Convergence Commentary
March 2024 Market Recap

Quick Hits:

- The S&P 500 entered a 5-month winning streak.
- Market strength broadened.
- The inflation path progressed, but uncertainty remains.

Market-Moving Highlights

With the bulk of the earnings season behind us, the market has time to digest the new data. March was a positive, mostly quiet month for the markets. With a 5-month streak for the S&P 500, there has been a lot of research surrounding the recent performance. One interesting data point came from Bespoke, an independent research firm that measured performance from the COVID low. Since that low, just 35 stocks of the S&P 500 lowered in value while 286 at least doubled in value.

Inflation came in slightly hotter than expected for the third month in a row. CPI came in at 3.2% year-over-year and 0.4% month-over-month. The expectations were for 3.2% and 0.3%. The culprits were mostly energy and transportation services. Core CPI came in line at 3.8% year-over-year and 0.4% monthly. These numbers had some market participants worried, and there was no positive surprise in the data for three months in a row, indicating that inflation might be getting stickier. However, there is often a seasonality factor for CPI at the start of the year. This was referenced by the Federal Reserve in their March press conference. The next reading should be more telling of whether it was seasonality, or if the inflation track has derailed from market expectations.

The Federal Reserve sparked a positive momentum in the market. Despite revising US 2024 GDP growth expectations higher (from 1.4% to 2.1%), personal consumption expenditures higher (from 2.1% to 2.2%), and unemployment lower (from 4% to 4.1%), they maintained a three-rate cut this year stance. The market took it as follows: The Fed recognizes the strong economic growth, but despite that thinks that the data is good enough on the inflation side for rate cuts to occur. As we mentioned before, it is a tough decision to decide when to cut, and only once out of 6 times did the Federal Reserve cut rates before some crisis occurred. With market participants nervous about stronger economic growth delaying cuts, the conference calmed some of the fears.

Index Performance

Index	1 Month	YTD	1 Year	5 Year
S&P 500	3.22%	10.56%	34.42%	15.21%
Nasdaq Composite	1.85%	9.31%	40.93%	17.37%
Russell 2000	3.58%	5.18%	23.19%	8.17%
MSCI ACWI ex US	3.07%	4.66%	16.58%	6.60%
Bloomberg US Aggregate Bond	0.92%	-0.78%	2.37%	0.34%

All the indices in our market commentary were positive in March. The best-performing index was the Russell 2000, as there was increased clarity on rate cuts. S&P 500 and the internationals were up similarly around the 3% range, showing signs of a broadening market rally as the tech-heavy Nasdaq was up only 1.85%. The bond aggregate index was up 1%, despite a slightly hotter-than-expected inflation reading. On the developed international front, Europe was the brightest spot, with the Europe MSCI index up 3%. Japan continues its momentum, up around 1.5%, as the government continues to encourage investment. On the emerging markets front, India and China ended the month flat. Despite Apple, the second largest S&P 500 holding, decreasing 5.5%, the overall market was up. This is a positive development for the broadening of the market.

S&P 500 Sector Highlights & Commentary

Best-Performing Sectors		Worst-Performing Sectors	
Energy	10.48%	Consumer Discretionary	-0.07%
Utilities	6.59%	Technology	0.79%
Materials	6.47%	Real Estate	1.76%

Almost all sectors finished positive in March, an increasingly common phenomenon in the current market run. Oil prices have increased about 6%, aiding the energy sector. Utilities, as a bond proxy sector, have largely benefited from the Federal Reserve remaining dovish despite three inflation readings that were slightly above expectations. Additionally, there was a renewed focus on the energy needs of both technological advancements as well as bitcoin miners, which added some interest to both the energy sector and utilities. Commodity price increases have aided the materials sector. Gold and Silver were both up around 10%, while Copper was up 5%.

On the worst-performing front, the firm Equinix, one of the largest weightings (around 9%) in the Real Estate sector fell 10% as the short-seller firm Hindenburg accused the company of manipulating its accounting. This news weighed on the Real Estate sector, but it finished the month positive. The technology sector slowed down after a tremendous start to the year. Consumer discretionary being the worst performer is something to watch, as the strength of the consumer is something we continuously point to. However, after the strong holiday season, it is perhaps natural for the sector to slow down. Overall, a very encouraging month for the S&P 500 sectors, as the market rally showed more signs of broadening out.

What to Watch in April

Click here to read our reference guide for economic indicators.

04/01 – Manufacturing PMI
The ISM Manufacturing PMI fell to 47.8 from 49.1, for the 16th consecutive period of declines. This was especially bad news for the manufacturing sector as the last reading gave hope for a rebound, and expectations were for a 49.5 reading. New orders disappointed especially, falling back to contraction territory. The forecast for the next reading is 48.3.

04/03 ISM Services PMI
The ISM Services PMI fell to 52.6 in February, from the surprisingly high 53.4 reading in January. The reading pointed to slower growth in the services sector and employment contraction. On the other hand, business activity and new orders boomed, showcasing ongoing strength in the services sector.

04/05 – Non-Farm Payrolls, Unemployment Rate
The US economy added 275,000 jobs in February, higher than the expectations of 200,000. Employment strength continues to be especially strong in health care, where about 120,000 new jobs were created.

04/10 – CPI and Core CPI
The annual CPI went up from 3.1% to 3.2% in February, as energy prices went down at a much slower pace than expected. Because of that, transportation costs increased as well. Core CPI declined from 3.9% to 3.8%. This was above the market forecast of 3.7%. While the readings were encouraging headlines of sticky inflation, January and February tend to have a seasonal effect on inflation. The March reading will be especially important, as it will show whether the January/February seasonality was in effect, or whether inflation is indeed stickier than expected.

04/12 – Michigan Consumer Sentiment Preliminary
Consumer sentiment is currently at 79.4, the highest since July 2021. It will be interesting to watch whether the trend continues higher. As a leading indicator, the high consumer sentiment is a welcome sign for the economy.

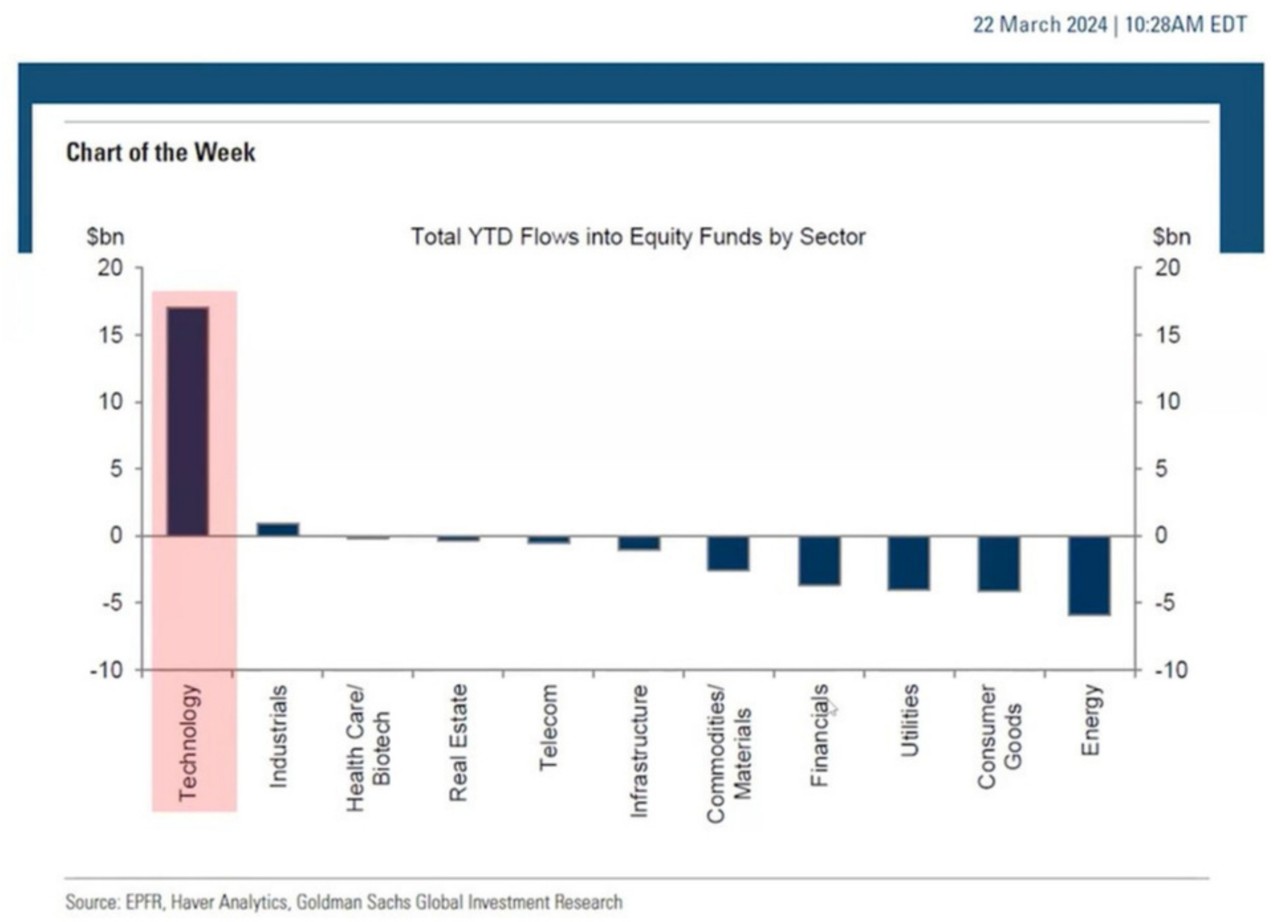
04/15 – Retail Sales
Retail sales were up 0.6% month-over-month in February, following the January 1.1% fall (aftermath of the shopping season). Expectations were for a 0.8% increase, and some analysts pointed out that the consumer might be slowing down in spending. But with consumer sentiment creating new highs, that remains to be seen.

Market Wrap

Goldman Sachs shared an enlightening graph on flows into sectors for 2024 so far. While it might not be surprising that technology is at the forefront, it might surprise many that all the other sectors, excluding industrials, have experienced outflows. With some headlines of elevated valuations sounding alarms in the market, let us dive deeper into the graph.

1 - All the focus is on technology. Everyone is excited about software, hardware, AI, and cybersecurity progress. This interest will eventually subside and whenever it does, the sector may stall.

2 - Other sectors have not yet benefited from the strong economic growth. If some of the excitement in technology wanes, the interest may spill over to other sectors, which could support the market. That is what usually happens in bull markets; some leading sectors have all the interest initially, and then the interest spills to other sectors.



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