MoneyMatters
Market Update

Q2
2024

Moderate Expectations

Roehl & Yi
Investment Advisors, LLC

Moderate Expectations

The first quarter of 2024 continued an impressive run, with the S&P 500 Index gaining over 10%, taking total returns to just shy of 30% over the last 12 months (Source: *Morningstar*).

The March 2024 jobs report confirms the labor market remains resilient despite high interest rates and slowing economic indicators, adding 303,000 jobs. An important caveat is that full-time jobs are dwindling; most of this job growth is part-time jobs, and close to a quarter of new payroll jobs are government employees (Source: *Bureau of Labor Statistics*). The overall unemployment rate fell back to 3.8% in March from 3.9% the prior month (Source: *JPMorgan*).

The economy avoided a recession, and GDP estimates for the first quarter of 2024 were 2.5% on April 4, down from 2.8% on April 1 (Source: *Atlanta Fed*) and down from 3.3% in the fourth quarter of 2023 (Source: *Bureau of Economic Analysis*).

With inflation no longer falling at the pace it once did and core inflation (excluding shelter) having frozen well above pre-COVID levels, rising interest rates may pressure borrowers again, especially small and medium-sized businesses.

A significant unknown is what actions the Federal Reserve will take. They find themselves in an unenviable position of balancing market-anticipated interest rate decreases in 2024, a stronger-than-expected economy, and sticky inflation.

Meanwhile, our international brethren, including the UK, Japan, and Germany, are experiencing recessions. The UK economy met the technical definition of a recession at the end of 2023 with two consecutive quarters of contracting GDP. This dispersion in economic performance across different countries hints that cracks exist in the global economy despite the US economy continuing to perform well.

In a positive development, more stocks are beginning to produce gains outside of the mega-cap technology stocks. Several sectors of the stock market posted double-digit returns for the quarter, including Energy (13.55%), Financials (12.46%), Communication Services (12.76%), and Industrials (10.97%). There were also pockets of strength in select international markets, with India, Japan, and Taiwan all up over 10% (Source: *Morningstar*).

Large tech company earnings are coming out in the last weeks of April and early May, creating the potential for volatility in the markets. In addition, the potential for a broader Middle East war grows. Short-term market implications and movements are hard to predict, but volatility may rise in global asset prices, particularly in the oil market (Source: *Alpinemacro*).

As the market weighs its current dynamics, Roehl and Yi will continue to monitor other risks on our horizon, including government spending and the toll debt accumulation is having on the value of our US dollar, consequences of the upcoming US presidential election, and other geopolitical conflict outcomes.

Market Recap
Stock Market

The S&P 500 Index has experienced 22 all-time highs in 2024, returned more than 25% over the past five months, and has gone more than one year without experiencing a single-day 2% decline – the sixth-longest such streak since 1965 (Source: *Goldman Sachs*).

During the 1st quarter, the Russell 1000 large-cap growth index was up 11.41%, the Russell 1000 large-cap value index rose by 8.99%, and the Russell 2000 small-cap gained 5.18%. Meanwhile, international stocks were up 5.78%,* and the US bond market fell 0.78% for the quarter (Source: *Morningstar*). Despite another disappointing quarter for the broad bond market, money market funds, T-Bills, and short-term bond strategies all had positive returns of over 1%.

The table below is an overview of market performance for Q1 2024 and includes a two-year look back.

**The MSCI EAFE Index is an equity index that captures large- and mid-cap representation across 21 Developed Markets and countries around the world, excluding the US and Canada.*

YTD 2024 Market Returns (March 31, 2024)

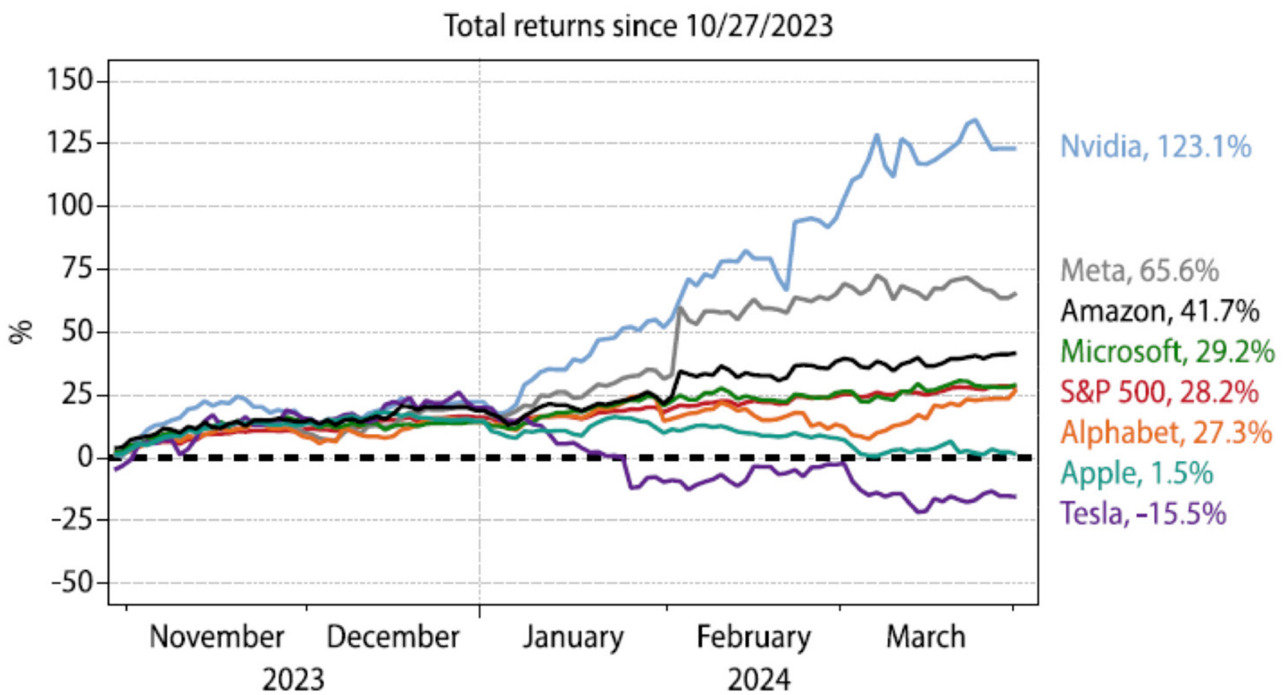
	1Q 2024	FULL YEAR 2023	FULL YEAR 2022	CURRENT YIELD	COMMENTS
EQUITIES					
US Large Stocks - S&P 500	10.56	26.29	-18.11	1.42	*New records almost weekly, technology leadng the way again.*
US Large Value - Russell 1000 Value	8.99	11.46	-7.54	2.23	*Cheaper value shares beginning to catch up during past month.*
US Large Growth - Russell 1000 Growth	11.41	42.68	-29.14	0.72	*"Magnificent 7" appears to be down to 3 firms but winners keep rising...*
US Small Stocks - Russell 2000	5.18	16.93	-20.44	1.41	*Much catching up left to do for smaller stocks.*
Int'l Developed Stocks - MSCI EAFE	5.78	18.24	-14.45	2.47	*New records for Japan and a few others, but still mainly trailing US stocks.*
Emerging Markets Stocks - MSCI EM	2.37	9.83	-20.09	2.80	*Depressed China & Hong Kong markets are the main drag, vs. a strong India.*
FIXED INCOME					
Cash - US 3-Month Treasury Bill	1.29	5.01	1.46	5.44	*Steady return to cash keeps it ahead of bonds, for now.*
Core Bonds - Bloomberg US Aggregate	-0.78	5.53	-13.01	4.95	*Small loss as market no longer expects 6 interest rate cuts from Federal Reserve.*
US 10-Year Treasury Bonds	-1.59	3.80	-16.37	4.33	*Longer duration bonds suffer most as yields rise or fail to fall.*
Bloomberg Municipal Bonds	-0.39	6.40	-8.53	3.50	*In line with regular bonds. Municipal budgets mainly looking alright for now.*
Bloomberg US TIPS	-0.08	3.90	-11.85	4.45	*Tips more robust than regular bonds while inflation above targets.*
Bloomberg US High Yield	1.47	13.45	-11.19	7.77	*Riskiest bonds have enjoyed a compression in "spread" vs. US Treasuries.*
Int'l Bonds - FTSE World Gov't Bond	-2.42	5.19	-18.26	3.48	*Stronger US dollar generally adding to losses for non-US bonds.*
ALTERNATIVES/MISCELLANEOUS					
US Public Real Estate - DJ US Select REIT	-0.39	13.96	-25.96	4.06	*A mixed bag - commercial office space in dire straits, residential remains strong.*
Bloomberg Commodity	2.19	-7.91	16.09		*Energy & industrial metals showing signs of life as global manufacturing grows.*
Gold - LBMA Gold Price	6.54	14.59	0.44		*A steady rise this year to all-time highs.*
Bitcoin - S&P Bitcoin	65.91	153.69	-63.89		*SEC approval of Bitcoin funds adds to speculators' demand & opportunity.*
Consumer Price Index, 12 Mo Change	3.50	3.10	7.10		*Holding steady for now, home prices + energy costs beginning to rise again.*

Sources: Morningstar, S&P Global, FTSE Russell, MSCI, Bloomberg. Past performance is no guarantee of future returns.
Current yields are based on forward dividend yields for equities and yield to maturity for bonds.
Data as of 3/31/2024

Volatility Penetrates Industry-Leading Stocks

There has been significant dispersion in the "Magnificent Seven" stocks, as shown in the chart below. From October 27, 2023, through March 31, 2024, Nvidia had a total return of 123.1% compared to Tesla's loss of 15.5%. Apple remained roughly flat during this period, while Meta (+65.6%) and Amazon (+41.7%) have been the other strong performers (Source: *Gavekal Research*).

The "Magnificent Seven" Have Become the "Magnificent Three"



Sources: Gavekal Research, Macrobond
Data as of 3/31/2024

Please Note:

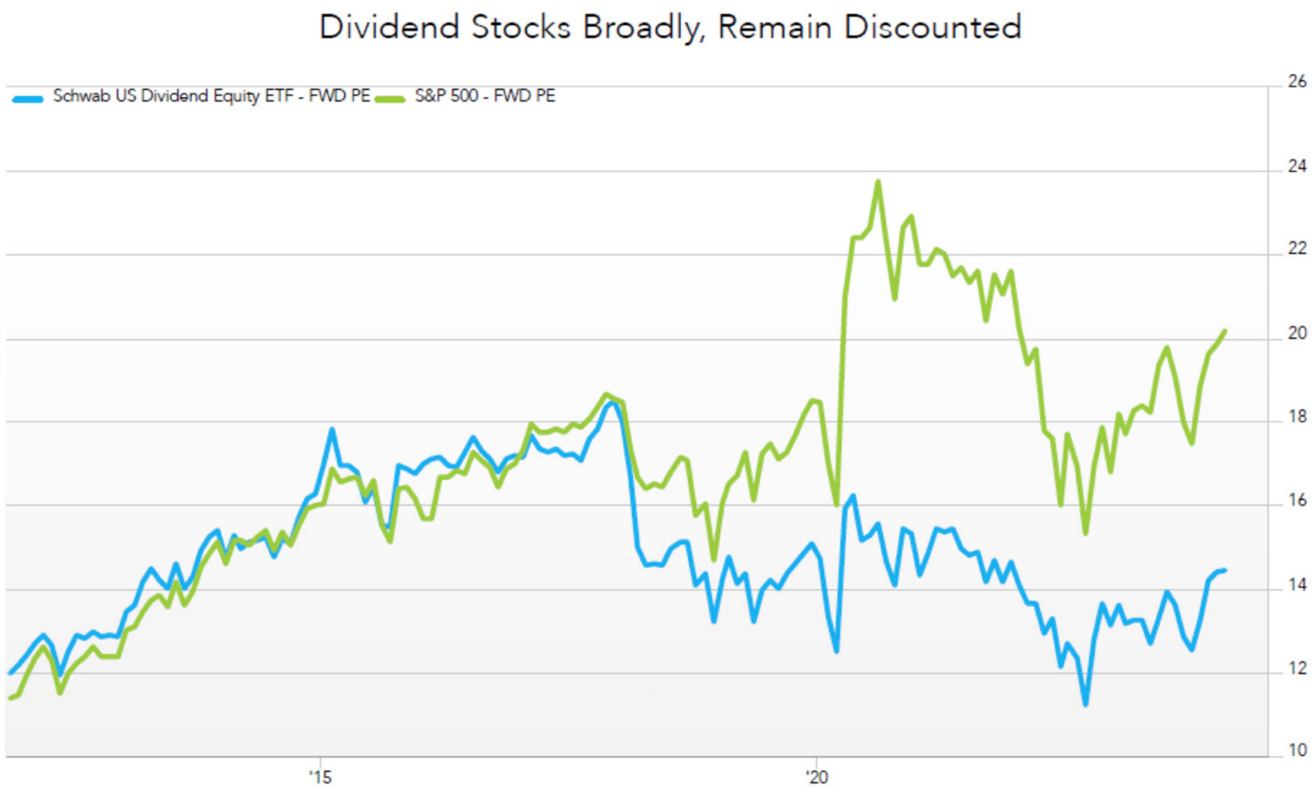
"The Magnificent Seven" is an industry term.This example is not an endorsement of these seven stocks from Roehl & Yi.

Dividend Stocks and the S&P 500 Index Diverge

As of the date of this publishing, dividend stocks currently look attractive relative to the broad stock market. They may be an opportunity for investors, as shown by the forward price/earnings (P/E) ratios of the S&P 500 Index compared to dividend stocks, using the Schwab Dividend Equity ETF as a proxy.

The two lines tracked closely for most of the period but have varied significantly in the last couple of years. The S&P 500 Index currently has a P/E of over 20 compared to dividend stocks at around 14. Lower P/E ratios can often imply attractive valuations and potentially higher returns going forward (Source: *Martin Capital Partners*).

Dividend Stocks vs. S&P 500

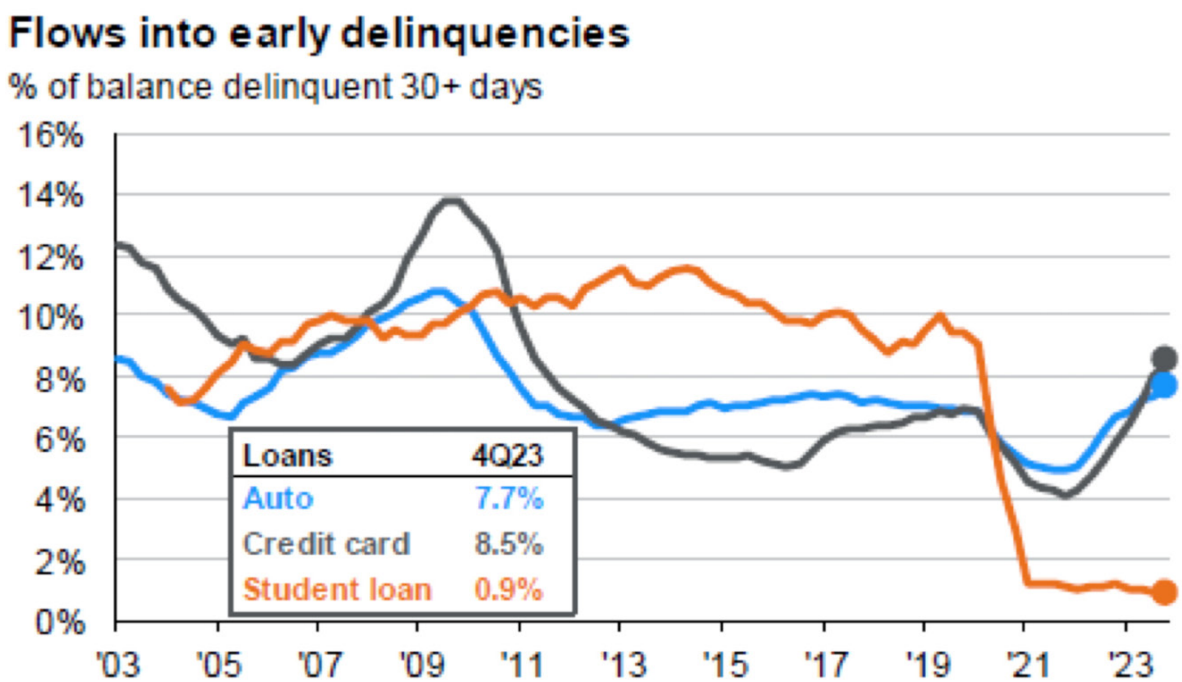


Sources: FactSet, Martin Capital Partners
Data shows 11/30/2011 through 2/6/2024

DELINQUENCIES SIGNAL FINANCIAL PRESSURE EXPERIENCED BY CONSUMERS

After remaining flat for most of the prior decade, missed payments are starting to increase for auto and credit card loans, as demonstrated by the percentage of balances in 30-day delinquency. This is something to watch going forward as it may imply the US consumer is experiencing deeper stress (Source: *J.P. Morgan*).

Auto Loan & Credit Card Delinquencies are Increasing



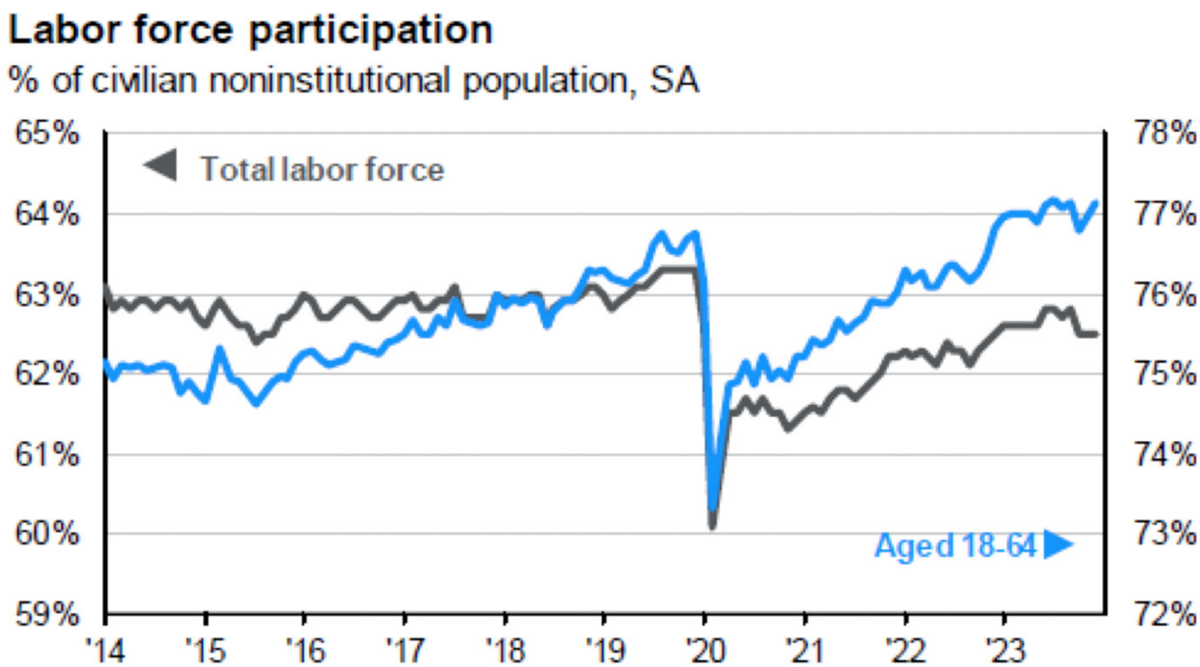
Sources: J.P. Morgan Asset Management
Data as of 3/31/2024

The Labor Market Outperforms, But Warning Signs Exist

The labor force participation rates for people aged 18-64 have recovered well over pre-pandemic levels, while the total labor force participation remains slightly below the peak (Source: *J.P. Morgan*).

Overall, the labor market proves sound. However, the March jobs report indicated that the total number of employed persons fell by nearly 400,000 in four months and that 1.8 million full-time jobs disappeared over the same period (Source: *Bureau of Labor Statistics*).

Labor Market Remains Resilient



Sources: J.P. Morgan Asset Management, BLS
Data as of 3/31/2024

Roehl & Yi's Final Thoughts

Economic weak spots may be peeking through the horizon, exacerbated by high government spending. We recommend that you be conservative when investing and avoid engaging in market speculation or chasing performance.

Consider these four suggestions:

1. Keep a long-term asset allocation position and diversify well.
2. Maintain healthy cash reserves and consider investing these reserves in money market funds or T-Bills with attractive yields.
3. Seek out income-oriented investments including high quality, dividend-paying stocks.
4. Avoid high-interest-rate debt and reduce unnecessary risk.

The Roehl & Yi Promise

Roehl & Yi is committed to delivering value through enhanced client engagement, new educational videos, resource-filled emails, and more.

As always, we are grateful for your continued trust in Roehl & Yi. Please call us first if you have any questions or concerns about your investments or other financial matters. May you and your family experience happiness and good health.

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