Pinnacle | Consulting Group

4/9/2024

**So Far, So Good**

As 2024 began, some investors were likely anxious. Would stocks continue the powerful advance of 2023 or had they gotten ahead of themselves? It didn't take long to find out. After about a week of drifting lower, equities bolted higher. This resulted in the best first quarter for the S&P 500 since 2019.

| % Return as of 3/31/2024 | | | |
|---|---|---|---|
| **Equity Indexes** | **1st Q** | **1 Yr** | **3 Yr** |
| S&P 500 | 10.6 | 29.9 | 11.5 |
| Russell 2000 | 5.2 | 19.7 | -0.1 |
| MSCI EAFE | 5.8 | 15.3 | 4.8 |
| Emerging Markets | 2.4 | 8.2 | -5.1 |
| Wilshire REIT | 0.0 | 12.4 | 4.5 |
| **Bond Indexes** | | | |
| TIPS | -0.1 | 0.5 | -0.5 |
| Aggregate | -0.8 | 1.7 | -2.5 |
| Government | -0.9 | 0.1 | -2.7 |
| Mortgages | -1.0 | 1.4 | -2.8 |
| Investment Corporate | -0.4 | 4.4 | -1.9 |
| Long Corporate | -1.7 | 3.4 | -4.3 |
| Corporate High-Yield | 1.5 | 11.2 | 2.2 |
| Municipals | -0.4 | 3.1 | -0.4 |

The first quarter's returns were broader than just a handful of large tech stocks that often dominated both headlines and index returns. All but one sector of the S&P 500 posted gains. And it wasn't just large domestic companies. Both smaller companies and international stocks also posted gains.

If you're thinking things are pretty good, you're right. But, as always, there are some things to watch. It's time for a talk on bonds and inflation. Even though inflation has come down considerably, some recent reports indicate that certain components are stickier than many would like. And while the Fed is still expected by some to lower interest rates this year, this has caused a reset in both the timing and number of the Fed's interest rate cuts. The 10-year Treasury yield ended 2023 at around 3.8% when it was commonly expected the Fed would move to cut rates soon and often. Currently, the 10-year yield is around 4.4%. While not much of an increase in absolute terms, it bears watching since the expectations for lower inflation and interest rates have been important drivers of the rally in stocks.

It is important to note that the rise in interest rates we have seen can have a positive effect on investors. For years, when interest rates were near zero, savers were not adequately rewarded. Now that interest rates have moved up, that has positive implications for the important stream of income that bonds can provide.

**The Psychology of Investing**

At the end of the first quarter, the science of investing lost one of its brightest minds. Dr. Daniel Kahneman passed away at age 90. He was a professor, author and was awarded the Nobel Prize in

Economics. He was a very unlikely recipient of the prize since his academic training was not primarily in mathematics or economics. It was in psychology.

Some of his work was in prospect theory and loss aversion research. For brevity, an oversimplification is that the human brain is wired to feel the pain of loss far greater than the joy of success. Also, the repetition of information and emotion with which it is presented are often given far greater weight than the accuracy or probability of it occurring.

He wasn't saying people were foolish or lazy. As advisors, we know that isn't true. He was building the case that as humans, we need to be honest with ourselves and acknowledge these biases and build mathematical processes to control them. He also warned to avoid complex language in discussing investing when simpler language will do. While we certainly won't compare ourselves to Dr. Kahneman, we do use some of his principles in our work. As we often say, we know there are people attached to the money we manage. Quite simply, we follow the principles of humility, doing the math and separating the truth from the noise.

**We Are Here**

We have had a strong start to 2024, but the job is far from finished. As noted, the inflation and interest rate issues are not yet settled. The chance of recession, while no longer commanding headlines, is still a small possibility. A contentious election is approaching, and emotions will be running high. We have been through all of this and more over the years. We are ready.

It is an honor to serve you and the people you care about.

Sincerely,

Sources: Forbes, CNBC, S&P Global, Wall Street Journal, The Economist, Federal Reserve Bank of St. Louis.

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