

April 2024 REVIEW & COMMENTARY

**PETER W. TUZ, CFA, CFP®
PRESIDENT & PORTFOLIO MANAGER**

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What a quarter it was!



Peter W. Tuz, CFA, CFP®
President & Portfolio Manager

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Unless you've been living under a rock for the past three months, you probably are aware that U.S. equity markets were strong in 2024's first quarter. The S&P 500 Index ("S&P 500") rose 10.56% while the Dow Jones Industrials rose a more modest 6.14%. The first quarter gains were the best for the S&P 500 since 2019. Although growth stocks overperformed value stocks in the quarter (as evidenced by the Russell 1000® Growth Index gains of 11.41% versus the Russell 1000® Value Index gain of 8.99%) the spread wasn't as big as it was in most of 2023. Size mattered some in the quarter with the S&P MidCap 400 index rising 9.95% in the quarter, near the S&P 500's gain, but the S&P SmallCap 600 Index rising only 2.46% in the period.

The "Mag 7" stocks that led the market last year put in more mixed performance in Q1 2024 with Nvidia up 82.46%, Meta Platforms up 37.18%, Amazon up 18.72% Microsoft up 11.88% and Alphabet up about 8.05%. However, Apple Inc. has fallen 10.93% so far this year while Tesla is down 29.25%. S&P 500 sector performance was uniformly strong in Q1 with the top three sectors being Telecommunications Services, up 15.57%, Energy up 12.68% and Information Technology up 12.48%. Only one sector, Real Estate, was down in the quarter, falling 1.36% while the second worst performer, Utilities, rose 3.59% and the third worst performer rose 4.75%.

The top and bottom performing stocks in Q124 were a varied mix as the table on the next page shows.

Equities were not the only asset class that rose in the quarter. Gold rose 8.4% to reach an all-time high of \$2,246 per ounce. Oil (Brent Crude) rose 12.8% in the quarter to \$86.87. And Bitcoin rose 66.3% in the quarter closing at \$70,722.

There are two main reasons for the strong gains, corporate earnings performance and the outlook for the economy and interest rates. Taking the second first, there is now broad based evidence that inflation is falling, while not yet at the Federal Reserve's 2.0% target rate, the last few months have generally headed in that direction with the Fed's preferred inflation gauge, Personal Consumption Expenditures, up 2.6% in December 2023, 2.4% in January 2024 and 2.5%

(over)

in February, 2024. All three are lower than their 2023 counterparts.

Secondly, the outlook for a recession in the near term seems to be slipping. Metrics such as employment growth and consumer spending remain strong. The upshot of this is that the Fed is probably on the path of reducing interest rates, perhaps beginning as soon as mid-year. And the thought of this has gotten equity markets going. We are about to enter the technically weaker May—November period, but we are in a presidential year, which tend to end strong.

Meanwhile, corporate earnings may rebound after a sluggish year in 2023. Current S&P 500 estimates by S&P Capital/IQ call for earnings per share growth of about 10% to \$240 for the S&P 500 in 2024. This compares with estimates of about \$219 for 2023 which was flat with 2022's \$218.15 figure. And preliminary 2025 estimates are now about \$268 per share – growth of more than 10% over 2024 figures.

As always, there is plenty that can go wrong in the next three quarters. First of all, markets are expensive. At the March 28th close of 5258, the S&P 500 is selling for 21.9x 2024's estimate. This is above both the five and 10 year average price/earnings ratios for the index. Meanwhile the expectation interest rates will fall is not matched by reality so far this year. At year-end 2023, the U.S. 10-year treasury was yielding 3.88%. It ended Q1 at 4.21%. Over the same period, one year T-bill rates have also risen from 4.78% to 5.03% on March 28. So while the FED maybe able to lower the overnight interest rate it has control of, longer rates (which are more generally used to value equities) tell a different story. The amount of money the Federal Government has to raise in 2024 and beyond to fund government expenditures and to pay off maturing bonds is growing substantially as is the interest payments on that debt. Interest payments in 2024 are expected to consume more than 15% of federal revenues in 2024. This is roughly twice as high as the level three or four years ago. At some point, the spending/debt issue has to be addressed and its affect on equity markets could be ugly.

In addition, in a few weeks, Q1 2024 financial results start coming out. What companies report and, of probably more importance, their guidance about the rest of the year will influence the market enormously. Consumers, who still drive 2/3 of the U.S. economy, can change sentiment and spending habits very quickly. Meanwhile, markets around the world have reacted fairly calmly to the conflicts in the Mid-East between Israel and Hamas as they did to the Russia-Ukraine conflict. Either has the potential to take an ugly turn. In addition, further hostilities between China and Taiwan are something worth worrying about.

Having said all this, as the first quarter shows, equity markets remain very resilient to changing economic conditions and as history shows, U.S. equity markets have risen roughly 2/3 of the time through good and bad economies. We still believe equities are the best venue to grow long-term wealth but we also caution investors to have enough liquid assets to meet their obligations for a year or two in case markets weaken.

Top Stocks			31-Dec	28-Mar	Q %	Bottom Stocks			31-Dec	28-Mar	Q %
Company	Symbol	Price	Price	Chg.	Company	Symbol	Price	Price	Chg.		
Super Micro Computer	SMCI	284.46	1010	255.1%	Tesla, Inc.	TSLA	248.48	175.79	-29.3%		
NVIDIA Corp.	NVDA	495.22	903.56	82.5%	Boeing Company	BA	260.66	192.99	-26.0%		
Constellation Energy	CEG	116.89	184.85	58.1%	Charter Comm	CHTR	388.68	290.63	-25.2%		
HealthPeak Prop.	DOC	13.31	18.75	40.9%	MarketAxess Corp.	MKTX	292.85	219.25	-25.1%		
Decker's Outdoors	DECK	668.43	941.26	40.8%	Humana Inc.	HUM	457.81	346.72	-24.3%		
Micron Tech.	MU	85.34	117.89	38.1%	Lululemon Athletica	LULU	511.29	390.65	-23.6%		
General Electric	GE	127.63	175.53	37.5%	Warner Bros/Dis.	WBD	11.38	8.73	-23.3%		
Meta Platforms	META	353.96	485.58	37.2%	Insulet Corp.	PODD	216.98	171.4	-21.0%		
Marathon Pet.	MPC	148.36	201.5	35.8%	Paramount Global	PARA	14.79	11.77	-20.4%		
Walt Disney	DIS	90.29	122.36	35.5%	VF Corp.	VFC	18.8	15.34	-18.4%		

Source: Telemet