March 31, 2024

Dear Clients,

Domestic equity markets continued to appreciate in March, albeit at a more moderate pace, providing first quarter gains of 10.2% for the S&P 500, 5.6% for the Dow Jones Industrial average, and 9.1% for the NASDAQ. The yield on the ten-year US Treasury rose from 3.87% to 4.2% during the period, pressuring bond prices. Equity markets continue to reflect the ongoing economic strength, a perceived more dovish Fed, and a general downward trend in inflationary pressure. Historically, this type of early year outperformance has led to further gains throughout the year.

Thus far, throughout the tightening cycle, economists and market strategists have consistently underestimated the strength of the economy and overestimated the economic impact of higher rates. The consensus forecast for recession has yet to arrive and in contrast, GDP growth remains solid, productivity has improved, and labor markets are robust. Defensively positioned investors still looking for weak economic growth, a recession, or rate cuts are being drawn into equity markets in a capitulation for fear of missing out on future gains. Positively, and contrary to 2023, there is more than just tech driving gains as strong first quarter returns were posted in the energy, industrials, and financial segments as well. This widening participation, known as breadth, is a strong indicator of a sustainable equity uptrend.

The Fed continues to try and navigate a course between holding rates high for too long, leading to recession and cutting too soon, leading to reaccelerating inflation requiring an about face, and tightening monetary conditions further. It seems, for now, the Fed is taking a measured approach on a meeting-to-meeting data dependent basis. Near term, however, progress on cooling inflation has stalled after trending down for most of 2023 as January and February data points surprised to the upside. Paired with resilient economic data, we see little reason for the Fed to act this year unless things deteriorate economically. An additional market positive, investors are digesting the elongated higher rate cycle expectation much better than we feared and maintain their invested equity posture.

We remain constructive on both equities and bonds as our base case would indicate directionally interest rates will trend lower, timing, however, may be extended beyond current expectations. As rates come down, aggregate risk appetite will grow, segments adversely impacted by higher rates such as utilities, REITs, and consumer staples as well as fixed income securities will find support and ideally a continued broadening of market appreciation. We continue to position portfolios both in the growth segments of the market as well as adding to the laggards to prosper when the interest rate pendulum

returns. We know that equity markets are not linear, and we would expect there to be consolidations and pullbacks within the current uptrend and we believe these should be used to accumulate positions on weakness. We remain cautiously optimistic and flexible if economic conditions dictate.

As always do not hesitate to contact us if you have any questions. Enjoy the spring weather!

Best regards,

Beech Hill Advisors