Market commentary notes

Monthly call notes
Monday, April 1, 2024

Wealth Management

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Key issues last month and this month:

The Fed FOMC meeting March 20–21 — The Fed held their most recent FOMC meeting 10 days ago. The media interpreted the comments as "dovish," meaning that the FOMC isn't far from reducing rates. However, that doesn't appear to be what Chairman Powell truly said.

Excerpting from the release and instructions within the FOMC:

1. According to their latest economic projections, the FOMC sees real GDP growth for the next three years as centering on a 2% inflation target rate. Unemployment going to 4% and their favorite inflation measure, PCE core price index of 2.6% this year, 2.2% in 2025 and 2% in 2026. However, they also put the highest uncertainty on these numbers that they have since 2012. That tells me that they are likely to be cautious, careful and conservative in lowering rates. [https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20240320.pdf, March 20, 2024]
2. They put a range on where the FFR might be in mid-2026. The median is 3% but they put a range on it from 0.5% to 5.5%. Put differently, they don't have a sense for where rates are going. Historically, their average error rate, in guessing rates two years out, has been +/- 2.5%. From their report, " ... would imply a probability of about 70% that actual GDP would expand within a range of 1.4 to 4.6% in the current year, 1.0% to 5.0% in the second year and 0.8% to 5.2% in the third year."
3. "The Committee does not expect it will be appropriate to reduce the target range until it has greater confidence that inflation is moving sustainably toward 2%." [FOMC Press Release. 20 March 2024] To me, that doesn't sound like they are in a hurry to reduce rates.

Employment — The BLS reported 275,000 new payroll jobs in February. We won't have March estimates for another week or 10 days. The unemployment rate came in at 3.9%, indicating that more people are joining the labor force and looking for work. So, in the whole, things are in good shape from an employment standpoint. [https://www.bls.gov/news.release/empsit.nr0.htm, March 31, 2024 – posted March 8, 2024]

Inflation — The 12-month core PCE price index (excludes food and energy) was up 2.8% in February. The full index was up 2.5%. That was in line with market expectations but short of reductions that might motivate the Fed to reduce the Fed Funds Rate (FFR). [https://www.bea.gov/data/personal-consumption-expenditures-price-index-excluding-food-and-energy, March 31, 2024]

March — Continued improvements — The S&P 500 continued its upward moves in March, rising another 3.2% to 10.5% YTD. Midcaps rose a little more and small caps rose with the S&P 500. International stocks also posted returns of 2.5% to 3%. Some of this was likely due to better earnings growth and to continued hopes that the Fed would soon reduce overnight rates. In addition, indicators of GDP growth continue to come in positively and Europe and China both appear to be gradually recovering from their malaise.

Investment grade bonds also improved about three quarters of a percent, though still negative YTD. Oil remains up quite a bit this year. Global oil prices are set by supply and demand with some political overlays. Recently, India has been restricted from buying Russian oil. As the demand for oil from other geographies increases, prices have risen. [https://www.reuters.com/markets/commodities/indias-oil-imports-russia-hit-12-month-low-jan-sanctions-bite-2024-02-01/] In addition, global production has been about flat for the last year despite recoveries in various economies. Saudi production in particular is down about 15% over the last year. [https://www.eia.gov/international/data/world/petroleum-and-other-liquids/quarterly-petroleum-and-other-liquids-production?pd=5&p=00000000000000000000000000000000vg&u=0&f=Q&v=mapbubble&a=-&i=none&vo=value&&t=C&g=00000000000000000000000000000000000000-0000001&l=249-ruvvvvvfvtvnvv1vrvvvvfvvvvvfvvvou20evvvvvvvvvvnvvvs0008&s=94694400000&e=1688169600000, April 1, 2024]

Global stock indexes

Total Index	March %	YTD %	1 yr %	2023 Est PE Trailing/ Projected
S&P 500	3.22	10.56	29.88	23.27/21.76
S&P Mid Cap	5.60	9.95	23.33	18.25/16.49
S&P Small Cap	3.24	2.46	15.93	26.69/16.44
FTSE All REIT	1.78	-1.30	8.02	
MSCI All Country xU.S.	3.13	4.69	13.26	
MSCI Emerg Mkt	2.48	2.37	8.15	

Source: Morningstar as of March 31, 2024. Estimated PE's are 12-month values from S&P Dow Jones Indices. Trailing PE's are as of September 29, 2023. Projected PE's are as of December 29, 2023. Figures are provided for comparisons over time.

Fixed income and alternatives

Total Return Index	March %	YTD %	1 yr %
Bloom Agg Intermed	0.78	-0.42	2.30
ICE BofA U.S. Convertibles	2.23	2.29	11.70
S&P GSCI	4.73	10.36	11.14
Bloom U.S. Corp HY	1.18	1.47	11.15

Source: Morningstar as of March 31, 2024.

Sector performance — In March, the best performing sectors on a YTD basis were: communications, energy and IT. Financials and industrials also did better than the S&P average YTD. The bottom three were real estate, consumer discretionary and utilities. Interesting thing about energy: Oil is up 12.9% YTD [WTI as reported in: https://www.usatoday.com/money/blueprint/investing/oil-prices-03-28-2024/] and energy sector stocks are up 12.7%. The correspondence isn't always so close but in general the energy sector performance tends to follow oil prices. [https://www.spglobal.com/spdji/en/documents/performance-reports/dashboard-us.pdf, March 31, 2024] [https://digital.fidelity.com/prgw/digital/research/sector, March 31, 2024]

Commodities

Commodity and food price changes, current month and YoY

Total Index	March %	YoY %
Copper	4.1%	-1.9%
Lumber	-1.9%	20.9%
Cotton	-10.0%	10.4%
Sugar	-0.3%	6.0%
Coffee	-3.6%	11.3%
Wheat	0.7%	-18.9%
Corn	4.1%	-31.9%
Oil	5.1%	11.6%
NatGas	-11.3%	-16.7%

Source: https://tradingeconomics.com/commodities, March 31, 2024

Five of these nine major commodities saw prices decline in March. It was four last month. For these nine, the average one-year price change was a decline of 1%, which indicates price stability over the last year.

Looking more broadly at commodities, when we look at 22 categories of agricultural commodities and 26 categories of industrial commodities, 24 of the 48 saw price declines in March, compared to 29 in February. Thirty-one saw lower prices than a year ago. That suggests to me that we are getting a little closer to price stability. In other words, inflation may moderate further but we're not likely to see decreases.

U.S. economy

The U.S. economy keeps growing . . .

GDP estimates

[https://www.bea.gov/data/gdp/gross-domestic-product, March 31, 2024] The economy continues to surprise with positive growth numbers. The final GDP real growth estimate for 4Q23 is 3.4%.

The Atlanta Fed's GDPNow model to estimate 1Q GDP growth is now estimating a 2.3% real growth rate for the quarter we're currently in, up from 2.1% three weeks ago. [https://www.atlantafed.org/cqer/research/gdpnow, March 30, 2024] [https://www.census.gov/econ/indicators/advance_report.pdf, Mar. 30, 2024]

U.S. PMI statistics

The March PMI Manufacturing number was up fractionally at 52.5. Services dipped a bit to 51.7. Both readings were modestly to moderately positive. [Trading Economics, PMI statistics March 31, 2024.]. [Trading Economics, https://tradingeconomics.com/country-list/services-pmi March 31, 2024].

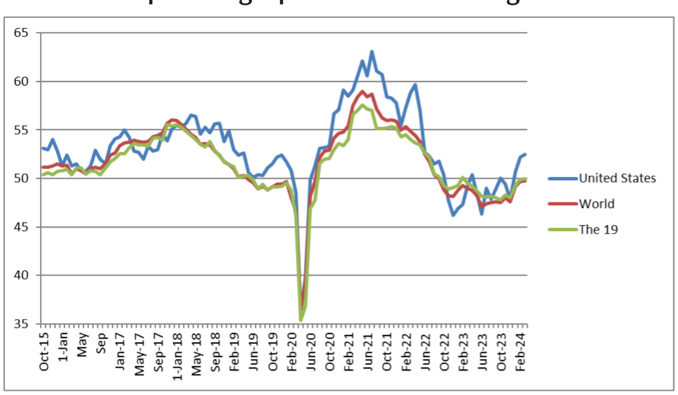
Incidentally, U.S. industrial capacity utilization stands at 78.5%, which is a little less than the average for the last 40 years. That suggests that demand pressures aren't currently what's driving inflation. [https://www.federalreserve.gov/releases/g17/current/default.htm, 30 March 2024]

International

Manufacturing PMI

Every month I look at global purchasing managers index (PMI) statistics. The March numbers aren't fully updated so the global picture is incomplete. That said, we still appear to have 19 out of 38 manufacturing economies in the growth zone. Germany, France and the Eurozone dipped a little, with the Eurozone coming in at 45.7. EU's Services PMI rose some more to 51.2, with Germany up to 49.8. Italy at 52.2 and Japan at 54.9. China stayed about where it was at 52.5. [https://tradingeconomics.com/country-list/services-pmi, March 31, 2024].

Here's our updated graph of Manufacturing PMIs



Source: Author's calculations based on published PMI statistics, as of March 30, 2024.

Table summary

Region	Manu PMI	Last Month	12 mo. Ago
U.S.	52.5	52.2	49.2
19 majors	50.0	49.9	49.5
38 world	49.7	49.7	49.0
EU	45.7	46.5	47.3
China	50.9	50.9	50.0

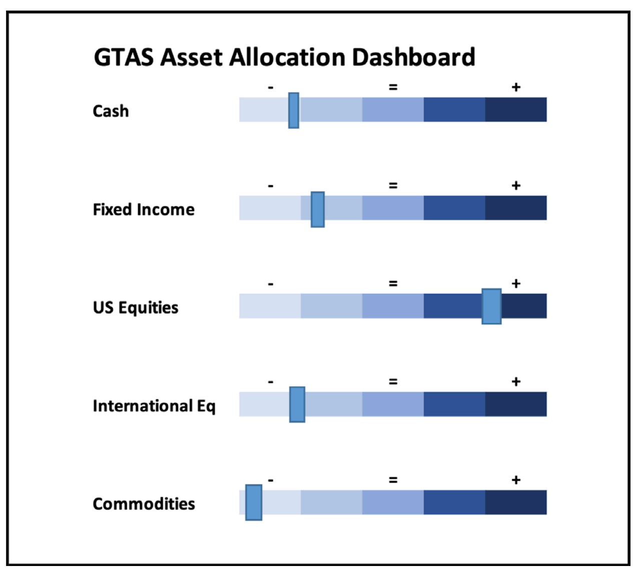
Source: Author's calculations based on published PMI statistics, March 30, 2024

Investment strategy

Stocks have continued their upward climb so far in 2024. I think this has been helped by good employment figures as well as better corporate earnings growth. The slow recovery of other major economies in the world has also been a positive. Taken together, our sense is that we could see some more U.S. equity appreciation and perhaps a little catch-up in the rest of the world, although the elevated U.S. dollar may hold that back a little. It's surprising that U.S. small cap has lagged as much as it has. At some point we're likely to see growth there but I think the focus on the magnificent seven has been at the expense of small caps to some degree.

Where fixed income is concerned, my sense is that short term rates will come down slower and later than many seem to hope. That means that intermediate rates may sell off a little more. I'd expect 10-year treasuries to lose another 2% in principle, meaning a total return of about +1-2% for the year. Lower quality credits may do a little better as I don't see a recession on the horizon.

GTAS Allocation chart



(+/=/-) represents our group's views over a 6- to 18-month time horizon concerning tilts relative to our strategic positions.

+ implies an overweight in that asset class.

= implies a weighting similar to our strategic weight.

- implies an underweight.

Index definitions

Past performance is no guarantee of future results.
You cannot invest directly in an index.

Bar Agg Intermed — Bloomberg Barclays U.S. Aggregate Intermediate Total Return index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns for the index are total returns, which includes the daily reinvestment of dividends.

Bar U.S. Corp HY — Bloomberg Barclays U.S. Corporate High Yield Total Return index includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of $100 million, and at least one year to maturity.

FTSE All REIT — FTSE Nareit All Equity REITs Total Return index is an index of publicly traded Real Estate Investment Trusts (REITs) that own commercial property. All tax-qualified REITs with common shares traded on the NYSE, AMSE or NASDAQ National Market List are eligible. Additionally, each company must be valued at more than $100MM USD at the date of the annual review.

ICE BofA U.S. Convertibles — ICE BofA U.S. Convertible Bonds Total Return index tracks the returns of U.S.-traded convertible debt issued by companies with a significant presence in the United States. The index is composed of various combinations of convertible structure and credit quality, e.g., it includes investment-grade, speculative-grade, and non-rated issues. The returns for the index are total returns, which include reinvestment of dividends.

MSCI All Country xU.S. — MSCI All Country World Index Ex USA NR is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The index consists of 48 developed and emerging market country indices. The returns for the index are total returns, which include reinvestment of dividends.

MSCI Emerg Mkt — MSCI Emerging Markets NR index consists of 26 developing economies including Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

S&P 500 — S&P 500 Total Return index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the U.S.; it's often used as a proxy for the U.S. stock market. Total Return (TR) indexes include daily reinvestment of dividends.

S&P GSCI — S&P GSCI Total Return index is a composite index of the commodity futures. It represents unleveraged, long only investments in commodity futures that are broadly diversified.

S&P Mid Cap — S&P MidCap 400 Total Return index is comprised of stocks in the middle-capitalization range, and includes approximately 10% of the capitalization of U.S. equity securities. Total Return (TR) indexes include daily reinvestment of dividends.

S&P Small Cap — S&P SmallCap 600 Total Return index consists of 600 domestic stocks chosen for market size, liquidity, and industry group representation. Total Return (TR) indexes include daily reinvestment of dividends.

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