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MACRO MUSINGS

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Q1 2024 Market Review: Risk Assets Surge in Strong Start

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SUMMARY

- **macro**cast™ remains positive and suggests the risk of a recessionary bear market in 2024 is low. Our current **micro**cast™ signal remains at an aggressive allocation. Both models indicate an optimistic outlook at the start of the second quarter of 2024.
- The recent geopolitical incident between Israel and Iran has raised concerns about a broadening conflict and its impact on global oil prices and the potential economic consequences. Despite current stability in oil prices, as the situation develops, we remain vigilant and ready to adjust our investment strategies as necessary.
- The first quarter of 2024 saw strong performance from equities. US large-cap stocks continued to lead, with the S&P 500 rising more than 10%, while other risk assets also saw positive, albeit more modest, gains. The Energy sector stood out as the top performer while bonds experienced a decline due to rising interest rates and persistent inflation, which tempered expectations for future rate cuts from the Federal Reserve.
- Double-digit market gains in the first quarter are uncommon, but historically, such strong starts have been followed by further gains 10 out of 11 times, with an average gain of 11%. However, these positive years have been accompanied by market corrections ranging from -4% to -19%, indicating that further gains may come with increased volatility.

THE MESSAGE **FROM macro**cast™

As a reminder, **macro**cast™ is Corbett Road's proprietary investment model. **macro**cast™ measures the appeal of risk assets by looking at the **VITALS** of the market—**V**aluation, **I**nflation, **T**echnical Analysis, **A**ggregate Economy, **L**iquidity, and **S**entiment. By looking at multiple factors, we seek to better gauge market conditions and the probability of a sustained, recessionary market decline.

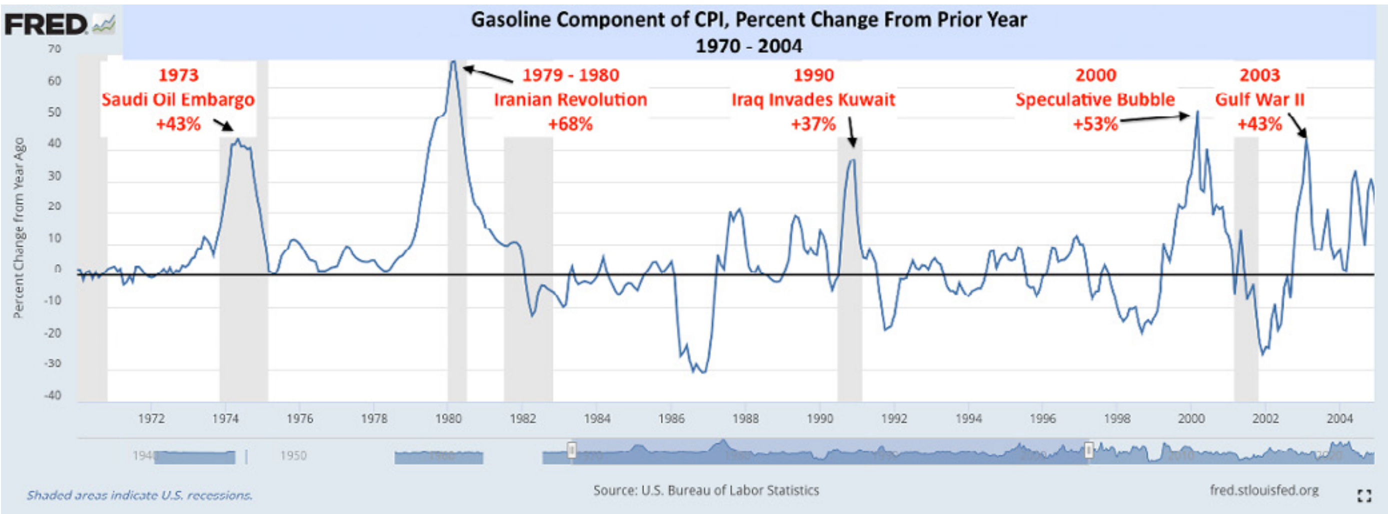
While the current **macro**cast™ score is positive, it is still below levels typically observed during bull markets. The score has been rangebound this year, despite a stronger overall economy. For the score to improve further, we need to see inflation trend lower. While the rate of inflation has declined since last year, progress has stagnated in recent months. It remains uncertain whether this pause is temporary or if inflation, as indicated by the Consumer Price Index (CPI), will stabilize around the mid-3% level, above the Fed's target of 2%.

Despite uncertainties about inflation, a positive **macro**cast™ score signals a favorable environment for risk assets and a lower probability of a recessionary bear market in the near future.

GEOPOLITICAL RISKS RISE:
POTENTIAL MARKET IMPLICATIONS

This weekend's attack in Israel by Iran has understandably heightened geopolitical concerns. Such geopolitical events often lead to market volatility and investor unease.

The primary concern with escalating tensions between Israel and Iran is the potential surge in oil prices. Historically, sharp rises in oil prices have driven up gasoline prices, compelling consumers to cut spending elsewhere. A chart from DataTrek Research shows that many of the recessions over the last 50 years coincided with at least a 30% increase in gasoline prices. This pattern highlights the profound impact of oil price fluctuations on economic conditions.



So far, oil prices have remained steady following this past weekend's events. However, this situation could change rapidly if tensions escalate further. We are closely analyzing relevant data to inform potential tactical adjustments within our **macro**cast™ (MX) and **micro**cast™ (TX) strategies.

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Q1 2024 **ASSET CLASS REVIEW**

The following table highlights major asset class returns from the first three months of the year (data from Morningstar Direct):

Major Indices	Year to Date (3/31/24)
S&P 500	10.56%
Dow Jones Industrial Average	6.14%
Nasdaq Composite	9.31%
Russell 2000 Small Cap Index	5.18%
MSCI EAFE - International Developed	5.67%
MSCI Emerging Markets	2.09%
Bberg US Aggregate Bond Index	-0.78%
Sectors	
Consumer Discretionary	3.14%
Consumer Staples	6.89%
Energy	13.55%
Financials	12.46%
Health Care	8.85%
Industrial	10.97%
Information Technology	8.51%
Materials	9.05%
Real Estate	-0.55%
Communication Services	12.76%
Utilities	4.57%
Other Key Indices	
Bloomberg Commodity Index	2.19%
Gold	6.54%
US Dollar Index	3.17%

Some additional insights from the table:

1. **US large-cap stocks continued to outperform in Q1 2024, building on their strong performance in 2023.** The S&P 500, a benchmark index for US large-cap stocks, returned over 10% in Q1, making it the top-performing major asset class.

2. **Other risk assets also yielded positive returns in Q1, albeit less than US large caps.** The MSCI EAFE index, which tracks developed markets such as Europe and Japan, increased by 5.6%. Emerging markets saw gains as well, though they underperformed US and developed international stocks due to headwinds from a stronger dollar and weak performance from stocks based in China and Brazil.

3. **Energy was the top performing sector, fueled by geopolitical concerns and optimism about global economic expansion.** Rising tensions in the Middle East boosted oil prices to double-digit gains while enhanced global growth significantly influenced this trend. Typically, commodities such as oil rally in anticipation of an economic expansion, benefiting Energy stocks.

4. **Bonds declined due to rising interest rates.** The US economy continues to exceed expectations. Strong growth, along with inflation that has proven more persistent than expected, suggests the Federal Reserve will not be cutting rates anytime soon. These factors drove rates higher in Q1. Bond prices, which move inversely to interest rates, saw negative returns as a result.

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EARLY MARKET MOMENTUM
OFTEN SIGNALS BULLISH YEAR AHEAD

Double-digit gains at the beginning of a year are uncommon for the S&P 500, occurring only 12 times since 1950. Interestingly, in 10 of the past 11 cases, the market continued to climb throughout the year, averaging an additional 11% gain from April to December.

While the S&P 500 typically rallied through the final three quarters in these instances, these periods also included significant pullbacks, with an average correction of 11%. This historical data suggests that even strong years can experience volatility (table from Truist):

S&P 500 returns and pullbacks after a total 1Q return of >10%

Quarter	1Q total return	2Q total return	Rest of year total return (2Q through 4Q)	Maximum pullback seen in rest of year (2Q through 4Q)
Mar-54	10%	10%	39%	-4%
Mar-61	13%	0%	13%	-4%
Mar-67	13%	1%	10%	-7%
Mar-75	23%	15%	12%	-14%
Mar-83	10%	11%	11%	-7%
Mar-86	14%	6%	4%	-9%
Mar-87	21%	5%	-13%	-34%
Mar-91	15%	0%	14%	-6%
Mar-98	14%	3%	13%	-19%
Mar-12	13%	-3%	3%	-10%
Mar-19	14%	4%	16%	-7%
Mar-24	11%			
Average (ex-2024)	**14%**	**5%**	**11%**	**-11%**
% positive		**82%**	**91%**	

Data source: Truist IAG, Morningstar. Past performance does not guarantee future results.

Despite these corrections, only 1987 stands out as a year where the market delivered negative returns through the final nine months, and this was due to the Black Monday crash in October 1987. Encouragingly, in 8 out of the 10 cases where the market rallied, stocks saw double-digit gains even after experiencing pullbacks.

In summary, **macro**cast™ currently suggests a favorable environment for risk assets, though inflationary pressures remain a concern. Rising tensions between Israel and Iran add geopolitical risks that could impact oil prices and increase market volatility. Finally, while a strong start to the year has historically been a positive indicator for the remaining months, investors should be mindful of potential pullbacks. Even strong years experience corrections, as past performance indicates.

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Corbett Road's quantitative models utilize a variety of factors to analyze trends in economic conditions and the stock market to determine asset and sector allocations that help us gauge market movements in the short- and intermediate term. There is no guarantee that these models or any of the factors used by these models will result in favorable performance returns.

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