1919 INVESTMENT COUNSEL
Complexity to Clarity

# Weekly Market Insights

**March 25, 2024**

# Momentum Ruled the Week

## ***Financial Markets***

Momentum players ruled the roost this past week. That is, those stocks that have been the big gainers were again the star players. U.S. markets had their best week in three months. The S&P 500 gained 2.29%, the Dow gained 1.97%, while the NASDAQ gained 2.85%. A remarkable week indeed. Just last week, we wrote that a rotation was in the offing. The market continues to expand, but the top of the market had a strong week as well. There were a number of factors that encouraged investors, from Fed policy discussion, to company earnings, to the end of cycle "don't want to miss the boat" dynamics. It is fascinating that all three motivations occurred at the same time. In the economics section, we look more closely at some seemingly contradictory market trends. One example is as investors pile into the equity markets, they have also invested in corporate bond funds in record numbers.

## ***Economics***

It was an interesting week in the world of economics. The United States economy remains in good condition. Employment appears strong, but inflation remains a bit higher than most would like. Despite the apparent strength of the economy, the Fed indicated that they continue to see three interest rate cuts this year. Cutting interest rates while the economy is strong may appear contradictory, but it is actually supported by number of factors, both domestic and global. The Fed, more than most, understands that monetary policy is a relatively slow moving tool and that indicators are often revised, making caution a positive virtue. Many investors, on the other hand, simply think of Fed activity in terms of interest rates and the immediate market reaction following Fed rate decisions. The difference is the Fed must also consider the real economy which reacts far more slowly and has a less definitive forecast for policy than the financial side. This difference in expectations explains the carefulness of the Fed and the frequent frustration investors have over their actions or apparent inactions.

## ***Conclusion***

Even with the apparent contradictions addressed above, our view remains the same. It seems likely that there is a rotation underway. The answer of when we will see a rotation in full force is hard to say, but no one really knows with certainty. Again, the sad state of U.S. politics doesn't help anyone's confidence. Where we do feel confident is in both the U.S. economy and financial markets. Europe is improving, while China is in the doldrums. The United States remains the preferred region for investors.

## ***Yield Curve Update***

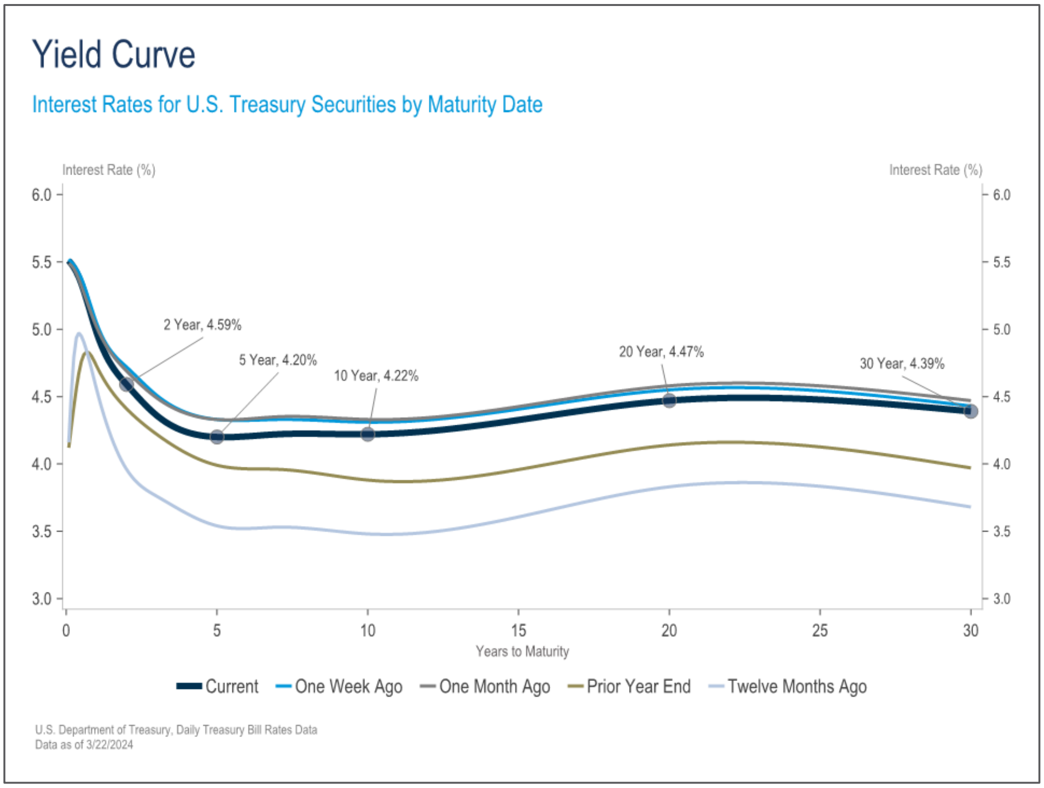
Yields declined this past week after experiencing a notable rise the week prior. In the latest week, the 2-year Treasury yield declined 14 basis points, and the 10-year Treasury yield declined 11 basis points, but the declines were not enough to offset the prior week's increases. Over the two week span, the 2-year yield increased 12 basis points, and the 10-year yield increased 12 basis points. Furthermore, while the yield curve inversion has lessened in recent weeks, it remains in an inverted state, as it has been since July of 2022.

# Weekly Market Insights

Two weeks ago, stronger than expected CPI and PPI reports pressured interest rates higher and reminded investors that there may be some bumpiness along the disinflationary path to 2% inflation. While annualized CPI measures showed inflation is continuing to inch closer to the Fed's 2% target, the month-over-month Core CPI reading increased more than forecasted, and the market pushed out their rate cut timelines as a result.[1] Specifically, following the CPI report, Fed Funds futures were pricing in around a 50% probability that the Fed's first rate cut occurs in June, down from just under 70% the week before and 100% at the beginning of the year.

The Fed last provided an update to their Summary of Economic Projections (SEP)[2] in December of last year, and, despite calling for three 2024 rate cuts at the time, by January, the market had six to seven cuts priced in. By Wednesday's Fed meeting, market expectations had converged to the Fed's December projections, but there was still a fear that the Fed's updated Dot Plot would reveal a hawkish pivot. Those fears were alleviated after the Fed held rates steady and indicated that recent inflation data had not changed their view on the broader disinflation trend. Importantly, Fed officials didn't significantly alter their interest rate outlook and continue to see three cuts in 2024—the same forecast that they had in December. The updated projections did incorporate some changes, however. While the median 2024 interest rate outlook was unchanged, the Committee penciled in a modestly slower pace of rate cuts in 2025 and 2026, removing one cut in each year. Furthermore, officials revised their economic growth and inflation outlooks slightly higher.

Fed Funds futures are back to where they were before the hot inflation readings, and now indicate around a 70% probability that the first rate cut comes in June. However, as the last two weeks have illustrated, the future path of inflation and interest rates is far from certain and expectations are constantly in flux. As always, we will keep readers abreast of how the situation develops.




[1]Headline CPI increased 0.4% MoM, in line with consensus, but higher than 0.3% in the prior month. Headline CPI increased 3.2% YoY, higher than 3.1% consensus and 3.1% prior. Core CPI increased 0.4% MoM, higher than 0.3% consensus, but in line with 0.4% in prior month. Core CPI increased 3.8% YoY, higher than 3.7% consensus, but lower than 3.9% prior month.
[2]The Summary of Economic Projections (SEP) offers insights on each participant's assessment of the appropriate path for monetary policy given their respective economic outlooks.


Michael Olin Clark
Senior Advisor
moclark@1919ic.com

Ryan Schutte, CFA, CFP®
Senior Investment Associate
rschutte@1919ic.com

Abigail McKenna
Portfolio Administrator
amckenna@1919ic.com

## I. Front End Disclosure

The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. No part of this material may be reproduced in any form, or referred to in any other publication, without the express written permission of 1919 Investment Counsel, LLC ("1919"). This material contains statements of opinion and belief. Any views expressed herein are those of 1919 as of the date indicated, are based on information available to 1919 as of such date, and are subject to change, without notice, based on market and other conditions. There is no guarantee that the trends discussed herein will continue, or that forward-looking statements and forecasts will materialize.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all clients and each client should consider their ability to invest for the long term, especially during periods of downturn in the market. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

All investments carry a degree of risk and there is no guarantee that investment objectives will be achieved.

This material has not been reviewed or endorsed by regulatory agencies. Third party information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

There is no guarantee that employees named herein will remain employed by 1919 for the duration of any investment advisory services arrangement.

**1919 Investment Counsel, LLC** is a registered investment advisor with the U.S. Securities and Exchange Commission. 1919 Investment Counsel, LLC, a subsidiary of **Stifel Financial Corp.**, is a trademark in the United States. 1919 Investment Counsel, LLC, One South Street, Suite 2500, Baltimore, MD 21202. ©2024, 1919 Investment Counsel, LLC. MM-00000972.

## II. Investment Analysis

The information shown herein is for illustrative purposes. 1919 may consider additional factors not listed here or consider some, but not all, of the factors listed here as appropriate for the strategy's objectives.

There is no guarantee that desired objectives will be achieved. 1919 has a reasonable belief that any third party information used for investment analyses purposes is reliable but does not represent to the complete accuracy of such information by any third party.

## III. Portfolio Composition

For illustrative purposes. There is no guarantee that the portfolio composition for the strategy discussed herein will be comparable to the portfolio shown here.