

April 2024

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 4/30/2024

Global Overview

Markets were challenged in April as tensions from the Middle East rippled throughout the global economy. Domestically, investors began to lose confidence in rate cuts coming in the first half of this year due to increasing inflation and a generally strong economy. Consequently, interest rate-sensitive domestic small-caps fell more than large-cap stocks. Notably, while the Fed is settling in on the “higher-for-longer” mentality, the market is predicting the ECB to make its first cut in June. Nevertheless, the decline in sentiment led the MSCI World Index to lose 3.7%.

U.S. Markets & Economy

Domestic equities fell over the month, grappling with data releases and spillover from geopolitical tensions. Although economic data displayed relatively resilient numbers in the first half of the month, the market interpreted the positive news as bad news in disguise, dampening hopes for future rate cuts. Currently, the market anticipates one, maybe two, rate cuts by year-end from the Fed. Key data releases included hot inflation and a GDP report that came in below expectations, only growing at a 1.6% annual rate. To dig more into the inflation, heightened energy prices from Middle East tensions acted as a tailwind, driving headline inflation to an annual rate of 3.5%. However, even Core CPI (which excludes food and energy) surpassed expectations with a 0.4% month-over-month increase. The labor markets remains robust, with initial jobless claims consistently defying expectations (most recently at 207k), and the overall unemployment rate remaining at 3.9%. The job switching rate, a common indicator of an economic slowdown, is at its lowest point (about 2%) since COVID, which puts downward pressure on wage growth and subsequently slow inflation, which could lead to rate cuts. In reaction to these data, small-caps underperformed large-caps due to elevated inflation data and market sentiment around rate cuts, as evidenced by the Russell 2000 Index falling 7.0%, while the Russell 1000 Index only declined 4.3%. Large-cap growth and value finished neck and neck over the month, but within small-cap, value-oriented indices slightly outperformed, bolstered by their heavier exposure to cyclical sectors like utilities, consumer staples, and energy, all of which experienced growth over the last month.

The fixed income market reacted sharply to the economic developments as well. In response to rising inflation, both the U.S. 10-year Treasury yield and the 2-year Treasury yield shot up by 19 and 23 basis points, respectively. Additionally, pressure pushing yields upward throughout the month included the release of retail sales that grew 0.7% over the month, above expectations. Persistent inflationary pressures caused the 10-year Treasury yields to climb from 4.3% to 4.7%. Although corporate spreads did tighten in reaction to the economic data, the month-over-month spread shifted lower from 94 basis points to 91 basis points despite high issuance throughout the year. Market expectations around interest rates was the primary driver of performance and especially hurt longer duration bonds, as seen by the Bloomberg U.S. Govt/Credit Long Index losing 5.5% last month. However, high yield spreads widened over the month from 315 basis points to 318 basis points. This trend aligns with increasing default rates and the rising credit card delinquency rate. The high yield bond performance sank as well with the ICE BofA High Yield Index falling 1% during the month.

International Markets & Economy

Geopolitical tensions, particularly the escalating discord between Israel and Iran flowed into the European economy as well. While currently constrained, this event signaled potential escalation between the two nations. As a result, the European consumer confidence ticked downward in tandem with the MSCI Europe Index falling 1.9% in April. In contrast to the U.S., Europe witnessed weaker economic activity, evidenced by the continuous drop in retail sales and April’s inflation growth coming in below expectations, at 0.6% month-over-month. In light of the economic data, ECB officials are discussing rate cuts, despite unemployment in Europe at a record low of 6.5%. Presently, the market is pricing in the first cut of 25 basis points in June, with one or two additional cuts throughout 2024 if the current

DeMarche Dashboard

Data and Commentary for Periods Ended 4/30/2024

April 2024

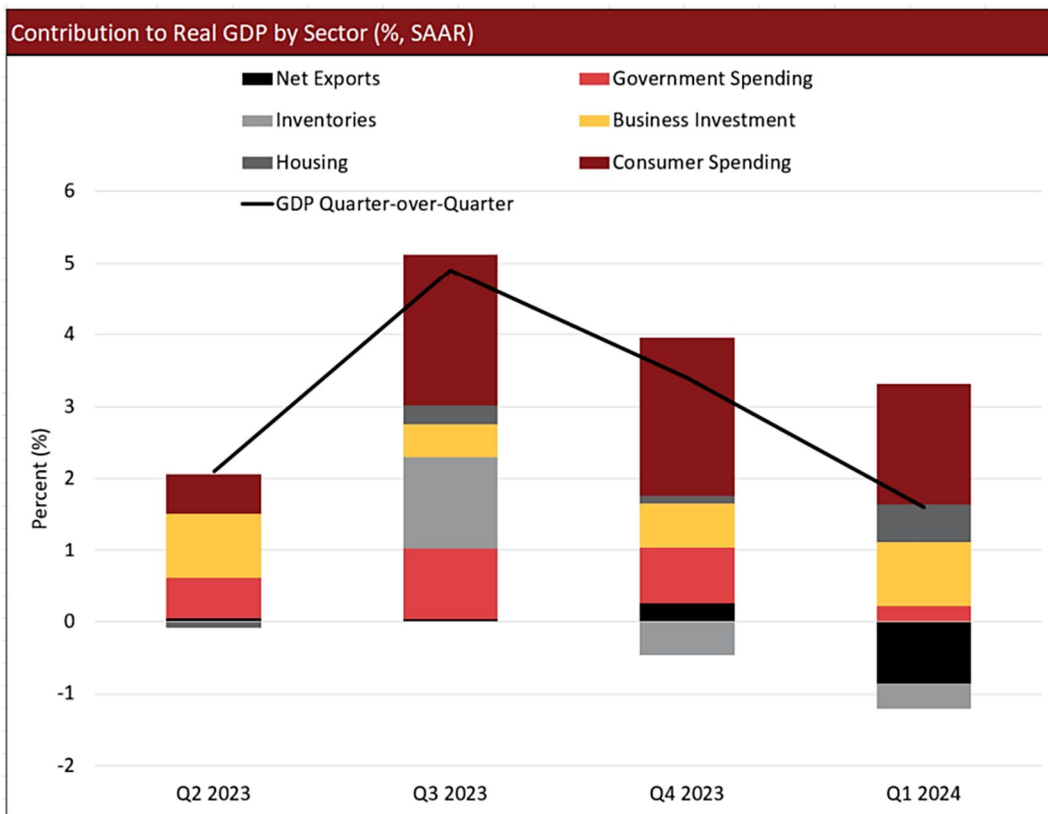
Page 2 of 6

economic pace continues. The rapid depreciation of the Yen against the USD continued in April. While BoJ officials have not released word that they have intervened, the BoJ account changes suggest a \$5.5 trillion Yen intervention. Additionally, the BoJ Governor Kazuo Ueda hinted at potential adjustments to Japan's accommodative monetary policy in the latter half of the year. Japan's market felt the pinch from the tensions in the Middle East, and the waning AI-related demand aided in the MSCI Japan Index losing 4.9%. While international developed markets saw losses, the MSCI Emerging Markets Index was able to squeak by with a positive return of 0.5%. China's production numbers contributed to overall economic growth, with GDP surpassing expectations, growing at an annualized rate of 1.6%, largely due to accelerated growth in March. Moreover, factory activity expanded, and increased optimism propped up the economy, but housing prices remained a drag on growth. The MSCI China Index closed the month with considerable gains of 6.6%. India also helped propel the emerging markets space with the MSCI India Index returning 2.3% in April.

In the News

As mentioned earlier, the initial U.S. GDP release showed the economy growing at a 1.6% rate, below the forecasts of 2.5%. While this figure fell significantly below expectations, the chart below illustrates the breakdown of where the growth and contractions originated. Consumer spending (measured by PCE) saw a slight decrease compared to the two previous quarters but remained robust. Most of the growth in consumer spending stemmed from the service sector, while the goods sector acted as a drag, decreasing PCE by 0.1%. The rise in housing (private residential) prices drove up total GDP compared to the past few quarters. The main detractors were in net exports, as imports outweighed exports, resulting in figures of -1.0% and 0.1%, respectively. Although inventories also acted as a detractor, inventory investment is often the most volatile portion of GDP and was influenced by slowing production throughout the quarter. Therefore, while U.S. GDP coming in below forecasts may be surprising, the disparity between expected and actual figures is primarily driven by net exports, which may alleviate concerns about the health of the economy.

Chart of the Month



Source: Bureau of Economic Analysis

Data as of 3/31/2024

DeMarche Dashboard

Data and Commentary for Periods Ended 4/30/2024

April 2024

Page 3 of 6

Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(3.71)	3.59	4.84	18.39	5.63	10.46	8.87
	Bloomberg US Agg Bond TR USD	(2.53)	(3.02)	(3.28)	(1.47)	(3.54)	(0.16)	1.20
	Russell 3000 TR USD	(4.40)	4.03	5.18	22.30	6.35	12.43	11.81
	DJ Industrial Average TR USD	(4.92)	(0.39)	0.92	13.25	5.87	9.61	11.10
	NASDAQ Composite PR USD	(4.41)	3.26	4.31	28.06	3.89	14.10	14.30
	MSCI EAFE NR USD	(2.56)	2.49	3.08	9.28	2.86	6.18	4.38
	FTSE Treasury Bill 3 Mon USD	0.45	1.35	1.83	5.57	2.86	2.12	1.44
	Bloomberg Commodity TR USD	2.69	4.53	4.94	2.89	7.19	7.04	(1.54)
Domestic Equities	S&P 500 TR USD	(4.08)	4.29	6.04	22.66	8.06	13.19	12.41
	S&P MidCap 400 TR	(6.02)	5.13	3.33	16.82	3.25	9.47	9.48
	S&P SmallCap 600 TR USD	(5.61)	0.68	(3.29)	12.55	(0.34)	7.08	8.48
	Russell 1000 TR USD	(4.26)	4.15	5.60	22.82	6.98	12.87	12.14
	Russell 1000 Growth TR USD	(4.24)	4.09	6.69	31.80	8.48	16.46	15.48
	Russell 1000 Value TR USD	(4.27)	4.22	4.33	13.42	5.17	8.60	8.43
	Russell Mid Cap TR USD	(5.40)	4.22	2.73	16.35	2.41	9.06	9.40
	Russell Mid Cap Growth TR USD	(5.81)	3.70	3.14	20.70	0.70	9.52	10.85
	Russell Mid Cap Value TR USD	(5.23)	4.43	2.56	14.09	3.26	8.06	7.94
	Russell 2000 TR USD	(7.04)	1.73	(2.22)	13.32	(3.18)	5.83	7.22
	Russell 2000 Growth TR USD	(7.70)	2.59	(0.70)	12.39	(5.92)	5.04	7.60
	Russell 2000 Value TR USD	(6.37)	0.93	(3.66)	14.03	(0.67)	5.96	6.45
International Equities	MSCI ACWI Ex USA NR USD	(1.80)	3.84	2.81	9.33	0.35	5.03	3.93
	MSCI EAFE NR USD	(2.56)	2.49	3.08	9.28	2.86	6.18	4.38
	MSCI EAFE Growth NR USD	(3.97)	1.58	2.79	6.21	(0.01)	6.26	5.35
	MSCI EAFE Value NR USD	(1.02)	3.48	3.41	12.49	5.56	5.68	3.16
	MSCI Japan NR USD	(4.86)	0.95	5.61	19.23	2.51	6.41	6.43
	MSCI AC Asia Ex Japan NR USD	1.25	9.63	3.65	7.52	(7.21)	1.81	4.23
	MSCI Europe NR USD	(1.89)	3.36	3.24	7.48	3.96	6.79	3.99
	MSCI United Kingdom NR USD	1.89	6.48	5.05	7.26	6.83	5.07	2.63
	MSCI EAFE Small Cap NR USD	(2.97)	1.02	(0.64)	5.05	(3.62)	3.69	4.47
MSCI EM NR USD	0.45	7.83	2.83	9.88	(5.69)	1.89	2.96	
Fixed Income	Bloomberg US Govt/Credit TR USD	(2.38)	(2.85)	(3.08)	(1.31)	(3.41)	0.13	1.37
	Bloomberg US Govt/Credit Interm TR USD	(1.35)	(1.70)	(1.50)	0.69	(1.67)	0.78	1.42
	Bloomberg US Govt/Credit Long TR USD	(5.46)	(6.30)	(7.74)	(7.20)	(8.38)	(1.65)	1.53
	ICE BofA US High Yield TR USD	(1.00)	0.48	0.49	8.88	1.50	3.53	4.19
	Credit Suisse HY USD	(0.91)	0.64	0.81	9.15	1.79	3.60	4.13
	Morningstar LSTA US LL Index TR USD	0.60	2.38	3.07	11.97	6.02	5.26	4.60
	FTSE WGBI NonUS USD	(2.85)	(3.81)	(6.18)	(4.56)	(9.68)	(4.17)	(2.32)
	Bloomberg Gbl Agg Ex USD TR USD	(2.59)	(3.51)	(5.72)	(3.56)	(7.84)	(2.89)	(1.77)
REITs	FTSE Nareit All REITs TR	(7.80)	(4.36)	(8.98)	(0.34)	(3.16)	1.90	5.50
	Wilshire US REIT TR USD	(7.83)	(4.22)	(7.84)	2.77	(0.86)	2.76	5.45

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

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DeMarche Dashboard

Data and Commentary for Periods Ended 4/30/2024

April 2024

Page 4 of 6

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³ per US \$		Inflation ²
	Latest ¹	2024 ¹	2025 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	1.60	2.15	1.71	3.90	4.64	-	-	3.80
China	1.60	4.69	4.24	5.20	2.36	7.25	6.93	0.60
Japan	0.10	1.00	1.00	2.60	0.90	157.62	133.72	2.60
United Kingdom	-0.30	0.66	1.16	4.20	4.37	1.25	1.25	4.20
Euro Area	0.30	0.64	1.33	6.50	3.07	1.07	1.11	2.70
Germany	0.20	0.28	1.11	5.90	2.58	1.07	1.11	3.00
France	0.20	0.62	1.20	7.50	3.08	1.07	1.11	2.20
Italy	0.30	0.70	1.23	7.50	3.88	1.07	1.11	2.32
Canada	0.20	0.86	1.89	6.10	3.81	1.37	1.36	2.00
India	1.70	6.16	6.52	7.64	7.20	83.02	81.97	5.09
Mexico	0.20	2.49	2.03	2.30	10.34	17.14	18.11	4.55
Brazil	0.00	1.82	2.02	7.90	11.75	5.11	5.05	4.66

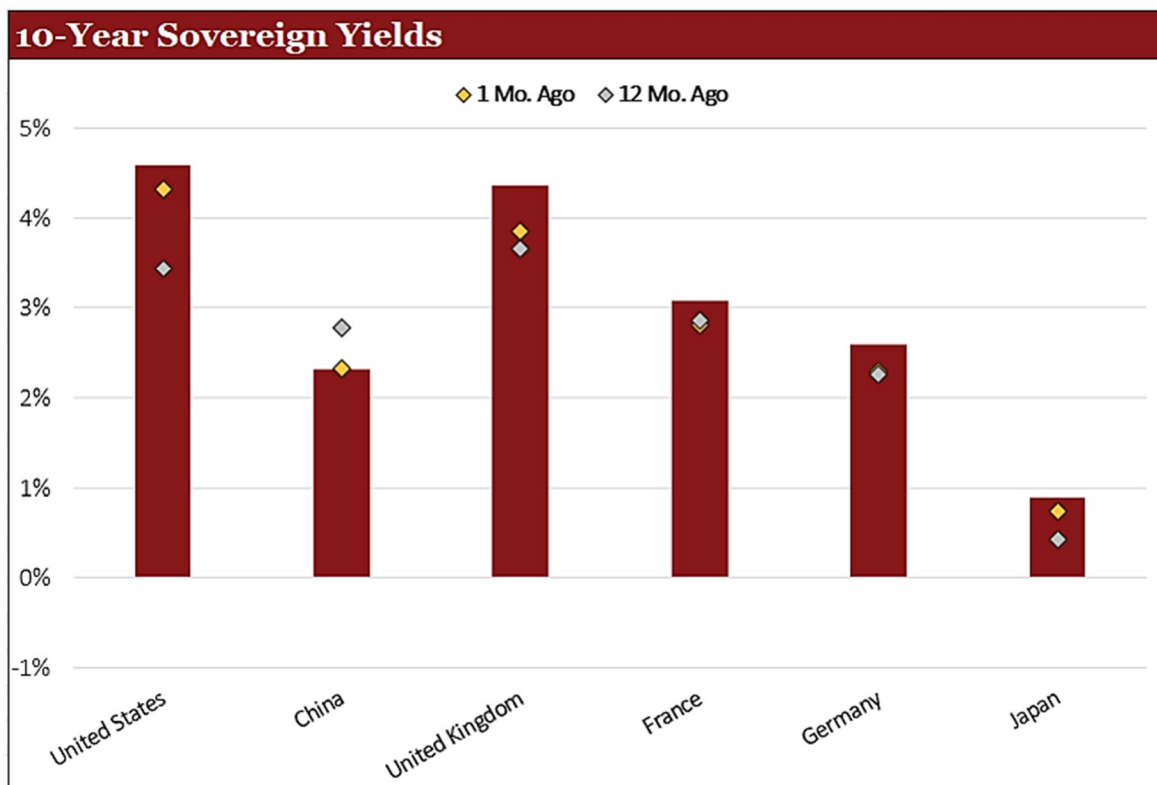
Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

4. Germany, France, and Italy currency exchange rates are taken at the Euro Area exchange rate



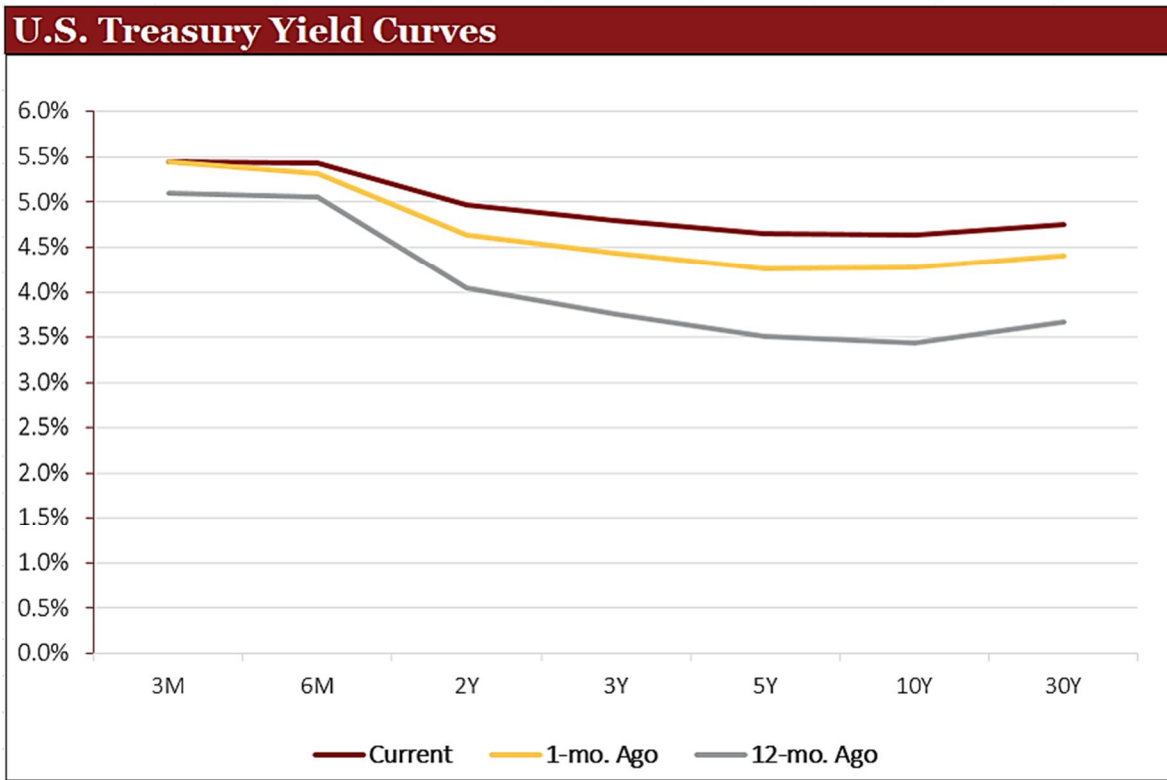
Source: Trading Economics; Data as of 4/29/2024

DeMarche Dashboard

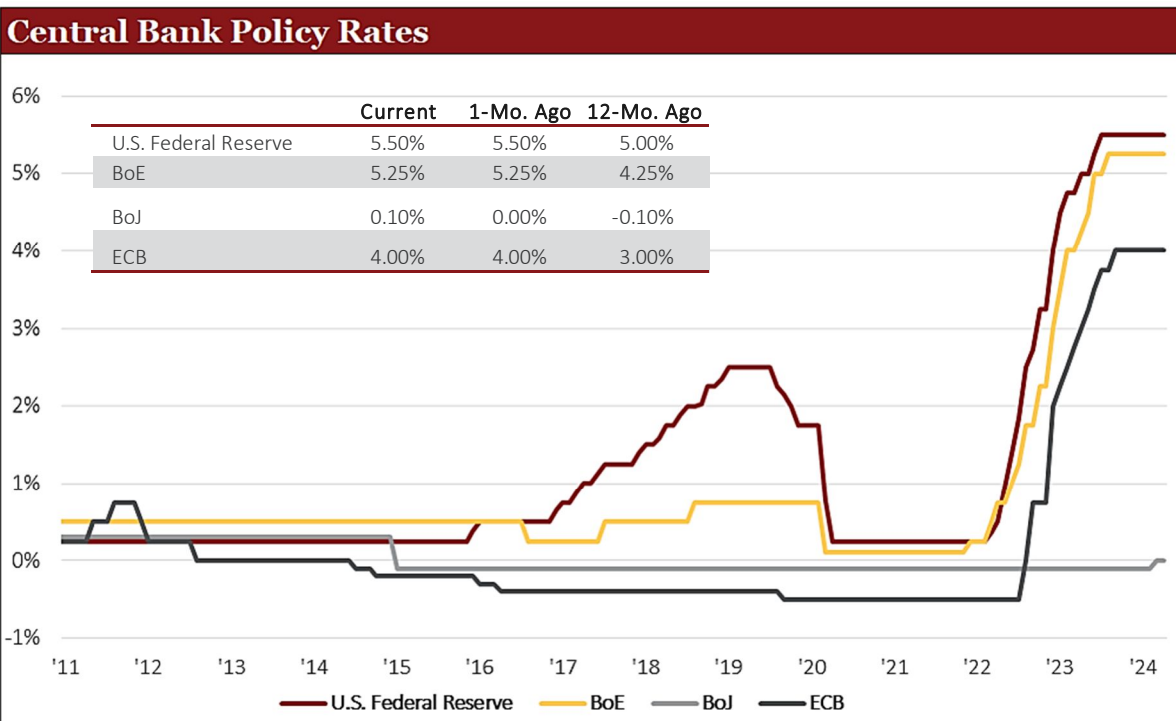
Data and Commentary for Periods Ended 4/30/2024

April 2024

Page 5 of 6



Source: Federal Reserve Bank; Data as of 4/29/2024



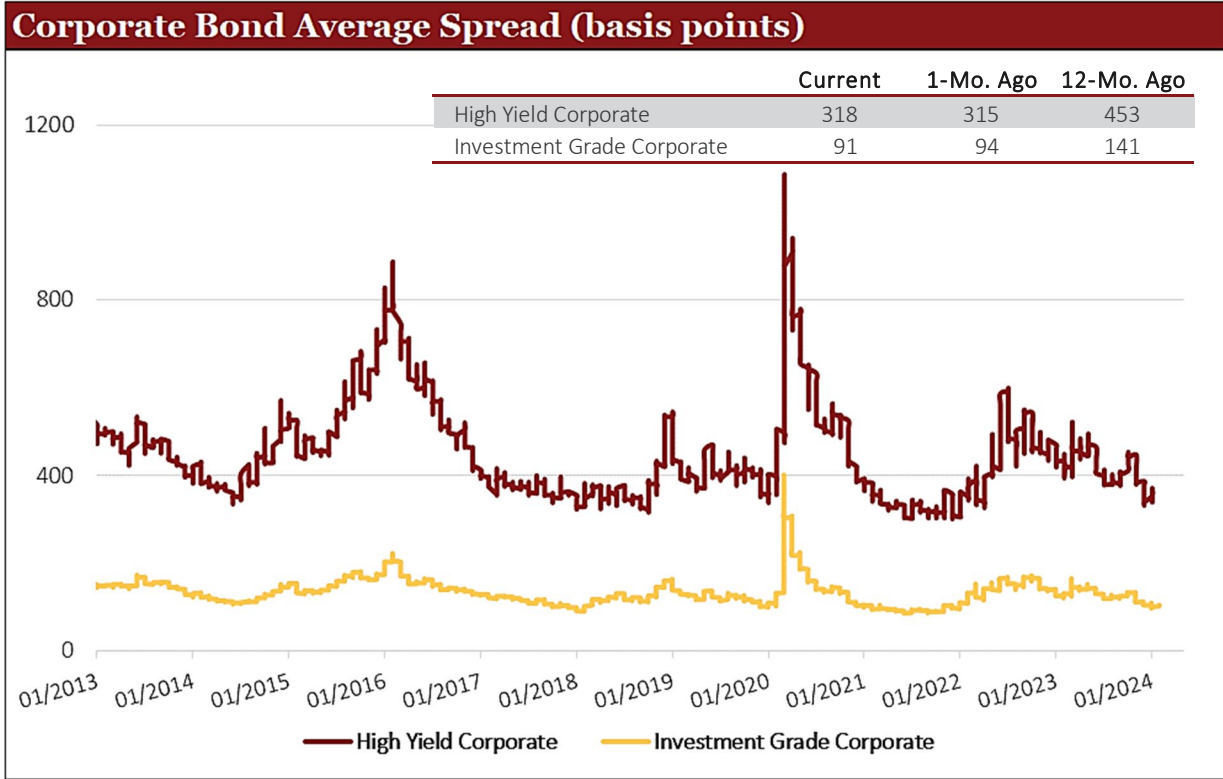
Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics; Data as of 4/1/2024

DeMarche Dashboard

Data and Commentary for Periods Ended 4/30/2024

April 2024

Page 6 of 6



Source: Federal Reserve Bank, Bank of America; Data as of 4/30/2024