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April 3, 2024

Dear Valued Investor,

The first quarter is in the books, and it was an excellent one for stocks. The S&P 500 index rode a resilient U.S. economy, easing inflation, rising corporate profits, and anticipation of summertime rate cuts from the Federal Reserve (Fed) to solid gains in March, the fifth straight winning month, and the best first quarter since 2019.

With stocks having done so well, it's natural to think about selling. If you haven't rebalanced in a while and hold more equities than targets, shifting some stocks into bonds or alternative investments may make sense. If your investing time horizon is long, the case for trimming equities is stronger because valuations matter more three to five years out.

If you're focused on the next few months, consider that the latest data suggests the economy is growing steadily and inflation pressures continue to ease. Investment in artificial intelligence — still in the early innings — is giving corporate profits a boost and looks more like the early-internet period of the mid-1990s than the speculative bubble in 1999–2000. Double-digit gains in S&P 500 companies' profits this year, which seemed like a long shot at the start of the year, are now possible.

History also suggests staying the course. Since 1950, the S&P 500 has risen 93% of the time in the 12 months following a five-month streak, with an average gain of over 12%. And down years are rare after strong first quarters. So, while stocks are due for a pullback, as the choppy start to April suggests, it's extremely difficult to sidestep a 5–10% decline. It's tough to make a case for a big drop — one that might make sense to try to avoid — because of healthy market fundamentals.

The common refrain from the bears that the stock market's gains are too concentrated has not held up lately. Technology stocks showed signs of fatigue in March, while cyclical value stocks that benefit from the improved economy picked up the slack. This rotation helped the energy, financials, and industrials sectors outperform in March while the average stock beat the index.

Turning to bonds, yields remain attractive following the latest rise in rates. A gradually slowing economy and easing inflation should limit additional selling pressure in the bond market, especially if the Fed cuts rates this summer as expected. Last week's successful Treasury note auctions were encouraging. Corporate bond yield spreads, which tend to sniff out trouble before stocks, are about as calm as they get compared to Treasuries.

Solid fundamentals and history suggest investors stay the course, though a small allocation shift may make sense for those overdue for a rebalance or with long investing time horizons. Risks seem manageable at this time, though we continue to watch inflation, rates, and geopolitics closely.

As always, please reach out to your financial advisor with questions.

Sincerely,

Jeffrey Buchbinder, CFA
Chief Equity Strategist
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