

April 1, 2024

### March Market Recap

March was a month of new records. All three major equity indices — the S&P 500, Dow Jones Industrial Average and Nasdaq — hit all-time highs and equity markets were positive for the fifth month in a row. The equity market rally was driven by mega-cap tech stocks, the broadening of the market and optimism that the Federal Reserve (Fed) would deliver rate cuts later this year.

“Equity markets rose to record highs as the Fed is still expected to cut interest rates three times and deliver a soft, non-recessionary landing, which is supportive for corporate earnings,” said Raymond James Chief Investment Officer Larry Adam. “That growing optimism appears to have been priced into the equity market with valuations now at stretched levels — the highest over the last 20 years outside of COVID.”

Bond yields were largely unchanged this month, sitting close to the upper end of their year-to-date range as the March rate cut didn’t materialize and the first rate cut now seems likely to happen in June or July. A record amount of issuance in investment grade corporate bonds was met with strong demand by investors as yields remain attractive even as credit spreads narrow.

The U.S. economy remains on solid footing, supported by strong job gains, improving housing activity metrics and growing consumer spending.

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

	12/29/23 Close	3/29/24 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	37,689.54	39,586.19	+1,896.65	+5.03%
NASDAQ	15,011.35	16,379.46	+1,368.11	+9.11%
S&P 500	4,769.83	5,254.53	+484.52	+10.16%
MSCI EAFE	2,241.21	2,349.41	+108.20	+4.83%
Russell 2000	2,027.07	2,124.55	+97.48	+4.81%
Bloomberg Aggregate Bond	2,162.21	2,145.23	-16.98	-0.79%

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

## **Equity market optimism**

Hotter than expected inflation data coupled with optimism regarding economic growth propelled commodity-related sectors, such as Energy and Materials, to outperform the index in March. Despite the upside inflation surprise, Fed Chairman Jerome Powell instilled confidence in the market during the Federal Open Market Committee (FOMC) press conference, reiterating the Fed's commitment to remaining patient as inflation moves gradually toward its 2% target over time.

Although one 2025 rate cut was removed from the dot plot, the S&P 500 notched six new record highs in March as economic growth and employment were also revised favorably in the Fed's Summary of Economic Projections.

## **Not much changed in fixed income**

Despite some volatility, March offered little net change in Treasury yields. The exciting story remains in obtainable high-income levels for individual bonds as yields remain elevated in diverse products across the curve. Though the high-quality corporate curve is fairly flat, it boasts higher yields than have been available for nearly two decades. Longer-term municipal yields benefit from an upward-sloping curve from 15-30 years in maturity, providing attractive taxable-equivalent yields for high earners.

## **U.S. economy keeps chugging along**

The February Leading Economic Index, a general indicator of where the U.S. economy is heading, was positive for the first time since February of 2022. The U.S. service sector continued to expand in February, industrial production was slightly positive and higher than expected, with construction as well as business equipment production driving the Index higher. Housing market indices were mixed, with existing home sales surging among higher available inventory and new home sales decreasing during the month. Nonfarm employment increased by 275,000 in February, but the strong January number was revised considerably lower, netting 167,000 fewer jobs than originally reported.

## **D.C. to weigh defense and tax packages**

Following the passage of all 12 government funding bills in March, attention in D.C. has turned to the potential passage of the \$95 billion defense supplemental and the \$78 billion tax package. House Speaker Mike Johnson (R-LA) has indicated he will bring the defense package to the floor for a vote after the Easter Congressional recess. While the passage of the tax bill would represent a market positive for capital- and R&D-intensive businesses and discretionary income for low-income families, ongoing Senate disagreements around the Child Tax Credit and an increasing desire to defer tax negotiations to 2025 continue to weigh on its prospects.

## **Ukraine becomes adept at targeting Russian oil refineries**

While the Kremlin has not tried to weaponize its oil industry the way it tried (and failed) to weaponize natural gas, the last month provided a reminder that the war in Ukraine can still affect the oil market. Though Ukraine lacks the ability to strike Russian oilfields, which are typically located in Siberia – too far for drone strikes – it has successfully damaged at least seven refineries around Russia, hundreds of miles

from the front line. It's worth noting that Russia started the practice of targeting energy infrastructure during the winter of 2022-23, damaging numerous Ukrainian power plants.

### **Has the global economy turned a corner?**

International equity markets have continued to drive higher as the dollar has strengthened against most major currency pairs. The latest round of developed markets' "risk-on" price action follows updates from significant central banks that policy loosening is now imminent and the growing belief that the global economy has turned an important corner.

The most significant monetary policy development proved to be the Bank of Japan's exit from negative interest rates for the first time in eight years. Japanese investors are among the biggest exporters of capital in the world, borrowing in cheap yen to invest in higher rate destinations elsewhere, including the United States.

Of greater surprise is the Swiss National Bank's cut to that country's key interest rate by 0.25% to 1.50%, a signal to others in the euro zone of easier monetary policy to come. The Bank of England has sent a strong signal that rates are very likely to start falling in the UK as well in response to an anticipated easing in inflationary pressures – probably in June.

### **The bottom line**

The equity market's strong start likely increases the likelihood of near-term volatility. It typically experiences three to four pullbacks of 5% or more each year and hasn't had one since September 2023. But long term, my overall outlook remains positive.

As ever, I remain committed to the pursuit of your financial goals and thank you for your continued trust. If you have any questions regarding this recap – or any other topic – please reach out at your earliest convenience. I'll be glad to hear from you.

Sincerely,



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