Mosaicfi *Market Insights*

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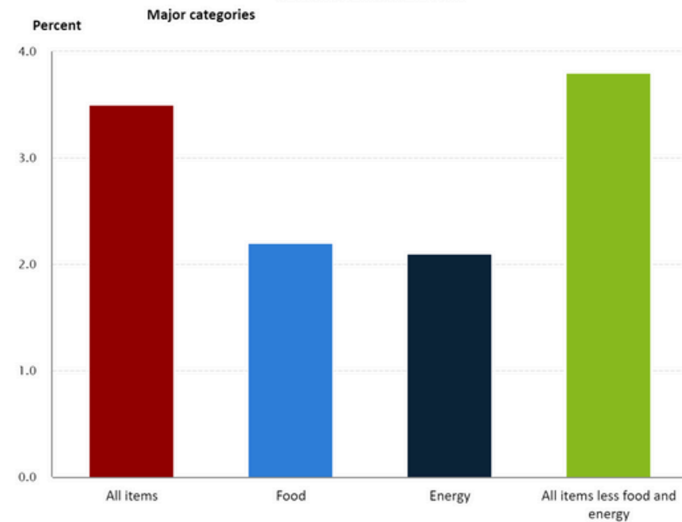

Q1 2024

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Priced to perfection. As we began 2024 the equity markets were very optimistic that inflation would continue its descent and gently glide back to the 2% target rate that the Federal Reserve is seeking. This would happen while the U.S. unemployment level remained at historic lows and the economy chugs along at a solid clip.

The thinking went that this 'goldilocks' scenario of a 'not too hot' and 'not too cold' economy would allow the Federal Reserve to begin lowering interest rates in the first half of 2024. There was hope that we could see several interest rate cuts by the end of the year. These hopes were dashed by the beginning of the 2nd quarter as it became clear that inflation was not cooperating with the preferences of the market and the Fed.

Q1 2024

" the impact of the potential sunsetting of several tax cuts at the end of 2025 unless Congress acts will mainly be felt by high-net-worth individuals."

The consumer price index (CPI) ticked up in February and March mostly due to rising rents and the price of oil due to the volatile geopolitical environment.

The bond markets were not nearly as sanguine.

After the steep decline in interest rates in the 4th quarter of 2023, reality set in as we began 2024. Inflation did not cooperate as quickly as was hoped.

While the 10yr US Treasury yield declined by 71 basis points in the 4th quarter, it popped back up by 32bps in the 1st quarter as hopes of a series of interest rates cuts in 2024 began to fade. Bond market investors tend to be realists while equity market investors are optimists. This makes sense given the risk vs. return profile of the two markets and how one can be rewarded differently.

THE EQUITY MARKETS

Global equity markets, as measured by the MSCI All Country World Index, were up 7.72% in the 1st quarter of 2024. The dispersion in performance between the international developed equity markets and the U.S. equity markets continues. International developed markets were up 5.59% vs. the U.S. equity markets, which were up 10.02%. Emerging markets underperformed developed markets again, up 2.37% in the 1st quarter.

After a very strong 4th quarter, U.S. REITs struggled in part due to the increase in interest rates over the quarter. REITs were down -.39% for the quarter.

In the US, large cap stocks outperformed small cap stocks with growth stocks leading the charge. Small cap stocks were up 5.18% vs. large cap stocks, which were up 10.30%.

As the excitement over AI and all its potential continues to build, large cap growth stocks outperformed value stocks with growth up 11.41% vs. 8.99% for value in the 1st quarter.

THE FIXED INCOME MARKETS

With a partial reversal of the interest rate decline we saw at the end of 2023, the U.S. bond market performance was down -.78% in the 1st quarter.

The municipal bond market performed slightly better than the taxable market, down -.39% for the quarter.

With lower correlation to the changes in interest rates and higher correlation to the equity markets, the high-yield market once again had strong performance, up 1.47% for the quarter. U.S. TIPS (inflation protected securities) were down -.08% for the quarter.

So, what did all this mean for investors?

Depending on the asset allocation, a diversified portfolio was up somewhere between 3-6% for the quarter.

LOOKING AHEAD

The markets will continue to focus on inflation and how the Federal Reserve responds to it. If the Fed was to take a more dovish approach to fighting inflation the market could have a very negative reaction. While nobody likes high interest rates (except for the net savers out there) the fear of lingering inflation, or even stagflation, and the damage that those scenarios could ultimately do to the economy, is far worse than dealing with elevated interest rates for an extra quarter or two.

There is a plethora of topics in the news to grab our attention; the worsening geo-political environment; the dysfunction in Washington DC; an election year like no other… It is easy to get caught up in the headlines and to worry about the impact each and all these things can have on the markets. And while they can have an impact on a short-term basis, history tells us that like the headlines that come and go, so too, is the impact on the markets' performance over time.

One topic that has been garnering some attention is the potential sunsetting of several tax cuts at the end of 2025 unless Congress acts.

The impact will mainly be felt by high-net-worth individuals. We recommend that you speak with your tax and/or financial advisor to make sure you don't miss out on any opportunities before it's too late.

As always, we would love to hear from you. Please contact us at any time.

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