

March 4, 2024 – Investment Commentary

Equities

Most of the major benchmarks ended the week higher, with the Nasdaq Composite joining the S&P 500 Index in record territory for the first time in over two years. The month also closed a strong February, with the S&P 500 marking its strongest beginning two months of the year since 2019, according to *The Wall Street Journal*. The week's gains were also broad-based. For the year-to-date period, the capitalization-weighted version of the S&P 500 index remained ahead of the equal-weight index by 409 basis points (4.09 percentage points), reflecting the outperformance of large, technology-oriented growth stocks.

Last week, Non-US Developed (EAFE) markets returned 0.7%. Emerging Markets (EM) returned -0.3%, weighed down by China (-0.7%).

From a valuation perspective, most markets are within ± 1 standard deviation based on historical forward P/E ratios, though the S&P 500 is at +1.6 while the NASDAQ is at 1.5. For the next 12 months, EPS growth for S&P 500 is expected to be 8.7% (vs. 7.2% annualized over the last 20 years). For the next 12 months, EPS growth for NASDAQ is expected to be 16.8% (vs. 12.7% annualized over the last 20 years). The S&P 500 (US Large Cap) and NASDAQ trade above their 20-year averages based on forward P/E ratios, as does the MSCI EM (EM Equities), while the Russell Midcap (US Midcap), Russell 2000 (US Small Cap) and MSCI EAFE (Non-US Developed Market Equities) all trade below.

Fixed Income

Investment grade fixed income sectors had positive returns as rates fell across the curve. Municipals returned 0.2%, while US Investment Grade (IG) returned 0.2%. High Yield bonds returned 0.2%, with spreads widening slightly, while bank loans rose 0.2%. EM debt returned +0.6% as the US dollar fell slightly. The investment-grade corporate bond market, spreads widened throughout the week as the sector struggled with heavy supply. February saw over \$150 billion in new issuance, a record-breaking amount.

Rates

Rates fell across the curve. The recession-watch 3M-10Y spread widened 2bps and closed the week at -120. The 2Y-10Y spread compressed 9bps and is now -35. Rates rose slightly in other developed markets. The BTP-Bund spread is at 1.48%. 5-year and 10-year breakeven inflation expectations rose and now sit at 2.44% and 2.37% respectively; the 10Y real yield fell 10bps to 1.86%. The market now expects the Fed to cut 4 times in 2024, with the first cut now coming in June (55% probability) vs the Fed's guidance of three cuts. At year-end 2024, the market expects the Fed Funds rate to be 4.375%.

Currencies/Commodities

The dollar fell 0.1%. The commodities complex rose 2.6% as energy prices moved higher by 3.9%. Brent prices rose to \$84/bbl. US natural gas rose 14.5% from a three-year low as producers intend to cut production in response to lower demand from milder weather while European gas rose 12.8% as a rise in coal prices increased gas demand.

Market monitors

Volatility was flat for equities and bonds (VIX = 13, MOVE = 106); the 10-year average for each is VIX=18, MOVE = 75. Market sentiment rose to 25 from 18 as investors remained bullish about a soft landing.

Disclosures

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