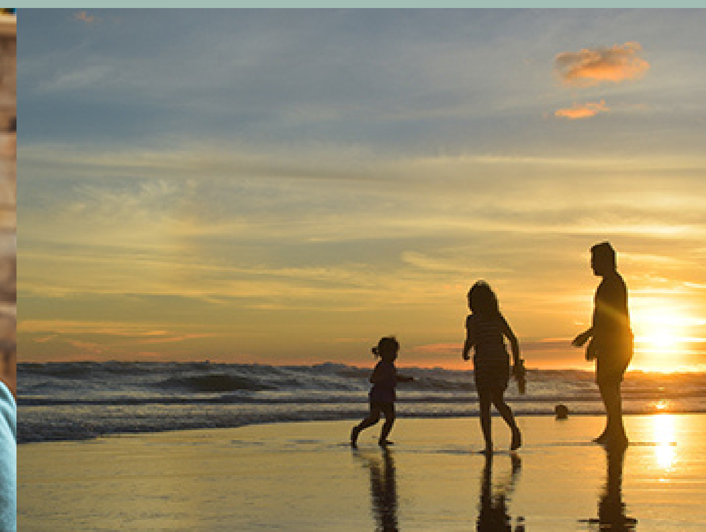
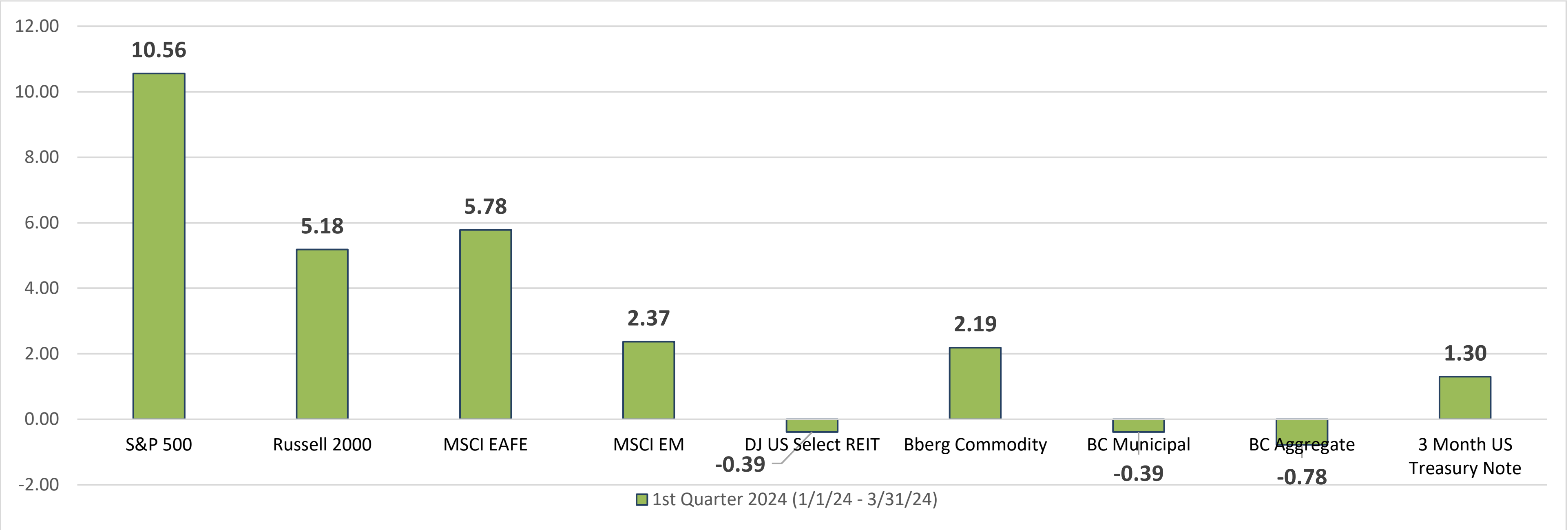




Easter Bunny Delivered for Investors in Q1...
Will Jerome Powell & the Federal Reserve do the same in Q2?

Schneider Downs Wealth Management Advisors, LP
Q1 2024 Market Commentary



The Easter holiday fell early on the calendar this year, and for investors, that proved to be a fortuitous thing. As we closed the books on capital markets in the first quarter, the Easter Bunny loaded up our baskets with a host of goodies that would make my daughters, Caroline and Claire, jealous. There were some similarities to 2023: mega-cap technology stocks that were levered to the artificial intelligence boom continued to be performance outliers; however, new developments emerged. Within these new developments are the green shoots of a market that is widening out past the so called "magnificent seven[1]" technology stocks. For those investors that appreciate and preach diversification, the broadening out of the rally is welcome news. Historically a narrow market led by a handful of stocks has portended tempestuous waters for investors. While the start to the year in capital markets has been strong, the market is set up for a rendezvous with the one thing, controlled by one person[2], that will likely determine the trajectory of capital markets in 2024.

Now most people could be forgiven if they thought the one thing and the one person I referred to in the opening paragraph was the U.S. Presidential election and the President, respectively. Given the never-ending news coverage of the impending Trump vs. Biden showdown, it would be hard to blame you for thinking that way. The key to markets lies in the direction of interest rates and is controlled by a man who has worked for both President Trump and President Biden. Chairman of the Federal Reserve, Jerome Powell, is in control of the most important decision affecting markets; when will the Federal Reserve begin to cut interest rates and how many interest rate cuts will there be? One man and two questions will likely determine the trajectory of markets moving forward. The market is pricing in the first interest rate cut by June – whether the market gets what

[1] The Magnificent Seven stocks are Apple, Microsoft, Nvidia, Amazon, Alphabet (Google), Meta (Facebook), and Netflix.
[2] Technically, are the voting members of the Federal Open Market Committee.

it wants will most likely determine if the treats brought to us by the Easter Bunny and the first quarter remain, or whether they disappear like the goodies in Caroline and Claire's basket.

Looking at the chart that begins this letter, it is hard to not be, once again, drawn to the performance of the S&P 500. Returning +10.5% for the quarter and outpacing small- and medium-sized stocks domestically, and international stocks. While artificial intelligence stocks led the way, the "Magnificent Seven" wasn't bullet proof this quarter, and that is a positive thing for investors. Nvidia led the way, returning almost +83% for the quarter as investor demand for its semiconductor chips that are powering the AI revolution continued to be insatiable. However, Elon Musk's Tesla declined over 29%, Apple declined by almost 11%, and Alphabet (Google) had a rather pedestrian (by its standards) +8% quarter. Dispersion among the Magnificent Seven did not lead to a decline in the market, but what it helped reveal was a market that was broadening. Mid-cap stocks had a high single digit quarter[3] and value stocks also had a high single digit return for the quarter. Yes, growth as a style outperformed value, but the spread was closer than in 2023, pointing to a market that was much broader than just seven stocks.

International developed markets also enjoyed a strong start to the quarter, led by a resurgent Japanese equity market that outperformed the S&P 500 in the first quarter 11.1% vs. 10.6%. After almost forty years of a market characterized by malaise and infected with deflation, a powerful cocktail comprised of economic growth, compelling valuations, a weakening U.S. dollar, corporate reform, and inflation powered the Japanese market higher. The interesting opportunity set in Japanese equities was a key theme for SDWMA heading into 2024, and it has been rewarding to see that play out in client portfolios. Emerging markets continued to be dragged down by economic troubles germinating in China; however, at the end of the quarter, positive economic data released by the second largest economy in the world saw a rally to end the quarter that has continued into the early days of April. Emerging market stocks have historically rallied at the beginning of U.S. interest rate cut regimes, so we will be watching the recent bout of performance with a keen eye in the weeks and months to come.

Fixed income had a muted start to 2024. That seems like a boring eight-word statement to get excited about, but we are indeed excited about it here at SDWMA. Yields rose across types of bonds (e.g., corporate and municipal) and maturities (e.g., one year and ten year) as investors who left 2023 with expectations of possibly more than three interest rates cuts had cold water poured on their enthusiasm. The benchmark U.S. 10-Year Treasury yield hit a low of around 3.75% during the last week of 2023 – it ended the first quarter in 2024 around 4.3%. As a reminder, bonds work like a seesaw; as yields go up, prices go down (and vice versa). A move like the one we had in the first quarter of 2024 would have (and did) cause a significant decline in the value of bonds throughout 2022 and the early days of 2023. This time the decline was much more muted, and that is what we are excited about. The muted decline in bonds despite the move in interest rates is a reflection that yields have risen substantially since 2022; we are earning more yield/interest on the bonds we allocate to than at any time since 2008/2009. For our clients that are in the preservation/distribution phase of their lives, the materially higher yields have a big impact on their lives. While we are always hopeful for positive performance in a given quarter, we know over the long term that the yield our clients earn on their bond allocation is more significant to their lives and performance – and for the first time in a long time, we are excited about yields.

Election years have historically been good years for investors, and 2024 is set to be a rather historic year globally for elections. At present, 64 countries, as well as the European Union, are scheduled to have national elections this year[4]. This means almost half of the world's population will be casting a vote. It is easy to get swept up in the parlor games/talk about elections; politics is interesting and the game theory around election outcomes

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[3] Depending on the index measured between 7.87% (Vanguard Mid Cap ETF) or +9.95% (S&P Mid Cap ETF)
[4] https://time.com/6550920/world-elections-2024/

is an easy thing to become a prisoner of the moment too[5]. However, the less interesting and more mundane subject matter of interest rate policy will carry the day for markets in 2024. What global central banks decide to do with interest rate policy, and the possibility of real dispersion among central bankers after almost 15 years unanimous agreement, will be the true catalyst for capital markets in 2024. We look forward to meeting with you in the coming weeks and months to discuss the start to the year and our outlook for the remaining nine months of the year. As always, we appreciate your trust in guiding your portfolios through everything the market throws at us – our clients are the reason we attack every day. Have a wonderful start to the second quarter and see you soon!

[5] Count me as a total political junkie. I love reading about the history of elections and the characters that colored elections going all the way back to the Romans and Greeks.