Goodman Financial
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY

APRIL 2024 MARKET COMMENTARY

EQUITY & FIXED INCOME MARKETS COMMENTARY

Stocks were broadly lower in April. The S&P 500 fell by -4.1%, while the Blended Equity benchmark was down -5.0% for the month. The Mid-Cap S&P 400 Index and the Small-Cap S&P 600 Index declined by -6.0% and -5.6% for the month, respectively. The Dow Jones Industrial Average Index fell -4.9%, while the NASDAQ Composite Index declined -4.4% for the month. International stock indices were mixed in April, with developed markets down -2.9%, while emerging markets were actually up 0.3%. Bond indices also suffered losses in April, as the 10-year U.S. Treasury bond yield rose nearly half a percent to 4.68%, from 4.20% last month.

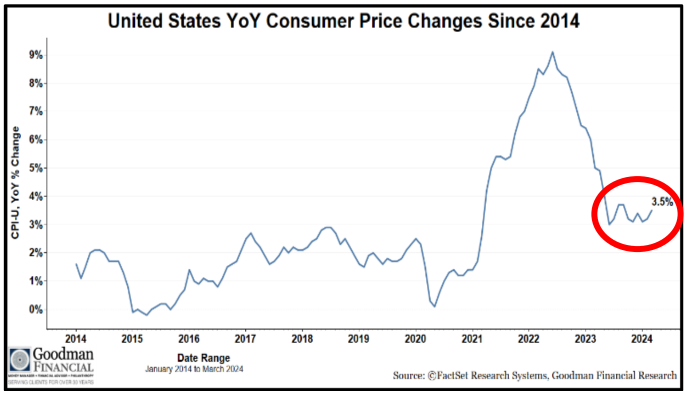
RATE CUT REALITY SETTING IN

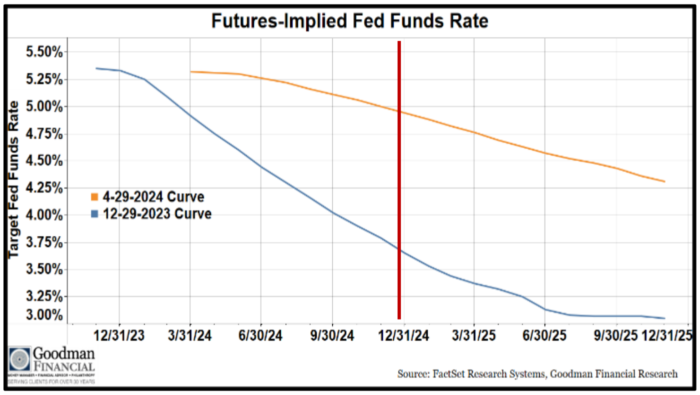
As the year began, we highlighted what appeared to us to be unrealistic market expectations about an impending Federal Reserve (Fed) rate cutting cycle. You might recall that last December the Fed surprised the market following their Federal Open Market Committee (FOMC) meeting that month by signaling that they might lower the Fed Funds that they control, by 0.75% (three rate cuts of 0.25% each) during 2024, which would take the overnight rate to 4.75% from the current 5.50% level. Shortly thereafter, investors took that news to assume the Fed would in fact be even more aggressive cutting rates, with expectations of a full six rate cuts (or 1.50% of cuts) based on the Federal Funds futures at the time (as seen in the chart below, right) – and with that happy news, stocks were off to the races in Q1.

In our ***Q4 2023 Client Letter***, we stated that "investors' expectations have now gotten a bit on the unrealistic side, setting the market up for disappointment if proven wrong". We cited sticky inflation levels as the risk to this scenario (more below), which would cause the Fed to slow walk the beginning of, and the tenor of any rate cuts. Fast forward four months and that's just what happened in April. Recent speeches by Fed governors have signaled increasing concerns about persistently high inflation and lowered expectations around the timing and level of any Fed Funds rate cuts this year. In fact, there have even been some murmurings around the potential need to actually ***raise*** rates further this year, which we see as highly unlikely. As seen in the chart below (right), Fed Funds futures now reflect investors' expectations that the Fed will only implement one or two rate cuts this year, a significant letdown in expectations from where the year began. Alas, that reality finally set in for the equity markets in April as investors threw a fit, selling stocks and taking equity indices broadly lower, as noted above.

Key to this discussion is the "sticky" inflation we previously discussed. In our Q4 client letter mentioned above, we also said that "we believe that core inflation is probably going to be sticky near the current 3% level for a while…as wages are stubbornly rising more than inflation". This can be seen in the accompanying Consumer Price Index (CPI) chart, where inflation has stalled out in the low to mid 3% range following a significant fall from its peak in 2022. It was, and still is, our view that wage growth and inflation will only start to fall if employment and job growth begin to fall. Of course, such a scenario would very likely be caused by an economic recession taking hold…something investors were not, and are still not expecting.

So, which will it be – lower rates caused by an economic slowdown/recession…or higher for longer rates as wage growth and inflation stay stubbornly above the Fed's 2% target rate? It seems to us that neither scenario is ideal for stocks broadly speaking, especially the mega-cap and high-growth stocks that have done so well this year. But more defensive kinds of stocks, like some of those that we own, should do better in that sort of market environment.





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REFERENCED INDICES

You cannot invest directly in an index. Index results assume the reinvestment of all dividends and interest.

- **S&P 500 Index** - a market-cap weighted index composed of the common stock of 500 leading companies in leading industries of the U.S. economy.
- **S&P 400 Mid-cap Index** – a market-cap weighted index composed of the common stock of 400 mid-sized companies reflecting the distinctive risk and return characteristics of the U.S. mid-cap equities sector.
- **S&P 600 Small-cap Index** – a market-cap weighted index composed of the common stock of 600 small-sized companies reflecting the distinctive risk and return characteristics of the U.S. small-cap equities sector.
- **Blended Equity Benchmark** – a customized index comprised of a blend of a 50% weight to the S&P 500 Large-Cap Index, 30% to the S&P 400 Mid-Cap Index and 20% to the S&P 600 Small-Cap index)
- **Dow Jones Industrial Average Index** – a price-weighted index composed of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.
- **Nasdaq Composite Index** – an index that measures all Nasdaq domestic and international based stocks listed on the Nasdaq Stock Market.
- **Barclays Intermediate Govt/Corp Index** – the index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities with less than 10 years to maturity.