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MARKET MINUTE

FEBRUARY REVIEW 2024

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

Financial markets all analyze the same data but often draw different conclusions. In a month that saw robust job growth, declining headline inflation, consumer confidence rising for the third straight month, and corporate earnings ahead of expectations, equity market investors responded favorably and sent the S&P 500 higher to close above 5,000 for the first time in history.[1] Such rosy economic news was less well received by bond market participants. Although headline inflation declined, core inflation did not budge from December and came in above expectations. At the end of January, markets had priced in nearly six -25 basis point cuts by the Fed, with the first cut coming in March, but after the latest Fed meeting—which all but ruled out a cut in March—and the recent inflation reports, the market is now pricing in less than four cuts with the first occurring in June.[1]

By the month's end, equity markets continued to post positive returns in 2024 while bond investors saw interest rates rise and returns, at best, flat on the month for high yield or decline for investment grade securities. Maybe it is as simple as the equity markets are happy that rates are not going higher, while the bond market was counting on them going lower (much lower).

U.S. EQUITY MARKETS As of February 29, 2024

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	2.5%	3.8%	3.8%	22.0%
S&P 500	5.3%	7.1%	7.1%	30.4%
Russell 2000	5.7%	1.5%	1.5%	10.0%
Russell 1000 Growth	6.8%	9.5%	9.5%	45.9%
Russell 1000 Value	3.7%	3.8%	3.8%	14.0%

US equities traded higher in February and unlike in January, all US equity market-caps traded in a similar fashion. The S&P 500 gained +5.3%, mid-cap stocks (Russell Mid Cap Index) gained +5.6%, and small caps (Russell 2000 Index) gained +5.7%. Every sub-sector was positive in February, led by Consumer Discretionary (S&P 500 Consumer Discretionary Sub-Index) +8.7% and Industrial (S&P 500 Industrial Sub-Index) +7.2%. More rate sensitive sectors such as Utilities (S&P 500 Utilities Sub-Index +1.1%) and Real Estate (S&P 500 Real Estate Sub-Index +2.6%) lagged as rates moved higher throughout the month.

INTERNATIONAL EQUITY As of February 29, 2024

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	2.5%	1.5%	1.5%	12.5%
MSCI EAFE	1.8%	2.4%	2.4%	14.4%
MSCI Emerging Markets	4.8%	-0.1%	-0.1%	8.7%
MSCI EAFE Small Cap	0.4%	-1.3%	-1.3%	6.3%

International development equities (MSCI EAFE Index +1.8%) lagged US equities in part because international mid and small-cap names (MSCI EAFE Small Index +0.4%) traded flat and in part due to headwinds for the US dollar strengthening during February. However, Emerging Market equities traded more in-line with US equities (MSCI EM Index +4.8%) in large part due to a strong rebound in Chinese equities. The MSCI China Index gained +8.4% in February as Beijing instructed state-owned savings funds, banks, and insurance firms to buy Chinese equities after they traded near a five-year low in late January.

FIXED INCOME As of February 29, 2024

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-1.4%	-1.7%	-1.7%	3.3%
BarCap Global Aggregate	-1.3%	-2.6%	-2.6%	3.1%
BarCap US High Yield	0.3%	0.3%	0.3%	11.0%
JPM Emerging Market Bond	0.7%	-0.5%	-0.5%	9.0%
BarCap Muni	0.1%	-0.4%	-0.4%	5.4%

Interest rates rose across the yield curve, with U.S. Treasury 2-year yields up over 40 basis points to 4.62% and 10-year yields up over 30 basis points to 4.25%.[1] In this rising rate environment, the Bloomberg U.S. Aggregate bond index posted a decline of -1.41%, but reflecting the same optimism as the equity markets, the Bloomberg U.S. Corporate High Yield index was up a modest +0.29%. The strong rally witnessed at the end of 2023 was predicated on the belief that the Federal Reserve was going to drive interest rates significantly lower in 2024. Interest rates may be lower by year's end, but to get significantly lower would require a much weaker economy than what we are currently observing.

CONCLUSION & OUTLOOK

As healthy as the U.S. economy appears to be, there are concerns that we cannot lose sight of this quarter. The U.S. government had its largest ever auction of the 10-Year U.S. Treasury bonds with $42 billion offered to investors. The auction was completed at a lower-than-expected yield, helping to allay fears that the increasing auctions size would cause problems for markets—for now.[1] Shares of New York Community Bank (NYCB) fell -41.9% after the bank reported a fourth quarter loss, took a large provision for credit losses, and cut its dividend by 70%. NYCB acquired significant assets of failed Signature Bank this time last year, and with the bank's total assets pushing above $100 billion, it is now subject to higher capital standards. As of now, it appears to be more of a one-off scenario than some systemic issue hiding in the shadows—but the larger U.S. commercial real estate market remains challenged.[1] There is always something to worry about that could go wrong, but with equity markets sitting at record highs and corporate bonds trading at very tight spreads to U.S. Treasury securities, risk markets may be just a touch too optimistic.

SOURCES

1 Bloomberg LP

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