



Weekly Commentary
March 18th, 2024

Not So Fast, Please

To be sure, what I like to call "Fed Expectations" has been the primary driver of the market action for some time now. You know the drill. When economic data or Fedspeak supports the idea of rate cuts in the near future, stocks rise. And vice versa. Simple, right? From my seat, this and the state of corporate earnings is all anyone really needs to focus on these days.

Traders also seem to be particularly sensitive to when the Fed will cut rates as well as how many times Jay Powell & Co plan to reduce rates in calendar year 2024. The thinking is that if rates can come down sooner rather than later, the risk of the economy faltering is lower.



This certainly makes sense as one of the primary fears in the market over the current hiking cycle has been that the Fed will, as usual, go too far. (The U.S. Central Bank does have a long history of overdoing it!) In short, the worry is they will raise rates too much and/or hold rates too high for too long... and wind up causing economic damage in the process.

However, history - as well as the computers at Ned Davis Research - suggests that the Fed Chairman and his merry band of central bankers should take their time and cut rates slowly.

Frankly, this concept, while historically sound, might seem a bit counterintuitive. After all



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Taking a Comprehensive Look at The Overall Current Stock Market

In a truly diversified portfolio, the portfolio's assets are spread across several asset classes, so that the portfolio's total return is determined by the performance of all of the positions in combination – not individually based on one asset type. While diversification does not ensure a profit or guarantee against loss, it can help mitigate the risk and volatility in your portfolio.

Index		YTD
Morningstar Alternatives Fund (MSTVX)	▲	1.40%
iShares US Agg Bond ETF (AGG)	▼	-1.59%
DoubleLine Total Return Bond Fund (DBLTX)	▼	-1.15%
40/60 SPY / iShares AGG	▲	2.08%
60/40 SPY / iShares AGG	▲	3.92%
Vanguard Balanced Index Fund (VBINX)	▲	3.52%

The chart above illustrates the performance of funds and ETF's designed to track major indices, including 2 Bond indices (DBLTX and AGG), 1 S&P500 Equity index (SPY), 1 Balanced index (VBINX), and 1 Multialternatives index (MSTVX).

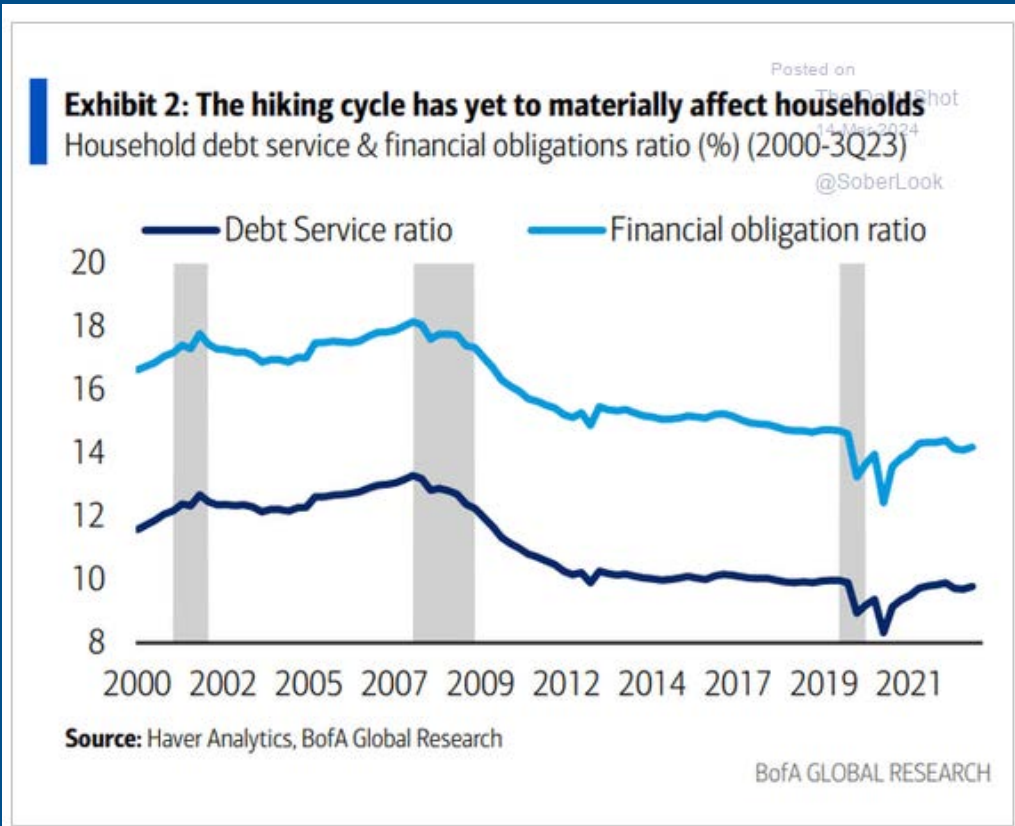
The chart also illustrates the performance of 2 balanced portfolios combining both a Bond index (AGG) and an equities index (SPY) the portfolio with the lower exposure to equities (40%) and higher exposure to bonds (60%) would generally be considered more conservative than a portfolio with higher exposure to equities (60%) and lower exposure to bonds (40%).

A hypothetical portfolio consisting of an equal weighting to all of the examples shown above would be 1.36% year to date.

Chart of the Week

Consumer balance sheets remain “strong” after unprecedented fiscal stimulus during the COVID-19 pandemic, and as U.S. homeowners continue to benefit from having locked in fixed-rate mortgages before borrowing costs jumped, the strategists found.

While ratios of consumer health based on debt service and financial obligations are up since the Fed began raising rates in early 2022 to battle inflation in its fastest monetary-tightening cycle ever, they remain below levels seen before COVID, according to the BofA note.



Source: Bank of America Institute

WEEKLY MARKET SUMMARY

Global Equities: A setback in inflation data caused stocks to sputter in weekly trading and prompted concerns that the Fed may lean more hawkish at the March 19-20th FOMC meeting. The S&P 500 ended the week with a -0.1% loss, the Nasdaq Composite lost -0.7%, and the Dow Jones Industrial Average ended flat. Small Caps, which are typically more interest-rate sensitive, pulled back -1.9% for the weekly session. Developed International stocks were also in the red, declining -0.4% while Emerging Markets ended the week -0.1%.

Fixed Income: 10-Year Treasury yields popped to 4.3%, matching their highest levels of 2024. High yield bonds pulled back in weekly trading, with the iShares US High Yield Bond ETF (HYG) declining -0.4%.

Commodities: Oil prices broke out above \$80 a barrel to hit a new four-month high at \$81 by Friday afternoon. Upward price pressure should persist with the continued Middle East conflict, an uptick of Ukranian attacks on Russian oil refineries, and OPEC production cuts possibly in place through year end.

WEEKLY ECONOMIC SUMMARY

CPI Setback: January's uptick in inflation data was dismissed as a seasonal anomaly, but February's data has some investors reconsidering their outlook for a June rate cut. The Consumer Price Index (CPI) increased 0.4% in February, in line with consensus forecasts but the Core measure (ex-food and energy) was hotter than expected at 0.4% vs 0.3%. Used cars and airfare were notable segments showing higher inflation. Shelter eased a bit from 0.6% to 0.4% but remains hot at 5.7% annually as higher interest rates have failed to keep home prices from increasing.

PPI also Hot: CPI was followed by the Producer Price Index (PPI), which also showed hotter than expected inflation. Monthly PPI was up 0.6%, double the estimated 0.3%, to bring the annual measure to 1.6%. Energy weighed on producer prices, up 4.4% for the month. The higher producer prices are disappointing because PPI had been trending toward negative (deflationary) using the recent quarterly data, but now appears to have reversed.

Fed on Deck: The Federal Open Market Committee (FOMC) will convene on March 19-20 and while a rate cut will almost certainly not be announced, investors will still be tuned in closely to hear what the committee has to say on the recent disappointing inflation data. The FOMC will also release its latest "Dot Plot" of interest rate projections, which could show a shift in the consensus forecast for interest rates. The median forecast from December was for a Federal Funds rate reduction of 75 basis points, i.e. 3 rate cuts in 2024. It is possible we see a revision in the median outlook to just 50 basis points, given that investors are currently pricing in just a 60% chance of a June cut.



Stock Market Score Card

March 18th , 2024

The Stock Market Scorecard is designed to provide a succinct summary of the “state of the market.” The scoreboard includes indicators covering trend, momentum, mean-reversion, sentiment, and fundamental factors over the short-, intermediate-, and long-term time frames.



Indicator / Model	Current Signal	Indicator Rating	S&P 500 Historical Return
Primary Cycle Analysis			
Secular Market Cycle		Bull Market	31.2%
Cyclical Market Cycle		Bull Market	36.8%
Price Trend Analysis			
Short-Term Trend	Buy	Positive	NA
Intermediate-Term Trend	Buy	Positive	NA
Long-Term Trend Signal	Buy	Positive	9.7%
Momentum Analysis			
Short-Term Momentum Model	Sell	Negative	-18.8%
Int-Term Momentum Model	Buy	Mod Pos	7.2%
Long-Term Momentum Model	Buy	Positive	15.2%
Fundamental Analysis			
Economic Model	Buy	Positive	9.1%
Earnings Model	Buy	Positive	10.6%
Monetary Model	Buy	Positive	14.1%
Inflation Model	Buy	Positive	13.1%
Valuation Model	Sell	Negative	-1.3%
Overbought/Oversold Analysis			
Short-Term Signal	Hold	Neutral	NA
Int-Term Signal	Sell	Negative	-2.2%
Long-Term Signal	Buy	Neutral	NA
Investor Sentiment Analysis			
Short-Term Sentiment Model	Hold	Neutral	-5.1%
Int-Term Sentiment Model	Hold	Neutral	13.0%
Long-Term Sentiment Model	Sell	Negative	1.0%
Current Scores Average Gain/Annum:			8.67%
S&P 500 average gain/annum from 12/28/1979*:			9.12%

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