TruePlan℠
Benefit and Retirement Advisors
FORMERLY HANYS BENEFIT SERVICES

Retirement Market Recap
BULLS ON PARADE

As 2023 proved to be a robust year for financial markets, and with a possible end in sight for the Federal Reserve's (The Fed) rate hikes, investors were cautiously optimistic moving into 2024. However, with inflation still above The Fed's target, a longer than expected terminal rate and concerns over earnings, market strategists were unsure if the rally experienced in 2023 was here to stay.

With a monetary policy backdrop of central bank quantitative tightening (U.S. Federal funds rate of 5.25-5.50%, Bank of England rate of 5.25% and European Central Bank rate of 4.00%), one would think this would be a difficult environment for risk assets. Historically, rising and sustained elevated interest rates have been a headwind to equity market performance. However, as the last several years can attest, this is a very unique market cycle.

The resilience of the equity market cannot be overstated. With the S&P 500 reaching the 5,000 level (a record high) and gaining 10.56% in the first quarter of 2024, it has continued to ride the wave of 2023. The 2024 rally has been felt across many risk assets, even the most speculative ones such as Bitcoin, which topped its 2021 highs. This outperformance is even more surprising in the face of conflicting economic data and a 10-year Treasury yield sitting firmly above 4%. It is becoming clear traditional market dynamics may not tell the entire story in this unique cycle.

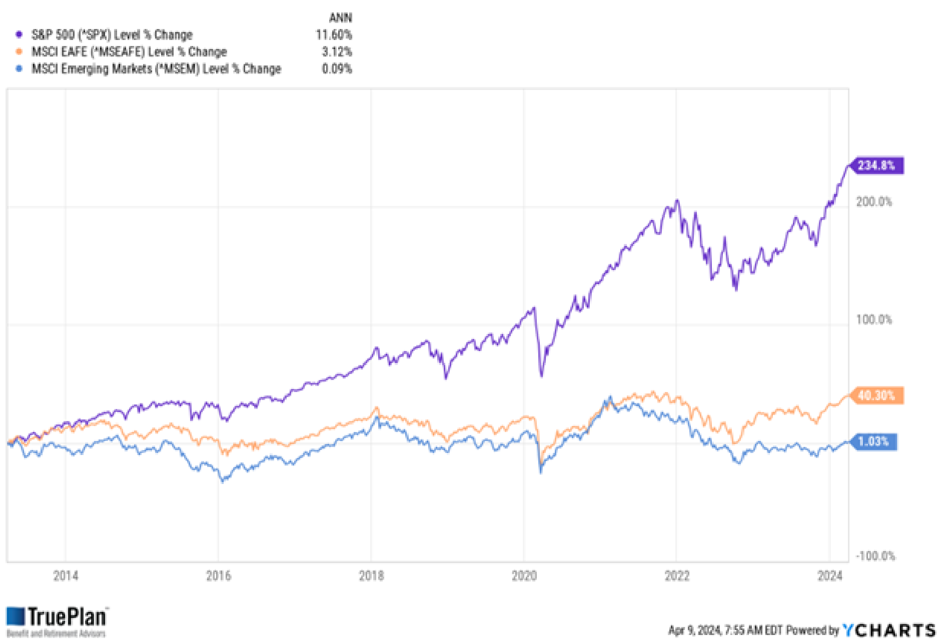
While global equities overall have faced rising tides, U.S. equities have continued to outperform their international counterparts. The S&P 500's 10.56% gain significantly outperformed that of Morgan Stanley Capital International's Europe, Australasia and Far East index and MSCI Emerging Markets over the last decade.

Over the trailing 10-year period, through Q1 2024, the S&P 500 has outperformed the MSCI EAFE by 8.71% and MSCI EM by 10.18% annualized (see chart below). This prolonged outperformance has led investors to be "reluctant to reduce their U.S. exposure, pointing to better economic and earnings prospects in 2024 for the country over Europe and other regions. The S&P 500's heavy weighting in technology companies also stands to draw investors who want to bet on new fields like artificial intelligence."[1]

This reluctance has continued even in the face of valuations that have led to the U.S. being considerably more expensive. The U.S. home bias is set to continue, despite this.

CONTINUED

U.S. EQUITY MARKET DOMINATES LAST DECADE



[1]Krauskopf, Lewis. (Jan. 25, 2024) Record High US stocks grow more expensive versus global peers. *Reuters.*

FOR MORE INFORMATION:

Jordan André, CFP®
DIRECTOR, INVESTMENT STRATEGY
jandre@trueplanadvisors.com | 800.388.1963

Within the U.S. equity market, large caps continue to be a dominant force, with continued concentration of the "Magnificent Seven" leading the way. Small caps have continued to struggle relative to large caps, with the Russell 2000 Index underperforming the Russell 1000 Index by 5.12%. Despite this, valuations in the small cap space have continued to display more favorable fundamental indicators.

While U.S. large caps have outperformed other asset classes in recent years, many strategists are beginning to feel valuations may be excessively stretched if earnings prospects decline. According to *Bloomberg's* Farah Elbahrawy, "Morgan Stanley and JPMorgan Chase & Co. are growing concerned as the outlook for profits has been weakening even as the S&P 500 reaches fresh highs. Equity gains over the past five months have been driven by easier financial conditions and higher valuations rather than improving fundamentals, according to Morgan Stanley's Michael Wilson."

This decline in earnings outlooks appears to be taking hold within components of the S&P 500. Elbahrawy stated, "Consensus earnings estimates have been revised lower over the past five months, with analysts currently expecting earnings-per-share to grow about 9% this year versus 11% at the start of November."[2]

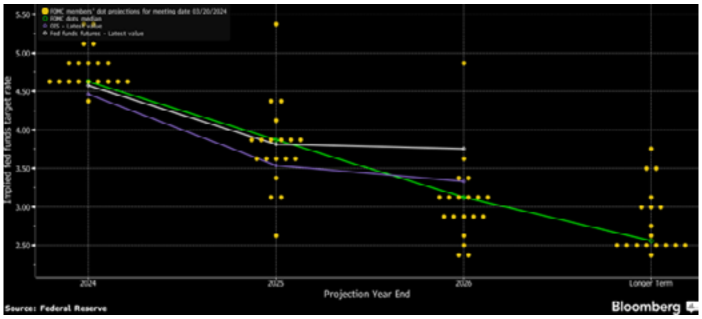
Some observers believe this is driving a disconnect between equity prices and underlying fundamentals. Underlying fundamentals such as earnings per share theoretically provide justification for an equity valuation.

Fixed income struggled compared to equities in the first quarter. The Bloomberg US Aggregate Bond Index declined by 0.78%, while the yield on the 10-year Treasury rose to 4.20%. Yields rise as bond prices fall. Within credit markets, the Bloomberg US High Yield Corporate Bond Index eked a small gain of 1.47%, primarily due to higher equity sensitivity than other forms of fixed income, as high yield tends to focus on debts of companies rated lower than investment grade.

"About 7.6% of total nonfinancial corporate debt is scheduled to mature, up from 6.8% one year ago,"[3] according to S&P Global. As such, the high yield credit market will be an interesting area to watch in 2024 as the effects of higher interest rates begin to settle in across the broader economy.

As Q1 2024 ends, patient investors who held onto risk assets through uncertainty are smiling. With a median consensus of three rate cuts projected in 2024 (see chart below)[4], there appears to be a runway for equities to continue climbing beyond their record high levels. While risk sentiment appears to be hot, the scenario of a soft landing is far from guaranteed. Should inflation surprisingly swing upward or more tail risk events occur, the remainder of 2024 may look quite different from the strong first quarter for financial markets.

THE FED'S MARCH DOT PLOT



[2]Elbahrawy, Farah. (March 25, 2024) Morgan Stanley's Wilson Says Stock Rally Will End if Profits Dip. *Bloomberg*.
[3]Gunter, Evan, et al. (Feb. 5, 2024) Credit Trends: Global Refinancing: Maturity Wall Looms Higher For Speculative-Grade Debt. *S&P Global*.
[4]Matthews, Steve. (March 20, 2024) Fed Signals Three Rate Cuts Are Still Likely, Despite Inflation Uptick. *Bloomberg*.

EQUITY AND RETIREMENT INDICES	3 MO	1 YR	3 YR	5 YR	10 YR
S&P 500 TR USD	10.56%	29.88%	11.49%	15.05%	12.96%
Russell 3000 TR USD (Broad Market)	10.02%	29.29%	9.78%	14.34%	12.33%
Russell 1000 TR USD (Large Cap)	10.30%	29.87%	10.45%	14.76%	12.68%
Russell Midcap TR USD	8.60%	22.35%	6.07%	11.10%	9.95%
Russell 2000 TR USD (Small Cap)	5.18%	19.71%	-0.10%	8.10%	7.58%
MSCI EAFE NR USD (Int'l Equity)	5.78%	15.32%	4.78%	7.33%	4.80%
MSCI Emerging Markets NR USD (E.M. Equity)	2.37%	8.15%	-5.05%	2.22%	2.95%
S&P United States REIT TR USD (Real Estate)	-0.36%	10.36%	4.10%	4.04%	6.45%
Morningstar Lifetime Mod. TR 2020	2.72%	9.60%	1.19%	5.07%	5.04%
Morningstar Lifetime Mod. TR 2040	5.32%	16.35%	3.86%	8.04%	7.27%

FIXED INCOME INDICES	3 MO	1 YR	3 YR	5 YR	10 YR
ICE BofA 3M US Trsy Note TR USD	1.30%	5.20%	2.61%	2.06%	1.40%
ICE BofA 1-3YR US Trsy TR USD	0.30%	2.97%	0.08%	1.16%	1.07%
BBgBarclays Long Term US Trsy TR USD	-3.26%	-6.08%	-8.04%	-2.78%	1.25%
BBgBarclays US Aggregate Bond TR USD	-0.78%	1.70%	-2.46%	0.36%	1.54%
BBgBarclays US Treasury US TIPS TR USD	0.85%	3.20%	2.25%	3.20%	2.05%
BBgBarclays High Yield Corp TR USD	1.47%	11.15%	2.19%	4.21%	4.44%
BBgBarclays Global Aggregate TR USD (Global Bond)	-2.08%	0.49%	-4.73%	-1.17%	-0.07%

ICE BofAML – Intercontinental Exchange Bank of America Merrill Lynch; BBgBarc – Bloomberg Barclays; S&P 500 – Standard & Poors; MSCI – Morgan Stanley Capital International
Sources: Morningstar as of March 31, 2024

MAIN OFFICE
ONE EMPIRE DRIVE
RENSSELAER, NY 12144
O: 518.431.7600
F: 518.431.7601

SATELLITE OFFICE
3 HUNTINGTON QUAD, STE. 301S
MELVILLE, NY 11747
O: 631.417.5913
F: 518.431.7601

trueplanadvisors.com | 800.388.1963