Quarterly Update – March 31, 2024

The market continues to push higher as investors are encouraged by the possibility of interest rate cuts in 2024. At the start of 2024 the futures market was predicting a high probability of up to six rate cuts of 0.25%. Rate cut expectations have been reduced from six to three, following several recent higher-than-expected inflation numbers. The first rate cut is predicted for June, so the inflation and employment numbers in the Spring will be closely monitored by market participants.

Large cap US stocks outperformed all other asset classes in the 1st quarter as the S&P500 returned 10.56%. US midcap stocks and the "growth" leaning NASDAQ index posted strong returns of 8.6% and 9.11% respectively. International, small caps, dividend payers, and the Dow Jones Industrial index all posted mid single digit returns. Bonds were the primary laggard as the Barclay's Aggregate Bond index fell about –1%.

Here are the returns of the major asset classes at the end of the 1st quarter 2024:

Asset Class	Index	1st Q	YTD	1yr	3yr*	5yr*
US Large Cap Stocks	S&P500	10.56%	10.56%	29.88%	11.48%	15.03%
US Mid Cap Stocks	Russell Midcap	8.60%	8.60%	22.35%	6.06%	11.09%
US Small Cap Stocks	Russell 2000	5.18%	5.18%	19.71%	-0.10%	8.10%
Dow Jones Industrial Avg	DJIA	6.14%	6.14%	22.18%	8.65%	11.29%
US Dividend Paying Stocks	DJ Select Dividend	6.10%	6.10%	9.73%	6.78%	9.03%
NASDAQ	NASDAQ	9.11%	9.11%	34.02%	7.32%	16.19%
Int'l Developed Mkt Stocks	MSCI EAFE	5.67%	5.67%	15.19%	4.74%	7.29%
Int'l Emerging Mkt Stocks	MSCI EM	2.09%	2.09%	7.86%	-5.13%	2.16%
US Bonds	Bar Aggregate Bond	-0.78%	-0.78%	1.70%	-2.45%	0.36%

YTD = Year to Date *return is annualized [1]

The market was dominated by a few large growth stocks last year and growth continued to perform in the 1st quarter of 2024. There are signs of market breadth improving as midcaps, dividend payers, and even international stocks have perked up this year. Emerging markets stocks have been dragged down by poor performance in China and Brazil. US bonds, much to our surprise, have also underperformed this year. We are still very positive on the multi-year outlook for bonds even though they have not performed well in 2024.

We believe the super-low rate environment of 2008-2021 is a thing of the past and we are unlikely to revisit rates at that level in the foreseeable future. We expect long term rates to stay in the 4.5% to 5.5% range, which is a level that used to be considered normal. As such, we think the performance difference between growth and value stocks should tighten, and that stock-pickers may be rewarded for being different than the index.

[1] Source: Raymond James Client Center Reporting

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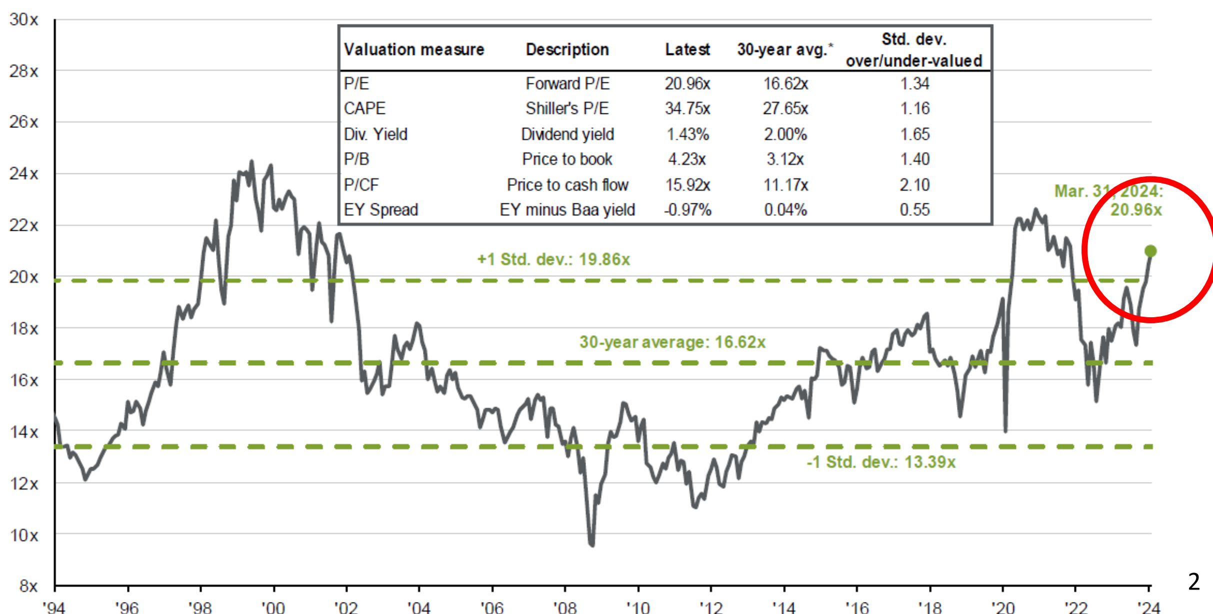
We are always evaluating market valuations. It is especially important to understand market multiples relative to earnings growth as the market advances. In the chart below, you can see that the P/E (price/earnings) ratio is now over 20x. This is clearly higher than the normal range of 16-18x, but is not necessarily a major concern.



[2]

Typically stock prices and earnings move together over time. Occasionally stock prices will move well before earnings in anticipation of the earnings to come. That appears to be the case in 2023 and early 2024. The market started this latest rally in November 2023 following Federal Reserve Chairman Jay Powell's indication the FED was taking a slightly more dovish stance on rates. Since November, the market valuation has quickly expanded because market prices (P) rallied and earnings (E) have grew modestly. Actually earnings growth in 2023 was less than 1% for the S&P500 while prices were up double digits. Currently the market is expecting about 11% earnings growth in 2024.

EPS growth estimates, YoY (%)

	2023	2024E
Consumer discretionary	45.05	11.74
Communication services	24.27	17.15
Industrials	19.18	9.94
Utilities	7.90	7.54
Information technology	5.59	15.64
Financials	3.41	11.56
Real estate	3.28	2.79
Consumer staples	2.38	5.46
S&P 500 Index	**0.68**	**11.02**
Healthcare	-21.13	16.40
Materials	-23.03	0.24
Energy	-29.10	-5.70

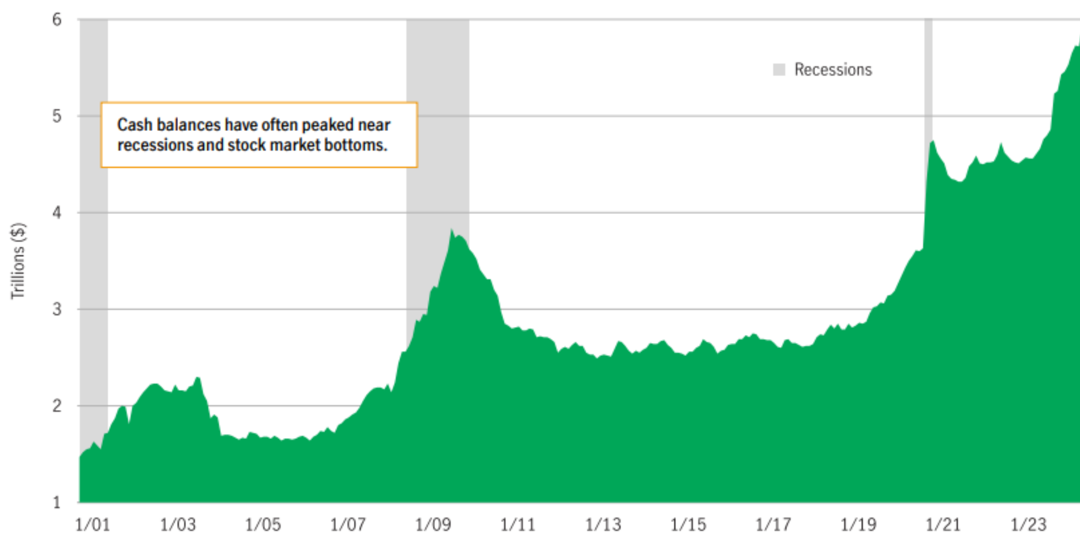
[3]

About the same time, the Treasury Department changed the way they were refinancing the national debt. They significantly reduced the amount of long term treasury notes and increased the amount of shorter term bills they were issuing. This brought longer term rates down and added to the demand for stocks as it increased liquidity. We believe this short term funding/refinancing strategy by the Treasury Department is not sustainable. Eventually this will put upward pressure on long term rates.

[2] Source: JP Morgan, "Guide to the Markets—March 31, 2024" p.5
[3] Source: John Hancock, "Market Intelligence" Q1 2024 p.9

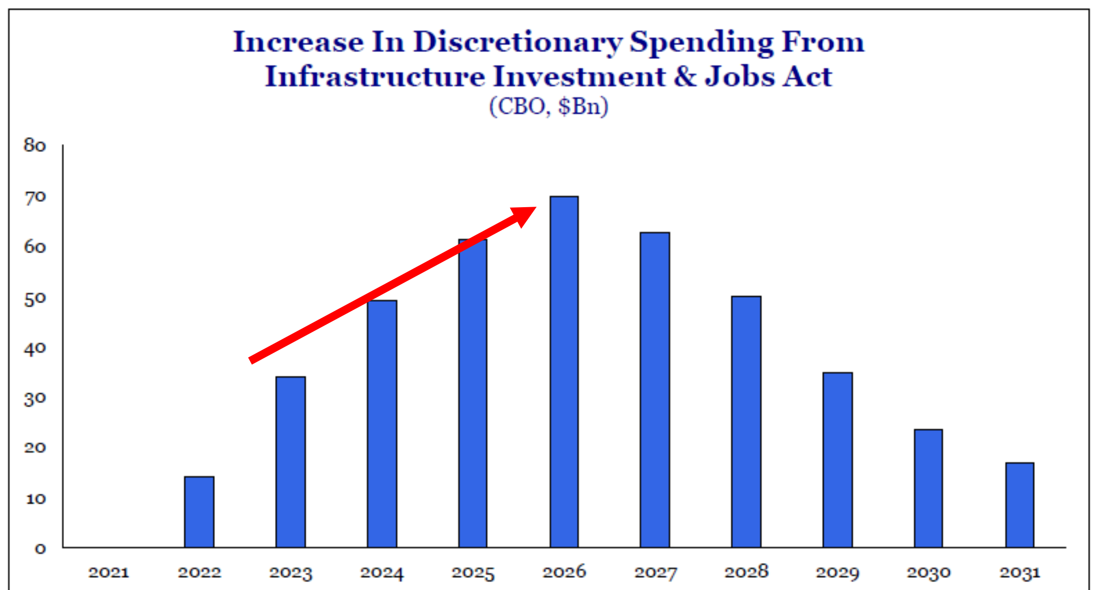
In our opinion investor buying power is one of the most significant catalysts for the stock market in 2024-2025. We have seen a significant increase in cash hoarding by investors and corporations since money market rates eclipsed 5% last year. These cash buildups usually happen at the end of recessions or at stock market lows and are used to drive the recovery in stocks. However, that's not the case at this point. The market has been relatively resilient the last 15 months as cash is piling up. We think investors will use this cash to add to stock positions during market corrections or as short term rates fall. This reinvestment process should help mute the market impact of an economic slowdown and could make most market corrections brief or relatively shallow.

Money market assets took in over $1 trillion in 2023, bringing them to new all-time highs of nearly $6 trillion



[4]

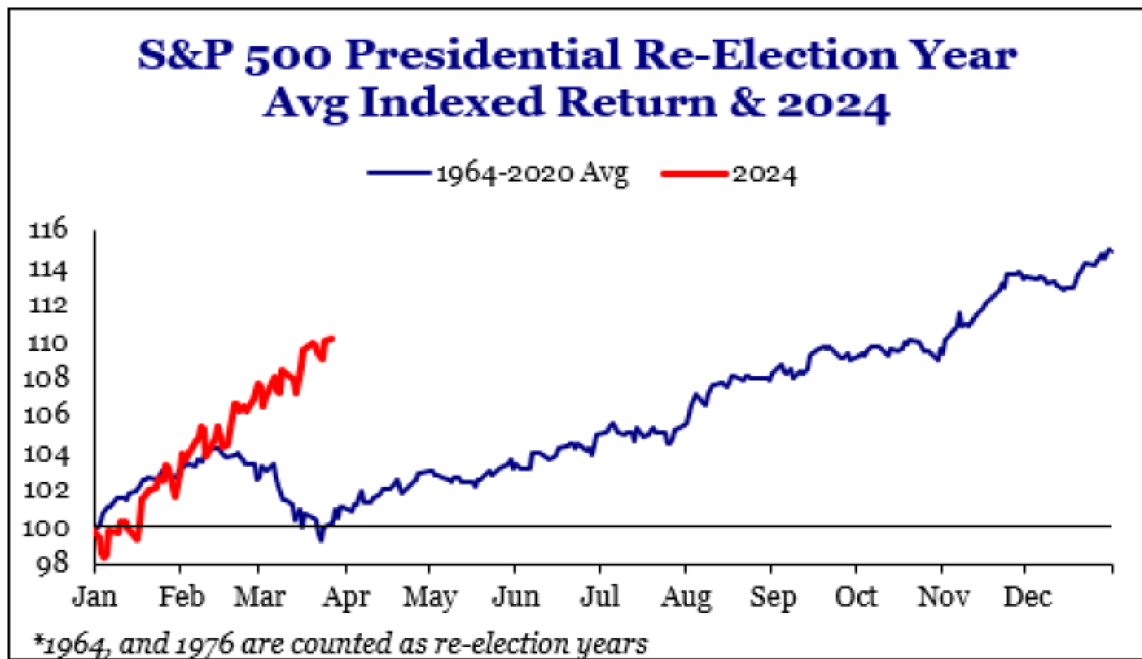
We think another meaningful catalyst is the government infrastructure spending plans already passed through several bills in congress. The Inflation Reduction Act, the CHIPs Act, the Infrastructure & Jobs Act all create more spending that is starting to ramp up over the next three years.



[5]

[4] Source: John Hancock, "Market Intelligence" Q1 2024 p.28
[5] Source: Strategas, "Quarterly Review in Charts" 1Q 2024 p.52

We believe the market will continue its slow grind higher accompanied by the typical bouts of volatility. We expect economic growth to continue to moderate, inflation to continue to slowly drift lower, and labor conditions to remain relatively strong. Generally stocks are setting new all time highs every week so we fully expect to hit a bit of an air pocket sometime soon. When we look at election year seasonality, we typically get a "risk-off" event or a pullback early in the year. It would not be a surprise if this occurs again this year. We mentioned before, we think the downturn will be temporary and possibly a good buying opportunity for long term investors.



[6]

We expect bonds will recover from the recent underperformance and provide solid single-digit type returns in the next few years. We prefer short to intermediate duration bonds at this point over long dated bonds. We also think diversification in alternative investments may also play an important role to help dampen volatility this year.

We thank you for the trust you place in our team. Please reach out to us with any questions.

-Shaw Investment Management

[6] Source: Strategas, "Quarterly Review in Charts" 1Q 2024 p.42

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