MARCH Market Update

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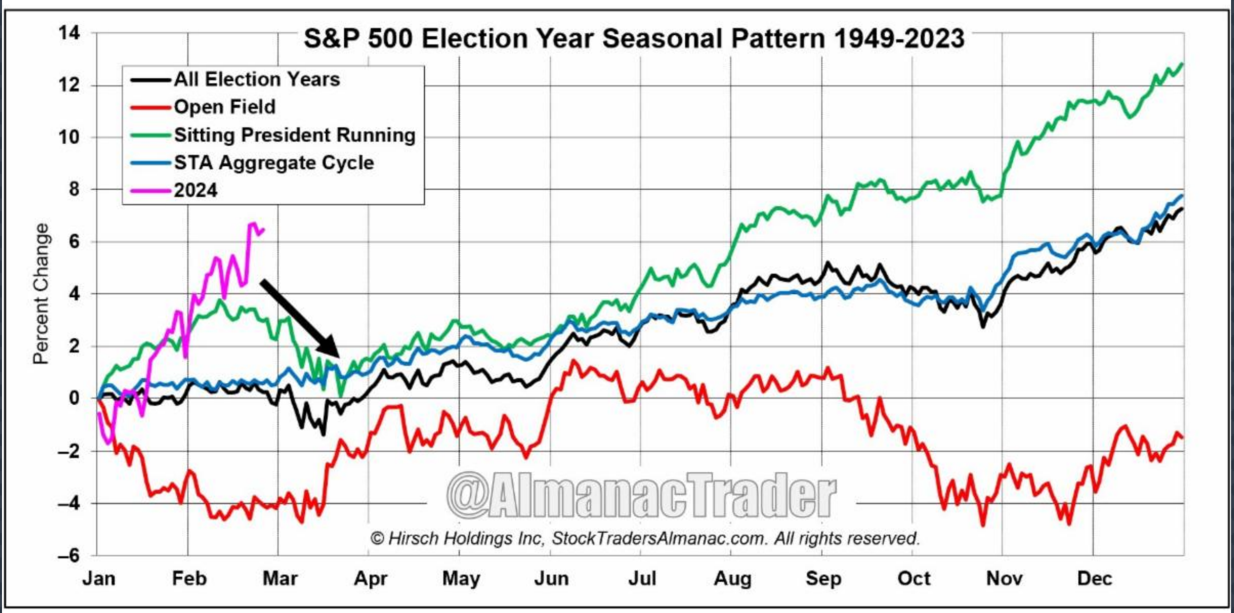
Market Update

February turned out to be an abnormally strong month for stocks relative to history, especially during election years. As mentioned in the market update last month, the first quarter of an election year tends to be relatively weak. Below are the February returns for the popular benchmarks that investors track (Data provided by Y-Charts & Commonwealth Financial Network):

- S&P 500 Index: +5.2%
- Dow Jones Industrial Average: +2.2%
- Nasdaq Composite Index: +6.1%
- Russell 2000 Index: +5.6%
- S&P Target Moderate Risk Index: +0.86%

We would not be surprised to see stocks pull back over the next few weeks due to seasonal weakness and the fact that the S&P 500 has been positive for 15 of the previous 18 weeks. In fact, it would be healthy, longer-term, for stocks to take a breather here before resuming their uptrend. History shows us that when stocks run "too far, too fast," they usually end up in a sharp decline.

Below is an updated seasonality chart for the S&P 500 during presidential election years. The figure indicates that 2024 (pink line) is off to a better start than usual. Still, we ought to anticipate some weakness in the not-too-distant future.

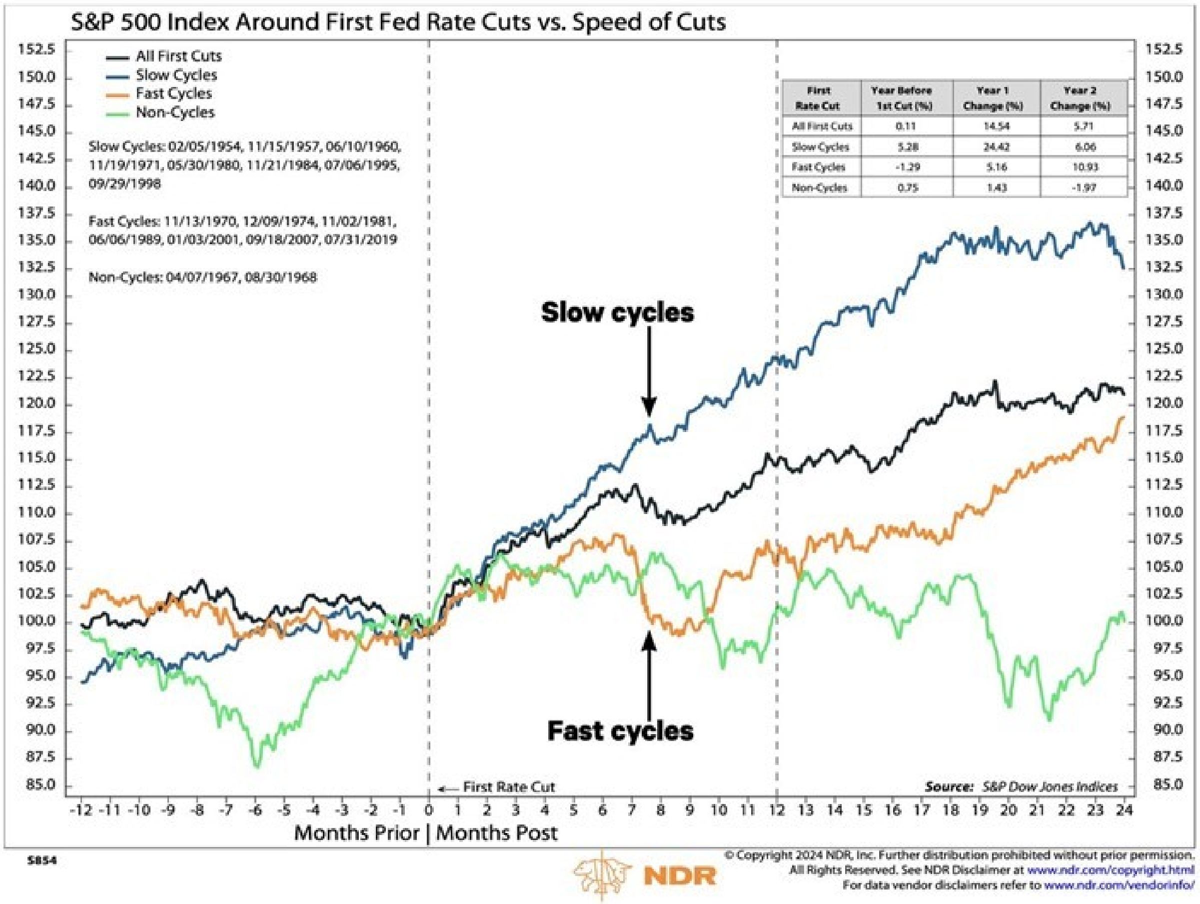


In February, Q4 2023 earnings reports gave equities a boost, with the majority of businesses exceeding analyst expectations. Investor confidence should continue to be bolstered by the apparent financial stability of most publicly traded companies.

The Federal Reserve has pushed back its timeline on its first rate cut, which was expected to be in March of this year, as little as a few months ago. Now, investors are not expecting a rate cut until June. Let's take a look at how the market has performed after the first rate cut in prior cycles.

Generally speaking, stocks suffer when the Fed reduces rates rapidly (orange line below). However, when the Fed takes its time cutting rates, stocks tend to benefit (blue line below). As investors, we would prefer to see the Fed cut rates over a longer period, reducing the probability of a negative "shock" to the market and the economy.

Slow pace of rate cuts has been bullish for stocks



It has been smooth sailing during the first two months of the year. But like most years, 2024 won't be without some volatility and pullbacks for stocks. As investors, we expect it and welcome it as it provides buying opportunities for clients.

As always, don't hesitate to reach out to our team with any questions you may have.

Regards,

Mark McEvily

Chief Investment Officer

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Special Holiday Hours

- Our office will be closing early on Thursday, March 28th. We will be in the office from 9:00 am to 12:00 pm. From 12:00 pm to 4:00 pm, you can reach us remotely via our office phone.
- Our office will be closed Friday the 29th in observance of Good Friday.

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