Beacon Trust
INNOVATING WEALTH STRATEGY

Market Outlook 1Q 2024 Review **April 4, 2024**

First Quarter Summary

Stocks officially entered a new bull market as the S&P 500 rose a healthy 10.2% over the first quarter. Although artificial intelligence (AI) stocks, led by poster child Nvidia, continued to surge in Q1, performance was more balanced than in 2023. To wit, the Russell 1000 Value Index increased 8.4% and the small cap Russell 2000 Index increased 4.8% over the quarter. U.S. stocks were not the only asset class to rally. International equities, as represented by the MSCI EAFE Index, rose 5.7% and Gold increased 7.3% over Q1. Bonds were the main laggard, with the Bloomberg Barclays Aggregate Index falling 0.7% in Q1, driven by rising interest rates across the intermediate to long-term end of the yield curve.

U.S. stocks, gold, real estate prices, and Bitcoin were all at or near all-time highs as the quarter ended. As we enter April, it appears that stocks are poised to “take a breather” after rallying for five consecutive months. But first, let’s recap some of the key stories from Q1 and then move on to our market outlook. We begin with the “Magnificent 7,” which may be described as the “Magnificent 3” for the first quarter of 2024. Nvidia jumped another mind boggling 82.5% to start the quarter, followed by Meta/Facebook at 37.3%, and Amazon at 18.7%. These stellar returns were followed by respectable performance from Microsoft (+12.1% in Q1) and Alphabet/Google (+8.0%). In contrast, both Apple and Tesla have experienced a rough start to the year, down 10.8% and 29.3%, respectively. In our view, the more uniform returns across different equity segments are a healthy sign of a more durable market advance.

A notable part of the stock market rally occurred after the Federal Reserve’s (Fed) “pivot” on short-term interest rates subsequent to their January Federal Open Market Committee (FOMC) meeting. In brief, the Fed said their next move was likely a cut in short-term interest rates. As we have seen, the cut has not yet occurred and may not occur for another few months. Nevertheless, most investors recall the mantra, “Don’t fight the Fed.” That is, when the Fed is cutting interest rates it does not pay to be too bearish.

The economy has been surprisingly robust in the wake of less government stimulus being pumped into the economy since the pandemic began. GDP growth estimates for Q1 are largely in the 2%+ range, a respectable showing. Some forward-looking indicators, such as Leading Economic Index (LEI) and the ISM Manufacturing Index, have also recently swung from negative to positive. It is increasingly looking like the Fed has pulled off the first “soft landing” since Captain Sully on the Hudson River in 2009.

Gold and Bitcoin also touched all-time highs during Q1. Gold has perhaps benefitted from somewhat stubborn inflation, which remains in excess of 3%, as measured by the Consumer Price Index (CPI).The Fed is grappling with the “last mile” problem, which refers to the challenge of bring inflation down from 3%+ to something closer to its target inflation rate of 2%. Bitcoin was buoyed by the Securities and Exchange Commission (SEC) approval of the first series of Bitcoin ETFs. Bitcoin remains exceptionally volatile, but the ETF format largely takes the risk of Bitcoin theft off the table for investors investing in brokerage accounts with Securities Investor Protection Corporation (SIPC) insurance. The news was not all positive in the cryptocurrency world, as former FTX founder, Sam Bankman-Fried, was sentenced to 25 years in prison for crimes he committed while running FTX.

Market Outlook

With U.S. stocks on a tear and the largest year-to-date drawdown a meager 2%, we would not be surprised to see a pullback in stock prices. The reasons for a possible pullback are difficult to predict, but the usual suspects of disappointing earnings, stubbornly high inflation, and further delay in the Fed cutting interest rates may apply. Furthermore, geopolitical risks are always present with the fallout from ongoing wars in Ukraine and Israel at the forefront of our minds. However, we remain long-term bullish in light of expected double-digit earnings growth in 2024-2025, as well as the Fed’s eventual reversal of its hawkish interest rate policy. We are not super bullish due to

heightened valuation levels and the aforementioned risks. In sum, this outlook places us in the “Don’t fight the Fed” camp despite the likelihood of increased volatility and muted returns compared to the last two quarters.

We do believe the Fed will begin cutting short-term interest rates over the summer. At this point, it is somewhat of a coin flip if the first cut will materialize in June or July. However, the magnitude and number of interest rate cuts is still the subject of vigorous debate. As we entered 2024, the consensus was up to 7 cuts and an aggregate decline in short-term yields of 1.75%. As of this writing, the consensus has now shifted to our longstanding view of something closer to 2 or 3 cuts of 0.5% to 0.75% in total. With both Democrat and Republican Presidential nominees now almost a foregone conclusion, political posturing and platforms will garner increasing media attention over the next few quarters. In aggregate, stock prices tend to go up regardless of the winner, but the more material differences will be realized at the sector/industry level, since this is where the victor’s spending and tax policies are most directly related. It is here, at the sector and industry level, that Beacon’s investment team will devote the bulk of our attention. All of us at Beacon wish you an enjoyable spring season and beyond.

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