March 2024

DeMarche Dashboard

A Flash Report on Markets and the Economy

Data and Commentary for the Period Ended 3/31/2024

Global Overview

Both domestic and international markets gained in March. The prevailing trend of growth stocks leading the market faltered, as value-oriented funds, boosted by gains in the energy sector, outperformed last month. International market gains were driven by increased confidence in the Eurozone as well as strong market gains in Japan. Returns in Japan were supported by the country removing their negative interest rate policy that has been in effect for eight years. Strong market returns from developed economies led the MSCI World Index to rise 3.2%.

U.S. Markets & Economy

Domestic equities surged during the month of March, propelling the S&P 500 Index to new highs at the conclusion of the month. During its FOMC meeting, the Fed unanimously voted to maintain rates, in line with market expectations. After the meeting, Fed Chair Powell remarked the Fed is “not far” from the confidence needed to make rate cuts, which boosted broad equity returns. Despite some concerning economic data, such as core inflation rising in January and February, Powell remained relatively unfazed, attributing the increase to seasonal fluctuations. Powell also had little concern to the unexpected uptick in unemployment in February to 3.9% (despite expectations of 3.7%). But, the new March unemployment figure dipped to 3.8%, below expectations. Month-over-month inflation grew 0.4%, slightly exceeding expectations of 0.3%. Inflation was largely driven by rising shelter and energy costs, which accounted for 60% of the total increase. While this rise lowered the market-implied chance for a rate cut in May, June still retains a 57% chance of seeing the first cut. Nevertheless, the market sentiment and Powell’s comments still align, predicting three 25 basis point cuts throughout 2024. Beyond economic indicators, the S&P 500 Equal Weight Index finally outperformed the traditional S&P 500 Index, with notable returns coming from the energy sector from high oil and natural gas prices. While momentum stocks and most of the Magnificent 7 (except for Apple and Tesla) continued to pull the market upward, the largest sector gains came from energy, materials, and utilities, while healthcare, real estate, and consumer discretionary lagged. In a reversal from prior months, value funds surpassed growth in March, with the Russell 1000 Value Index returning 5.0% compared to the Russell 1000 Growth Index’s 1.8% return. Despite not holding the Magnificent 7, value’s outperformance can be chalked up to the value indices holding a larger proportion of the highest performing sectors in March (energy, materials, and utilities). Although both segments saw gains, small-cap stocks slightly outperformed large-cap, reacting positively to hopes of a soft landing and robust economic data. However, the Russell 2000 Index still trails in 2024, posting returns of 5.2% compared to the Russell 1000 Index’s 10.3% increase.

The fixed income market reacted positively to economic developments and the FOMC meeting. Initially, the 10-year U.S. Treasury yield rose from 4.10% to 4.31% over a four-day period mid-month, triggered by a 0.6% increase in the Producer Price Index (0.3% above-expectations) and low jobless claims. However, Powell’s surprising optimistic remarks caused yields to fall again, closing the month at 4.20%. Due to the market’s hope for imminent rate cuts, the Bloomberg U.S. Govt/Credit Long Index gained 1.6% while the shorter duration bonds, like the Bloomberg U.S. Govt/Credit Intermediate Index grew 0.6%. Primary markets for investment-grade bonds continued to experience a solid influx of new deals, contributing to corporate spreads tightening even further and ending the month at 94 basis points. High-yield spreads tightened as well from 329 to 315 basis points pushing the BofA High Yield Index up 1.2%.

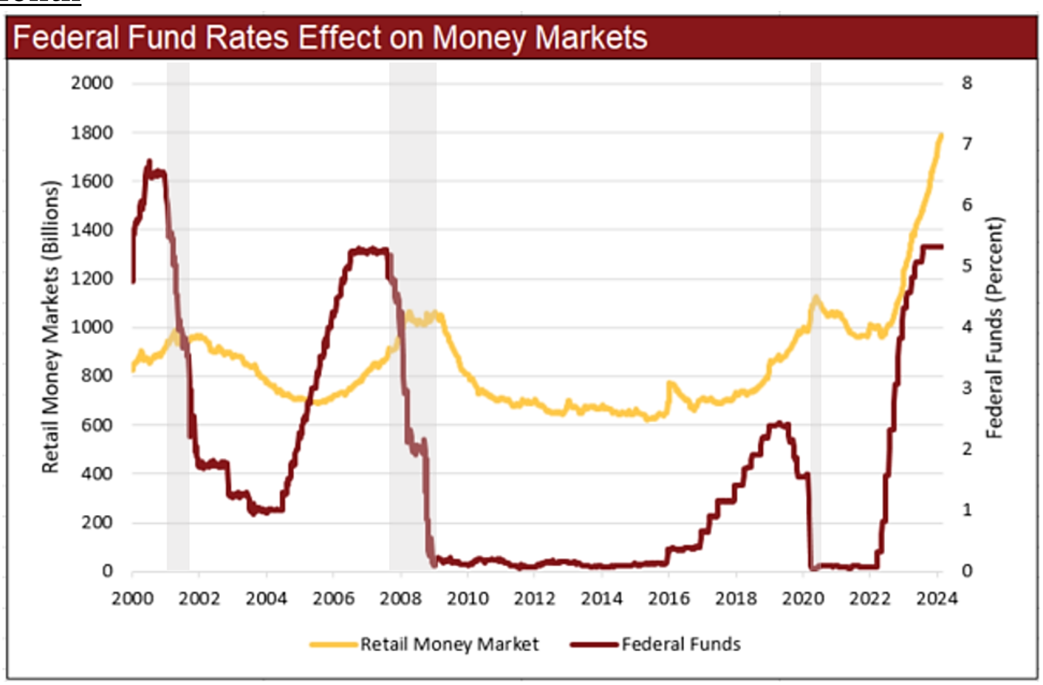
International Markets & Economy

Developed international markets witnessed growth driven by Europe and Japan. In Europe, wage growth continued to slow, with the Q4 2023 only growing 3.1%, well below expectations of 4.6%. The sluggish wage growth combined with milder inflation, now down to 2.4%, prompted hints from the ECB about potential rate cuts in June, with ECB officials claiming rate cuts could be “in play” at the June meeting, depending if wage growth continues to moderate. Notably, while the U.K.’s inflation rate is higher than the rest of Europe, at 3.4%, the BoE is also edging closer to rate cuts due to the country entering a technical recession. Perhaps the most shocking news in March was Japan eliminating their negative interest rate policy that was adopted in 2016. Their interest rate now sits at 0%. In anticipation of this move, Japan bank stocks surged. Other factors that contributed to Japan's stock market success include a revised GDP report indicating Japan avoided a technical recession, solid corporate earnings, and enthusiasms around AI, all of which bolstered sentiment. While Japan experienced solid market gains throughout the month, the gains retreated slightly in the final days due to the ongoing depreciation of the Yen, raising concerns about potential monetary interventions. Nevertheless, the MSCI Japan Index gained 3.0%, aiding in the MSCI EAFE Index to advance 3.3% in March. In China, the equity rally stalled only gaining 0.9% last month. Despite some better-than-expected economic data such as industrial production, increased fixed-asset investment, and rising retail sales, the persistently depressed property market offset the optimism around the economic data. Surprisingly, the primary drag on the emerging market index was not China, but rather India, which saw growth of only 0.8%. However, robust growth and rate cuts in other emerging market countries propelled the MSCI Emerging Markets Index to rise by 2.5%.

In the News

Money Market Funds, both retail and institutional, have continued to soar to new highs since mid-2022. Typically, the significant increase in money market activity can be attributed to rising interest rates, as seen below, where money markets typically see a significant rise six months after the first rate hike (Forbes). Additionally, the influx of extra funds from COVID stimulus, previously held in commercial bank deposits, has found its way into money market funds. In fact, according to Forbes, from April 2022 to February 2024, banks saw an outflow of $767 billion dollars from deposits, while money markets received inflows of $769 billion. So, what do the ongoing new highs in money market mean moving forward? It could serve as an indicator for a bear market, bull market, or neither. As witnessed in 2001 and 2008, the flows in and out of the money markets were actually able to predict a recession, peaking just before a downturn. On the contrary, the substantial amounts of money market dollars could signify large amounts of pent-up demand that could spur another leg of a bull market once that money hits the exchanges. Typically, large outflows of funds from the money market often immediately precede a substantial price increase in the S&P 500 Index. While the historical trends offer insights, so far the economy has remained relatively resilient with better-than-expected economic data and market returns in 2024.

Chart of the Month



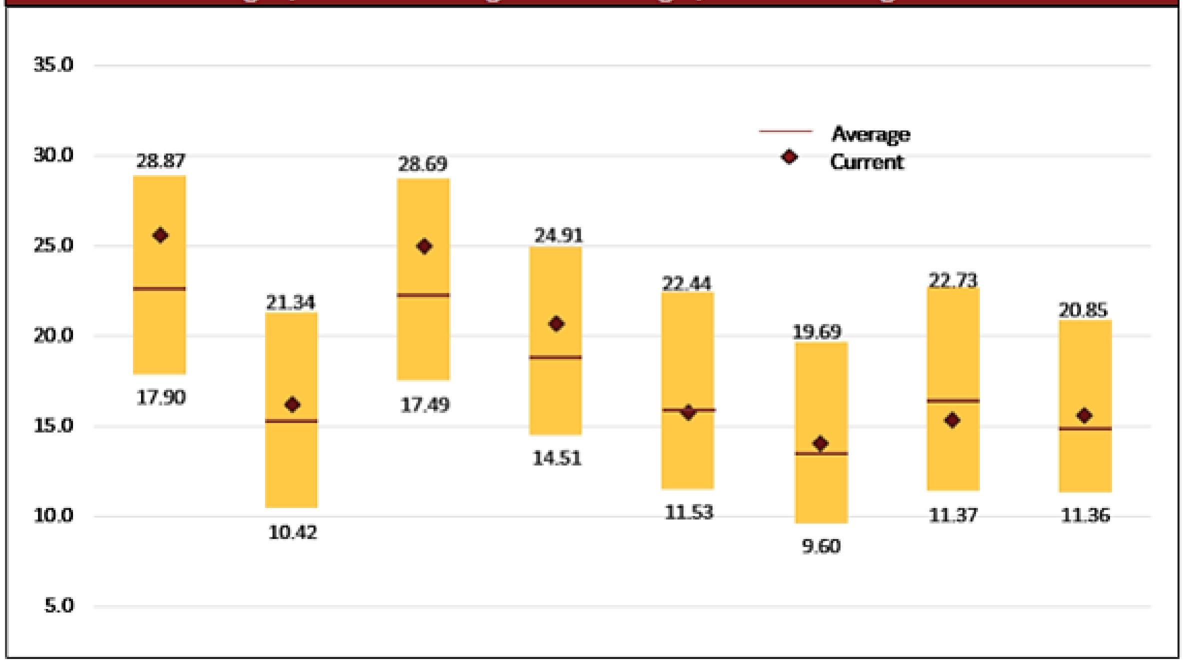
Source: Morningstar & FRED Data as of 3/31/2024 Gray Periods=Recession

Capital Markets Overview

		TRAILING			ANNUALIZED			
		1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Broad Market	MSCI World NR USD	3.21	8.88	8.88	25.11	8.60	12.07	9.39
	Bloomberg US Agg Bond TR USD	0.92	(0.78)	(0.78)	1.70	(2.46)	0.36	1.54
	Russell 3000 TR USD	3.23	10.02	10.02	29.29	9.78	14.34	12.33
	DJ Industrial Average TR USD	2.21	6.14	6.14	22.18	8.65	11.31	11.76
	NASDAQ Composite PR USD	1.79	9.11	9.11	34.02	7.33	16.21	14.58
	MSCI EAFE NR USD	3.29	5.78	5.78	15.32	4.78	7.33	4.80
	FTSE Treasury Bill 3 Mon USD	0.46	1.37	1.37	5.52	2.70	2.07	1.39
	Bloomberg Commodity TR USD	3.31	2.19	2.19	(0.56)	9.11	6.38	(1.56)
Domestic Equities	S&P 500 TR USD	3.22	10.56	10.56	29.88	11.49	15.05	12.96
	S&P MidCap 400 TR	5.60	9.95	9.95	23.33	6.96	11.71	9.99
	S&P SmallCap 600 TR USD	3.24	2.46	2.46	15.93	2.28	9.15	8.80
	Russell 1000 TR USD	3.21	10.30	10.30	29.87	10.45	14.76	12.68
	Russell 1000 Growth TR USD	1.76	11.41	11.41	39.00	12.50	18.52	15.98
	Russell 1000 Value TR USD	5.00	8.99	8.99	20.27	8.11	10.32	9.01
	Russell Mid Cap TR USD	4.34	8.60	8.60	22.35	6.07	11.10	9.95
	Russell Mid Cap Growth TR USD	2.39	9.50	9.50	26.28	4.62	11.82	11.35
	Russell Mid Cap Value TR USD	5.18	8.23	8.23	20.40	6.80	9.94	8.57
	Russell 2000 TR USD	3.58	5.18	5.18	19.71	(0.10)	8.10	7.58
	Russell 2000 Growth TR USD	2.80	7.58	7.58	20.35	(2.68)	7.38	7.89
	Russell 2000 Value TR USD	4.38	2.90	2.90	18.75	2.22	8.17	6.87
International Equities	MSCI ACWI Ex USA NR USD	3.13	4.69	4.69	13.26	1.94	5.97	4.25
	MSCI EAFE NR USD	3.29	5.78	5.78	15.32	4.78	7.33	4.80
	MSCI EAFE Growth NR USD	2.33	7.03	7.03	13.28	2.76	7.82	5.86
	MSCI EAFE Value NR USD	4.36	4.48	4.48	17.32	6.59	6.39	3.49
	MSCI Japan NR USD	3.02	11.01	11.01	25.78	3.69	7.77	6.69
	MSCI AC Asia Ex Japan NR USD	2.54	2.38	2.38	3.99	(6.84)	1.94	4.18
	MSCI Europe NR USD	3.74	5.23	5.23	14.11	6.19	7.96	4.44
	MSCI United Kingdom NR USD	4.47	3.10	3.10	10.86	7.70	5.14	2.89
	MSCI EAFE Small Cap NR USD	3.72	2.40	2.40	10.45	(1.36)	4.94	4.70
	MSCI EM NR USD	2.48	2.37	2.37	8.15	(5.05)	2.22	2.95
Fixed Income	Bloomberg US Govt/Credit TR USD	0.88	(0.72)	(0.72)	1.74	(2.35)	0.62	1.70
	Bloomberg US Govt/Credit Interm TR USD	0.64	(0.15)	(0.15)	2.69	(1.06)	1.09	1.61
	Bloomberg US Govt/Credit Long TR USD	1.59	(2.41)	(2.41)	(1.15)	(6.04)	(0.62)	2.32
	ICE BofA US High Yield TR USD	1.19	1.51	1.51	11.04	2.21	4.03	4.36
	Credit Suisse HY USD	1.24	1.73	1.73	11.19	2.46	4.10	4.29
	Morningstar LSTA US LL Index TR USD	0.85	2.46	2.46	12.47	5.99	5.48	4.55
	FTSE WGBI NonUS USD	2.75	5.04	5.04	11.74	(2.29)	4.47	4.98
	Bloomberg Gbl Agg Ex USD TR USD	0.24	(3.21)	(3.21)	(0.71)	(6.53)	(2.49)	(1.38)
REITs	FTSE Nareit All REITs TR	1.92	(1.28)	(1.28)	8.44	2.05	3.56	6.67
	Wilshire US REIT TR USD	1.52	(0.01)	(0.01)	12.43	4.53	4.41	6.68

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

Current Trailing P/E vs. Trailing 5-Year High, Low Average



	S&P 500	Russell 2000	Russell 1000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Mar-21	Mar-21	Mar-21	Mar-21	Mar-21	Jan-21	Mar-21	Jan-21
Low Month	Mar-20	Sep-22	Sep-22	Sep-22	Sep-22	Oct-22	Sep-22	Sep-22

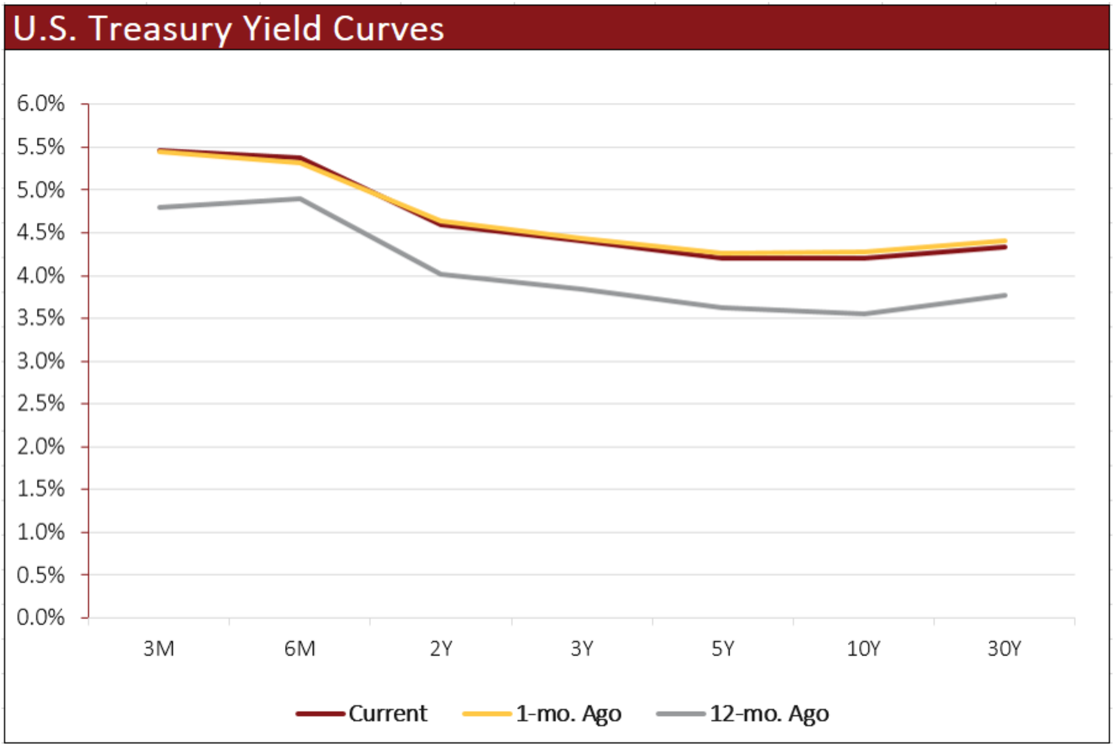
Source: Morningstar

Economic Indicators

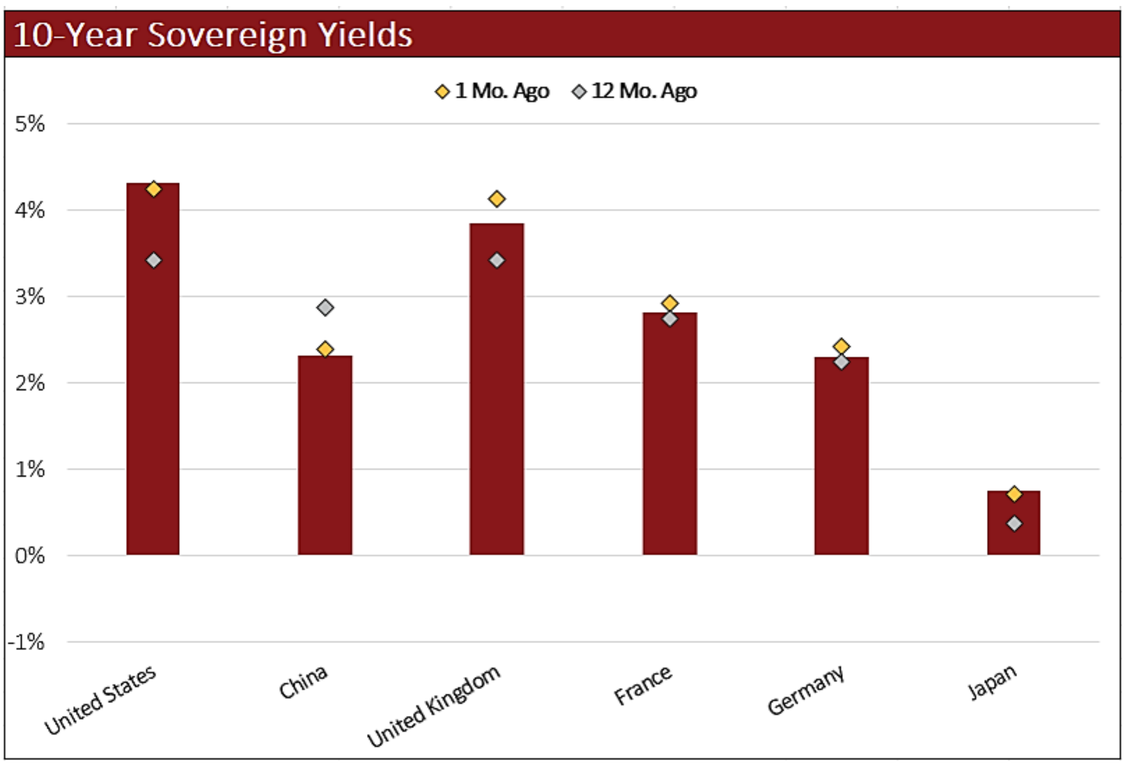
	GDP			Unemployment Rate	Interest Rates	Exchange Rates[3] per US $		Inflation[2]
	Latest[1]	2024[1]	2025[1]	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	3.40	2.15	1.71	3.90	4.33	-	-	3.20
China	1.00	4.69	4.24	5.30	2.36	7.23	6.88	0.70
Japan	0.10	1.00	1.00	2.60	0.74	151.35	132.67	2.80
United Kingdom	-0.30	0.66	1.16	3.90	3.96	1.26	1.22	3.40
Euro Area	0.00	0.64	1.33	6.40	3.07	1.08	1.08	2.60
Germany	-0.30	0.28	1.11	5.90	2.30	1.11	1.08	2.50
France	0.00	0.62	1.20	7.50	2.81	0.92	1.08	2.30
Italy	0.17	0.70	1.23	7.20	3.68	1.11	1.08	1.30
Canada	0.20	0.86	1.89	5.80	3.62	1.36	1.37	2.80
India	1.70	6.16	6.52	8.01	7.05	82.95	82.30	5.09
Mexico	0.10	2.49	2.03	2.50	9.28	16.72	18.53	4.40
Brazil	0.00	1.82	2.02	7.80	10.98	4.99	5.26	4.50

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

1. Latest GDP is seasonally adjusted annualized rate. 2024 & 2025 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)

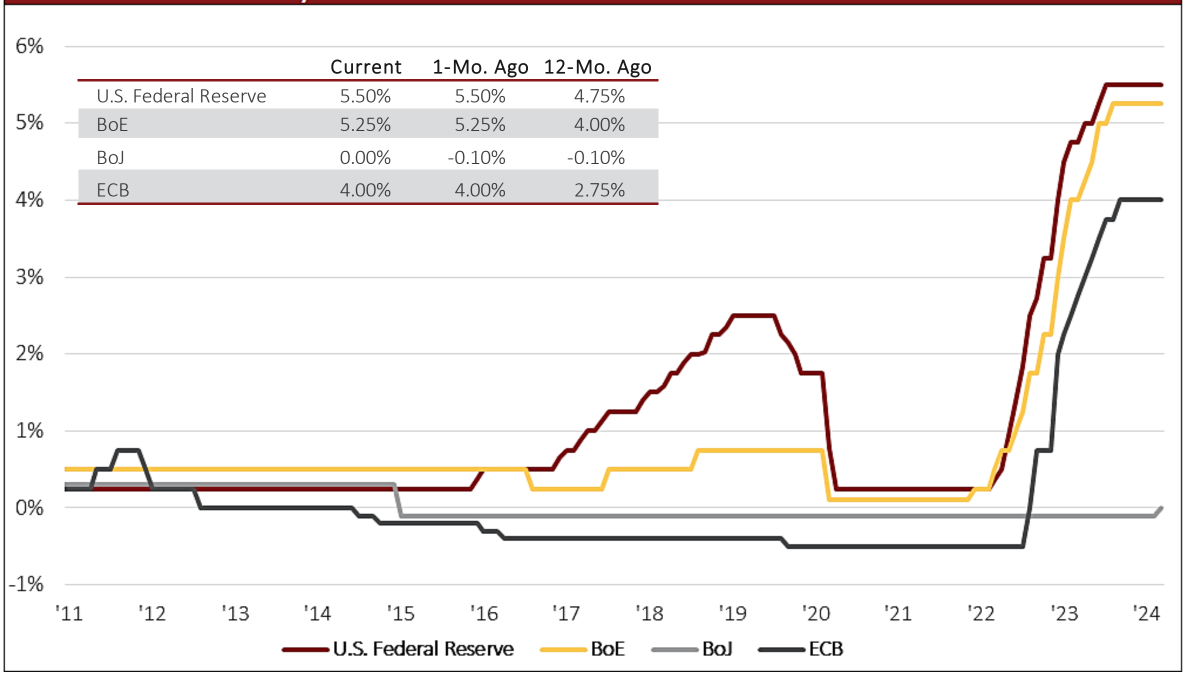


Source: Federal Reserve Bank; Data as of 3/31/2024



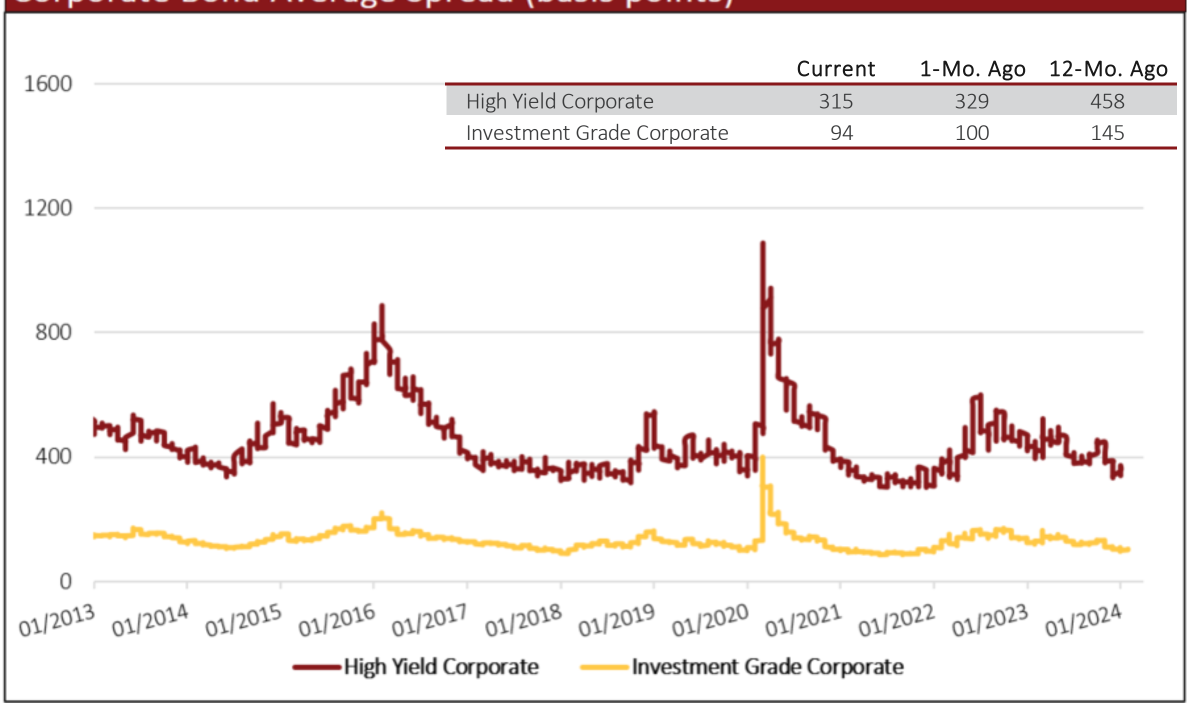
Source: Trading Economics; Data as of 3/31/2024

Central Bank Policy Rates



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics; Data as of 3/1/2024

Corporate Bond Average Spread (basis points)



Source: Federal Reserve Bank, Bank of America; Data as of 3/31/2024