WestStar
Wealth Management

Wealth Watch

2024: First Quarter Review & Second Quarter Outlook

The outstanding start of 2024 in both the markets and the economy, the ramping up of the presidential election, and the fact that the 150th Kentucky Derby will take place this May all evoke the phrase that traditionally marks the start of a horserace, "they're off and running!"

The Markets and Politics: Off to the Races

The first three months of 2024 were definitely off to a running start. The S&P 500 stock market index, up over +10.5%, marked its strongest start in five years and the 14th strongest since 1926. Unlike the relatively narrow set of stocks that dominated the market for much of 2023, the strong first quarter results were broad-based, with all US equity styles, 10 of 11 S&P sectors, and all MSCI country/region indices positive for the period. In fact, most major asset classes were positive in the first quarter with the notable exception of bonds, which continued to be dragged down by improving albeit sticky inflation and the continued conundrum of a strong economy and the Fed's propensity for pending rate cuts.

In the pages that follow we will consider the current state of the economy, the markets, the Fed, and the ensuing expectations for second quarter and beyond.

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What You Need To Know:

- Stocks dominated in the first quarter, whereas bonds declined
- 35 of the world's 50 best-performing stocks were International companies in Q1
- Active management may be primed for a comeback
- Bonds increasingly attractive—particularly for investors that have been in money market funds
- Inflation driven by shelter and auto insurance costs which should ease in the coming months
- Focus on fundamentals; do not allow personal political views to impact investment decisions
- Volatility is normal and adhering to one's long-term strategy remains the most effective means to achieving goals

Asset Class Index Performance* Year-to-Date as of March 31, 2024

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US Large Cap Stocks	10.56%
International Developed Market Stocks	5.79%
US Small Cap Stocks	5.18%
Alternative Investments	3.16%
International Emerging Market Stocks	2.37%
Commodities	2.19%
High Yield Bonds	1.48%
Money Market (Cash)	1.3%
US Investment-Grade Bonds	-0.78%
Real Estate	-1.05%
International Bonds	-3.21%

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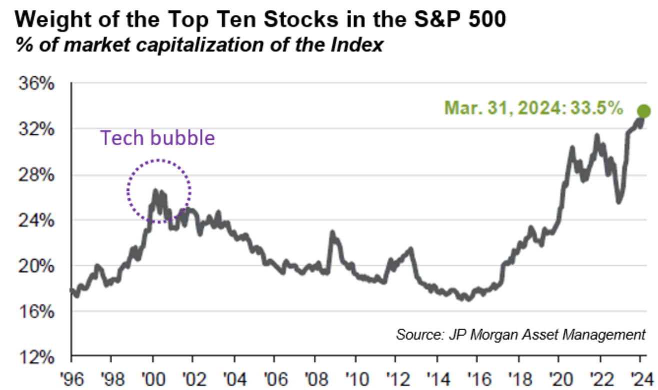
Stock Market Dynamics

As previously noted and in reviewing the first quarter performance of the major market indices shown to the left, one quickly discerns that stocks were the best performing asset class. Historically going back to the year 1930 there have been fourteen instances of a first quarter S&P 500 rally exceeding +10%. In twelve of those instances the market rally continued over the remainder of the year with a median return of +7.6%.

Interestingly, while US stocks outpaced International, we note that International stocks made quite a rebound, with Developed Markets achieving the second-best slot. This acceleration underscores both improvements in markets abroad as well as the importance of diversifying internationally. Indeed, of the world's top 50 performing stocks, over 30 in 2023 and over 35 year-to-date through March 2024 were listed internationally. It also illustrates the potential to add value through diligent stock selection—a factor that may be growing in importance.

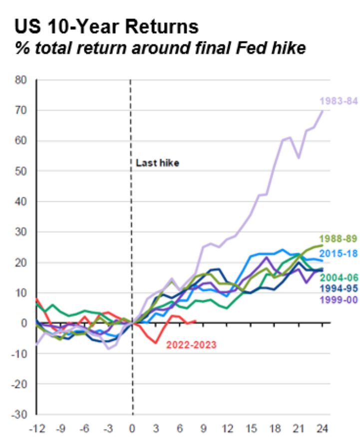


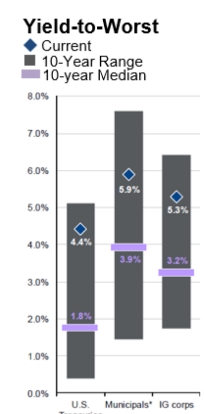
Encouraging is the fact that market strength has broadened beyond 2023's proverbial "magnificent seven," with over 80% of S&P 500 stocks trading above their 50- and 200-day moving averages as of March 31st. Yet the chart at right recalls to mind the market of the late 1990's/early 2000's wherein technology stocks comprised an outsized portion of the index. At 33.5%, the concentration of today's top 10 largest stocks surpasses even that of said technology bubble.

The lesson learned in that era is that in such environments active management may be primed for a period of superior performance relative to a passive/indexed approach as managers reduce the exposure to concentration risk.

Bond Market Outlook

Unlike stocks, bonds had a rough first quarter, with the Aggregate Index down -0.8% amid the market's evolving expectations regarding future Fed interest rate cuts. While the Fed may maintain high rates for longer than initially expected, bonds generally have promising prospects. The line chart at right illustrates that in past Fed hiking cycles the bond market typically rises in the months following the final hike. Furthermore, the bar chart at right reflects the favorable yields currently available in bonds. As of March 31st, the yields of Treasury bonds, Municipal bonds (for highly-taxed investors), and investment-grade corporate bonds are substantially above the respective category's 10-year median and near the top of the 10-year range of yields for each. Investors should also note that while cash was positive in the first quarter, it was near the bottom of the rankings as shown in the bar to the left. In summary, bonds tend to rise following the final Fed hike and current income yields attained through bonds are compelling. Accordingly, now may be an opportune time to begin to redeploy funds that have heretofore been held in cash/money market.



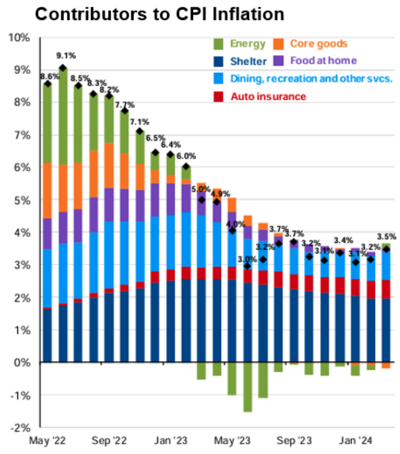


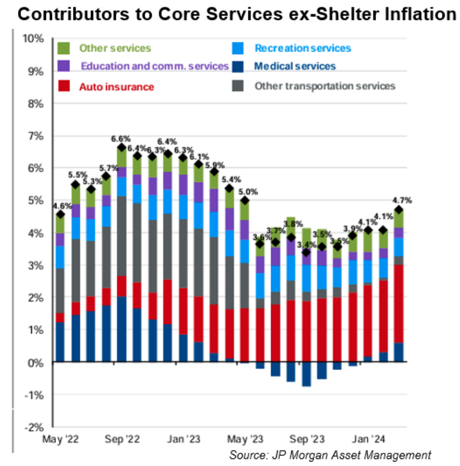
Source: JP Morgan Asset Management

*Large Cap: S&P 500 Index; Small Cap: Russell 2000 Index; Int'l Developed: MSCI EAFE Index; Int'l Emerging: MSCI Emerging Markets Index; US Inv-Grade Bonds: Bloomberg Aggregate Index; Int'l Bonds: Bloomberg Global Aggregate ex-USD Index; High Yield: Bloomberg US Corporate High Yield Index; Cash: BofA Merrill Lynch 3-Month US Treasury Index; Real Estate: FTSE EPRA/NAREIT Developed Index; Commodities: Bloomberg Commodity Index; Alternatives: Wilshire Liquid Alternatives Index

Inflation & the Fed

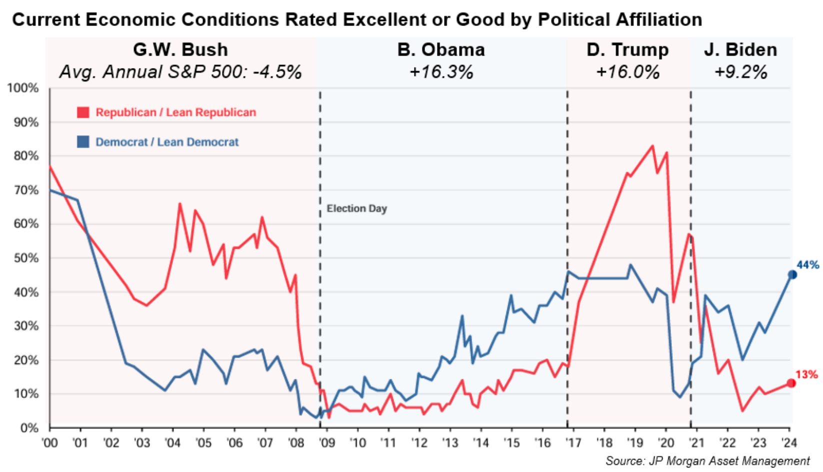
As previously mentioned, a primary influencing factor on market performance has been and continues to be the Fed and the timing/likelihood of their next move. As the first chart to the right shows, while inflation has declined markedly from 9.1% in 2022, it remains well above the Fed's 2% target. Note, however, that of the March 3.5% headline inflation rate, roughly 2.5% is due to shelter (i.e. rent, housing) and auto insurance costs (the dark blue and red bars). If we exclude shelter costs, the chart on the far right reflects the outsized effect of auto insurance on inflation over recent periods, accounting for over half of the rate. So while inflation has remained somewhat stubborn, the primary culprits—shelter and auto insurance—are categories that by nature tend to be sluggish. Both areas should decline in the coming months and allow inflation to continue its descent to the Fed's 2% target. That said, while it may be until September before the first cut occurs, we may still see two cuts by year end.





Politics & Perception

As election season begins to heat up it is vital for investors to prevent their political proclivities from clouding their judgment. The chart at right illustrates that one's political affiliation tends to influence his/her perception of the strength of the economy, with both Republicans and Democrats rating it "good" or "excellent" under a president of their party and the opposite under an opposing party's president. While Republicans generally had a negative view of the economy during the Obama presidency, the stock market returned an average annualized +16.3%. Likewise, while Democrats were pessimistic under the Trump presidency, the stock market again returned an average annualized +16% in his term. At present, the economy is strong, recession is unlikely, inflation is moderating, unemployment has remained below 4% for 28 consecutive months, and wages have outpaced inflation for over a year. This economic environment bodes well for markets and investors in 2024 and beyond.



WestStar's Strategy: Stay On Track

Whether it's America's 60th quadrennial presidential election or the 150th running of the Kentucky derby, the second quarter of 2024 is "off to the races." We have enjoyed a lengthy market rally that, between late October and early April, witnessed a stretch of 104 days without even a 3% correction (whereas we typically have one every 23 days, on average). That said, a late spring/early summer pullback may be within the realm of expectation but would be considered normal. We maintain our positive outlook for the year as a whole and, for actively-managed accounts, continue to tactically emphasize stocks. In any year, regardless of the near-term circumstances, investors should always adhere to their long-term strategy to effectively achieve their investment objectives. WestStar will continue to monitor global markets and keep you informed of developments as they materialize.

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The Team You Can Trust.

As true fiduciaries, our focus isn't on selling products to our clients. Instead, we focus on providing personalized service and real financial solutions.

Our team of wealth management professionals has the valuable depth of expertise you need to navigate life's events.

From retirement planning and investment management to trust services and estate settlement, we can help you devise the most effective plan to meet your financial goals.

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