Market Talking Points

April 1, 2024

Near-term Outlook (3 months) *

Stocks started 2024 the same way they ended 2023. The S&P 500 gained more than +10% for a second consecutive quarter in Q1 and set 22 new all-time closing highs along the way. While the AI theme is receiving a lot of attention, stocks are also benefiting from increased market liquidity. 1Q24 saw a surge in market liquidity despite the Fed shrinking their balance sheet. Our view continues to be that it will take a combination of a more hawkish Fed, resurgent inflation, and deteriorating market liquidity to weaken investor sentiment. Recent Fedspeak has leaned more hawkish, recent inflation reports have came in hotter than expected, and recent market liquidity data is now reversing lower. The combination suggests stocks have less upside in Q2 and could even trade lower.

Long-term Outlook (12 months) *

The Fed's tightening cycle is nearing an end, but the economy hasn't yet felt the impact of higher interest rates. It remains difficult to know when and if the impact of tighter monetary policy will transmit into the real economy, but the recent loosening of financial conditions and the fixed nature of borrower's interest rates could allow the economy to keep expanding. In addition, multiple leading indicators, such as earnings growth and manufacturing PMI, suggest the macro outlook for 2Q24 and beyond is improving. Releases for ISM Mfg PMI New Orders Index, homebuilder sentiment, and initial jobless claims in Q1 suggest the potential 2H 2024 reacceleration is real. For now, it appears that 'the most anticipated recession' keeps getting pushed further down the road.

Current Market Themes

Federal Reserve Policy	July 2023 was this cycle's last rate hike; We expect proactive rate cuts in 2024, but less than market forecast
Corporate Earnings	S&P 500 EPS forecasted to grow +10% despite easing inflation
Inflation Pressures	Price pressures easing, but fiscal spending, loosening financial conditions, & labor strikes pose inflation risks

Economic Factors

U.S. GDP Growth	Q423 economic growth remained above pre-pandemic trend; Expect growth to normalize in coming quarters
Inflation	Expect inflation to ease, but there is a risk that inflation remains stuck above the Fed's 2% target
Employment	Remains tight, but early signs demand is softening; Our Unemployment Indicator forecasts 5-6% unemployment
Consumer Confidence	Sentiment remains volatile & weak due to higher borrowing costs & concerns about lingering inflation
Interest Rates	Probability of rate cuts increasing, but credit market already prices in a significant portion of the expected cuts
Long Duration Bonds	Treasury issuance & inflation = risk of higher yields; Investors with longer horizon may consider locking in yields

Asset Class Outlooks

Large Cap Growth *	Mega Cap Growth trade crowded & expensive = Reliant on EPS growth to meet expectations
Large Cap Value *	Trades at a discount to Growth, but offers less relative value due to lower EPS growth potential
Small Caps *	Narrative shift could start to favor Small, which is unloved, under owned, and trades at a valuation discount
Developed Markets	Rate hikes having a bigger impact in non-U.S. countries; Favor Minimum Volatility to lower portfolio beta
Emerging Markets *	Slower global growth = EM risk, but EM central banks have more room to cut; More earnings potential than DM
U.S. Corporate Bonds	Remain overweight as credit risk increases; Favor neutral duration stances due to risk of higher yields
U.S. High Yield Bonds	Tight spreads leave little room for further tightening; Tight lending standards = refinancing risk

* Denotes updated views in this version of the Market Talking Points

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