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# Investment Insights Monthly

From The Desk of Jack Kraft, CFA, Investment Strategist March 2024


## Stock Rally Riding on Promised Rate Cuts

The bull market in U.S. equities has not missed a step in 2024, with the S&P 500 blowing past the 5,000-point mark with an impressive 8%+ gain as of mid-March. New highs are the new normal as the market has seemed to somewhat broaden from last year's concentrated gains in the Magnificent Seven. Investor focus has shifted from risks such as inflation and calls for a recession to pounding the table on a resilient consumer, lower rates and growing earnings per share. The U.S. Federal Reserve (Fed) ultimately holds the power to keeping this rally sustained based on how restrictive it wants to be with monetary policy. The Fed will be looking for clues on economic growth, labor market stability and arguably most important, normalizing inflation data.

Overall, Fed speak has been more cautious as 2024 has played out with expectations for rate cuts shifting later into the year. Initially, cuts were forecasted to come as soon as March but have been postponed to what looks like June. Not only have rate cuts been pushed out to later in the year, but the market is expecting just three 25-basis-point cuts in 2024 versus the six rate cuts that were previously expected in December 2023. The market has even started to get cold feet about a June rate cut as inflation data has come in hotter than anticipated. According to CME Group's FedWatch Tool, market expectations for a June rate cut have declined from 80% one month ago to 60% at the time of this writing.

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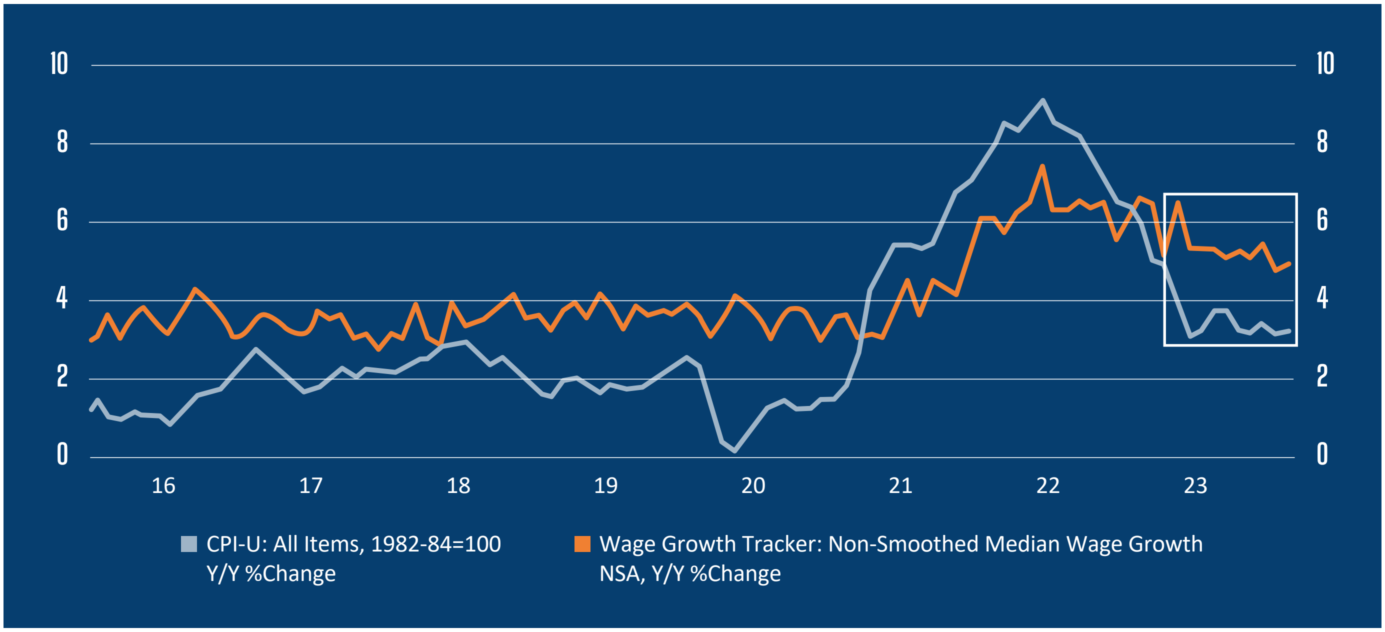
Furthermore, the war on inflation has hit a stalemate in the first two months of data in 2024. The Consumer Price Index has come in hotter than expected on both headline and core measures (which strip out volatile food and energy prices). Also concerning on the data front, is the hotter-than-expected Producer Price inflation numbers. This data point is more of a leading indicator and shows "pipeline inflation" that manufacturers are seeing in raw, intermediate and finished goods. If this trend continues into March, I would be cautious of counting on a rate hike in June. One positive the Fed can point to is the benefit the consumer is feeling from the disinflationary environment since inflation peaked at 9% and has since declined to roughly 3% annualized. During the middle of 2023, real wage growth turned positive and has stayed positive, which enables an environment where wages keep pace above inflation, thus boosting consumer confidence, and supports spending.




*Sources: BLS, FRBATL/Haver*

The stellar performance of the S&P 500 this year has led to one pocket of the market getting undoubtably frothy, as measured by the S&P 500 momentum tracker. This index tracks the performance of approximately 100 stocks in the S&P 500 Index that have the highest "momentum score." This momentum score is based on winning stocks that have performed well in the short term. Since it is a measure of the near-term best performing companies, the index has a high turnover rate. Currently, the index is mainly comprised of stocks that have two distinct factors—large in size and high growth. The factor index is up 21% year-to-date and roughly 44% since the end of October when investment sentiment shifted more to a risk-on approach.

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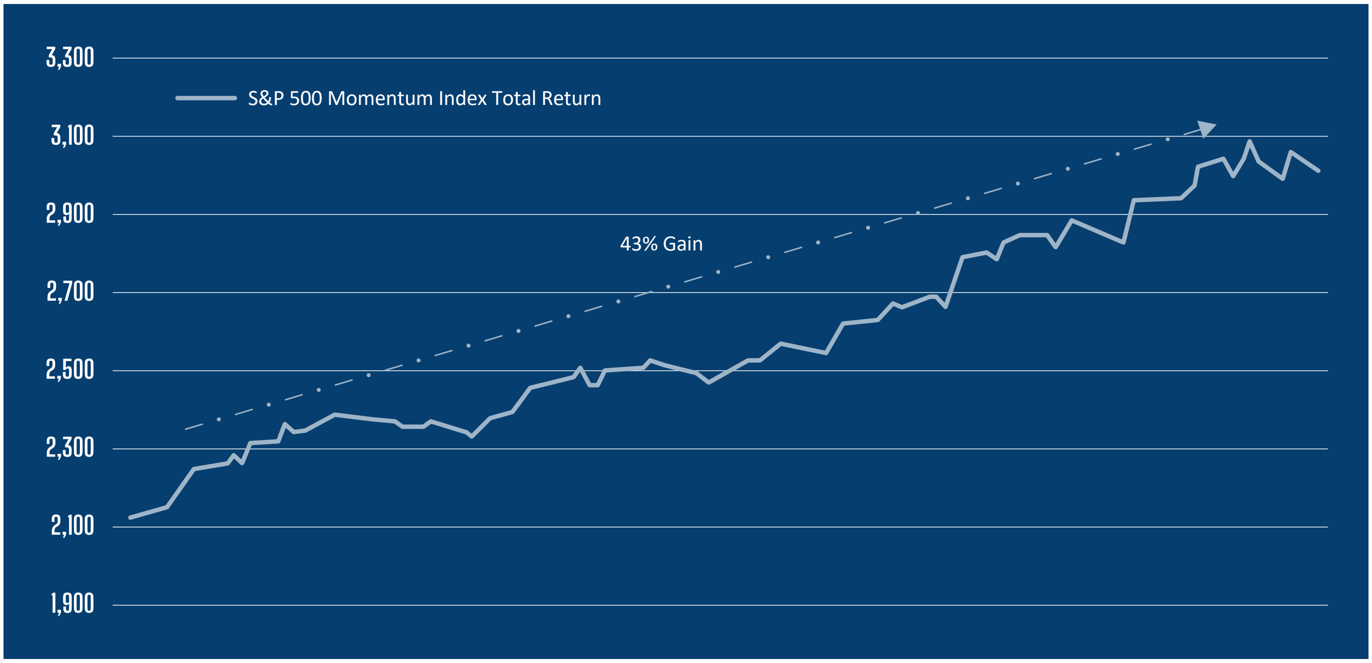
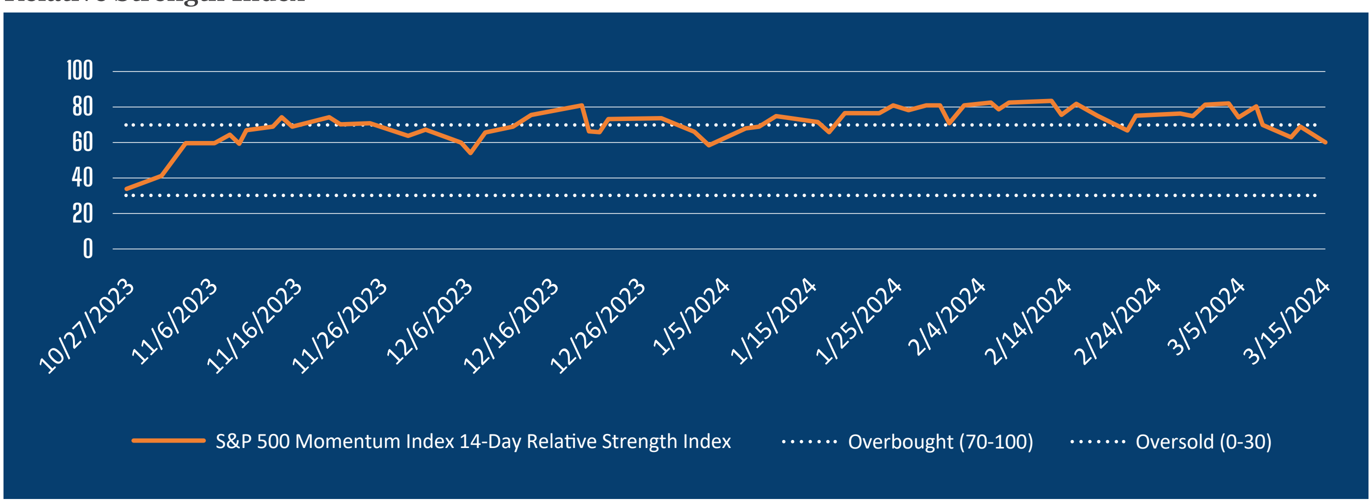
**S&P 500 Momentum Index Total Return**




**Relative Strength Index**




*Source: YCharts*

Additionally, the S&P 500 momentum ETF has spent the majority of its time trading in overbought (above 70) territory since December 11, 2023, as measured by the relative strength index, a technical factor that measures positive trading days versus negative trading days. JPMorgan has noted that its momentum crowding index has reached the 99th percentile and saw its fastest increase ever in the past month following euphoria for artificial intelligence stocks. The largest risk here is that momentum-oriented stocks can be prone to sharp reversals in short periods of time given a slight change in the narrative or investor sentiment. There also runs the risk of this reversal affecting broader areas of the market given that the momentum index is currently concentrated with companies that are larger in size by market capitalization.

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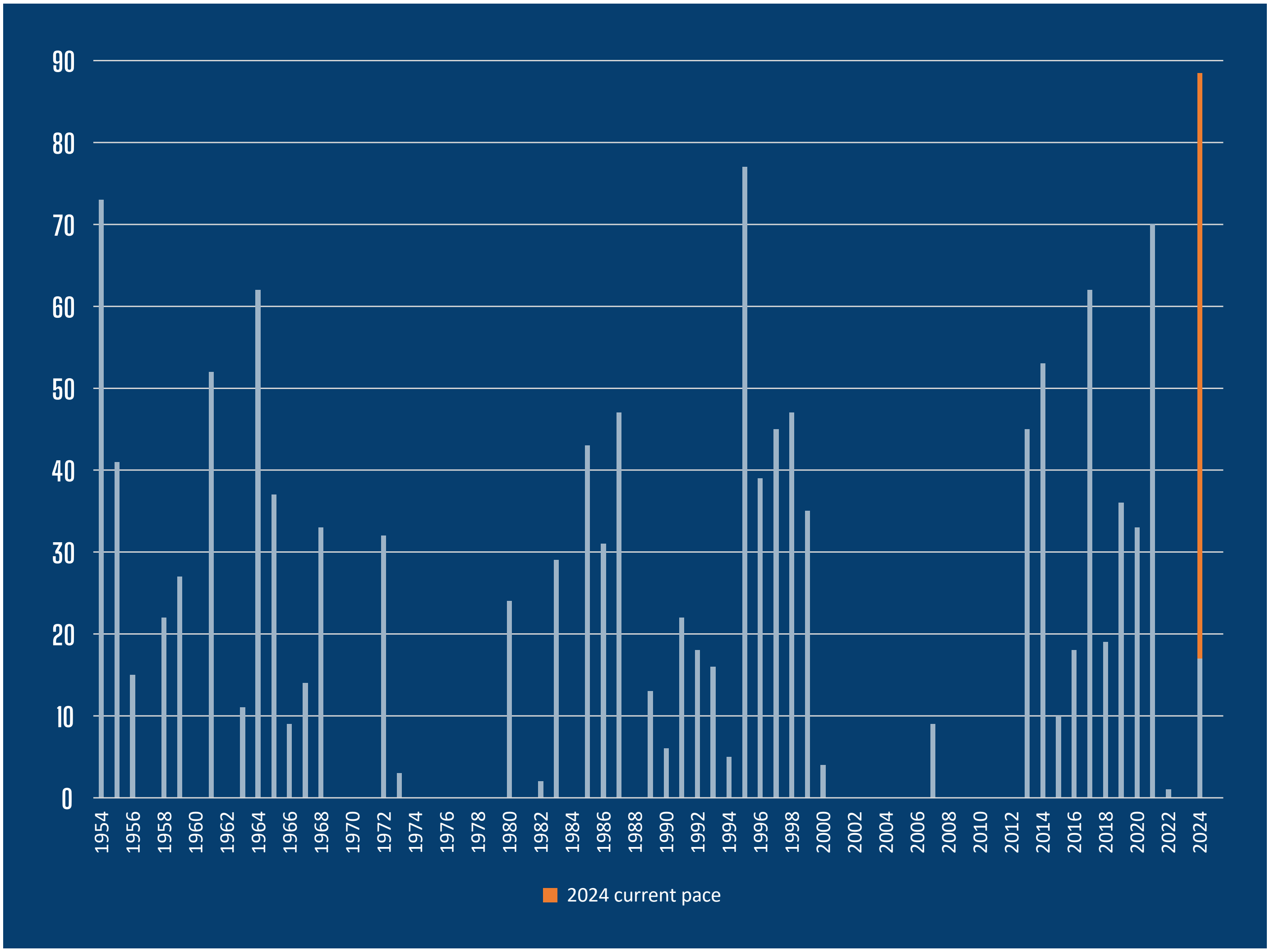
**S&P 500 All-Time Highs By Year**




*As of March 8, 2024*
*Sources: Bloomberg Finance, L.P.*

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