Q1 2024
Quarterly Market Review

Data as of March 31, 2024

Key Takeaways

- U.S. equities advanced in the first quarter driven by positive economic data, stronger-than-expected corporate earnings, and the possibility of a Federal Reserve rate cut.
- Non-U.S. equities posted gains in Q1 but underperformed their U.S. counterparts. Emerging markets underperformed developed markets.
- U.S. bonds retreated in Q1, with the Bloomberg U.S. Aggregate Bond Index returning -0.8% as yields climbed and investors adjusted their expectations for Fed policy.

Index Returns

Total Returns as of March 31, 2024

U.S. Equities

	3 Month	1 Year
S&P 500 TR	10.6%	29.9%
Dow Jones Industrial Average	6.1%	22.2%
NASDAQ Composite TR	9.3%	35.1%
S&P 400 Midcap TR	10.0%	23.3%
Russell 2000 TR	5.2%	19.7%

Non-U.S. Equities

	3 Month	1 Year
MSCI EAFE NR	5.7%	15.2%
MSCI ACWI ex USA NR	4.5%	13.1%
MSCI Emerging Markets NR	2.1%	7.9%

Fixed Income

	3 Month	1 Year
Bloomberg U.S. Aggregate	-0.8%	1.7%
Bloomberg U.S. Corp Aaa-A	-0.7%	3.4%
Bloomberg U.S. Corp HY	1.5%	11.2%
Bloomberg Municipal	-0.4%	3.1%
Bloomberg 1-10 Yr U.S. TIPS	0.3%	1.7%
Bloomberg Gbl Agg ex-USD	0.1%	5.5%
JPM EMBI Global Core	1.8%	10.7%

Commodities & Real Estate

	3 Month	1 Year
S&P GSCI TR	10.4%	11.1%
DJ U.S. Real Estate Capped TR	-1.2%	9.3%

Source: Morningstar, Blackrock

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U.S. Equities Recap

U.S. equities advanced in the first quarter driven by positive economic data, stronger-than-expected corporate earnings, and the possibility of a Federal Reserve rate cut. The S&P 500 rose +10.6%, reaching a new all-time high on the last trading day of the quarter.

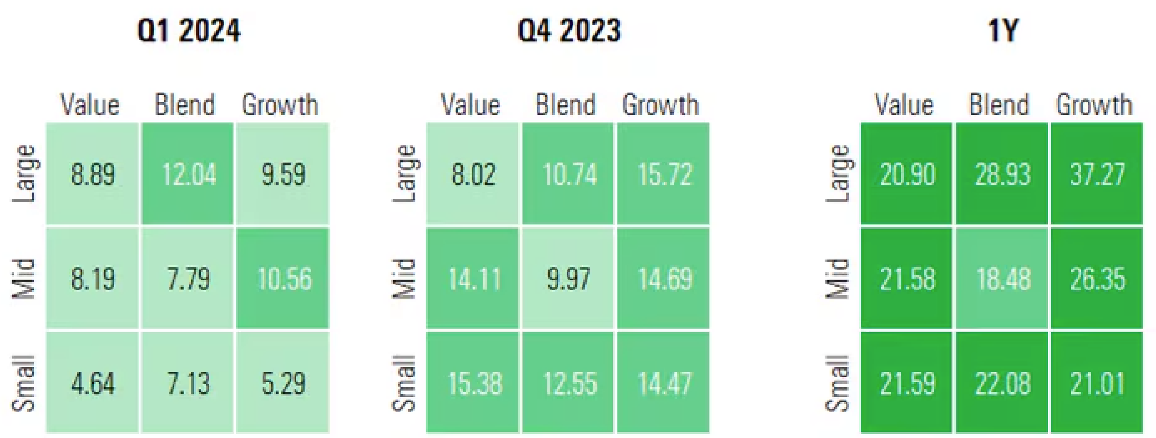
The S&P 500 index benefited from favorable earnings reports, especially from the group of growth stocks referred to as the “Magnificent Seven,” which benefited from advances in artificial intelligence (AI).

Ten of 11 sectors generated positive returns during the quarter, led by Communication Services (+15.8%), Energy (+13.7%), and Information Technology (+12.7%). The interest-rate-sensitive Real Estate sector was the only negative performer, returning -0.6%.

Small-cap stocks, facing outsized headwinds from inflation and high borrowing costs, underperformed their large-cap counterparts in the first quarter of 2024. Dividend-paying stocks posted stronger gains than previous quarters but underperformed the broad equity market in Q1.

The U.S. stock market has begun showing signs of a broader rally after a sustained period of narrow leadership. More than half of the stocks in the S&P 500 have achieved 52-week highs, indicating a more robust distribution of strength across the index.

U.S. Equity Style Box Performance



Source: Morningstar, Data as of March 31, 2024

Non-U.S. Equities Recap

Developed non-U.S. equities posted gains in the first quarter but underperformed their U.S. counterparts. Emerging markets underperformed developed markets, largely due to weak performance from China's stock market.

Eurozone stocks saw significant gains in the first quarter, led by the Information Technology sector and strong demand for AI technologies. Financials, Consumer Discretionary, and Industrials also performed well, buoyed by a more optimistic economic outlook and positive developments in the banking sector.

UK equities also experienced an uptick during the quarter. Markets began to price in an earlier-than-expected interest rate cut as inflation fell below the Bank of England's projections.

Japan's stock market rallied in the first quarter, driven by foreign investment and pivotal monetary policy changes from the Bank of Japan. In addition, corporate earnings have exceeded expectations, supported by rising prices and a weakening yen.

The Chinese stock market ended the quarter lower amid continued economic concerns. Meanwhile, Taiwan posted strong gains as investors showed enthusiasm for AI and Technology stocks.

Fixed Income Recap

The U.S. bond market struggled amid changing expectations for Federal Reserve policy. The Bloomberg U.S. Aggregate Bond Index returned -0.8% in the first quarter.

Long-term bonds, which tend to be more sensitive to changes in interest rates, underperformed the broader market. Meanwhile, the less interest-rate-sensitive high yield sector and short-term bonds posted modest gains in Q1.

The yield curve remained inverted during the first quarter, indicating ongoing concerns over a potential U.S. recession.

Morningstar Bond Indexes

	Performance (%)		
Core Bond	Q1 2024	Q4 2023	1 Year
Core Bond	-0.75	6.56	1.56
Sector			
US Treasuries	-0.86	5.46	0.01
Corporate	-0.37	8.19	4.25
High Yield	1.53	7.07	11.13
Mortgage	-1.07	7.36	1.34
Municipal	-0.29	7.72	3.33
Maturity			
Short-Term Core	0.21	3.35	3.17
Intermediate Core	-1.00	7.12	1.32
Long-Term Core	-2.33	12.96	-1.51
Inflation-Protected			
TIPS	0.05	4.45	0.34
US Government			
Short-Term Treasury	-0.02	3.12	2.42
Intermediate Treasury	-1.02	5.77	-0.30
Long-Term Treasury	-3.04	12.32	-6.33
Floating Rate			
Leveraged Loans	2.46	2.87	12.47

Source: Morningstar, Data as of March 31, 2024

U.S. Economy

Investors have been eagerly awaiting signs from the Federal Reserve on potential interest rate cuts. Initial expectations were for the Fed to lower the Fed Funds rate to 3.5% by year-end from just above 5.25%, motivated by fast-falling inflation. However, solid job reports, increased manufacturing activity, and a strong 2.5% GDP forecast for the first quarter have delayed expectations for lower rates.

Fed Chair Jerome Powell has candidly addressed the double-edged sword the Fed faces: the risk of reigniting inflation with premature rate cuts versus the danger of stifling economic growth by maintaining high rates for an extended period. Although he's indicated that rate cuts could still occur this year, Powell has emphasized a preference to err on the side of caution rather than rush into rate reductions. Accordingly, the Fed held rates steady at its March meeting.

Some Fed officials have expressed the need for more evidence of inflation decline before considering rate reductions. In February, the Personal Consumption Expenditures (PCE) price index, the Fed's preferred inflation gauge, ticked up to 2.5% year over year, drifting further from the Fed’s 2% target.

Meanwhile, consumer spending remains strong, supported by a stable labor market. However, rising personal debt levels and reduced household savings suggest some financial strain. A Fed rate cut could provide relief, potentially lowering borrowing costs on loans such as credit cards and mortgages.

A recent report from the University of Michigan revealed that consumer sentiment is now significantly influenced by news related to the national debt. The U.S. currently faces a substantial $34 trillion in debt, heightening concerns over a looming debt crisis and possible government shutdowns.

3 Reasons Your 2023 Tax Bill May Have Been Higher Than Normal

April 15th marks the deadline to file federal tax returns for the 2023 tax year. This year, many taxpayers may notice their tax bills are unusually high, which can be attributed to several factors:

1. **Higher-Than-Normal Interest Rates**. In 2023, elevated interest rates increased yields on cash savings accounts, certificates of deposit (CDs), and money market funds. For taxpayers with substantial cash reserves, this surge in yields may have led to a significant increase in taxable income compared to previous years.
2. **Capital Gains from Investment Activities**. In 2023, the S&P 500 grew by over 24%, prompting many investors to sell profitable investments and realize gains. Unless this activity occurred within a qualified investment account such as an IRA or 401(k), these gains are subject to the capital gains tax. Similarly, some mutual fund investors might have had unexpected taxable gains, even if they didn't sell their shares. That's because the funds' portfolio managers may have realized gains on successful investments, resulting in an above-average capital gains distribution.
3. **Phase-Out of the Child Tax Credit**. The Child Tax Credit can provide substantial tax relief for families with children but starts to phase out at higher income levels. In the 2023 tax year, this phaseout begins for single filers earning above $200,000 and joint filers earning above $400,000. An increase in taxable income for 2023 could have made some taxpayers ineligible for the credit, significantly boosting their tax bills compared to years when they received the full benefit.

While a higher tax bill may have come as an unwelcome surprise this year, you can take steps to proactively reduce next year's tax burden. Here are a few strategies to consider:

- **Take Advantage of Tax-Deferred Accounts**. Consider moving extra cash into tax-deferred accounts such as IRAs or 401(k)s when possible. Contributing to a traditional IRA or 401(k) can result in an immediate tax deduction, and funds in these accounts can grow tax-free until withdrawal, helping to minimize your taxable income.
- **Hold Investments Longer**. By holding investments for more than a year, realized gains qualify as long-term capital gains, which are generally taxed at a lower rate than short-term gains.
- **Income Spreading**. If possible, consider strategies to spread income across multiple tax years. This could involve deferring bonuses or managing the timing of capital gains and losses.

For personalized guidance and strategies, it's wise to consult with your financial advisor and/or CPA. As always, we're here to help.