ARGUS
Wealth Management

Market Review

as at March 31, 2024

The bullish momentum in equity markets continued in the first quarter of 2024. The S&P 500 Index surpassed 5,000 for the first time in February, and all three major US indices surged to all-time highs. The strong performance of the U.S. stock market resulted from the resilient economy and anticipation of near-term interest rate cuts.

However, inflation has remained sticky. The U.S. Federal Reserve ("the Fed") is in no hurry to cut rates but implied at its March meeting that it was "not far" from gaining greater confidence in the inflation outlook to begin. The Fed's decision to postpone rate cuts until later in the year impacted the bond market's performance during the quarter.

Market Returns

The MSCI World Index produced a healthy 8% quarterly return, mirroring broad confidence in the global economic outlook. Moreover, the S&P 500 Index boasted an 11% return since the beginning of the year, demonstrating the resilience of the U.S. economy.

Similarly to last year, technology stocks led the gains, especially the companies seen as most likely to benefit from the artificial intelligence boom. The "magnificent seven" companies, such as NVIDIA, saw their stock value climb by a staggering 235% over the past year, exemplifying the tech sector's pivotal contribution to market gains.

Meanwhile, Europe's equity markets, led by the German DAX Index with a 10% year-to-date return, have displayed an encouraging rebound, highlighting investor confidence in the region's economic recovery and stability.

However, the Nikkei 225 Index of Japanese stocks was the lead performer of the major markets, surging by over 21% in the last three months. 2024 is shaping up to be a landmark year for the Japanese stock market, incorporating changes to encourage Japanese companies toward increased profitability and, ultimately, higher market valuations. Additionally, the expected economic growth, fueled by a rise in consumer spending due to higher wages and fiscal policies, presents a promising outlook.

Monetary Policy and Bonds

At the end of 2023, risk assets surged as the Fed shifted gears and discussed its plans for rate cuts in 2024 at its December meeting. Investors went into the first quarter optimistic that a recession would be avoided, inflation would continue to improve, and the Fed would start cutting interest rates as soon as March and as much as five times throughout 2024. While the Fed funds rate has likely reached its peak for this tightening cycle, as U.S. inflation continues to be sticky and the economy remains solid, there is little urgency for the Fed to rush to cut. The precise timing and extent of potential rate cuts will be data-dependent, although the current expectations are for the first rate cut to occur in the fall of 2024.

The rate hikes in the past two years have radically changed conditions in the bond markets as the era of negative-yielding debt ended. For over a decade, global markets were awash with bonds offering returns below zero — a direct consequence of central banks slashing rates and buying bonds to stimulate their economies. At its peak, the market value of negative-yielding bonds in a key global index surpassed $18 trillion. This figure now stands at zero, symbolizing a significant pivot to a more conventional investment climate with higher yields.

Bonds now offer attractive nominal and inflation-adjusted yields, plus the potential to preserve capital in stressed economic conditions. The anticipated rate cuts this year will further support bond markets and boost asset prices in general.

Outlook

Recent surprises in this regard include the resilience of the U.S. labour market, as employment numbers have surpassed expectations, even amid a climate of persistently high-interest rates. The U.S. economy exhibited robust health by adding an impressive 303,000 jobs in March, which exceeded economists' projections of 200,000. Concurrently, there was an unexpected dip in the unemployment rate to 3.8%.

The robust jobs data highlight a strong labour market and elevate market optimism, acting as a buffer against inflation concerns heightened by geopolitical tensions in the Middle East and a recent surge in the price of oil.

This economic resilience is pivotal for central bank policy direction, especially as investors keenly await rate-cut initiation. The Federal Reserve's data-dependent approach means the longer the economy maintains its strength, the less urgency there is to cut.

While equities have incorporated optimism for a benign economic trajectory, higher bond yields suggest that interest rate cuts may not come as soon as expected. The current economic backdrop underscores the importance of asset diversification, prudent risk mitigation, and constructing resilient portfolios through active management. The path ahead promises opportunities but warrants investment strategies equipped to navigate the complexities of a transitioning market environment.

Macro Indices Report as at March 31, 2024 (percent)

	MAR	FEB	JAN	Q1 2024	YTD	2023	Annualized 3 Years	Annualized 5 Years
GLOBAL EQUITY								
MSCI AC World Total Return	4.3	0.6	4.8	11.0	4.9	22.2	6.8	10.5
MSCI EAFE	1.9	0.6	5.3	10.5	2.5	19.0	5.1	7.4
NORTH AMERICA EQUITY								
S&P 500 Total Return	5.3	1.7	4.5	11.7	7.1	26.3	11.9	14.7
DOW JONES INDUSTRIAL AVG	2.5	1.3	4.9	13.1	3.8	16.2	10.2	10.8
S&P 400 Net TR	5.9	-1.7	8.7	11.5	4.1	15.8	6.2	9.8
NASDAQ COMPOSITE	6.2	1.0	5.6	13.8	7.3	44.7	7.7	17.4
RUSSELL 2000 INDEX	5.7	-3.9	12.2	14.0	1.5	16.9	-1.0	6.9
S&P/TSX COMPOSITE INDEX	1.8	0.6	3.9	8.1	2.4	11.8	9.1	9.3
EUROPE EQUITY								
BLOOMBERG EUROPEAN 500	1.5	1.3	3.6	6.1	2.8	14.8	8.7	7.9
FTSE 100 INDEX	0.4	-1.3	3.9	2.3	-0.8	7.7	9.5	5.3
CAC 40 INDEX	3.5	1.6	3.3	5.9	5.2	20.1	14.7	11.7
DAX INDEX	4.6	0.9	3.3	8.9	5.5	20.3	8.6	8.9
ASIA EQUITY								
MSCI AC Far East Ex Japan	6.3	-7.4	2.3	4.9	-1.6	0.4	-13.7	-2.5
NIKKEI 225	8.0	8.4	0.1	5.2	17.1	31.0	12.8	15.1
HANG SENG INDEX	6.6	-9.2	0.2	-3.9	-3.1	-10.5	-14.3	-7.5
S&P/ASX 200 INDEX	1.0	1.2	7.3	8.6	2.2	14.0	10.9	10.0
SHANGHAI SE COMPOSITE	8.1	-6.3	-1.7	-4.2	1.4	-1.0	-2.5	3.0
SOUTH AMERICA & EM EQUITY								
MSCI EM Net Total Return USD Index	4.8	-4.6	3.9	7.9	-0.1	9.8	-6.3	1.9
S&P LATIN AMERICA 40	1.2	-4.3	7.4	17.5	-3.1	34.2	11.8	2.9
BRAZIL IBOVESPA INDEX	1.0	-4.8	5.4	15.1	-3.8	22.3	5.4	6.2
S&P BSE SENSEX INDEX	1.2	-0.6	7.8	10.0	0.5	20.3	15.2	16.5
FIXED INCOME								
ICE BoA 1-3 Year US Treasury Index	-0.4	0.4	1.1	2.5	0.0	4.3	0.0	1.2
BLOOMBERG US Agg	-1.4	-0.3	3.8	6.8	-1.7	5.5	-3.2	0.6
BLOOMBERG Multiverse (Unhedged)	-1.2	-1.3	4.1	8.1	-2.5	6.0	-5.3	-0.9
Citi World BIG US Hedged	-1.0	-0.3	3.5	6.4	-1.2	6.9	-2.7	0.5
ICE BoA US High Yield Index	0.3	0.0	3.7	7.1	0.3	13.5	1.9	4.0
JPM EMBI Global Core – US$	1.0	-1.2	5.0	9.7	-0.3	10.8	-7.7	2.5
JPM EM Global Cove – Local	-0.3	-1.9	2.3	6.9	-2.2	10.9	-8.3	-3.3
COMMODITIES								
BLOOMBERG Commodity Index	-1.9	-0.1	-3.1	-5.9	-2.0	-12.6	4.3	3.5
GOLD	-0.3	-1.2	2.1	11.1	-1.5	14.6	17.5	55.3
OIL (WTI)	3.7	6.2	-5.6	-18.8	10.2	-3.8	20.0	-1.3

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