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Investment Review and Outlook First Quarter 2024

Stocks prices hit yet another record in the first quarter. U.S. large company stocks rose 10.6% (S&P 500), U.S. small company stocks returned 5.2% (Russell 2000 index), and international stocks produced a similar return of 5.1% (EAFE index). Bonds retreated this quarter as interest rates rose slightly (and bond prices declined) as the Fed was reluctant to begin reducing interest rates. For the quarter, the Lehman Aggregate bond index declined 0.8%.

Why has the stock market continued to surge ahead? Investors expect the Fed to reduce interest rates in the quarters ahead. Lower interest rates should improve company results since financing costs will decline. This is especially true for small companies (small-cap stocks) as they are more sensitive to changes in interest rates.

Consumers are continuing to spend, even with our current high level of interest rates. This situation gives the Fed officials more time to contemplate their rate reduction timing as they want to be sure that inflation is moving steadily toward their ultimate 2% target. Yet, if they hold off too long, they could push the economy into a recession. Playing catch-up with lower rates after some bleak economic results might not provide the “soft landing” the economy needs.

So, what’s ahead for investors? The Fed could finally reduce interest rates and push stock prices higher. Or uncertainties caused by the approaching November presidential election could test investors’ convictions and emotions. As always, it is critical to understand your temperament, risk tolerance, and objectives, and to invest in a portfolio that is consistent with those attributes *before* market volatility strikes rather than in the heat of it, when emotions are likely to cloud judgment and lead to poor investment decision-making.

Successful investing requires patience and the understanding that investing is a part of a *process*, not a one-off decision, toward achieving your long-term financial goals. It is inevitable that we will need to weather unpredictable shorter-term market ups and downs along the way. Remaining focused on the *long-term* objective is key, as is maintaining a consistent investment discipline to guide your decisions.

As always, please call us anytime if you have any questions or if we can assist you in any way.

Best Regards,

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