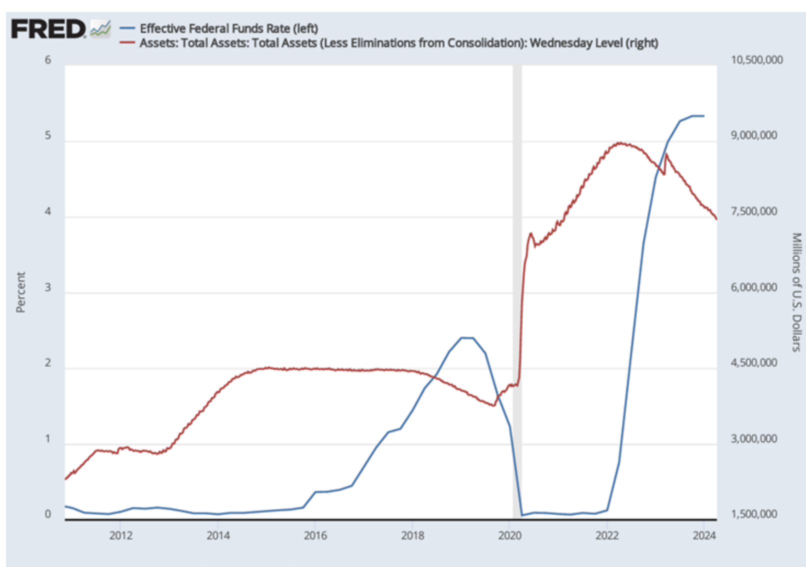
MARCH 2024 MARKET REVIEW

	3/31/2024 Level	QTD Change	1 Year Change
S&P 500	$5,254	10.6%	29.9%
MSCI ACWI Ex USA	$304	4.7%	13.3%
MSCI Emerging Markets	$546	2.4%	8.2%
Bloomberg US Aggregate	$2,145	-0.8%	1.7%
10 Year Treasury Rate	4.2%	+32 BP	+72 BP
Bloomberg Commodity Index	$231	2.2%	-0.6%
Bitcoin	$69,702	65.1%	148.6%

Global stocks are now 18 months into a bull market cycle after bottoming in October of 2022. The stock market rally has been globally broad with many key indices at or near all-time highs, not just the US market, which captures the majority of headlines. Early in the upswing, markets advanced through higher valuation levels as aggregate earnings were either stagnant or falling. However, we are currently seeing an increase in earnings expectations, which has the potential to drive markets higher and valuation levels lower. On the economic front, growth and activity have been far stronger than many expected, which is obviously positive, but such economic strength further complicates the situation for the Fed and other central banks, as inflation could settle higher than the 2% target level. It was perhaps naïve for some to think that we would see both a soft landing (no recession) and many interest rate cuts concurrently, as the strong economy may force the Fed to keep rates higher for longer. Given this push and pull, the market has capitulated and converged to the Fed's view of only two or three rate cuts in 2024, rather than the six that were priced in several months ago.

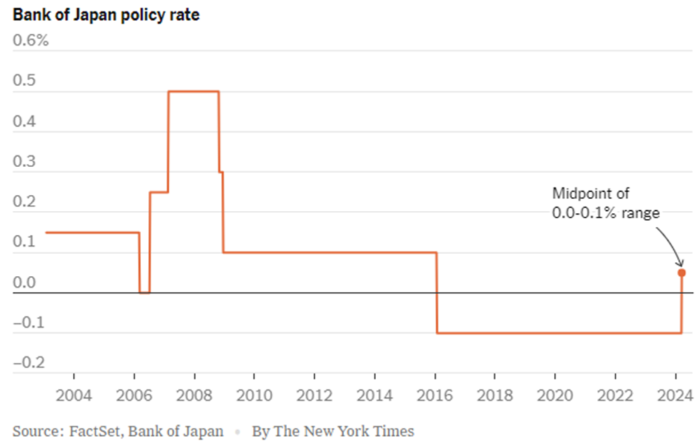
Before diving into what has been propelling markets and where we may go from here, we will take a look at some eye-popping figures. After advancing 8.9% in the first quarter of 2024, global stocks have now returned 48% since the beginning of October 2022. As we mentioned, the rally has been quite broad, and since the market bottomed, US, European, and Japanese equities have traded together, all advancing approximately 50%. The two asset classes that have lagged equities are bonds and commodities, rising 7% and falling 4%, respectively, since the rally began and have muted returns so far in 2024. In typical bull market fashion, signs of froth or irrationality have emerged in pockets, although it is our belief that the rally has generally been warranted due to improving fundamentals. While a 50% gain in under two years may seem extraordinary, comparing this current bull market to those in the past tells us that we may continue seeing gains. Over the past 70 years, the weakest bull market was in the 1960s (48%) and the strongest was in the 1990s (169%), so while it is impossible to pinpoint an end date, a move in markets like we have had is not an overly rare occurrence.

Theme I: Monetary Policy



Despite a pesky inflationary environment, it appears as though the Fed's tightening cycle is now behind us. The Fed has kept rates steady since its' hike last summer which brought rates to between 5.25% and 5.5%. While there have been no interest rate hikes for some time, the Fed has ventured to continue to tighten financial conditions through a reduction in its' balance sheet. The total assets at the Fed have fallen to $7.5T from a peak of $9T, just 20 months ago. All else equal, tighter financial conditions slow down an economy, while looser conditions accelerate an economy. It is obvious that financial conditions are tighter than pre-Covid, but conditions have actually loosened over recent months as bond yields, mortgage rates, credit spreads, and interest rate expectations have all fallen. This has coincided with a firming in inflation data above the Fed's 2% target and a rally in most risky assets. We wonder whether the Fed should cut at all in the near term, and whether markets actually need any cuts in order to continue moving higher. We believe that we will see a cut at some point during the summer, but are not convinced that there will be many following behind.

Theme II: Transformational Changes in Japan



The Japanese economy and financial markets have recently generated significant headlines in the financial press. Japanese equity markets have disappointed investors after peaking in the 1990s, and have only just surpassed all time high levels, thus underperforming seemingly all other developed markets in recent decades. The past 30 years have been termed a "lost generation" for those invested in Japanese stocks, due to the bursting of a real estate and stock bubble, which has resulted in a decades long bear market, a stagnating economy, and the use of experimental monetary policy in an attempt to kickstart growth. More recently, there has been a sea change to improve corporate governance coupled with a more normalized monetary policy environment. For much of the past decade when the US has had near zero base rates in attempt to spur higher inflation (pre-Covid), the Bank of Japan (BoJ) took that idea a step further and actually set their base rates in negative territory.

The era of negative rates has officially ended after little success, with the BoJ hiking rates in March, for the first time in 17 years. Perhaps equally as important as the moves from the BoJ is an improvement in the way companies and boards are run in Japan. There is a newly released governance code that lays out ways to improve profitability and growth across those companies listed on the Tokyo Stock Exchange, with a focus on improving shareholder returns. It is believed that poor capital allocation and interconnected boards of directors have held back equity prices, and are two areas of focus for regulators. We have been adding to our Japan exposure in recent months as we believe the market is underappreciating the upside potential, and this is another way to expose portfolios to areas of the market that are not relatively expensively valued.

Theme III: The Case for Diversification

Taking a step back, we believe that the "lost generation" in Japan is perhaps the best reminder for investors to diversify. While we understand the desire to own large allocations of US technology companies, the US dominance that we've seen over the past decade or so will not go on forever, and it is prudent for investors to own assets throughout the globe. Relative to a highly concentrated portfolio, a globally diverse portfolio is not sexy, but any "missed" upside will pale in comparison to the losses when things go badly. Yes, this can still mean portfolios should own large cap tech stocks, but portfolios should also have exposure to the rest of the US market in addition to a sizable weight to international markets.