ICR® 1st Quarter Newsletter – April 2024

Equity markets started the year strong, with the S&P 500 gaining just over 10% in the first quarter. Communication services and energy were the leading sectors and the only sector with a negative performance was real estate as higher interest rates continued to be a concern. Small cap stocks, as measured by the Russell 2000 Index, lagged their larger counterparts, gaining only 4.8% in the first three months. The first quarter felt like a continuation of the fourth quarter of 2023 with many of the same trends, like growth stocks outpacing value.

Foreign markets were positive, but once again lagged the U.S., with a gain of just over 5% as measured by the MSCI EAFE Index for developed foreign markets. China continued to weigh down the emerging markets index which was up less than 2% in the first quarter. The continued strength of the dollar also contributed to foreign markets trailing the U.S. as the currency saw an increase of almost 3% versus its peers.

Interest rates rose to start the year as inflation readings leveled off, leading many to question whether the Federal Reserve would actually lower rates this year. Coming into the year, the expectation was that the Fed would cut the Fed Funds rate to 4% by the end of 2024, per the CME FedWatch Tool. As of April 10, the year-end expectation is that we'll only be down to 5% by the end of the year. And, if inflation refuses to come down from current levels, it wouldn't be at all surprising if we don't get any rate cuts this year.

One of the more interesting phenomena recently is the disconnect between the public's view of the economy relative to the actual state of the economy. Compared to other developed nations, real GDP growth in the U.S. has stood out and the International Monetary Fund (IMF) projects that to continue. The unemployment rate has now been under 4% for 26 straight months, the longest such streak since the late 1960s. Inflation, though not back to the Fed's 2% target, has now posted readings below 4% since the middle of last year.

World Economic Outlook Growth Projections

(Real GDP, annual percent change)	2023	2024 (Projections)	2025 (Projections)
World Output	3.2	3.2	3.2
Advanced Economies	1.6	1.7	1.8
United States	2.5	2.7	1.9
Euro Area	0.4	0.8	1.5
Germany	-0.3	0.2	1.3
France	0.9	0.7	1.4
Italy	0.9	0.7	0.7
Spain	2.5	1.9	2.1
Japan	1.9	0.9	1.0
United Kingdom	0.1	0.5	1.5
Canada	1.1	1.2	2.3
Other Advanced Economies	1.8	2.0	2.4

Source: International Monetary Fund (IMF)

Despite all of that seemingly good news, the public doesn't think the economy is actually all that great. A recent New York Times poll showed that 51% of respondents characterized the economy as "poor" while another 23% called it "only fair." The numbers in that survey have improved slightly in the past six months, but it's still a bit surprising at first blush to see such negativity in light of the actual economic numbers. While there may be a politically-motivated component for some respondents, there are some valid reasons why Americans may not be as positive about the economy as the numbers indicate they should be.

First, while the rate of inflation has come down, the prices people pay at the grocery store haven't. There may have been some expectation among the public that prices would actually decrease back to their previous trendline, but the spike in inflation from a few years ago appears to be permanently embedded. And, that really shouldn't be surprising. Prices rarely actually decrease and when they do, it's often because of a large decrease in demand. That would likely cause lower prices at the grocery store, but that isn't something we should be cheering for, because it would also probably mean a severely weakening economy and widespread job losses.

In addition, while the unemployment rate has been incredibly low for a long time now, that may not be given much credit in surveys since whether other people are working doesn't affect you all that much. When someone gets a job after having been unemployed or gets a new, higher-paying job, that would likely be seen as a positive by that person. But, when someone simply keeps their current job, it's easy to take that for granted and forget to view it as a sign of a strong economy. While a low unemployment rate is a great thing for the economy as a whole, it doesn't mean all that much to any one person.

Finally, while higher interest rates are a positive for savers, they're a major headwind for anyone who needs to borrow money. The 30-year mortgage rate is around 7%, making things far more difficult for anyone looking to get a mortgage. The monthly payment for a $500,000 mortgage has skyrocketed from just over $2,000 in the middle of 2021 to around $3,400 today. This increase in financing costs extends to car loans, credit cards, and small business loans, so it becomes easy to see why so many people don't feel all that good about the economy. This also comes on the heels of an extended period of very low interest rates and people became accustomed to that environment, so this relatively sudden shift has been met with understandable disdain.

While the public may not be as positive on the economy, corporations have benefited from the current environment. Corporate profits rose to an all-time high in the fourth quarter and stock prices have mostly followed suit. But a number of CEOs – particularly those of large banks – have sounded cautious on recent earnings calls, warning that persistently high interest rates and inflation that is still above the Fed's target could lead to a slowdown in consumer activity. If that happens, corporate profits would have a hard time continuing to make new highs and stock investors would surely take notice of that.

We're only able to touch on so much in this letter and inflation and interest rates have been by far the most important factors affecting markets in recent years. But there's obviously a lot going on in the world from geopolitical conflicts to elections in at least 64 countries this year. If you'd like to discuss anything else and how it might impact your wealth, we're always available. Please reach out if you have any questions, thoughts, or concerns.

Sincerely,

James A. Heine　　　　James L. Cobb

Market Report (as of 3/31/24)

Index	**2024 (%)**	**3-Year Annualized (%)**	**5-Year Annualized (%)**
S&P 500	10.2	9.8	13.1
Dow Jones Industrial Average	5.6	6.5	9.0
U.S. Aggregate Bond Index	-0.8	-2.5	0.4
MSCI EAFE (Foreign Index)	5.1	2.1	4.6