



Benchmark Returns as of February 29, 2024

	For the Month	Year-to-Date		For the Month	Year-to-Date
S&P 500	5.34%	7.11%	Bloomberg Aggregate Bond Index	-1.41%	-1.68%
Dow Jones Industrial Average	2.50%	3.84%	Developed International	2.55%	1.54%
Nasdaq	6.22%	7.33%	Emerging Markets	4.77%	-0.08%

A stunning labor report and astounding earnings numbers were the bookends for February, but there were plenty of chapters in between for investors to study. The combination of data from economic reports and talking points from Fed speeches pushed expectations for the initiation of interest rate cuts further out in 2024. Bond yields were volatile, with the benchmark 10-year Treasury yield starting the month at 3.87%, then moving sharply higher to 4.33% before easing to 4.25% at month-end. Fourth quarter 2023 corporate earnings notched their second consecutive quarter of gains. Major U.S. equity indices reached new all-time highs and showed signs that gains are broadening beyond the handful of mega-cap names that have dominated returns in recent months.

The labor report released on February 2nd showed that non-farm payrolls increased an eye-popping 353,000 in the first month of 2024. That was nearly double the 180,000 job gains that most economists were expecting. The unemployment rate was unchanged at 3.7%. While positive for workers and their ability to continue spending to support the economy, the surprisingly strong data essentially eliminated the market's odds of a Fed rate cut at the March FOMC meeting. Forecasts call for cooler but still robust payroll growth of 210,000 when the February numbers are released on March 8th.

The FOMC did not meet in February, but Federal Reserve presidents and governors had numerous speaking engagements which allowed investors to parse their messages for indications of the timing of future rate cuts. Perhaps the most widely watched was Fed Chair Jerome Powell's February 4th interview on CBS News' *60 Minutes*. Chair Powell's message was clear that the Fed is willing to wait to cut rates until they "see that the data continue to confirm that inflation is moving down to 2% in a sustainable way." Not surprising, then, that markets sold off when the January CPI data was stronger than expected but rallied at month-end when the Fed-favored PCE price index for January met expectations at 2.4% for the headline reading and 2.8% for the core. As of this writing, the CME FedWatch Tool (based on market pricing of interest rate futures contracts) shows the probability of a 25 basis point rate cut at the March 20th FOMC meeting is a mere 5.0%. That rises to a 16.8% probability for the May 1st meeting and 58.1% for June 12th.

In aggregate, S&P 500 companies' fourth quarter earnings reports showed solid growth. Of the 487 companies that have reported earnings to date for 4Q23, 76.2% reported above analysts' expectations. This compares to a long-term average of 66%. The year-over-year blended earnings growth estimate for the period is 9.8%. (Source: LSEG I/B/E/S). An outsized contribution to the statistics came from a single index member: Nvidia. The company reported astounding earnings on February 22nd and continues to deliver results that seem to fuel the belief in the transformative potential for artificial intelligence.

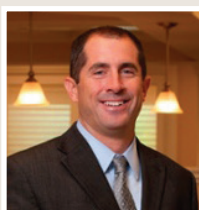


This belief has led to the dominance of equity returns by the "Magnificent 7" mega-cap stocks to the detriment of the broader market. Some signs of healthier breadth were seen in February; 351 companies in the S&P 500 had gains vs. 151 with losses. Further, all eleven S&P 500 sectors were up for the month. This supported record levels for the benchmark index – it closed above 5,000 on February 9th and ended the month at an all-time high of 5,096.27. The Nasdaq's closing level of 16,091.92 on February 29th was also an all-time high. The Dow Jones Industrial Average had its highest-ever close on February 23rd but did not maintain that level through the month-end.

We continue to promote diversification in client portfolios while we take advantage of current opportunities in both the equity and fixed income markets.

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