IM&R Economic and Market Review Q1 2024

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WEALTH ARCHITECTS

Economic Review

Bumpy road ahead. Federal Reserve Chairman Jerome Powell says he expects inflation to come down to 2% but the central bank's policy makers still need to see further evidence before they cut rates. Two years ago in March 2022, the Fed began aggressively raising rates to what is now a 23-year high of 5.25%-5.5%. Those rates have remained in place since last July. Futures markets currently put the odds of a first cut this June at 63%. The updated Summary of Economic Projections (SEP) or "dot plot," a chart indicating where each Fed official sees interest rates in the future, point to three 25 basis point cuts before the year is out.

Inflation continues its descent toward the Fed's target. The Bureau of Labor Statistics (BLS) February Headline Consumer Price Index came in at 3.2%, compared to 6.0% for the 12 months prior. The Core CPI (ex food and energy) has been stickier but has slowly dropped to 3.8%. Shelter prices increased by 5.7%. Freddie Mac says that 30-year mortgage rates are currently at 6.79%, lower by 1% from a high of 7.79% last October. The median sales price of new houses sold in February 2024 was $400,500.

Real gross domestic product (GDP), a key indicator of economic activity, increased at a healthy annual rate of 3.4% in the fourth quarter, according to the Bureau of Economic Analysis. The latest Atlanta Fed GDPNow model estimate for first quarter GDP is at 2.8%.

The Conference Board Leading Economic Index (LEI) rose in February for the first time in two years. The Index still suggests some headwinds to growth going forward. The Conference Board expects annualized U.S. GDP growth to slow over the next two quarters, as rising consumer debt and elevated interest rates weigh on consumer spending. Consumer expectations for the next six months slipped to the lowest level since October 2023. Brighter perceptions of today's conditions were eclipsed by rising anxiety about the future.

The unemployment rate increased to 3.9% in February, according to the BLS. The number of unemployed persons rose to 6.5 million. A year earlier, the unemployment rate was 3.6% with 6.0 million unemployed. The Job Openings and Labor Turnover Survey (JOLTS) showed 8.9 million job openings, indicating there are still about 1.4 jobs available for every unemployed worker.

Financial Markets Review: Domestic Stock Market

The S&P 500 set 22 new highs in the first quarter and closed the period up 10.56% to 5,254.35. The index only had three days in the first quarter when it fell by more than 1%. The NASDAQ and the Dow Jones Industrial Average also reached new highs, with the NASDAQ Composite climbing 9.31% to 16,379.46 and the DJIA ending up 6.14% to 39,807.37.

As a group, the technology stocks regarded as the "Magnificent Seven" had mixed results in the quarter. Five of the seven advanced and Nvidia led the group, catapulting 82.46%. Apple and Tesla fell, with Tesla's drop of -29.25% representing the worst stock in the S&P 500 for the first three months.

DJIA top performers for the quarter included The Walt Disney Companies, vaulting 35.52%, followed by Caterpillar leaping 24.37% and American Express rising 21.86%. The worst performers for the quarter were Boeing, tumbling -25.96%, Nike, falling -13.10% and Intel sinking -11.85%.

Of the 11 S&P 500 sectors, only real estate was in the red for the quarter, down -0.55%. Utilities increased 4.57% and consumer discretionary grew 4.98% to round out the bottom three sectors. The top three sectors included communication services jumping 15.82%, energy advancing 13.69% and information technology rising 12.69%.

Among industry groups, top performers included semiconductors and equipment (+39.46%), insurance (16.73%) and media (+16.67%). Laggards included automobiles and components (-22.72%), tech hardware and equipment (-7.17%) and consumer durables and apparel (+1.49%).

According to FactSet, analysts are projecting a year-over-year earnings increase of 3.6% for the first quarter. For the full year 2024, earnings are projected to grow 11.0% on revenue growth of 5.0%. For 2025, analysts are currently projecting strong earnings growth of 13.4% and revenue growth of 6.0%.

The current outlook is that a recession will be avoided in 2024, inflation will fall and the Fed will engineer a soft landing. The economy is on solid footing and corporate earnings are strong. However, there are increasing signs of consumer spending fatigue, rising credit delinquencies and extended equity valuations. Persistent inflation and pressure from commodity prices, particularly oil, may lead to fewer rate cuts from the Fed. Other areas of interest include rising debt and deficits, and geopolitical risks in Europe, the Middle East and Asia.

	Total Returns* (3/31/24)			Annualized Returns (3/31/24)		
Category/Style	**1st Quarter**	**Year-to-Date**	**One Year**	**Three Years**	**Five Years**	**Ten Years**
S&P 500	10.56	10.56	29.88	11.49	15.05	12.96
S&P Midcap 400	9.95	9.95	23.33	6.96	11.71	9.99
S&P Small Cap 600	2.46	2.46	15.93	2.28	9.15	8.80
Russell 1000 Large Cap Growth	11.41	11.41	39.00	12.50	18.52	15.98
Russell 1000 Large Cap Value	8.99	8.99	20.27	8.11	10.32	9.01
Russell 2000 Small Cap Growth	7.58	7.58	20.35	-2.68	7.38	7.89
Russell 2000 Small Cap Value	2.90	2.90	18.75	2.22	8.17	6.87

Source: Standard and Poor's, Frank Russell Company * returns include reinvested dividends

International Stock Markets

PMI data released for March brought further signs that economic growth trajectories have improved since late last year, with growth across the four largest developed economies (the 'G4') hitting a nine-month high in March.

The MSCI EAFE Index of developed markets gained 5.78% in the first quarter. MSCI Emerging Markets Index advanced 2.37%, and the MSCI Frontier Markets were higher by 5.25%.

In the Eurozone, business activity came close to stabilizing in March, as survey data registered only a marginal decline in output of goods and services. A modest recovery of service sector output gained momentum, accompanied by a softening in the rate of manufacturing output decline. Most markets experienced healthy gains in the quarter with the Stoxx Europe 600 Index rising 9.71% to 520.21. In local currencies, Germany's DAX Index rose 10.39% to 18,492.49, France's CAC-40 was 8.78% higher to 8,205.81 and the United Kingdom's London FTSE 100 edged up 2.84% to 7,952.62.

In Asia-Pacific markets, the performance of the Japanese manufacturing sector remained downbeat at the end of the first quarter, though there were signs that the worst of the weakness had passed. Japan's Nikkei stock index gained 5.04% for the period to 33,464.17.

In emerging markets, overall optimism among Chinese manufacturers improved for a third straight month in March. Firms pinned hopes of rising manufacturing activity upon a better economic outlook. The level of business confidence was the highest seen since April 2023. The China Shanghai Composite Index moved up 2.22% for the quarter to 3,041.17. In India, PMI data showed the strongest increase in private sector output in eight months during March, amid a pick-up in growth at goods producers. The S&P BSE Sensex Index advanced 1.95% to 73,651.35.

The U.S. Dollar Index (DXY) continued its outperformance in the first quarter, advancing 3.12% to 104.55. The dollar increased 7.31% against the yen to $151.33 (JPY/USD), and was 2.22% higher vs. the euro at $1.0798 (USD/EUR).

World Bond Markets

In the U.S., the 3-month/2-yr. treasury spread and 2-yr./10-yr. treasury spread remain inverted, at 0.74% and 0.43% respectively. The 3-month T-bill ended the quarter yielding 5.35%. The 2-year note rose to 4.62%, and the U.S. 10-year treasury bond climbed to 4.19%.

With interest rates backing up, bonds fell in the first quarter. The Bloomberg Aggregate Bond Index slid -0.78%. Likewise, the Bloomberg Municipal Index was lower by -0.39%% for the quarter and the Barclays U.S. Treasury TIPS Index edged down -0.08%. Money market yields were stable at 5.14%, as reported by the Crane 100 Money Fund Index.

According to Value Line, yields on 10-year government bonds ended the quarter higher in the UK (4.00%), Canada (3.53%), Germany (2.35%) and Japan (0.73%). In March, the Bank of Japan became the last central bank around the world to exit from its policy of negative interest rates. At the peak of the global zero-interest rate policy regime in December 2020, more than $18 trillion in global debt traded at negative rates.

Commodities

Commodities moved up in the first quarter by 3.29% to close at 989.28 according to the DJ Commodity Index. Oil prices jumped by $11.52 (16.08%) to $83.17/barrel. And according to AAA, consumers watched prices at the pump creep back up, with the national average price of gas 43 cents higher to $3.53/gallon, representing a gain of 13.88%. Gold continued to climb, hitting a new record high and ending the quarter at $2,217.40/troy oz., for a quarterly gain of $155, or 7.51%.

Mutual Funds/Exchange-Traded Funds

According to the Investment Company Institute, assets in exchange-traded funds (ETFs) rose to $8.47 trillion, a gain of 25.9% over the past year. The growth in the number of ETFs continues with an increase of another 269 funds in the past year to 3,141. The total number of mutual funds continued to contract with a loss of 169 funds over the past year to 7,210. Investors piled more of their assets into money market funds as the coffers increased to $6.1 trillion, for a 24.4% increase over the past year.

MUTUAL FUNDS OVERVIEW AS OF MARCH 31, 2024

	Total Returns			Annualized Returns		
Category	1st Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Interim-Term	0.12	0.12	3.30	-0.38	1.36	2.08
Short-Term Taxable Bond	0.88	0.88	4.90	0.48	1.69	1.60
Intermediate Taxable Bond	-0.50	-0.50	2.05	-2.42	0.37	1.43
Long-Term Taxable Bond	-1.27	-1.27	2.18	-4.39	0.52	2.85
High Yield Bond	1.65	1.65	10.35	2.06	3.76	3.60
Global Bond	-1.53	-1.53	2.45	-3.50	-0.80	-0.35
Small-Cap Blend	5.68	5.68	18.93	3.44	9.33	7.66
Mid-Cap Blend	9.21	9.21	22.48	6.45	10.89	8.99
Large-Cap Blend	9.94	9.94	27.23	9.88	13.65	11.45
Global Stock Large Blend	7.00	7.00	19.06	6.03	9.67	7.89
Foreign Large Blend	5.22	5.22	13.54	2.91	6.56	4.53
Natural Resources	2.82	2.82	8.36	7.81	10.88	5.03
Real Estate	-0.94	-0.94	8.48	1.70	3.43	5.87

Source: Morningstar Category Returns, Morningstar, Inc.

Important Definitions and Disclosures

The opinions and material presented are provided for informational purposes only. No person or system can predict the market. Past performance is no guarantee of future results. This material includes forward-looking statements that are subject to certain risks and uncertainties. Actual results, performance or achievements may differ materially from those expressed or implied. No predictions or forecasts can be guaranteed. Companies mentioned are for informational purposes only. It should not be considered a solicitation for the purchase or sale of the securities. Any investment should be consistent with your objectives, time frame and risk tolerance. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the risk of principal loss. There is no assurance that the investment goals and process described herein will consistently lead to successful investing. The investment return and principal value of an investment will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost. Funds that invest in stocks of small-cap or mid-cap companies involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies. Funds that invest in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments. An investment in a money market fund is not insured or guaranteed by the FDIC, or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.

The information shown does not constitute investment advice and does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact with respect to any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. Nothing contained herein should be construed as a recommendation to buy or sell any individual securities. It should not be assumed that an investment in any of the securities identified was or will be profitable.

The Bureau of Economic Analysis (BEA) of the United States Department of Commerce is a U.S. government agency that provides official macroeconomic and industry statistics, most notably reports about the gross domestic product (GDP) of the United States and its various units such as states, cities, towns, townships, and villages. **Gross Domestic Product** (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by U.S. companies in foreign markets. **Real Gross Domestic Product** (real GDP) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). The **Atlanta Fed GDPNow** estimate is a model-based projection not subject to judgmental adjustments. It is not an official forecast of the Atlanta Fed, its president, the Federal Reserve System, or the Federal Open Market Committee. **The Consumer Price Index (CPI)** measures prices of a fixed basket of goods bought by a typical consumer, widely used as a cost-of-living benchmark, and uses January 1982 as the base year. **Purchasing Managers' Index™ (PMI™)** is a survey-based economic indicator designed to provide a timely insight into business conditions. Flash PMI data are published by S&P Global and are early estimates of the company's final PMI numbers. The Flash PMI data are published approximately one week before final PMI data each month and are typically based on 85%-90% of total PMI responses received each month. Flash manufacturing, services and composite indices are published for: Australia, Eurozone, France, Germany, Japan, United Kingdom, and the United States. **The Conference Board Leading Economic Index® (LEI)** for the U.S. are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components. **Personal Consumption Expenditures** (PCE) is a measure of price changes in consumer goods and services and consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services. The **ISM Manufacturing Index** is based on surveys of more than 300 manufacturing firms by the Institute for Supply Management (ISM). The ISM Manufacturing Index monitors employment, production, inventories, new orders and supplier deliveries. A composite diffusion index monitors conditions in national manufacturing and is based on the data from these surveys. The **Federal Reserve System** (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. The **Federal Open Market Committee** (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). The **unemployment rate** percentage of total workforce who are unemployed and are looking for a paid job. Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of weakening economy that may call for cut in interest rate. A falling rate, similarly, indicates a growing economy, which is usually accompanied by higher inflation rate and may call for increase in interest rates. Labor force participation rate is the percentage of working age population that is part of the labor force. It is a measure of what proportion of a country's population is employed or actively looking for employment. The index of leading economic indicators is intended to predict future economic activity. Typically, three consecutive monthly LEI changes in the same direction suggest a turning point in the economy. **Inflation** is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times. **Treasury Yield Curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. **The Michigan Consumer Sentiment Index** was created in the 1940s is conducted by the Survey Research Center and consists of at least 500 telephone interviews posed to a different cross-section of consumers in the continental U.S. each month. The survey questions consumers on their views of their own personal finances, as well as the short-term and long-term state of the U.S. economy. The **International Monetary Fund (IMF)** is an international organization that was initiated in 1944 at the Bretton Woods Conference and formally created in 1945 by 29-member countries. Each survey contains approximately 50 core questions, and each respondent is contacted again for another survey six months after completing the first one. The answers to these questions form the basis of the index. An **exchange-traded fund (ETF)** is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Indexes are unmanaged and investors cannot invest directly in an index.

Morningstar Category Returns are composed of the average return for the funds in each Morningstar category over the indicated time period. Categories are defined by Morningstar based on holdings statistics. The category returns are adjusted for survivorship bias, meaning they include all investments even if liquidated, merged or otherwise now obsolete. The returns also include funds that were in a given Morningstar category but have since changed to another category.

Benchmark Definitions

The **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the U.S. from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. **The S&P MidCap 400** provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. **The S&P SmallCap 600** seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The **Russell 2000** Index is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small-cap securities market. The **Russell 1000** Index is a subset of the Russell 3000 Index that includes approximately 1,000 of the largest companies in the US equity universe, representative of the US small-cap securities market. **Russell Large Cap Growth Index** measures the performance of those Russell 1000 Index securities with higher price-to-book ratios and higher forecasted growth values, representative of US securities exhibiting growth characteristics. **Russell Large Cap Value Index** measures the performance of those Russell 1000 Index securities with lower price-to-book ratios and lower forecasted growth values, representative of US securities exhibiting value characteristics. **MSCI EAFE Index** is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. The **MSCI Frontier Markets Index** provides a broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The **CAC 40 Index** is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. **S&P BSE Sensex index**, is the benchmark index of the Bombay Stock Exchange (BSE). It is composed of 30 of the largest and most actively-traded stocks on the BSE, providing an accurate gauge of India's economy. **Bloomberg Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The **Bloomberg Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital U.S. Government Inflation-Linked Bond Index** (U.S. TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from $1000 to $1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. The **10-year Treasury** Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. The **Crane 100 Money Fund Index** measures the average yield of the 100 largest taxable money market funds. **Barclays Capital Global Aggregate ex-U.S. Index** measures the performance of the global bond market, excluding U.S. securities. **The Dow Jones Commodity Index**℠ is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. The index is designed to minimize concentration in any one commodity or sector. Due to market fluctuation, the commodities represented by this index may experience loss of invested principal and are subject to investment risk. The **U.S. dollar index (DXY)** is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.