Quarterly Market Commentary

First Quarter 2024

The Quest for Clarity

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"Vision is the most important thing. Vision is purpose and meaning. To have a clear vision is to have a picture of what you want your life to look like and a plan for how to get there."

- Arnold Schwarzenegger

Arnold Schwarzenegger has lived an incredible life. Born in a small Austrian village into a home without running water, he developed a vision for his life's path at age eight. Arnold went to the movies and saw his hero – Reg Park, the bodybuilding champion turned Hollywood actor – and like most of us at that age, dreamed of following in his hero's footsteps. What makes Arnold so unique is that he spent the next forty years relentlessly turning his childhood vision into a reality.

In complex systems like economies and markets, having a clear vision is often difficult. After nearly two years of restrictive monetary policy, the Federal Reserve believed it finally had the cover to reverse course, as a return to its 2% inflation target appeared within reach. Despite having 785 economists and 23,000 employees on staff, the Fed's sightline into the future may have been cloudier than many believed.

Walking Back the Cut

The first quarter of 2024 was marked by a continual reassessment of when the Federal Reserve would first cut interest rates. With inflation stuck above 2%, and recent inflation readings demonstrating rising rather than falling inflation, it became clear that the hope for a March rate cut was too optimistic. January's CPI data came in at 3.4% year-over-year vs. a 3.2% estimate. GDP growth also came in higher than expected at 3.3% year-over-year vs. 2.0% expected. Cementing the "higher-for-longer" inflation and interest rate narrative, the February and March CPI reports both came in "hotter" than expected at 3.2% and 3.5% respectively.

Given the stock market's ebullient response to the Fed's pivot at the end of last year, it would have been reasonable to assume a reversal of course due to the surprisingly strong data. Fortunately for investors, that was not the case. Risk assets marched steadily higher in the first quarter as economic strength overwhelmed the concern of reemerging inflation.

Quarter To Date as of March 31, 2024[1]	
S&P 500 Total Return Index	10.6%
Dow Jones Industrial Average	6.1%
Nasdaq Composite Index	9.1%
Russell 2000 Index	5.2%
MSCI EAFE Index	5.9%
MSCI Emerging Markets Index	2.4%
Bloomberg Aggregate Bond Index	-0.8%

The robust employment market also bucked estimates. So far this year, the economy has added over 500,000 jobs and unemployment remains below 4%.[2] Further, the manufacturing economy is showing signs of emerging from its downcycle and, with it, commodity prices are rebounding after nearly two years of declines.

Through the first 3 months of the year, copper is up 9%, silver is up 18%, oil is up 20% and cocoa is up an astounding 150%.[3] Rising expectations for global growth, geopolitical tensions, and, in cocoa's case, years of underplanting and crop disease, increase the risk of further goods inflation.

With these lingering inflationary pressures, the market trimmed rate cut expectations from six to three (the Fed's initial 2024 estimate). The question from here is whether the data over the remainder of the year will provide cover for the Fed to reduce interest rates even by that magnitude.

[1] Black Diamond

[2] US Bureau of Labor Statistics

[3] FactSet

Cutting Through the Fog

With so much focus on Fed policy, geopolitical tensions, and the looming election, we believe investors are missing the point: the dynamism of American business is alive and well. This has been the case for decades – as optimists, we believe will be the case long into the future. This fundamental earning power is the driver of long-term returns.

The current economic environment also demonstrates that the Zero Interest Rate Policy (ZIRP) regime of the 2010's may be the anomaly, not the rule. The economy's prolonged resilience in the face of higher borrowing costs has defied many skeptics. However, what is often forgotten is that higher interest rates work both ways. Savers and asset owners are now enjoying a higher income stream from fixed income and cash-like investments such CD's and money market funds which paid next to nothing for over a decade. There is the distinct reality that a well-functioning economy doesn't necessarily require low interest rates to grow.

Zooming out further, there are additional reasons to be optimistic. Due to the relative costs of manufacturing in Europe, the political risk of manufacturing in China, and the prospect of artificial intelligence technologies driving down costs, the allure of manufacturing here in the U.S. has rarely been this attractive. "Made in the USA" should keep the job market competitive and strong, while equally, providing the fuel for future consumption.

Pursuing a vision is not the same as predicting the future. It requires discipline, concentration, and persistence to overcome the inevitable challenges. It is important to remember the role of the investment portfolio in pursuing your own vision, and to maintain relentless focus in turning that vision into reality.

As always, we thank you for your trust and the opportunity to work together.

Respectfully,

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