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MARKET UPDATE 2024 Q1

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With 2023 now in the rear-view mirror, we saw a healthy rebound in the markets (from an ugly 2022) with the S&P 500 index gaining 24%, the Dow Jones Industrial Average rising 13% and the Nasdaq soaring 43%, led by the so-called Magnificent 7 stocks of Apple, Amazon, Alphabet, Tesla, Meta, Microsoft and Nvidia. For my clients with lower risk profiles, the 60/40 portfolio (60% stocks/40% bonds) also rebounded nicely 17% as bonds rebounded from a terrible 2022. Cash-like investments (CDs, government treasuries) consistently paid north of 5% for a risk-free return. With a nice year in the books, where do we stand going into the first quarter of 2024?

As mentioned in my last update, at the beginning of 2023 most economists were forecasting a recession sometime in late 2023 or early 2024. Now, going into 2024, most economists are forecasting either no recession or a very mild recession in 2024. Why is that? The consensus is the Federal Reserve raised interest rates sufficiently to bring inflation down much closer to their goal of 2% (at one point it was 9% and currently it is 3.1% and headed lower) yet avoiding a serious economy slowdown whereby unemployment spikes and the consumer refrains from spending (impacting corporate earnings). The stock market is now forecasting the Federal Reserve will cut rates by .25% six times in 2024 not because the economy is weak and they want to spur growth but because keeping rates high is unnecessary and overly restrictive considering inflation has dropped significantly. This was backed up by the dovish comments by the Federal Reserve Chair Jerome Powell indicating at the last Federal Reserve meeting that the higher risk is to leave rates higher and constricting the economy than the risk of lowering rates and fueling inflation.

As previously stated in past updates, the stock market is a forward-looking machine that prices stocks on what future earnings will be 6-12 months down the road and thus the health of the economy in a year impacts my forecast greatly. This past quarter saw gains in equities (as forecasted in the last update) due to this aforementioned positive outlook. But what are the potential headwinds going forward?

The first headwind is that the Federal Reserve keeps rates higher for longer which in turn could cause the consumer to pull back on spending which would impact corporate earnings. Credit card debt is rising and higher interest rates will only exacerbate this other headwind. Additionally, a slowing economy could tilt the scale toward more restrictive hiring policies by companies which would increase the unemployment rate which in turn would slow the economy.

With all that said, I remain cautious going into the first quarter of 2024 but remain overall bullish. I expect the market to be rangebound (plus/minus 5%) 1Q 2024, but will generally drift higher as I expect to avoid a serious recession with moderate economic growth, strong employment and inflation dropping to under 3% by the end of 2024. Specifically, the fixed income market (bonds) will be strong as the Federal Reserve will begin cutting interest rates in May. Treasuries and CD yields will still offer good returns in the next 3 months but yields will drift lower as the Federal Reserve starts cutting rates. The better play with fixed income will be longer duration assets which benefit more as interest rates fall. In the equity market, tech stocks with strong balance sheets (think Magnificent 7 stocks) will remain core to my portfolios as tech will power growth the next 10 years, however, their recent run up means they are priced for perfection. Looking forward 3 months, my thesis is that small cap stocks with strong balance sheets (S&P 600) are poised to outperform the broader market. High quality dividend stocks will also outperform.

Real Estate: nothing has materially changed from my last update with regard to real estate. Assuming the Federal Reserve begins to cut rates, mortgage rates should also fall which is good news for buyers, however, it will also spur more homeowners to put their homes on the market as they have been reluctant to give up their sub 5% mortgage rates. Higher inventories will keep a lid on price appreciation, so I expect residential real estate to remain flat throughout 2024.

A final note: while we are in an election year, I do not believe politics will play a significant role in the performance of the stock market in the next 6 months. The primary drivers will continue to be rising economic growth and falling inflation.

Please reach out to me anytime at joel@ankerstarwealth.com if you have any questions on this commentary or any other question. The Ankerstar Wealth team remains committed to helping you “Maximize Life by Maximizing Wealth”!