March 2024 Monthly Market Note

A strong finish to Q1 despite lower rate cut expectations

MONTH IN REVIEW

The month of March was another positive one across equity markets. After coming off a gain of more than 26% in 2023 (total return), SPX (the S&P 500) added another 10.55% for Q1 2024 (total return) and returned 3.22% (total return) in March. The Nasdaq-100 climbed 8.72% (total return) in Q1 2024 and returned 1.23% (total return) in March. SPX continued to trade well above all its key moving averages throughout the month, which we will illustrate later in this note. Additionally, equities showed resiliency despite the odds of May rate cuts getting virtually priced out of the market, and the first rate cut not being reflected until June. Another notable datapoint from March was the release of February's inflation data, which exceeded expectations: February Headline CPI increased by 0.4% month over month (which was the consensus), and Core CPI rose 0.4% month over month (the consensus was 0.3%).

Fixed income markets rallied modestly during the month of March. Both 10 & 30-year Treasury Bond yields moved slightly lower by end of the month, and they both closed March near the middle of their recent technical ranges. The 10-yr was very range-bound between 4.05% - 4.35% for much of the month and closed at roughly 4.20% to end March. The 30-year Treasury yield ended the month of March at roughly 4.34%. 4.00% - 4.50% continues to be a likely technical line in the sand for the 10-yr Treasury as well as potential movements in SPX. The 2/10 Treasury Yield spread remained inverted but has started flattening in 2024. This spread closed out the month of March at -0.39%. Over the past several months, the correlation between equities and fixed income has been notably high – and likely will remain so. Yields continue to be key for all markets.

Although the odds of May rate cuts were priced out as being likely, as mentioned, the market shrugged off this news and marched higher. This was very similar to what happened in January and February – the market showed its resiliency with or without a more aggressive rate cutting schedule. By the end of March, the amount of predicted rate cuts that the market is pricing in for 2024 has been more than cut in half since the end of 2023. Additionally, what the market is currently predicting and what the Fed has been guiding are starting to line up as far as cuts. The Fed continues to target 2% inflation as its goal and incoming inflation reports will likely continue to drive the dot plot. During the last week of March, Fed Chair Jerome Powell reiterated that the central bank is in no rush to cut interest rates, and that policymakers would like to see more evidence that inflation is sustainably retreating before doing so.

According to FactSet, the trailing 12-month P/E ratio for SPX is 26.0, which is above the 5-year average (23.1) and above the 10-year average (21.2). And the forward 12-month P/E ratio for SPX is 20.9, which is above the 5-year average (19.1) and above the 10-year average (17.7).

With Q4 2023 earnings in the books, it's already time to look at Q1 2024 earnings. According to FactSet, SPX is expected to report year over year earnings growth of 3.6% for Q1 2024, which is below the estimate of 5.8% earnings growth on December 31, 2023. SPX is expected to report year over year revenue growth of 3.5% for Q1 2024, which is below the estimate of 4.4% revenue growth on December 31, 2023. Also, according to FactSet, 79 SPX companies have issued negative EPS guidance for Q1 2024, which is above the 5-year average of 58 and above the 10-year average of 62.

Commodities mostly rose during March, with WTI Crude gaining ground for a third month in a row after a three-month slide to end 2023. WTI gained more than 6% in March and finished Q1 with a gain of more than 21%. Gold continued its streak of closing over $2,000/oz at the end of recent months. Finally, the USD continued its YTD rise during the month of March.

VOLATILITY UPDATE

The VIX Index closed out March at roughly 13. Historically, a sub-15 VIX level is extremely subdued, as the historical moving average is closer to 18-19. On balance, the VIX Index has been very, very quiet going back to last spring. During the 10% drawdown in SPX between the months of August-October, the VIX Index remained relatively calm – it did briefly cross and close above 20 before significantly coming back in and not looking back since. The 12-month high of the VIX Index was registered on 10/23/23 at a level of 23.08. In 2022, the VIX averaged over 25, and in 2023, the VIX averaged near 17.

The MOVE Index calculates the future volatility of US Treasury yields implied by current prices of options on Treasuries of various maturities. It is thought of as "The VIX Index of the Bond Market." While it rose significantly starting in August, it started to come in by the end of October and continued to fall in Q4 2023 and into 2024. Traders will continue to monitor this index to gauge potential future yield volatility. Its 12-month high was registered on 4/5/23 at a level of 153.90, and it closed out the month of March around 86. This index is currently extremely low relative to itself.

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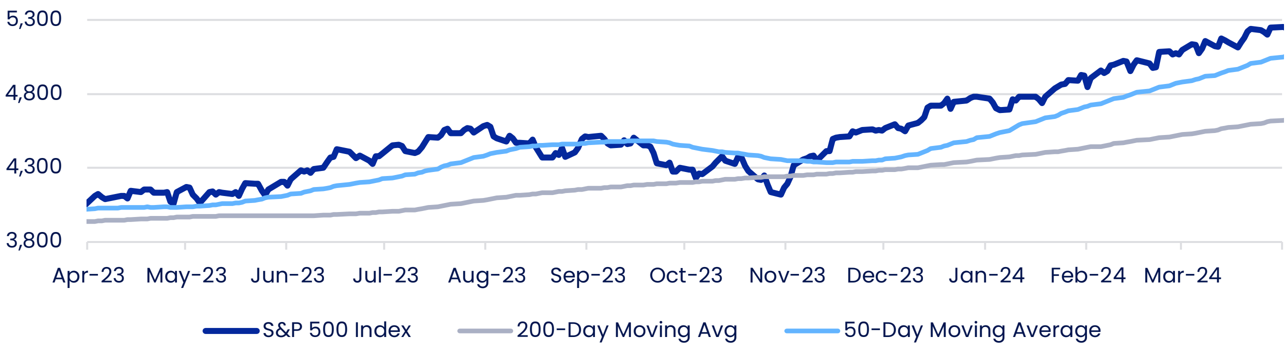
Notable Charts

SPX Technical Levels - Trailing 12-Months



10 Yr Treasury Yield - Trailing 12-Months

VIX Index Closing Price - Trailing 12-Months

Source: Bloomberg, Morningstar Direct 2024. Past performance is not indicative of future results.

LOOKING AHEAD

Interest rates will continue to be a key factor in the future direction of equities – and all eyes on the upcoming Fed meeting on 5/1. March inflation data will be closely monitored; CPI will be released on 4/10 and PPI on 4/11. Additionally, the macro backdrop and geopolitical risks both continue to be uncertain. Although it has been slowly stabilizing, China has been in an economic spiral, and there is continued instability in the Middle East. This year is also an election year; political uncertainty is another factor that may influence markets in the not-too-distant future. Finally, volatility heading higher from here would not be a surprise given where the VIX is currently and has been for several months now.

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Definitions:

S&P 500® Index (SPX): An Index composed of selected stocks from five hundred (500) issuers, all of which are listed on national stock exchanges and spans over approximately 24 separate industry groups.

Nasdaq-100 Index® (NDX): The Nasdaq 100 Index is a stock index of the 100 largest companies by modified market capitalization trading on Nasdaq exchanges. The index includes companies in basic materials, consumer discretionary spending, consumer staples, healthcare, industrials, technology, telecommunications, and utilities. The index excludes financial firms.

MOVE Index: The MOVE index, or Merrill Lynch Option Volatility Estimate Index, is a crucial gauge of interest rate volatility in the U.S. Treasury market. It is calculated from options prices, which reflect the collective expectations of market participants about future volatility. The index measures the implied volatility of U.S. Treasury options across various maturities. Similar to the VIX index's role in the stock market, the MOVE index is an essential tool for investors, traders, and analysts to assess risk and uncertainty in the bond market. It is often referred to as the "VIX for Bonds."

VIX Index: The CBOE Volatility Index (VIX) is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 Index (SPX). Because it is derived from the prices of SPX index options with near-term expiration dates, it generates a 30-day forward projection of volatility. Volatility, or how fast prices change, is often seen as a way to gauge market sentiment, and in particular the degree of fear among market participants. The index is more commonly known by its ticker symbol and is often referred to simply as "the VIX." It was created by the CBOE Options Exchange and is maintained by CBOE Global Markets. It is an important index in the world of trading and investment because it provides a quantifiable measure of market risk and investors' sentiments.

Consumer Price Index (CPI): The Consumer Price Index measures the overall change in consumer prices based on a representative basket of goods and services over time. The CPI is the most widely used measure of inflation, closely followed by policymakers, financial markets, businesses, and consumers.

Yield Spread: A yield spread is a difference between the quoted rate of return on different debt instruments which often have varying maturities, credit ratings, and risk. When yield spreads expand or contract, it can signal changes in the underlying economy or financial markets.

Headline CPI: Headline inflation is the raw inflation figure reported through the Consumer Price Index (CPI).

Core CPI: Core inflation removes the CPI components that can exhibit large amounts of volatility from month to month.

EPS (Earnings Per Share): Earnings per share (EPS) is a company's net income subtracted by preferred dividends and then divided by the number of common shares it has outstanding. EPS indicates how much money a company makes for each share of its stock and is a widely used metric for estimating corporate value. A higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price.

P/E Ratio: The price-to-earnings (P/E) ratio measures a company's share price relative to its earnings per share (EPS). Often called the price or earnings multiple, the P/E ratio helps assess the relative value of a company's stock. It's handy for comparing a company's valuation against its historical performance, against other firms within its industry, or the overall market. P/E can be estimated on a trailing (backward-looking) or forward (projected) basis.

Correlation is a statistical measure that determines how assets move in relation to each other. Correlation is measured on a scale of -1 (perfect negative) to +1 (perfect positive), although perfect negative or positive correlation between two assets is rare.