MARKET OVERVIEW

2nd Quarter 2024

Central Bank Wealth Management Group

Market Review

- The equity markets started the year off strong. The S&P 500 was up 10.55% for the quarter with mid and small cap stocks following suit up 9.94% and 5.17% respectively. Developed international stocks were up a solid 5.94% with emerging markets posting a smaller 2.41% gain. Bonds fell .78% as the timing of the first rate cut by the Fed gets a little more murky. International bonds were up 1.53% as the first international rate cuts materialized.
- The economic discussion now centers on the first rate cut by the Fed and when that will occur. Current economic data seems to be pushing the first rate cut further into the second half of the year leaving interest rates higher for a longer period of time.

Economy

- It appears that many of the headwinds leading to recession were offset by strong balance sheets, favorable supply chain conditions, and recovering labor markets over the last few quarters. Some of these tailwinds are fading as higher rates continue to bear down on economic activity. Look for GDP growth to be slower and below trend for the year but still positive. As rate cuts take hold, look for GDP growth to begin to accelerate into 2025.
- Even with a couple of short term “bumps in the road”, inflation still tracks to a more normalized level. All combined we still look for two to three rate cuts by year end.
- Volatility and headline risk should continue at least until the election but should smooth out thereafter. Markets historically do pretty well following the election to year end.
- Geopolitical events continue to ramp up and could be a source of weakness in the global markets.

Equities

- Markets continue to be driven by just a few names although the list is beginning to broaden. The stock rally is increasingly driven by earnings growth as opposed to P/E expansion. A positive development. Although concern exists that a speculative bubble may be forming in the equity markets it should be noted that the names driving the higher returns are high quality profitable companies. Those factors are typically resistant to “bubble bursting”. We are focused on quality companies with strong earnings growth.
- Growth as opposed to value continues to be the dominant theme across all cap weightings
- Developed international markets started the year off on a positive note as well. Emerging markets continue to struggle but were positive continuing the trend of disparity between the international markets. We think the best course is to be more selective with internationals.
- We favor large cap domestics over small cap and international. Small cap stocks are beginning to show value and deserve to be monitored for increased exposure.

Fixed Income

- After a solid fourth quarter for yields, bond prices turned negative for the first quarter falling .78%. In the wake of the timing of the first interest rate cut to come, fixed income volatility remains elevated.
- International debt is becoming attractive as we have seen the first interest rates cuts overseas.
- The outlook for bonds remains positive and the current yield structure presents the opportunity to extend maturities to take advantage of the current Fed Policy. Patience and diversification should be rewarded as the year unfolds.
- Bonds are the ballast of your portfolio, providing stability and income , as well as diversification and downside protection

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