From the Curb

Letter to Clients
Quarter Ending March 31, 2024

The 2023 rally continued in the first quarter of 2024 driven by optimistic investor expectations and good news. The combination of stable economic growth, falling inflation, anticipated Fed rate cuts and ever-growing enthusiasm towards artificial intelligence (AI), propelled stocks higher pushing the S&P 500 above 5,000 for the first time in its history.

The year began with a modest uptick in volatility as traders and investors took the opportunity to realize gains following strong returns in 2023. Since those opening days of the first quarter, investors began to take their cues from data and fundamentals. There have been highs and lows as information is being digested, translated and then acted on and, with an election looming, we believe volatility is here to stay.

While the Fed has signaled the end to rate hikes, sticky inflation readings mean higher rates for longer, disappointing many who had hoped for multiple cuts. Although a June rate cut is possible, we think the first cut will come later in the year based on a 3.5% current inflation rate. Recent readings have challenged the idea that prices are quickly falling towards the Fed's 2.0% target thus leaving the Fed room to stand pat and not have to rush to cut.

First quarter corporate earnings were better than feared resulting in an uptick in prices. Earnings growth for the second quarter is expected to come in around 9% with revenue growth expectations around 5%. With a current forward price to earnings multiple of about 20 times, investors will likely reward those companies who deliver and punish those that fall short.

In sum, the first quarter of 2024 was exceptionally strong. Thanks to positive news flow that implied stable growth, no recession, the prospect of lower inflation, looming Fed rate cuts and continued AI enthusiasm, those factors all culminated to drive equity prices higher and extend the stock rally into the current quarter.

The second quarter opens with a backdrop of a positive macroeconomic environment as growth appears stable, inflation poised to fall and the Fed considering a rate cut or two sometime in the coming months. AI enthusiasm keeps earnings expectations high and while stock performance did broaden out a bit in the first quarter, participation is still limited to a handful of companies. The headline S&P 500 Index return is therefore, very sensitive to the performance of a small group of very large cap, tech-oriented companies.

Overall, this is undoubtedly a favorable set up, however, the strong rally of the last six months has left the S&P 500 at historically high valuations at a time when investor and analyst sentiment is very bullish and, potentially, complacent. So, while the outlook is currently positive, it is essential we continue to monitor the macroeconomic horizon for risks because at current stretched valuations coupled with very bullish sentiments, the market is vulnerable to a negative surprise.

Bottom line, this historic rally is currently supported by positive fundamentals, but we cannot let the currently positive set up blind us to the risks that exist. While we are pleased with the market performance, we are also focused on managing both reward and risk in portfolios, because despite the strong performance, this market remains vulnerable to negative news.

We've worked with you over the years to establish an asset allocation based on your financial position, risk tolerance, time horizon and return needs. We are focused on your long-term investment objectives and remain dedicated to helping you successfully navigate this current market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review. If you would like a copy of our Privacy Notice, please let us know and we will send you a copy.