INVESTMENT STRATEGY UPDATE

MARKET REPORT
APRIL 2024

ASCENTIAL
WEALTH ADVISORS

EQUITIES CONTINUE RALLY

The first quarter of 2024 was the best start to the year since 2019, as stocks continued the rally that began in the fourth quarter of 2023. The rally has been fueled by optimism over a "soft landing," falling inflation, projections for lower interest rates, and the potential for artificial intelligence (AI) to spark a productivity boom and enhance corporate profitability.

The performance gap between technology companies and the rest of the market narrowed slightly for the quarter, with the equal weighted S&P 500 Index up +7.39%, lagging the market capitalization weighted index by about 3%. The highly concentrated S&P 500 market capitalization index has been driven to new all-time highs by a handful of technology companies names commonly referred to as the Magnificent Seven.

Technology companies have reaped the biggest rewards from the AI story, and generally continued their hot streak through the quarter also pushing the NASDAQ up 9.11%.Five of the Magnificent Seven stocks posted positive returns this quarter. Nvidia (NVDA) has been the top performer, up an incredible 82.5% due to strong earnings and estimates for significant future earnings growth. Apple (AAPL) and Tesla (TSLA) both were negative for the quarter, with AAPL losing -10.8% and Tesla down -29.3% on less favorable projections. Time will tell which companies reap the biggest benefits from AI.

Good economic data has also supported the equity markets. The US economy has continued to impress, with 2023 GDP estimates revised higher and positive growth projected to carry through 2024. The labor market remains healthy, while inflation is generally trending lower despite a few higher than anticipated readings. At the end of 2023, markets were pricing in several interest rate cuts from the Federal Reserve starting in the first half of the year. With economic data showing resilience in the face of higher interest rates the Federal Reserve stated they will be patient in lowering rates, waiting for the data to confirm inflation is continuing toward their 2% target.

Index	*2024 (through 3/31)*
S&P 500	+10.6
Dow Jones Ind. Avg.	+6.1
MSCI EAFE	+5.7
BC US Aggr. Bond	-0.8

Dow Jones Relative Risk Benchmarks	
Conservative	+1.6
Moderate	+3.7
Aggressive	+7.8

Bonds weakened to start the year as expectations for interest rate cuts adjusted to reflect fewer rate cuts for the year and delayed timing. The yield on the 10-year US Treasury ended 2023 at 3.866% and closed the quarter at 4.196%. The rise in yield caused prices to fall, and the yield curve remains inverted, with short-term interest rates still exceeding long-term rates. This reflects the market expectation that rates will indeed move lower. Barring an unexpected inflation spike, the Federal Reserve is likely to begin cutting rates sometime in the next 12 months, which should lift bonds and be positive for stocks.

OUR VIEW

FIXED INCOME:
Interest rates appear to have peaked in the fall of 2023, and historically bonds have experienced a period of strong returns following peak rates. While yields on cash and short-term fixed income remain appealing, they will come down quickly when the Fed begins cutting rates. With rate cuts on the horizon, there is likely better opportunity in other fixed income. We are in favor of beginning to shift away from cash and short-term bonds within long-term portfolios. Those with short-term cash needs and the desire for better rates on savings can continue to benefit from the higher short-term rates for now.

US EQUITY:
We expect the performance divergence between big technology companies and the rest of the market to shrink in 2024 as earnings growth rates for tech slow while the rest of the market accelerates. After the last two quarters' gains, we believe advances will moderate

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US EQUITY (CONT:

until the Federal Reserve initiates rate cuts and the 2024 US elections are over. We remain in favor of a somewhat defensive positioning in stocks, with a focus on large, quality companies, and lower exposure to small and mid-size companies. We also recommend increasing income generating investments which can provide returns if markets trade sideways in a volatile election year.

INTERNATIONAL EQUITY:

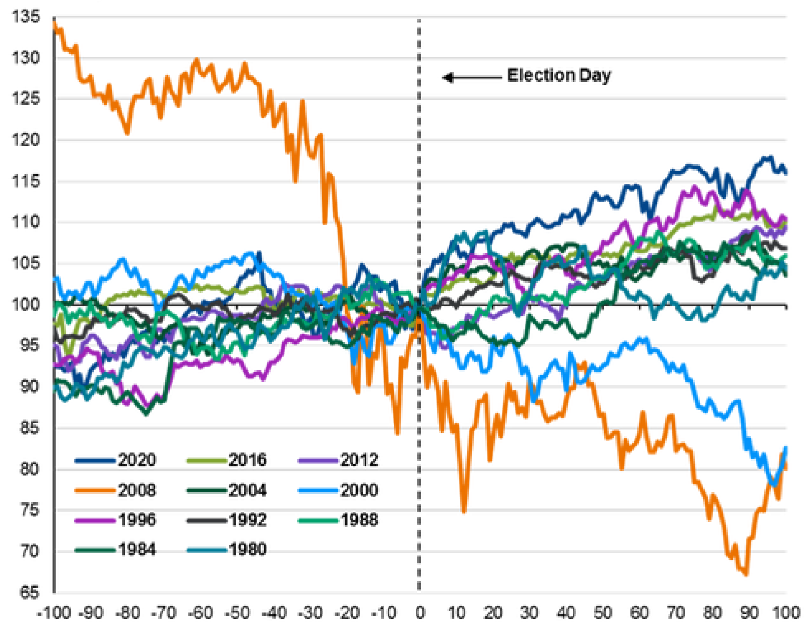
Foreign equities also moved higher in the first quarter of the year. Foreign markets have overall lower exposure to technology, so performance has broadly lagged the US with a few exceptions. In developed markets, Japan continued its hot streak, with its economy aided by inflation and higher interest rates. Taiwan has been a standout due to its technology exposure. In emerging markets, China and Brazil both posted a negative quarter, weighing down the MSCI Emerging Markets Index to a 2.1% increase. International stocks are trading closer to their long-term average valuations and are significantly cheaper than US stocks. We are in favor of maintaining exposure to foreign stocks for diversification and long-term return potential, and should geopolitical risks abate we would consider adding to foreign allocations.

KEEP POLITICS OUT OF YOUR PORTFOLIO

Political activity and media coverage is ramping up as we progress in this Presidential election year. History tells us that while Presidential election years tend to be more volatile, outcomes of the Presidential election are not correlated with equity market results. As displayed in the chart, markets tend to be more volatile and move sideways prior to elections, but after the outcome is determined , reducing uncertainty, markets generally refocus on fundamentals. This has resulted in positive market movement after the election in most of the recent election years. The exceptions to this were the results of major economic conditions, the tech bubble in 2000 and financial crisis in 2008, and not related to the election results.

As such, we recommend continuing with your long-term investing strategies while expressing your political preferences at the polls.

S&P 500 Price index 100 days prior to and following a presidential election
Election Day = 0, 1980-2020



Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management.
Data are as of February 29, 2024.

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