

## February 26, 2024 – Investment Commentary

### Equities

The S&P 500 returned 1.7% and reached a new all-time high as blowout earnings from Nvidia further added to AI-driven euphoria and lifted stocks generally. Large-cap growth outperformed value. Non-US developed (EAFE index) markets returned 1.4%, with Europe (+1.7%) leading. Emerging Markets (EM) returned +1.2%, again led by China (+2.7%), as officials there unveiled further measures to boost the economy and shore up investor confidence in the stock market.

At the beginning of last week, we believed NVIDIA earnings were the biggest development coming, and they did not disappoint. They reported a strong Q4, with earnings up nearly 5x year over year. The company also increased its full-year guidance on robust demand for its chips, which are used in artificial intelligence applications amongst other end markets. Last week, Walmart noted that consumers were being more cautious in their spending, potentially reducing consumption of discretionary items. The Investment Office is watching the consumer carefully. Even as labor data continues to skew very strong — including this week's low jobless claims — we are seeing some signs of stress in the lower decile of households as the weight of high grocery prices and higher rent is beginning to bite.

### Fixed Income

Investment grade fixed income sectors had positive returns as rates fell at the long end of the curve. Municipals returned 0.1%, while US Investment Grade returned 0.4%. High Yield bonds returned 0.4% as spreads compressed slightly, while bank loans rose 0.4%. EM debt returned +1.0% as the US dollar fell slightly.

### Rates

Rates rose at the long end of the curve. The recession-watch 3month-10year spread widened 7bps and closed the week at -117. The 2 year-10 year spread widened 5bps and is now -45. Rates fell slightly in other developed markets. The Italian Sovereign BTP-German Sovereign Bund spread is at 1.44%, suggesting little market concern about the higher Italian debt levels. The 5-year and 10-year breakeven inflation expectations fell and now sit at 2.37% and 2.29% respectively; the 10 year real yield rose 1bp to 1.96%. The market now expects the Fed to cut 4 times in 2024, with the first cut now coming in June (53% probability) vs the Fed's guidance of three cuts. At year-end 2024, the market expects the Fed Funds rate to be 4.375%.

European government bond yields broadly rose as investors trimmed bets on the number of interest rate cuts this year after stronger-than-expected purchasing managers' surveys. In addition, the People's Bank of China (PBoC) announced supportive measures. They injected liquidity into the banking system and announced that the five-year loan prime rate (a key gauge for mortgages) was lowered by a bigger-than-expected 25 basis points to 3.95%, marking the largest cut since the reference rate was introduced in 2019.

### Currencies/Commodities

The dollar fell 0.3%. The commodities complex fell 1.3% as energy prices moved lower by 2.3%. Brent prices fell to \$82/bbl. US natural gas was flat at a three-year low on continued expectations of milder weather, while European gas fell 7.2% with ample inventories and lower demand.

### Market monitors

Volatility was flat for equities and bonds (VIX = 14, MOVE = 108); the 10-year average for each is VIX=18, MOVE = 75. Market sentiment metric rose to 18 from 15 as investors remained bullish about a soft landing.

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