Weekly Investment Insights

April 1, 2024

Key Takeaways:

- Home sales surprisingly drop.
- Consumer confidence readings mixed.
- Fed's preferred inflation gauge as expected.
- Value sectors outperform growth.
- Bond prices move higher as yields remain little changed.
- Investors flock to safe-haven Gold on interest rate uncertainty.

Weekly Economic Recap –

Inflation Moderating

New home sales unexpectedly declined in February for the first time in three months. Two of the four regions monitored (Northeast and Midwest) declined while sales in the South and West increased. In addition, the median price of a new home declined for the third consecutive month.

The preliminary reading on February durable goods orders showed that durable goods rose for the month after a sharp decline in January. In addition, core durable goods (goods orders excluding defense and aircraft) rose more than expected. The strength was led by machinery and metals.

Consumer confidence as measured by the conference board showed confidence modestly declined in March. However, the weakness was driven by confidence on future expectations, especially around income and job prospects.

The final reading on 4Q23 GDP showed that GDP grew modestly more than the prior estimate (3.4% QoQ vs 3.2% previously). The upgrade was due to an increase in personal consumption (3.3% QoQ vs. 3.0% previously).

The second reading on March consumer confidence as measured by the University of Michigan showed that confidence was higher at the end of March compared to the first reading in the beginінng of the month. Confidence on current conditions and future economic conditions increased while inflation expectations over the next year and long term (5-10 years) declined.

The Fed's preferred inflation gauge, PCE Core, rose as expected in February (+0.3% MoM) while the growth on an annual basis slowed slightly, (+2.8% YoY).

Weekly Market Recap –

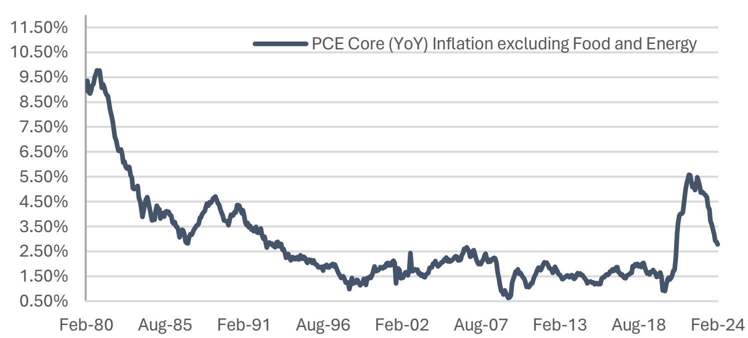
Value Sectors Drive U.S. Performance, Tech Under Pressure

Equities: The MSCI AC World Index was higher for the second straight week despite mixed readings on U.S. consumer confidence. Within the U.S., value sectors outperformed growth as the timing of interest rate cuts remains uncertain. Small-caps, as tracked by the Russell 2000 Index, outperformed their large-/mid-cap counterparts and were higher for the second straight week. The tech-heavy Nasdaq was lower for the third time in four weeks.

Fixed Income: The Bloomberg Barclays Aggregate Index rose for the fifth time in the last six weeks. Treasury yields were relatively unchanged to end the week as key inflation data came in as expected. Municipal bonds were the only sector of fixed income to fall for the week, while investment grade corporate bonds were the best performing sector.

Commodities/FX: The Bloomberg Commodity Index was higher for the fourth time in the last five weeks driven by energy prices and gold. Crude oil prices were higher for the second time in three weeks as concerns grow over the global supply outlook. Gold prices jumped as investors flocked to the safe-haven asset amid uncertainty around interest rate cuts.

Inflation Moving Towards Fed's Target



Footnotes: Data is as of February 2024.
Data Source: Bloomberg Finance LP, Verdence Capital Advisors.

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Key Takeaways:

- Several global equity indices make record highs in 1Q24.
- Federal Reserve hints at rate cuts but timing uncertain.
- Growth stocks continue to boost equities higher.
- Bonds were relatively flat to start the year.
- Geopolitical tensions keep commodities supported.

1Q24 Market Review – A Quarter of Fresh Record Highs

Last week we finished what turned out to be a stellar quarter for equity investors. The S&P 500 made 22 fresh new record highs in the first quarter alone. The U.S. was not alone in the robust rally. The MSCI AC World Index, the Eurostoxx 50, the FTSE 100, and the Nikkei 225 Index also made record highs in the quarter. Dovish rhetoric from many global central banks and a surprise move from the Bank of Japan boosted risk sentiment. In addition, U.S. economic data remained supportive of the economy in 1Q24 after a strong finish to 2023 (GDP YoY 3.1%). In this weekly, we offer highlights from the quarter from an economic and asset class perspective.

- **Job gains remain strong:** The three-month moving average of U.S. job gains was strong in 1Q24 (at 264K jobs). However, the unemployment rate moved to the highest level since January 2022 (to 3.9%) as more Americans entered the labor force.
- **Consumer weakening:** Core retail sales (ex. gas, autos and building materials) were relatively flat to start 2024. Credit card delinquencies (30 days overdue) jumped to the highest level since May 2020.
- **Manufacturing expands; Services strong:** The ISM Manufacturing Index rose into expansion territory (reading above 50) for the first time in 17 months while ISM Services continued to expand in 1Q.
- **Inflation mixed:** Inflation as measured by the Consumer Price Index and the Producer Price Index all came in hotter than expected in the quarter. PCE Core came in as expected (+2.8% YoY).
- **Federal Reserve hints at rate cuts:** The Fed kept rates unchanged but insinuated several rate cuts before year end 2024.

Global Equities: Still a Growth Story. Every major global equity region rallied in 1Q24 except China. The gains were led by growth stocks as the MSCI AC World Growth Index outperformed the MSCI AC World Value Index by 265 bps.

- **U.S. leads developed markets:** The S&P 500 Index outperformed the MSCI AC World ex U.S. Index for the fourth quarter in a row as tech drove the U.S. outperformance. Japan posted its best quarterly return since 4Q22 as the Bank of Japan said more rate hikes are uncertain.

Fixed Income: Relatively Flat as Inflation and Fed Speak Mixed. The Bloomberg Aggregate Index was relatively flat in 1Q24. Higher than expected inflation overshadowed rhetoric from the Fed that the central bank is close to cutting interest rates.

- **Short duration outperforms:** Short-term maturing notes outperformed long term bonds in 1Q24. Leveraged loans and floating rate bonds outperformed 10- and 30-year Treasuries.
- **Risk sentiment supports credit.** Risk appetite continued to drive credit in fixed income as emerging market and high yield bonds outperformed the broad index.

Commodities: Strong rally. The Bloomberg Commodity Index rallied for the second time in the past four quarters on supply concerns.

- **Crude oil surges:** Geopolitical tensions in the Red Sea continue to threaten the supply of major commodities, including oil.
- **Gold at record:** Gold prices set new record highs in 1Q24 on central bank uncertainty.

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