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February 2024 Market Commentary

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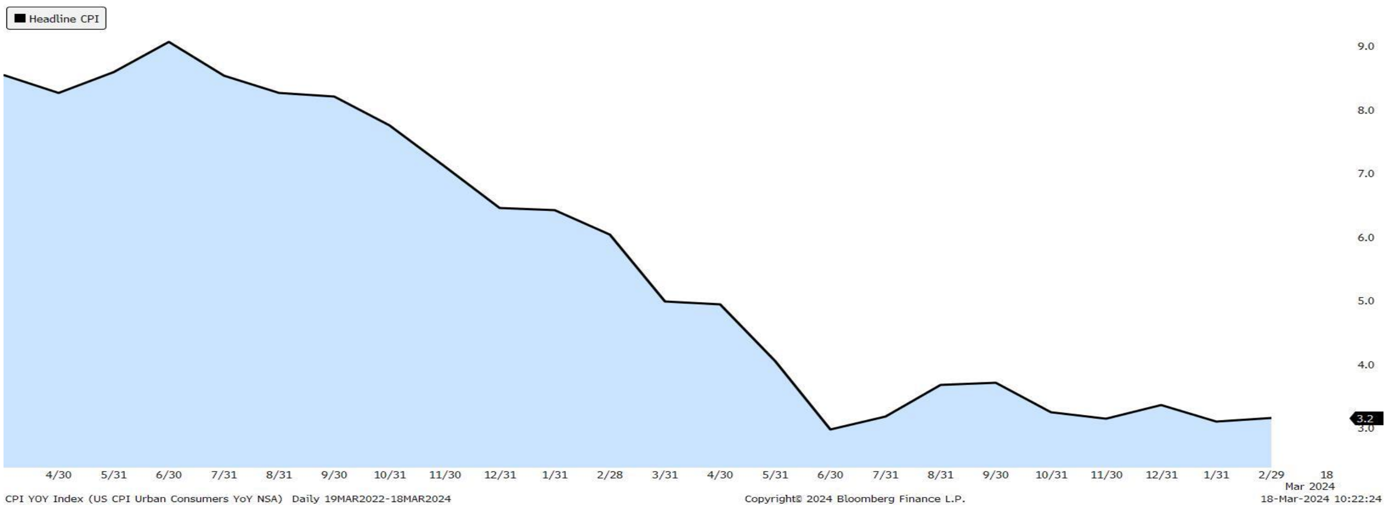
Make it 4 for 4. Stocks continued to rally in February with the S&P 500 gaining 5.3%, marking its 4th consecutive monthly gain since the recent bottom in October. The S&P 500 closed above 5,000 for the first time and notched seven record highs during the month. Strong fourth-quarter earnings results helped bolster equity prices with S&P 500 earnings up 7.8% from a year earlier on 3.9% revenue growth. The upward trend in AI-exposed issues showed no signs of abating, helping boost the tech-heavy NASDAQ by 6.2%. The Dow Jones Industrial Average advanced by 2.5%, and even small caps joined in on the fun, gaining 8.1% after dropping over 3% in January. All 11 of the S&P 500 sectors were positive in February, led by Consumer Discretionary (+8.7%) and Industrials (+7.2%), while Utilities still managed a 1% gain despite being the worst-performing sector.

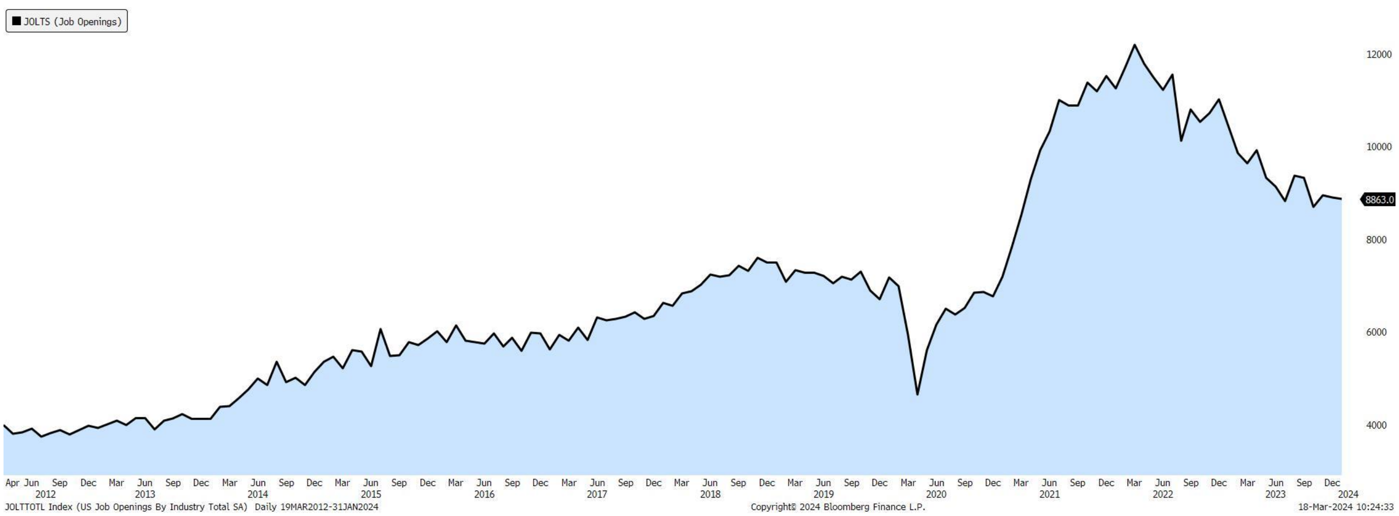
Stocks have shrugged off recently higher inflation readings and a subsequent uptick in interest rates. Inflation ticked modestly higher to start the year. After a stronger-than-expected CPI reading in January, the February core reading of 0.4% also came in above the consensus estimate of 0.3%. At this point, it is likely going to take lower rents filtering through the system to push inflation meaningfully lower from here, and that is going to take some time. At 43.5% of core CPI, shelter is responsible for two-thirds of core inflation over the past year. Still, consumer goods prices are likely to trend lower if the recent release from Ikea is any indication. The furniture maker noted that it will slash prices given moderating material costs and increasing productivity. Meanwhile, seemingly cooling labor data may portend lower services inflation. While the economy has continued to create new jobs at a healthy clip, there are some signs of cracks developing. The February US Non-Farm Payrolls report showed the economy added a robust 275k jobs, however, the prior two months' numbers were revised lower by nearly 170k, and the unemployment rate jumped to 3.9%—the highest level since July 2022. Moreover, the monthly JOLTS report indicated that job openings declined to 8.9 million, well below the highs of 12.2 million reached in March 2022. The quits rate, or the total number of workers voluntarily quitting their employment, also moderated to a near-term low of 2.1% indicating workers are less confident in their ability to find new roles. Rapid declines in job openings have typically been seen during recessionary periods.

CPI is well off the highs, but progress has stalled over the last few months and the next leg lower may take time



Source: Bloomberg

Job openings continue to moderate and tend to be a good forward indicator for the labor market



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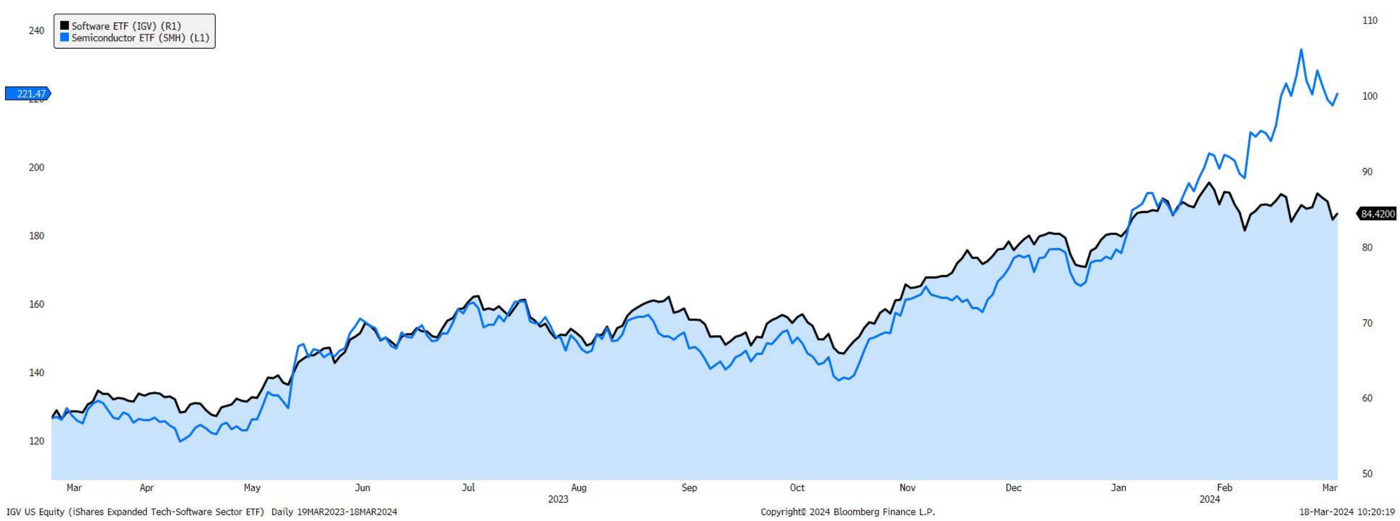
Since 1950, when both January and February have been positive for the S&P 500, the average annual gain has historically been 19.87%. Our longer-term outlook for stocks remains constructive. Inflation will likely continue to ease, albeit at a slower rate, and the Fed is still likely to cut rates around mid-year, particularly if there continue to be signs that the labor market is cooling. Expectations for rate cuts have been reined in from 6 expected cuts for this year to a more reasonable 2-3, which should help reduce the risk of a Fed driven selloff over the next few months. Still, given the recent rally and increasingly bullish sentiment (a weekly record $56.1 billion just poured into US equity funds), we would not be surprised if there was a short-term pullback, especially considering there are typically a few 5% pullbacks and at least one 10% correction during the average year. On any pullback we would be interested in adding to our favorite names and to the software sector, which has lagged semiconductors since the beginning of the year but should also be a longer-term beneficiary of AI.

Software has lagged Semiconductors potentially creating compelling longer-term opportunities…



Source: Bloomberg

As always, we would enjoy hearing from you. Please reach out with any comments or questions.

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