the Francis Scott Key Bridge in Baltimore has not been significant yet, there are some concerns that supply chain issues could emerge leading to higher inflation data. Anything that pushes back rate cuts would make the market nervous. Additionally, there is always the chance of another Black Swan event like this occurring at any time.

The war in the Middle East remains a hotspot and the chances that it may spread to other countries in the region remain very real. Tensions with Russia also remain high, and the threat of Russia militarily engaging with other NATO counties is a continuing concern.

And, let's be honest, this presidential election is shaping up to be different than any that we have seen in a long time, if ever. We have two historically unpopular choices running against each other, with a third-party candidate in Joe Kennedy who could play spoiler. What is interesting is that, currently, the pundits seem split on who his candidacy helps or hurts more.

At this point, with the election seven months away, much of the election talk will just be background noise. Even with the risks mentioned, markets will likely be more focused on inflation, corporate earnings, and the health of the economy, and how those things impact the Fed's decision making. Barring any unforeseen events, we feel the outlook remains positive, and conditions are favorable for the market rally to likely continue – albeit with some inevitable bumps along the way.

Have a great quarter, and, as always, we encourage you to remain focused on your long-term investment plans rather than any events or volatility that occur on a day-to-day basis. Please feel free to reach out at any time with questions.

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Of Interest: Stocks Can Go Up Despite Government Gridlock

Congress's game of averting a government shutdown at the last minute by agreeing to short-term extensions to temporarily fund the government has happened repeatedly in recent years. It happened twice in 2023 and twice this year. It's the proverbial kicking of the can down the road – or functional dysfunction.

Lately, it seems to be getting worse. Although there has not been an actual shutdown since 2019 (there was a short "technical" shutdown on March 23rd, but many aren't counting it because it only lasted a few hours), lawmakers are taking longer to agree, with close to 46% of the fiscal year being funded by continuing resolutions rather than full-year appropriations. It's bound to happen again next year.

But do government shutdowns really matter? Since 1981 the U.S. government has faced 14 funding gaps that lasted at least one day, 10 of which resulted in shutdowns. The good news is that while a shutdown may be a nuisance, history suggests it is likely not a cause for concern for your portfolio.

Funding Gaps lasting at least one day since 1981.

DATE FUNDING ENDED	DURATION OF FUNDING GAP (DAYS)	DATE FUNDING RESTORED	SHUT-DOWN
11/20/1981	2	11/23/1981	X
09/30/1982	1	10/02/1982	X
12/17/1982	3	12/21/1982	
11/10/1983	3	11/14/1983	
09/30/1984	2	10/03/1984	
10/03/1984	1	10/05/1984	X
10/16/1986	1	10/18/1986	X
12/18/1987	1	12/20/1987	
10/05/1990	3	10/09/1990	X
11/13/1995	5	11/19/1995	X
12/15/1995	21	01/06/1996	X
09/30/2013	16	10/17/2013	X
01/19/2018	2	01/22/2018	X
12/21/2018	34	01/25/2019	X

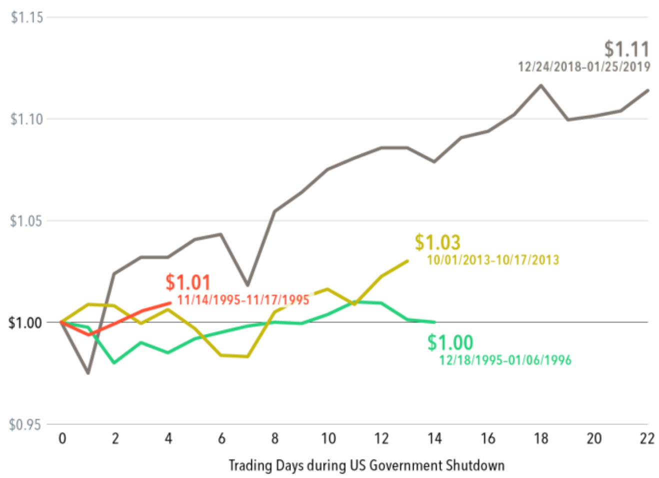
Source: Dimensional Fund Advisors (Dimensional) and the U.S. House of Representatives: History, Art & Archives.

During these shutdowns, many nonessential functions of the government cease to operate. In most of these past cases, the fiscal shortfall was resolved within a few days. Some impasses, like the December 1982 episode lasted merely a weekend.

However, four shutdowns lasted at least five days. How did stocks fare during these longer episodes? The good news is that the U.S. stock market ended higher at the conclusion of three of these shutdowns and was flat in the other, as shown below. Our takeaway? Stay the course, because with history as a guide, any short-term volatility or uncertainty caused by a government shutdown should be short-lived and is unlikely to derail longer-term market sentiment to any significant degree.

HONESTY. INTEGRITY. PERSPECTIVE.

Growth of wealth during government shutdowns
Lasting at least five days since 1981



As measured by the Fama/French Total U.S. Market Research Index
Source: Dimensional Fund Advisors (Dimensional)

In addition, let's not forget that this is a presidential election year in the United States. Historical trends suggest positive gains for stocks in U.S. election years. For example, an August 2020 Forbes article examined calendar year performance during presidential election years from 1928 to 2019. The average return for stocks in those election years was 11.3%.

There are of course other events – both economic and geopolitical – that could potentially impact the markets as the year progresses, and as always, we monitor these developments, and will make changes to client portfolios as appropriate.