

# Convergence Commentary

## February 2024 Market Recap

### Quick Hits:

- A positive earnings season fuels a strong February.
- Interest rates increase over inflation uncertainty.
- Innovation hype is picking up steam.

### Market-Moving Highlights

February continued the earnings season with companies such as Meta Platforms, Amazon, and Nvidia surprising to the upside. With 96.6% of the companies reported for the quarter, overall results beat sales estimates by 1.3% and beat earnings estimates by 4.7%. Considering that Utilities missed estimates by 6%, and energy missed estimates by 2.1%, the results are more impressive than at a first glance. A positive outlook on tech companies' earnings calls furthermore propelled the strong performance of US equities in February.

Inflation came in slightly hotter than expected for the second month in a row, with CPI at 3.1% year-over-year and 0.3% monthly. The expectations were for 2.9% and 0.2%. The culprits were shelter, auto insurance, hospital services and other personal services. The latter two were unexpected, but service costs increasing means the demand for services increased, which is generally a positive for the economy. Core Inflation stayed flat at 3.9%, against the consensus of 3.7%, as personal and medical care costs increased. The two consecutive readings that were worse than forecasts spooked the bond markets, with treasury yields increasing from 3.91% to 4.25%. The next reading on March 12th will be closely watched. Nevertheless, the stock market focused on strong corporate earnings.

The Fed officials conveyed that the policy rate is likely at its peak, but also expressed that further evidence of inflation moving sustainably towards 2% is needed to start cutting rates. Due to the latest inflation data, the market consensus shifted to June, marking the first cut as the most likely scenario.

The eccentric CEO of OpenAI, Sam Altman, is seeking trillions of dollars to reshape the semiconductor industry. He expects \$5 to \$7 trillion dollars to be a sufficient figure. Sam Altman is currently traveling around the world trying to secure funding. The British semiconductor company Arm Holdings already pledged around \$35 billion for the cause. His goals face major challenges, and it is likely that they are overly ambitious. However, the fact he can secure any funding at all showcases the current appetite for innovation.

## Index Performance

Index	1 Month	YTD	1 Year	5 Year
S&P 500	5.34%	7.11%	30.45%	14.76%
Nasdaq Composite	6.22%	7.33%	41.63%	17.38%
Russell 2000	5.65%	1.54%	10.05%	6.89%
MSCI ACWI ex US	2.55%	1.54%	13.09%	5.95%
Bloomberg US Aggregate Bond	-1.41%	-1.68%	3.33%	0.56%

In our November 2023 market commentary, we have talked about how higher yields disproportionately affect smaller companies more than larger companies. For an unexpected twist in February, Treasury yields increased, yet the Russell 2000 index outperformed the other indices. This is an encouraging development, as small caps tend to do well in periods of strong economic growth. The higher yields did not spare the Bloomberg Aggregate Bond index, capping the only negative performance out of the indexes we cover. The Nasdaq outperformed the S&P 500 as technology continues its leadership during this, now 18-week, long rally. On the international front, Japan, India and developed Europe continue to be a bright spot. Developed Europe's tailwind comes from the US importing more from Europe as it shifted away from China. After falling since January 2023, the Chinese stock market has gone up slightly in February, with some analysts debating whether sentiment has reached bottom. For now, most investors are worried about geopolitical tensions and government control over corporations. February is known to be a seasonally weaker month, and the strong showing is a welcome surprise.

## S&P 500 Sector Highlights & Commentary

<b>Best-Performing Sectors</b>		<b>Worst-Performing Sectors</b>	
Consumer Discretionary	7.89%	Utilities	1.06%
Industrials	7.18%	Consumer Staples	2.1%
Materials	6.51%	Real Estate	2.57%

All eleven S&P 500 sectors were positive in February. Cyclical sectors are still topping the list as the market rally continues, while defensive sectors are lagging behind, suffering from high treasury rates. The consumer discretionary sector has benefitted from a strong earnings season, with companies such as Amazon highlighting that consumers still have an engine for spending. Industrials benefited from a recovery of manufacturing PMI (more details in the "What to Watch" section). Commodity prices have recovered slightly after a weak January, aiding the materials section. On the worst-performing front, utilities and real estate are nervous about the timing of rate cuts, while consumer staples is not as lucrative while consumers are spending on discretionary items. Overall, a great February for the S&P 500 sectors.

## What to Watch in March

[Click here to read our reference guide for economic indicators.](#)

### *03/01 – Manufacturing PMI*

*The ISM Manufacturing PMI has improved from 47.4 to 49.1 in January 2024, which is its highest score since October 2022. While this is still the 15th consecutive reading in contraction, it was well above the forecast of 47. The reading benefited from improved demand, with new orders and production outpacing expectations. It will be interesting to see whether the contraction streak ends soon.*

### *03/05 – ISM SERVICES PMI*

*The ISM Services PMI improved from 50.5 to 53.4 in January 2024, the strongest reading in four months. According to the Chair of the ISM Services Business Survey Committee, service firms, “Are optimistic about the economy due to the potential impact of interest rate cuts; however, are cautious due to inflation and ongoing geopolitical conflicts.”*

### *03/08 – Non-Farm Payrolls, Unemployment Rate*

*The US economy added an impressive 353,000 jobs in January, ending way above the 180,000 forecasted. Jobs have risen most in professional and business services (74,000), healthcare (70,000) and retail trade (45,000). The next reading’s forecast is 195,000, which seems a little conservative considering the last reading. The unemployment rate held steady at 3.7% and is expected to do so in the February reading as well.*

### *03/12 – CPI and Core CPI*

*The annual CPI went back to 3.1% from 3.4% in January, but it was still higher than the forecasts of 2.9%. Core CPI stayed at 3.9%, above forecasts of 3.7%.*

### *03/14 – Retail Sales*

*Retail sales in the US fell 0.8% in January, much worse than market forecasts of a 0.1% decline. Consumer strength has powered this rally, so normally an unexpected decline would fuel worry. However, the decline was driven by the aftermath of a record holiday shopping season and cold weather. The next readings will be more telling of where the demand is under more normal conditions.*

### *03/15 – Michigan Consumer Sentiment Preliminary*

*The University of Michigan consumer sentiment further increased from 79 to 79.6 in February, preliminary estimates showed. Consumers expressed confidence in their view that inflation is slowing and strength in the labor market would continue.*

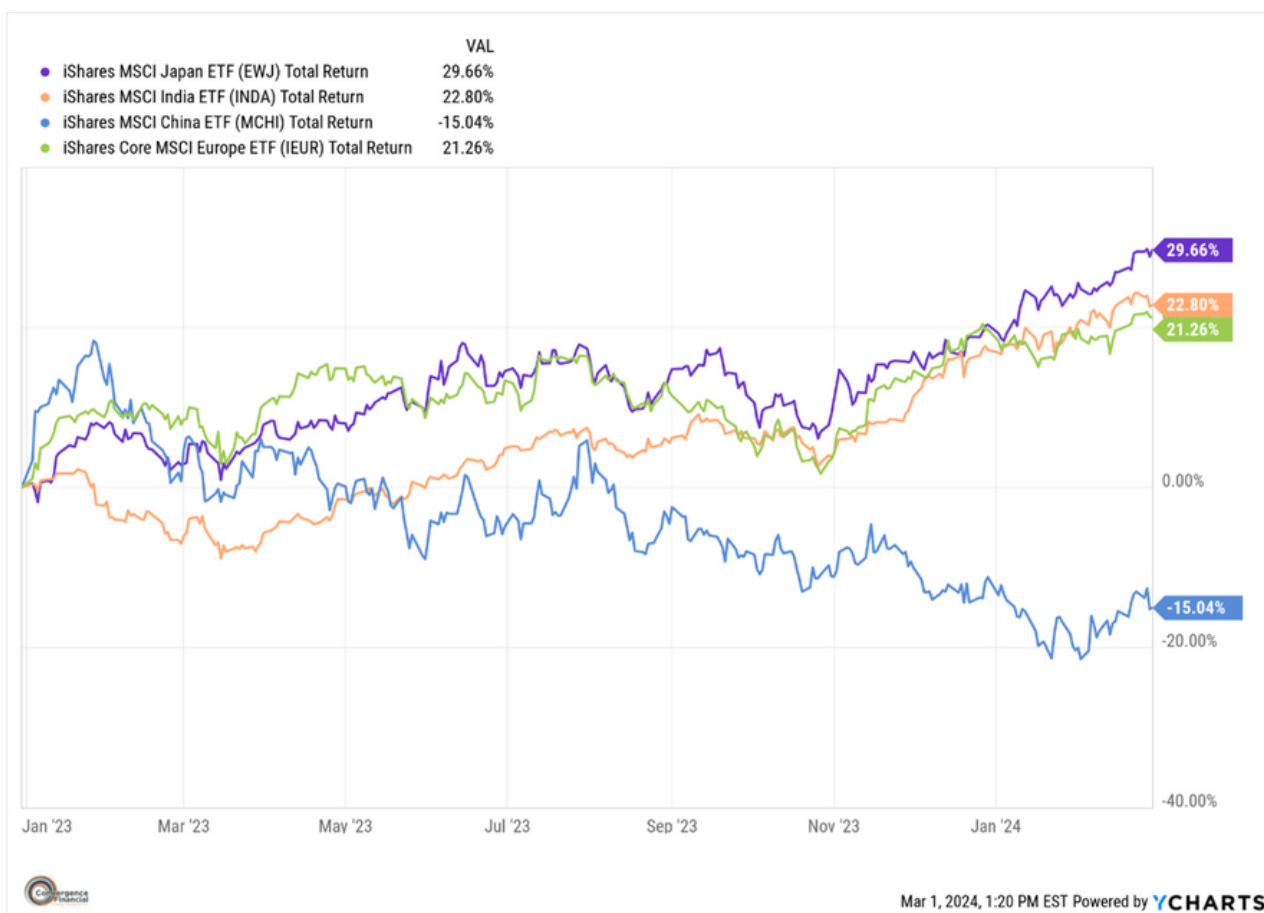
### *03/20 – Fed Interest Rate Decision + Press Conference*

*No change is expected, but language and statements will be closely analyzed.*

## Market Wrap

Interest rates increased due to worse-than-expected inflation reports. Despite that, February marked a strong month for the equities, as the market focused on strong corporate profits, positive outlook of companies earning calls, and appetite for innovation.

In numerous market commentaries we have mentioned the performance of international equities, so this month we have included a visual representation. Below is the graphical performance of Japan, India, China and Europe's market cap indices since January 1st, 2023. The chart demonstrates the strong performance in India, Japan, and Europe, with an underperformance in China. As mentioned, the analyst debate is still out on whether this trend will continue, or if this past month's performance is changing the trend.



## Sources

### [OpenAI CEO Sam Altman seeks as much as \\$7 trillion for new AI chip project: Report](#)

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**Travis Cook,**  
**CFP®, CMFC®**  
CEO, Financial Advisor



**Tyler Hoffmann,**  
**MBA**  
President,  
Financial Advisor



**Dr. John**  
**Stansfield, CFA**  
Director of  
Investments



**Chris Repka**  
Assistant Investment  
Research Analyst



3919 S Providence Rd, Columbia, MO 65203  
573.818.2264  
[www.convergence-financial.com](http://www.convergence-financial.com)

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