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THOMPSON DAVIS ASSET MANAGEMENT

THE INVESTOR INSIGHT

APRIL 2024

Q1'24 Commentary

Wall Street got off to a fast start to kick off 2024. Investors were encouraged by strength in the economy, the likelihood of interest rate cuts (possibly beginning in June), and opportunities in artificial intelligence. Indexes reported solid first-quarter gains, led by the S&P 500 and the Nasdaq. Several indexes reached new highs throughout the quarter. The S&P 500 hit its first record high in two years late in January, leading to its best first-quarter performance since 2019.

While equity investors cheered strong economic and market data, fixed income investors had a more challenging time. Stickier inflation prints, resilient economic activity, and the Federal Reserve (Fed) backpedaling somewhat on its dovish December tone combined to drive negative returns for bonds. The shift in the macro backdrop was also reflected in market expectations for interest rate cuts in the US, where the implied number of 2024 cuts was 6–7 at the end of 2023, but now totals no more than 3, potentially starting this summer at the earliest.

Ten-year Treasury yields stayed around 4.20% for most of Q1, up from 3.86% at the close of 2023. Roughly 76.0% of S&P 500 companies reported fourth-quarter corporate earnings that exceeded analysts' expectations. Some of the "Magnificent Seven" megacap stocks stumbled a bit in the first quarter. Nevertheless, they were responsible for nearly 40.0% of the S&P 500's year-to-date gain, down from more than 60.0% last year. Ten of the 11 market sectors posted quarterly gains, with industrials, information technology, communication services, financials, and energy climbing more than 10.0%

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Exhibit 1: Asset class and style returns

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Q1'24
Small cap 32.9%	Global REITS 22.9%	Growth 3.5%	Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 34.1%	Growth 34.2%	Global REITs 32.6%	Cmdty 16.1%	Growth 37.3%	Growth 10.3%
Value 27.5%	Growth 6.5%	Global REITS 0.6%	Value 13.2%	Growth 28.5%	Global REITS -4.9%	DM Equities 28.4%	MSCI EM 18.7%	Cmdty 27.1%	Value -5.8%	DM Equities 24.4%	DM Equities 9.0%
DM Equities 27.4%	DM Equities 5.5%	Small cap 0.1%	Cmdty 11.8%	Small cap 23.2%	Growth -6.4%	Small cap 26.8%	DM Equities 16.5%	Value 22.8%	Global Agg -16.2%	Small cap 16.3%	Value 7.7%
Growth 27.2%	Value 4.4%	DM Equities -0.3%	MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Global REITs 24.4%	Small cap 16.5%	DM Equities 22.3%	DM Equities -17.7%	Value 12.4%	Small cap 4.5%
Global REITS 2.3%	Small cap 2.3%	Global Agg -3.2%	DM Equities 8.2%	Value 18.0%	Value -10.1%	Value 22.7%	Global Agg 9.2%	Growth 21.4%	Small cap -18.4%	Global REITs 10.9%	MSCI EM 2.4%
MSCI EM -2.3%	Global Agg 0.6%	Value -4.1%	Global REITS 6.5%	Global REITS 8.0%	Cmdty -11.2%	MSCI EM 18.9%	Value -0.4%	Small cap 16.2%	MSCI EM -19.7%	MSCI EM 10.3%	Cmdty 2.2%
Global Agg -2.6%	MSCI EM -1.8%	MSCI EM -14.6%	Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Cmdty 7.7%	Cmdty -3.1%	MSCI EM -2.2%	Global REITs -23.7%	Global Agg 5.7%	Global REITs -1.5%
Cmdty -9.5%	Cmdty -17.0%	Cmdty -24.7%	Global Agg 2.1%	Cmdty 1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITs -10.4%	Global Agg -4.7%	Growth -29.1%	Cmdty -7.9%	Global Agg -2.1%

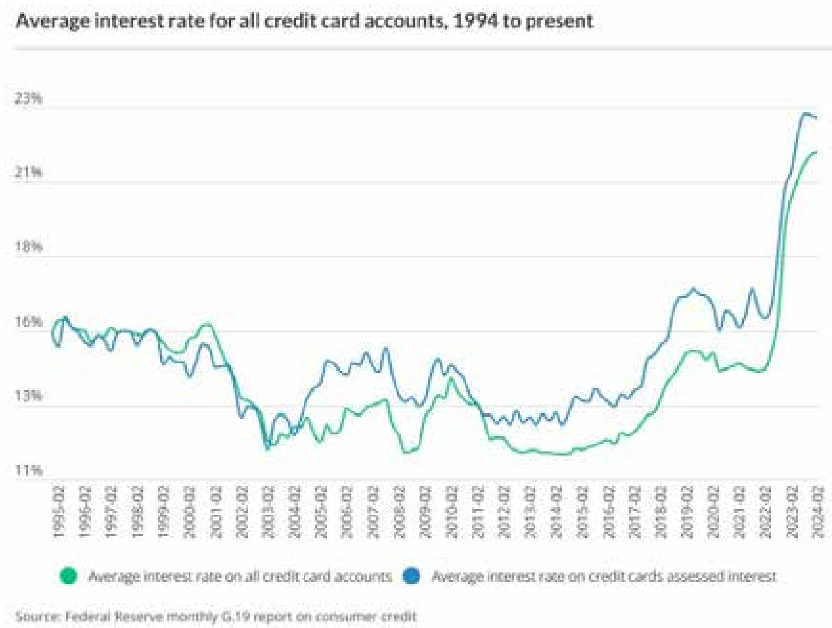
Source: Bloomberg Barclays, FTSE, LSEG Datastream, MSCI, J.P. Morgan Asset Management. DM Equities: MSCI World; REITs: FTSE NAREIT Global Real Estate Investment Trusts; Cmdty: Bloomberg Commodity Index; Global Agg: Bloomberg Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 March 2024.

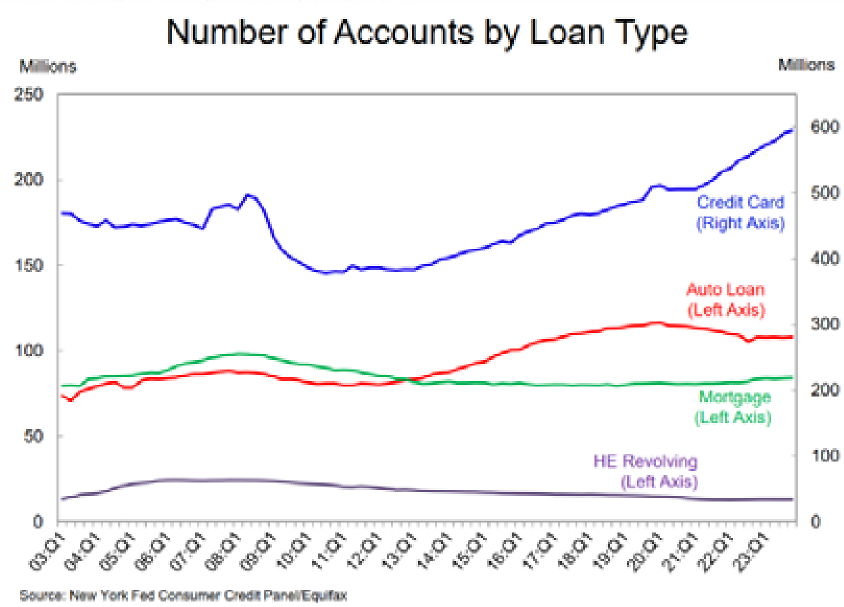
Credit Card Usage in America

Americans love credit, and rightfully so—use someone else's money to pay for goods and services and pay them back when the balance is due. But anyone who's received a new credit card recently and actually flipped through the included mountain of paperwork may have noted the **interest rate on unpaid balances**. According to Lending Tree, the average credit card interest rate Americans paid in March 2024 was 24.66%.

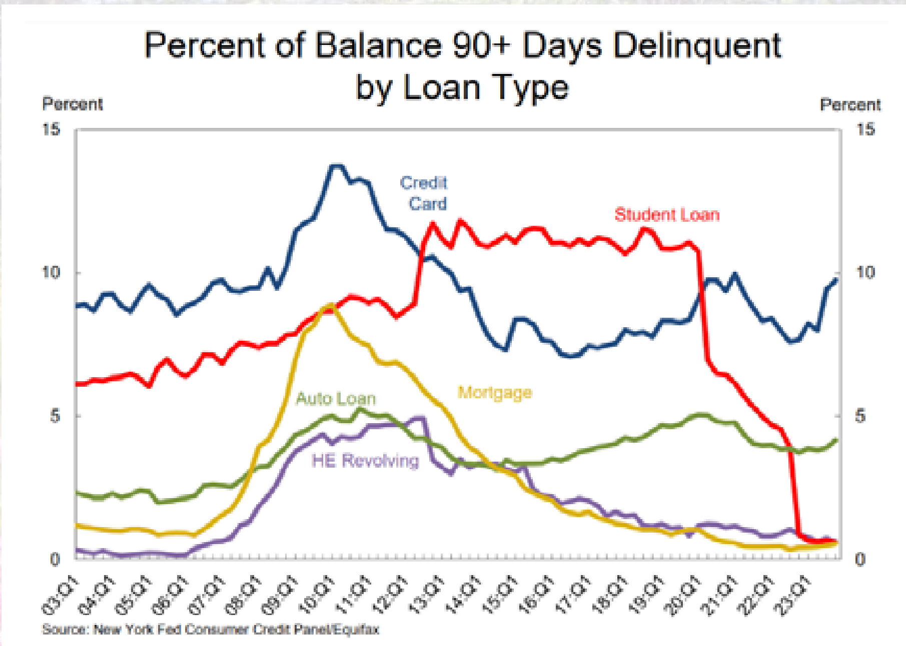
You read that right: 24.66%.

True, this is unsecured debt, and rates are higher than they have been in a long time. Still, that is an **extremely** high borrowing cost if not paid off on time. The chart below gives you an idea of how credit card interest rates have trended in the past decade—in short, movements were relatively modest until 2022.





Although the volume of other types of debt remains relatively stable, the number of credit card accounts continues to grow. This could be because more people are going into credit card debt, or because of more people (like me), who open additional credit cards to earn rewards and deals. And while credit card delinquencies are on the rise, they are not in historic territory by any means.



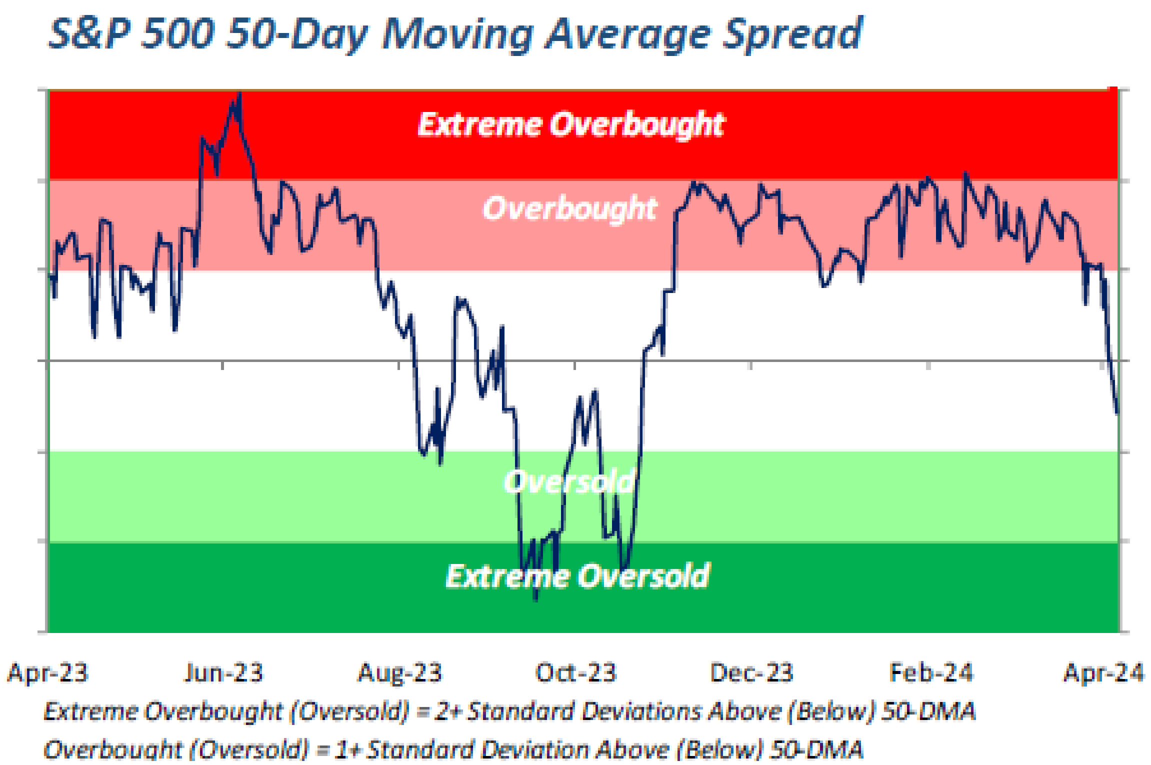
The median credit card balance is around $2,700, according to the Survey of Consumer Finances (with $6,100 being the average). The numbers don't sound that big, but they can certainly add up once you factor in those massive borrowing rates.

The 45% of people who carry a balance are paying some of the highest borrowing costs imaginable. It's the biggest form of anti-compounding in all of finance. Carrying a credit card balance from month to month is one of the worst financial decisions you can make. The best advice is to make that your top priority when attacking your consumer debt.

— Brant Jones, CFP®

At the time of this writing (mid-April), stocks have faltered as investors dealt with market-moving inflation data and a less-than-impressive start to first-quarter corporate earnings season. The Consumer Price Index (CPI) and the Producer Price Index (PPI) rose higher in early April. Together with increases in both, indices support a more cautious approach relative to the Fed's current monetary policy. We see it as increasingly unlikely that the Fed will lower interest rates in June. Recent comments made by Fed Chair Jerome Powell hinted at data showing lack of further progression on inflation. If inflation remains sticky, the Fed can maintain the current rate as long as needed.

— Brant Jones, CFP®



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