# ROBERTSON STEPHENS®

## February 5, 2024 – Investment Commentary

### Market Movements

Hopes of a soft landing for the U.S. economy - a scenario where inflation eases without a sharp rise in unemployment - have supported markets in recent months. Last week, stocks were mixed, and bonds were up on the week. The S&P 500 outperformed the MSCI EAFE and MSCI Emerging Markets indices. Small cap stocks fell for the fifth week in the last six. Company management calls during Q4 earning season have witnessed mentions of recession falling by 80% since the high six quarters ago. As for fixed income, the 10 yr. Treasury yield fell 12 bps on the week to 4.03% and the 2/10 treasury yield spread flattened to -34 bps. The best performing parts of the bond market included municipals and investment grade corporates. High yield bond spreads rose on the week to 330 bps, still below their 20-year average of roughly 500 bps.

### What We Heard: Fed rate cut patience, selective impressive earnings, and strong jobs report

The Fed meeting was as expected in terms of holding the Fed funds rate steady and Powell being incrementally more hawkish. Powell recognizes cutting too soon risks a return of inflation, but cutting too late can trigger an economic downturn. The Q&A at the press conference was focused on “what” exactly the Fed would be looking for to gain greater confidence. Powell responded with a focus on a longer time more than magnitude, meaning it has been a good six months for inflation, but just six months; we need more of the recent trends to confirm that they are here to stay. He also highlighted that the U.S. economy looks to be re-accelerating, suggesting that is not a problem (i.e., the employment component of their dual mandate). On the week, treasury yields may have been down a bit based on regional bank concerns more so than the Fed. The U.S. dollar rose, suggesting markets see the Fed likely to be the relatively tighter global central bank (Powell is the bigger hawk amongst his worldwide counterparts), the jobs report also made that case as well.

The Super Six (ex Telsa) outperformance has persisted year to date, with the group driving S&P 500 performance.  The premium valuation reflects investor expectations of sales growth of approximately 12% vs. 3% for the S&P 493. We believe although growth expectations are high, if estimates are realized and valuation multiple remains unchanged, the group is likely to continue to generate strong performance.