

A vertical photograph on the left side of the page shows the Washington Monument in the center, a tall, white, obelisk-shaped structure. In the foreground, there are numerous cherry blossom trees in full bloom, with pink and white flowers. The background is a clear blue sky with a few wispy clouds. The water of a pond is visible at the bottom of the image, reflecting the monument and the sky.

MONTH ENDING FEBRUARY 29, 2024

Market Update

Quick Hits

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Stocks Rally in February

February was a good month for stocks, with all three major U.S. indices ending the month in positive territory. The S&P 500 gained 5.34 percent in February while the Dow Jones Industrial Average rose by 2.50 percent. The Nasdaq Composite saw the largest gains during the month, with the technology-heavy index up more than 6.22 percent. Technology stocks rallied notably in February, due in part to increased investor optimism surrounding the potential for artificial intelligence-related investments.

The strong returns in February were supported by improving fundamentals. Per Bloomberg Intelligence as of February 29, with 97 percent of companies having reported actual earnings, the average earnings growth rate for the S&P 500 in the fourth quarter stood at 7.9 percent. This is well above analyst estimates at the start of earnings season for a more modest 1.2 percent increase. These impressive results were driven by better-than-expected earnings growth across most sectors, with the technology and consumer discretionary sectors seeing some of the best relative earnings growth during the quarter. Over the long run fundamental factors drive market performance, so the return to strong earnings growth in the fourth quarter is a good sign for investors.

Technical factors were also supportive during the month. All three major U.S. indices spent the entire month above their respective 200-day moving averages. This now marks four consecutive months with technical support for U.S. stocks. The 200-day moving average is a widely monitored technical signal, as prolonged breaks above or below this level can signal shifting investor sentiment for an index. The combination of improving fundamental factors and continued technical support is an encouraging tailwind for U.S. stocks to start the year.

The story was similar internationally, with both developed and emerging markets showing positive returns for the month. The MSCI EAFE Index gained 1.83 percent in February. Emerging Markets fared even better, with the MSCI Emerging Markets Index up 4.77 percent. Technical factors were also supportive, with both indices finishing the month above their respective 200-day moving averages. This was a return to technical support for the MSCI Emerging Markets Index, which previously ended January below its trendline.

Challenging Month for Bonds

It was a challenging month for fixed-income investors, as rising interest rates weighed on higher-quality bond prices. The 10-year U.S. Treasury Yield rose from 3.99 percent at the end of January to 4.25 percent at the end of February. The Bloomberg Aggregate Bond Index lost 1.41 percent during the month due to the rising interest rate environment.

High-yield bonds, which are typically less influenced by interest rates, managed to end the month in positive territory. The Bloomberg U.S. Corporate High-Yield Bond Index gained 0.29 percent during the month. High-yield credit spreads fell from 3.59 percent at the end of January to 3.29 percent at the end of February. Falling high-yield spreads are a sign that investors were willing to accept lower yields during the month when investing in riskier portions of the credit market.

**Bloomberg Aggregate
Bond Index**

 **1.41%**

In the month of February

**Bloomberg U.S. Corporate
High-Yield Bond Index**

 **0.29%**

In the month of February



Economy Continues to Expand

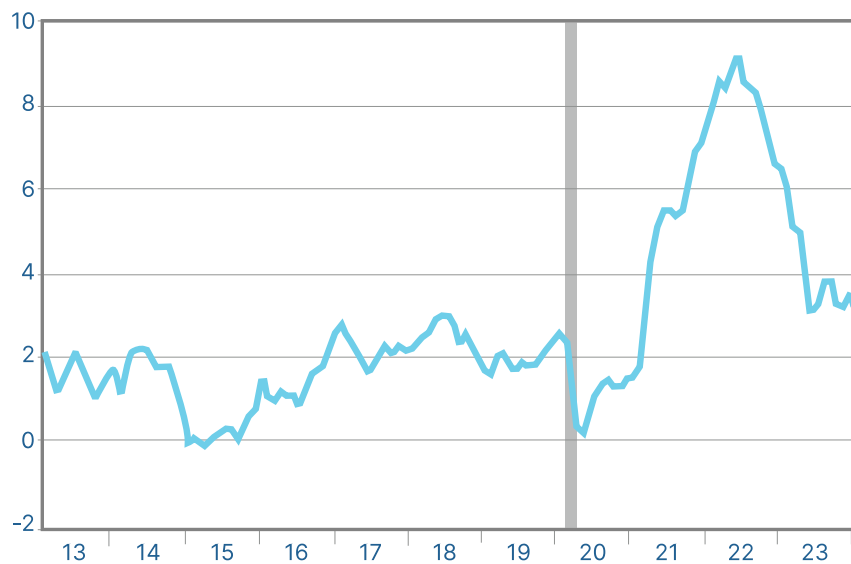
The economic updates released in February showed continued growth throughout the economy. Job growth accelerated to start the year, with an impressive 353,000 jobs added in January against calls for a more modest 185,000. This marked the largest monthly increase in hiring in more than a year and highlights the continued strength of the labor market. Consumer income and

spending also continued to grow in the new year, with personal income growth coming in above expectations while personal spending rose in January for the 10th consecutive month.

Business confidence and spending also showed signs of improvement during the month. Manufacturing and service sector confidence both increased by more than expected in January, with service sector confidence rising to a four-month high to start the year. Historically higher levels of business confidence have supported faster spending growth, so these improvements were a welcome development.

While the economic updates were largely positive in February, the stronger-than-expected growth also contributed to still high levels of inflation. The January inflation reports showed that inflationary pressure rose during the month, with headline consumer prices rising by 0.3 percent in January. This marks the largest monthly increase in consumer prices since September—with a similar rise in producer prices during the month. On a year-over-year basis, headline consumer inflation did slow modestly, as you can see in Figure 1; however, inflation remains well above the Federal Reserve’s (FED) stated 2 percent target.

Figure 1. Consumer Price Index, for All Urban Consumers 1982-84=100, Y/Y% Change



Source: Bureau of Labor Statistics/Haver Analytics, 2/13/2024

Markets Updating Expectations for the Fed

While there were no Fed meetings in February, markets continued to digest the messaging from the Fed's most recent meeting at the end of January along with the economic updates that we received during the month. This caused investors to adjust their expectations for the Fed notably during the month. We started 2024 with futures markets pricing in a total of six interest rate cuts throughout the year. Investors believed that the Fed would cut rates early and often in 2024, with estimates calling for the first rate cut at the Fed's March meeting.

Since then, we've seen stronger-than-expected job growth and stubbornly high inflation updates, both of which have caused investors and economists to rethink their expectations for the Fed. We ended the month with markets pricing in a total of just three interest rate cuts throughout the year, which is more in line with guidance from the Fed. This adjustment was one of the major drivers of the rise in interest rates that we saw in February.

Going forward, the timing and number of interest rate cuts this year remains uncertain. That said, the pullback in market expectations for cuts is a positive development as there is now less chance for future market disappointments when it comes to rate cuts.

>> The Takeaway

- Strong hiring growth and stubbornly high inflation in January caused investors to lower expectations for rate cuts throughout the year.
- The pullback in rate cut expectations is a positive development that may limit future volatility.

Real Risks Remain

While risks surrounding the Fed appear to have declined during the month, there are also other risks for investors that should be monitored as we look toward the rest of the year. The upcoming federal elections in November are a potential source of uncertainty that may weigh more heavily on markets as they approach.

Globally, several risks remain as well, highlighted by ongoing tensions in the Middle East. While the direct market impact from the conflicts in Gaza and the Red Sea remains largely muted for now, they could negatively impact global supply chains and put additional stress on international shipping and prices if we see further escalation in the region.

The conflict in Ukraine is also worth monitoring due to the potential for further uncertainty, as is the continuing slowdown in China. Again, the current market impact from both risk factors is relatively low at this time; however, either could serve as a source of volatility for markets.

Ultimately there are several real risks for investors that should be acknowledged and monitored. Of course, there is also the potential for unknown risks to materialize and negatively impact markets.

>> The Takeaway

- Domestic and foreign risks remain for markets and investors.
 - Unknown risks may also present themselves throughout the year.
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Solid Backdrop for Growth

Despite the risks that markets and investors face, the overall economic and market backdrop remains healthy and supportive for continued growth. The economic fundamentals remain sound, with positive updates at the start of the year highlighting the resilience of the current economic expansion. The strong earnings growth at the end of 2023 is an encouraging sign that businesses continue to benefit from the solid economic background, with signs that momentum from the end of last year has carried over into this year.

While there are real risks for markets as we look ahead, it's important to recognize that we've seen and overcome similar risks in the past. The pullback in market expectations for Fed rate cuts is a healthy development that we believe should set up markets for a smoother ride throughout the year. Additionally, while we saw a modest rise in inflation in January, overall, we've seen inflation fall notably over the past two years, with further improvements expected ahead.

After a strong end to 2023, the economic and market momentum has carried over into 2024, which is a good sign for investors. The potential for short-term setbacks remains given the uncertainty that we still face both domestically and abroad. As such, a well-diversified portfolio* that aligns investor goals with timelines remains the best path forward for most. As always, you should reach out to your financial advisor to discuss your current plan if you have concerns.

* Diversification does not assure a profit or protect against loss in declining markets, and diversification cannot guarantee that any objective or goal will be achieved.





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and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba/BB+/BB+ or below.

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