FINANCIAL MARKET SNAPSHOT

April 25, 2024

First Quarter Market Recap

In this edition of the Market Snapshot, we take a look at what happened during the first quarter of 2024.

Entering the year, investor enthusiasm appeared mostly driven by hopes that the Fed would soon begin to aggressively cut interest rates throughout 2024, triggering a broad-based rally that persisted for much of the first quarter. As the quarter progressed, participation within the equity market continued to broaden out beyond the dominant technology companies that led at the beginning of the rally. As a result, the tech-heavy Nasdaq Composite index gained 9.3% in the quarter, slightly lagging the S&P 500.

In January, Wall Street traders were expecting as many as six quarter-point rate cuts, with the first anticipated during the March FOMC meeting. However, that didn't happen, leaving the Fed Fund's rate at a 23-year high of ~5.3%. Perhaps more notably, expectations have significantly changed since the beginning of April, with investors now anticipating just two rate cuts this year, with the first likely in September.

What prompted the shift in rate cut expectations? Recent government data has revealed that inflation remains stubbornly above the Fed's 2% target while the economy continues to grow at a robust rate. During the March 19-20 FOMC meeting, the committee revised its 2024 GDP forecast upward to 2.1%, a significant increase from the 1.4% projected just three months prior. Simultaneously, the FOMC acknowledged that the anticipated decline in inflation would be more gradual than previously anticipated, leading them to revise their core 2024 Personal Consumption Expenditure Core Price Index (PCE) inflation projection upward to 2.6% from 2.4% in December.

Following those upward revisions, investors were caught off guard by an unexpected surge in an alternative inflation metric, the consumer price index (CPI), which rose at an annualized rate of 3.5% in March, up from 3.2% in February. Additionally, its closely watched gauge of "core" prices – which excludes volatile food and energy – remained at 3.8%, defying the consensus expectation which called for a 0.1 percentage point decline.

HB Retirement - We specialize in the investment design assistance and function of corporate retirement plans and wealth management for individuals. We provide insight and specialized support to assist you in managing your fiduciary obligations, and assist your employees with retirement planning.

However, despite headline and core disinflation appearing to stall, there was a noticeable easing of price pressures across an increasing number of goods and services during the month. Analysis from Bloomberg Intelligence revealed that the share of core goods and services experiencing outright deflation rose to approximately 42% in March, compared to 36% in February. Moreover, categories labeled as having "too-high" inflation also saw a decline, with around 6.1% of core spending categories registering annualized inflation between 2.0% and 4.0%, down from 8.8% previously. Although inflation has proven more persistent than anticipated, largely driven by factors such as shelter costs, wages, and automobile insurance/repairs, we anticipate a gradual cooling throughout 2024. This expectation is based on the observation that many of the more resilient categories carry significant index weights and tend to exhibit extended lag times in their responses to economic conditions.

As we move through the second quarter, we'd like to offer some cautionary thoughts and perhaps some reassuring observations.

- While rate cut expectations have been pushed further into the future, equity markets have remained "relatively" resilient. This resilience may stem from the cautious stance adopted by several senior Fed officials who have expressed reluctance to ease interest rates without clear and convincing evidence that inflation remains on track to return to the Fed's 2% target.
- Investors are increasingly focusing on corporate profit growth, which is projected to accelerate throughout 2024. Projections from FactSet indicate strong growth in S&P 500 earnings per share (EPS) each quarter, supporting the argument for continued investment in equities as corporate profitability improves.
- Heightened geopolitical tensions, particularly in the Middle East and Ukraine, are contributing to increased market volatility. While we are hopeful that diplomacy can resolve these conflicts, we believe that the higher risk level warrants caution when it comes to international equity markets.
- Bond markets have faced challenges amid rising interest rates, leading to declines in bond prices. However, potential rate cuts in the future may make bonds more attractive. Despite recent struggles, the current yield environment is considered favorable, offering potential for solid total returns for investors.
- History suggests that a strong start to the year for stocks can bode well for investors through the rest of the year. In the other 16 years that the S&P 500 rose +8.0% or more in the first quarter, only in 1987 did the Index close the year lower. Per Dow Jones market data, the other 15 years saw the S&P 500 close the year higher for an average gain of +9.7% over the subsequent three quarters.

At HB Retirement, our mission is to offer you the assurance that comes with a carefully crafted, diversified investment approach, regardless of the external forces that may influence market fluctuations. We remain steadfast in our commitment to a rigorous and consistent investment methodology, blending top-down macro analysis with thorough bottom-up fundamental research. Our approach allows us to remain agile, responding to evolving market data by adapting our perspectives and portfolios accordingly.

As always, we welcome any inquiries or discussions regarding your portfolio, especially in light of recent developments. Your financial security is paramount to us, and we are dedicated to ensuring that your investment strategy aligns seamlessly with your long-term financial goals. Feel free to reach out at any time; we're here to support you every step of the way.

*`**Important Disclosures:*** *This material is not intended as ERISA, tax or investment advice and is not an offer to sell a security or a recommendation, to buy a security. If you are seeking investment advice specific to your needs, such advice services must be obtained on your own, separate from this educational and informational report. This summary is based exclusively on an analysis of general market conditions and does not speak to the suitability of any specific proposed securities transaction. To determine which investments may be appropriate for you, consult your financial advisor prior to investing.*

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Any company names noted herein are for educational purposes only and not an indication of trading or a solicitation of their products or services. LPL Financial doesn't provide research on individual equities.

Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Stock investing involves risk including loss of principle.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing involves greater fluctuation and potential for losses.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities and are subject to higher interest rate, credit, and illiquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The MSCI EAFE Index is a free float –adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia.

The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing the major sectors of the U.S. economy.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.

Securities offered through LPL Financial, Member FINRA/SIPC. Investment advisory services offered through HB Retirement, a registered investment advisor and separate entity from LPL Financial.