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MARKET MINUTE

JANUARY REVIEW 2024

This month's Market Minute reflects the views of Clearstead's Investment Office and was composed by
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OVERVIEW

Broadly speaking, the U.S. equity markets, driven by 2023's strong momentum, are starting the new year on a rather positive note as the S&P 500, NASDAQ 100, and Dow Jones Industrial Average indexes posted record highs late in the month.[1] But when you dig a little deeper, you discover that five U.S. domestic equity sectors were up and six were down[1]. Interest rates were not supportive of the equity markets as the 10-year U.S. Treasury rate rose from 3.88% to 3.91%[1]. On the bright side, the economic data was very positive – low unemployment, declining inflation, strong retail sales, culminating with the U.S. recording a solid 3.3% GDP growth rate in Q4 2023[1]. With such solid economic data and the Federal Reserve appearing to lean towards a less restrictive monetary policy, maybe equity investors are singing the right note.

On the geopolitical front, things are a bit tense. A series of missile and rocket strikes on tankers and cargo ships in the Red Sea have created one of the largest disruptions for global trade since the pandemic. Shipping container costs from Asia to Europe—which typically go through the Red Sea and Suez Canal—have almost quadrupled since mid-November, when Houthi rebels seized an Israeli-owned freighter. One never knows when geopolitics will interrupt a bull market, but let's just hope that it is nothing more than an interruption.

U.S. EQUITY MARKETS As of January 31, 2024

U.S. EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	1.3%	1.3%	1.3%	14.4%
S&P 500	1.7%	1.7%	1.7%	20.8%
Russell 2000	-3.9%	-3.9%	-3.9%	2.4%
Russell 1000 Growth	2.5%	2.5%	2.5%	35.0%
Russell 1000 Value	0.1%	0.1%	0.1%	6.0%

US equity returns were mixed in January. US large cap equites (Russell 1000 Index) gained +1.4%, but mid-cap stocks (Russell Midcap Index) traded lower, falling -1.4% while small cap stocks (Russell 2000 Index) fell -3.9% during January. There was also dispersion of returns by sector with the Communication Services sector (S&P Comm Services Sub-Sector Index) gaining +5.0%, while the Real Estate sector (S&P Real Estate Sub-Sector Index) lost -4.8% during the month. Despite the favorable macroeconomic environment for Q4-2023, corporate earnings for that same quarter, thus far, have been mixed and the number of companies beating earnings expectations for the quarter are below historic norms.

INTERNATIONAL EQUITY As of January 31, 2024

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-1.0%	-1.0%	-1.0%	5.9%
MSCI EAFE	0.6%	0.6%	0.6%	10.0%
MSCI Emerging Markets	-4.6%%	-4.6%	-4.6%	-2.9%
MSCI EAFE Small Cap	-1.6%	-1.6%	-1.6%	3.6%

International equities largely were mixed in January. The international developed equities (MSCI EAFE Index) gained +0.6% while emerging market equities fell -4.6%—dragged down once again by Chinese equities (MSCI China Index -10.6%). Similar to the US market, small cap stocks (MSCI ACWI ex US Small Index -1.7%) underperformed their large cap peers (MSCI ACWI ex US -1.0%). Heightened geopolitical tension related to fighting in the Middle East—along with simmering tensions on the Korean peninsula, the war in Ukraine, and the Taiwanese election—helped the US dollar strengthen in January, creating a further headwind to non-US equity returns.

FIXED INCOME As of January 31, 2024

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-0.3%	-03.%	-0.3%%	2.1%
BarCap Global Aggregate	-1.4%	-1.4%	-1.4%	0.9%
BarCap US High Yield	0.0%	0.0%	0.0%	9.3%
JPM Emerging Market Bond	-1.2%	-1.2%	-1.2%	5.9%
BarCap Muni	-0.5%	-0.5%	-0.5%	2.9%

Fixed income returns were driven by where investments were situated on the interest rate curve. U.S. Treasury 2-year yields declined 2 basis points while 10-year yields were up 3 basis points. As such, even though U.S. high yield spreads increased in January – but with a duration of 3.8 years – the Bloomberg U.S. Corporate High Yield index's return was 0.0%, while the longer duration (7.3 years) Bloomberg U.S. Investment Grade Corporate index was down -0.17%, even though their spreads decreased.[1]

As the Federal Reserve's policy has likely seen the peak in monetary tightness, we now see long-term yields (10 – 30 year) trading in a volatile, sideways direction. We prefer higher yielding, short-term strategies for income as interest rates stay higher for longer.

CONCLUSION & OUTLOOK

Data showing robust U.S. growth in the last quarter of 2023, while core inflation continues to decline, has reinforced the market's outlook for a soft landing. At this time, the historically improbable soft landing appears to be fully priced into the market; just how long the momentum trade can continue without confirmation from lower interest rates or robust corporate earnings will be the challenge. Add in the geopolitical headwinds, ballooning U.S. government debt burden, and a presidential election year, and 2024 has the makings for a rather volatile year that, in the end, produces mediocre results.

SOURCES

1 Bloomberg LP