March 1, 2024

February Market Review

Equity investors didn't mind the extra day this February as both domestic large-cap stocks and small-to-mid-cap stocks saw steady gains through the month, bringing both groups into positive territory year-to-date, though the latter continues to lag.

The growth in large company stocks has been driven primarily by enthusiasm for artificial intelligence (AI).

“In the technology sector, the move has been an earnings-driven story, with the sector benefiting from the AI revolution. While some consolidation is likely after the recent run-up in stock prices, we remain favorable on the sector,” said Raymond James Chief Investment Officer Larry Adam.

Fixed income investors saw less reason to celebrate the 29-day February, however, as bonds cooled after January’s inflation report – it ticked upward – and persistently strong economic data. There now seems to be a broader realization that the Federal Reserve (Fed) is likely to hold interest rates steady for longer than many had expected.

A strong economy continues to support the Fed’s position. The unemployment rate has remained at or below four percent for 26 consecutive months – a record last seen in the late 1960s. And consumers at the high and low end of the income spectrum are still spending.

We’ll dive into the details below, but first, let’s review the year-to-date results:

	12/29/23 Close	2/29/24 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	37,689.54	38,963.66	+1,274.12	+3.38%
NASDAQ	15,011.35	16,082.33	+1,070.98	+7.13%
S&P 500	4,769.83	5,097.27	+327.44	+6.86%
MSCI EAFE	2,241.21	2,281.99	+40.78	+1.82%
Russell 2000	2,027.07	2,054.84	+27.77	+1.37%
Bloomberg Aggregate Bond	2,162.21	2,122.50	-39.71	-1.84%

*Performance reflects index values as of market close on February 29, 2024. Bloomberg Aggregate Bond and MSCI EAFE reflect February 28, 2024, closing values.

Equity market still expecting interest rate cuts

The S&P 500 has climbed steadily for the past four months, driven by supportive economic data, lower inflation and expected interest rate cuts, though there's been some disruption to the trajectory over the last few weeks. The market is currently pricing in June as the Fed's initial interest rate cut and three to four cuts by year's end.

Interest rate realizations hamper fixed income

The Treasury market dropped on the month, sending yields 50 basis points higher on the short end of the curve and 39 basis points higher on the 10-year Treasury. The market seemed to grip the reality that the Fed isn't close to cutting interest rates and won't be until inflation is clearly on the path to or close to the target two-percent level.

U.S. economy moves ahead despite some signs of weakness

The Consumer Price Index, a general measure of U.S. inflation, increased by a more than expected 0.3 percentage points. The labor market remains strong and the non-manufacturing sector improved from December to January, but the manufacturing sector remained in contraction territory. Industrial production also showed weakness, even as utilities production surged because of colder weather.

The Leading Economic Index was weaker than expected in January, but no longer indicates a recession according to the Conference Board, the group that publishes the report. The body expects the economy to remain relatively flat during the second and third quarter of the year.

Life without Russian gas

At the two-year mark of Russia's war in Ukraine, the Kremlin's strategy of gas weaponization looks to be a failure. The European economy has successfully disentangled from its historical dependence on Russian gas, reflecting a combination of reduced demand due to warmer winters and energy efficiency, the global liquefied natural gas (LNG) market's ability to reroute large amounts of supply into Europe and record-setting expansion in non-hydro renewable power generation. Looking forward, rhetoric from Brussels indicates a lack of appetite to ever get back to buying Russian gas, even in a hypothetical postwar scenario.

Europe flirts with recession

The euro zone economy continues to stagnate, persistently flirting with recession but so far avoiding consecutive quarters of negative growth, popularly described as a technical recession.

The UK economy did slip into technical recession over the second half of 2023, but it hardly registered with the UK stock market. Inflationary pressures remain above target but are decelerating and will fall further over the spring in response to a pre-announced sharp fall in the energy regulator's utility price cap. The combination of a soft economic landing and decelerating inflation should provide sufficient room for the Bank of England to begin cutting interest rates in the summer.

No funding resolution yet in D.C.

Budget negotiations continue in D.C. with ongoing debates but no final resolution on the FY24 funding priorities of the U.S. government. The Senate passed a $95 billion defense supplemental (70-29) after an effort to tie defense and border policy changes failed, and the House passed a $78 billion tax bill for R&D tax credits and an expanded Child Tax Credits. The politics of both bills still need to be sorted out.

February also saw an update on the Creating Helpful Incentives to Product Semiconductors (CHIPS) act, prioritizing projects that will be operational by 2030. However, companies have received less than half of their original funding requests, creating political pressure on Congress to fund a "CHIPS Act 2.0."

The bottom line

Refuting seasonality, which has February as the third-weakest month of the year, the stock market continues to hold strong, but volatility is to be expected in the months ahead as the Fed's timing remains a dominant theme.

As ever, I will remain committed to the pursuit of your financial goals and thank you for your continued trust in my guidance. If you have any questions regarding this recap – or any other topic – please reach out at your earliest convenience.

Sincerely,

Jeff