April 15th, 2024

Although everyone has talked much about the four-and-a-half-minute total eclipse we experienced here in Cleveland on April 8, the first to run through Cleveland in over 400 years, there has been little talk about the four-and-a-half-month total eclipse of volatility that we have seen throughout our markets worldwide. The last two months of 2023 and first three months of 2024 came and went without a single market pull back of even 2%, as volatility went to record low levels as gauged by the fear indicating VIX as illustrated in the attached chart.[1]

This lack of volatility helped bring positive total returns of 10.6% for the S&P 500, as 10 of its 11 sectors posted gains, with only the Real Estate sector experiencing price declines quarter-over-quarter. Over the same time frame, the Russell 2000 Index, the small-cap benchmark, gained 5.2%, while the Bloomberg US Aggregate Index, a broad measure of the US bond market, declined 0.8%. Yield curve inversion continued during the quarter, as short-term debt instruments maintained higher yields than long-term debt instruments. The yield on the 10-year US Treasury note closed the first quarter at 4.20%, up from 3.88% at the end of the fourth quarter of 2023, while three-month Treasury bill yields rose to 5.36%, from 5.33% in the previous quarter. The Dow Jones Industrial Average posted gains of 5% and the NASDAQ lagged the S&P for the first time in many quarters gaining just over 9% as value showed relative outperformance to growth and the magnificent seven turned into the fabulous four also illustrated in the attached chart. [2]

With the current economic backdrop, the Global Investment Committee remains underweight equities and overweight to fixed income. In equities, we recommend that investors consider lightening exposures to outperformers, including growth and megacaps. We remain market-weight to international developed and emerging market equities. We are overweight fixed income assets, as a higher-for-longer rate regime creates opportunities to achieve better risk-adjusted returns in current coupons, with the potential for capital gains if rates fade in 2024 as forecast. Furthermore, we advocate that investors maintain a neutral-duration stance, as intermediate- to long-term bonds may help to fortify multi-asset portfolios across a range of potential outcomes.

Lastly, on the labor market front, the March payrolls report proved to be stronger than expected, with 303,000 jobs added in the month vs. economists' consensus of 214,000. Although recent nonfarm payroll figures show a strong labor market, the MS & Co. Economics team maintains the view that the Fed will remain on an extended hold until making the first of four 25-bp cuts, commencing in June 2024, with an additional 200 bp of cuts in 2025. Relatively stable unemployment, labor force participation, and average hourly earnings showcase the strength of the economy and support the idea of a "soft landing," should inflation continue to decelerate.

As always, please reach out to anyone on our team if you have any questions and our team hopes you have a wonderful spring!

Best Regards,

Porter Vergon, CIMA® CRPS®
Executive Director
Senior Portfolio Manager
Financial Adviso

Sources:

1. *Wealthbook slides, April 2024*
2. *Morgan Stanley Q1 2024 client market commentary letter*

Please contact your Financial Advisor for a complete listing of all transactions that occurred during the last twelve months.

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For index, indicator and survey definitions referenced in this report please visit the following:
https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions

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Asset Allocation and diversification do not assure a profit or protect against loss in declining financial markets.

The Global Investment Committee is a group of seasoned investment professionals who meet regularly to discuss the global economy and markets. The committee determines the investment outlook that guides our advice to clients. They continually monitor developing economic and market conditions, review tactical outlooks and recommend model portfolio weightings, as well as produce a suite of strategy, analysis, commentary, and portfolio positioning suggestions and other reports and broadcasts.

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CRC 6576667 4/2024