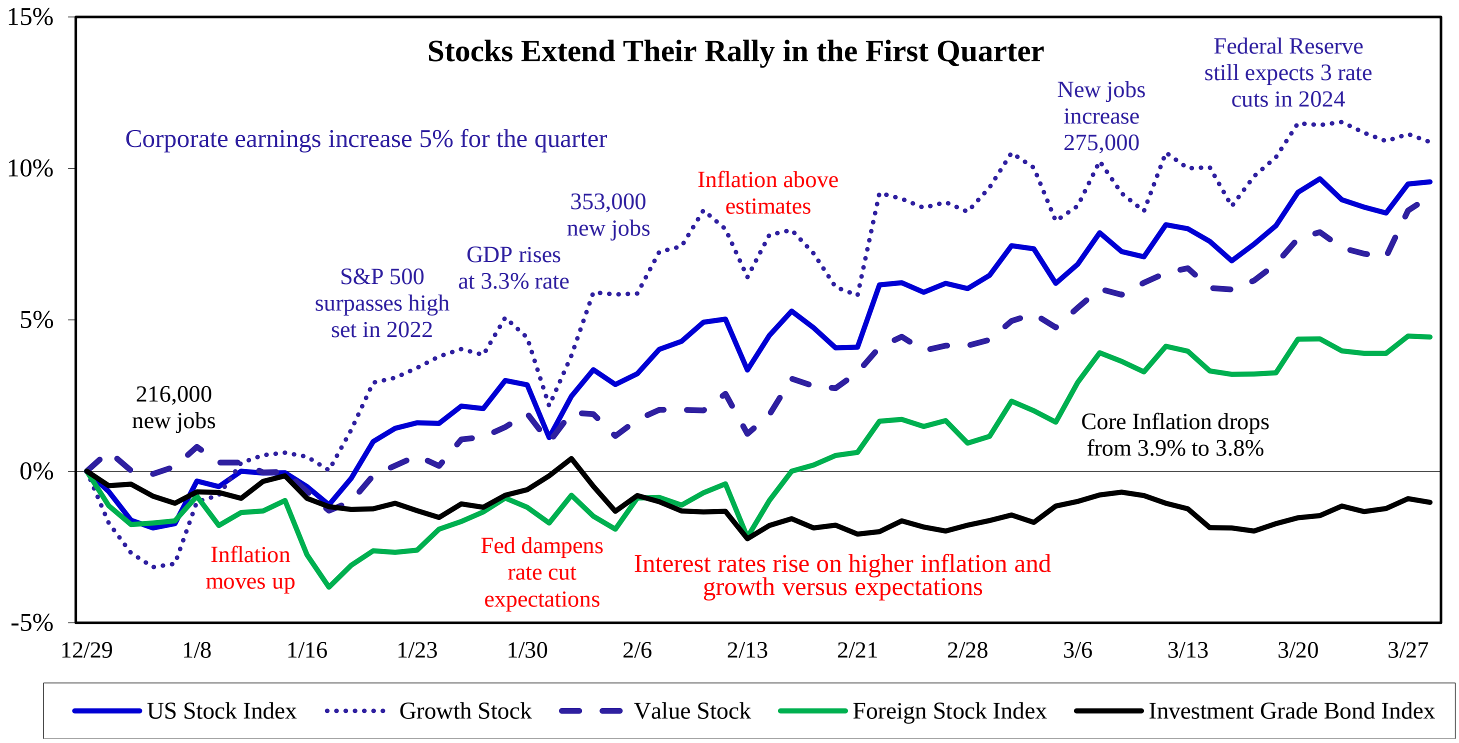
Economic and Financial Market Summary

First Quarter 2024

The stock market rallied in the first quarter and extended the rebound that began in 2023. *The Wall Street Journal* described the causes of the market's strength saying, "The economy continues to defy expectations. Recession worries have mostly disappeared. Resilient corporate profits, enthusiasm around artificial-intelligence developments and hopes that the Federal Reserve is on track to begin cutting interest rates have given investors plenty of reasons to continue buying." (*WSJ*, March 29, 2024)

U.S. stocks gained nearly 10% in the first quarter, outperforming foreign stocks again even though foreign markets were up 4%. Domestic stocks were led by growth companies like Nvidia, Meta, and Amazon, but value stocks also had a favorable quarter, rising 8% on average. Bonds were pressured by rising interest rates due to higher than expected inflation and growth. High quality bonds fell about 0.5% in the first quarter while high yield bonds returned over 1%.



In the fourth quarter, the markets projected six rate cuts by the Federal Reserve in 2024. Investors were remarkably tolerant of the Fed pushing back rate cuts because of the stronger growth and higher inflation. Expectations are now for the Fed to cut interest rates three times in 2024 starting in June. If inflation remains "sticky" and the economy continues to grow at least moderately, this may still be optimistic. Some have said the U.S. has returned to a "Goldilocks" economy with growth slowing enough to allow inflation to fall while expanding enough to continue adding jobs. For the year, Wall Street analysts expect corporate earnings to jump 11%. This generally favorable environment helps to justify the expensive valuations for stocks.

Since 1950, stocks have continued to make gains 94% of the time when the S&P 500 Index rises 8% or more in the first quarter, and stocks have advanced in 83% of the Presidential-election years. Of course, every year is different and this Presidential election is anything but typical. There is not much room for disappointments about inflation, interest rates, or economic growth. When investors become too optimistic and seek out riskier assets (like they are currently), it is prudent to remain disciplined with a long-term perspective knowing surprises can come at any time.

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