CLEVELAND HAUSWIRTH INVESTMENT MANAGEMENT

# INVESTMENT UPDATE

## 2024 --- 1st Quarter

## 2024 IS OFF TO A GOOD START

Stocks staged impressive returns in the first quarter. For the quarter, the S&P 500 Index was up +10.56%. The U.S. bond market was flat at -0.78% as measured by the Bloomberg U.S. Aggregate Bond Index. We are seeing positive rates of return in individual accounts ranging from mid to high single digits.

Stock prices pushed higher in the first quarter despite diminished expectations for Federal Reserve interest rate cuts in 2024. Gains were led by technology stocks, especially the companies seen as most likely to benefit from the artificial intelligence boom. Value stocks also joined in the rally. The bond market's performance was dented by the prospect of the Fed putting off interest rate cuts until the middle of the year.

Investors went into the first quarter optimistic that a soft landing was in store for the economy, whereby a recession would be avoided, inflation would continue to improve, and the Fed would start cutting interest rates in March. Not only has the economy avoided recession, but it has been stronger than expected. Meanwhile, inflation has gotten stuck at its current level. That means interest rate cuts have been pushed out to at least June. Investors previously expected five cuts in 2024, but expectations now center on three at best, and probably fewer based on recent data.

**What if the Fed doesn't cut interest rates this year?** If the Fed decides to stand pat it's not necessarily a bad outcome, depending on the reason. Note, there are various opinions, and these are just a few.

1. The U.S. economy can handle it. The economy continues to grow and appears to have adjusted quite well to a higher interest rate environment. Given this resilience, the economy might overheat if interest rates are lowered prematurely.
2. Progress on inflation is stalling. There's no question that the Fed's battle against inflation has gone well, but it isn't over. Inflation has come down a lot, but it is still above the Fed's 2% target. If interest rates aren't cut this year, it will likely be because inflation isn't falling as quickly as anticipated.
3. Financial markets are fine with the status quo. U.S. and international stock markets hit a series of record highs in the first quarter of 2024. April has been less enthusiastic, mostly due to inflation worries and rising tension in the Middle East. Over the past 30 years, stocks and bonds have usually powered through rate hikes and adjusted to a new interest rate environment.

**Are you tempted to change your investment strategy because of the 2024 Presidential Election?** You are not alone. In a recent survey, the potential impact of the election concerned investors even more than economic worries. History suggests that changing investments based on election concerns may be unwise. And there are lots of statistics that show long-term investment results are similar no matter which party is in the White House or the configuration of parties in Congress. Bottom line: Market returns are more dependent on the outlook for the economy than on the outcome of an election.

This is going to be an emotional year, particularly as it relates to a contentious election and uncertainty around inflation and Federal Reserve policy. There is no more important place to keep emotions out of the mix than investing. This is a time for discipline and sticking to your goals.

Please feel free to call Nan or Ann at 414-431-6491 with your concerns.

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