Weekly Market Update

March 18, 2024

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"Our heads are round so thought can change direction."

~ Francis Picabia

Market Watch

Week Ending Mar 15, 2024

(Source: Briefing.com)

• DJIA:	38,714.77	-7.92
2024 1st QTR 2.70%		
• NASDAQ:	15,973.17	-111.94
2024 1st QTR 6.40%		
• S&P 500:	5,117.09	-6.60
2024 1st QTR 7.30%		
• Russell 2000:	2,039.32	-43.39
2024 1st QTR 0.60%		
• 10 Year Treasury:		4.30%

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Dave's Weekly Commentary

Good Moring Everyone. Tomorrow Nancy and I along with 75 of my peers, Osaic executives, and support staff will be heading off to Osaic's Leader's Retreat. We are looking forward to spending some time with our dear professional friends and spouses we have seen over the years and having one on one conversations with those who help drive our industry forward as well as supporting our efforts to support all of you. We will be extending our trip and will be back later next week. As always, our-your very dedicated and outstanding SMC team allows us to broaden our reach by attending these trips to share and ideas, and best practices with our peers. As always, while being away I will always be checking in on a regular basis.

On to the final lag of the 1st quarter of 2024. In approximately two weeks, the first quarter of 2024 will come to an end. Per usual, there have been a share of surprises for the stock market -- some good, some bad, and some that are indeterminate.

There are loose ends out there on the geopolitical, economic, monetary policy, fiscal policy, and election fronts. By default, that means there are loose ends for the stock market. The Dow Jones Industrial Average, S&P 500, and Nasdaq Composite have all set new record highs. Small-cap, mid-cap, and large-cap indices are all higher for the year, albeit in varying degrees. Growth stocks are up, but so are value stocks. The stock market has a bullish bias so far in 2024. What that means for the stock market's performance over the coming months will depend on which way the surprises break and how those loose ends get tied up -- or don't.

One of the biggest surprises so far in 2024 has been the shift in the market's rate cut outlook. With that idea, the biggest surprise is that the stock market has run to record highs even though the market has adjusted its thinking to expect three rate cuts before the end of the year instead of the six rate cuts expected when 2024 began. Although there has been a downshift in rate cut expectations, it may be due to that the stock market hasn't downshifted because it hasn't felt a threat to the earnings outlook.

Overall, economic data has come in with a soft landing or landing. Accordingly, analysts have not been given a data-based reason to cut their full-year earnings outlook in any meaningful way. When the year began, the consensus FY24 S&P 500 EPS estimate was $243.32. Today, it sits at $242.79, according to FactSet, which is 11.1% above FY23 earnings versus 11.4% when the year began. The forward 12-month EPS estimate, meanwhile, has climbed to $249.31 from $243.19 at the end of 2023. The corresponding P/E multiple is 20.7x. That is a 17% premium to the 10-year average.

There has been multiple expansion with the price of the market-cap weighted S&P 500 rising at a faster rate than the earnings estimate. As of this writing, the market-cap weighted S&P 500 is up 8.0% for the year. One possible reason for earnings estimates to keep going up could be because a market trading at a premium valuation is at risk of a stronger dislocation if negative surprises appear that upend the earnings growth outlook.

Notwithstanding the valuation gap, the stock market has been seeing some welcome rotation into other corners of the market. Granted the communication services (+12.2%) and information technology (+12.0%) sectors have paced year-to-date gains for the market, but the first half of March has seen the energy, materials, utilities, and consumer staples sectors exhibit relative strength. The same goes for the Russell 3000 Value Index versus the Russell 3000 Growth Index.

While it has been a fast start to the year, and the market has come a long way in a short time, so it is not reasonable to think it will keep running at the pace it has been. In closing, no one knows what surprises are around the corner, however, investors who have a well-balanced and goal driven strategy tend to win in the long run.

Last week's markets… The major indices settled with relatively modest declines this week. The Dow Jones Industrial Average was unchanged from the prior week, the S&P 500 declined just 0.1%, and the Nasdaq Composite logged a 0.7% loss. Meanwhile, the Russell 2000 underperformed, dropping 2.1%. Market participants received two inflation readings suggesting price pressures remain stubborn. Both the Consumer Price Index (CPI) and Producer Price Index (PPI) for February came in hotter than expected. The S&P 500 even reached a new record high on Tuesday following the CPI reading. This report did not spook the market due to the notion that the largest factor in the increase -- the index for shelter -- will lessen in coming months. The muted response in the stock market was due also to the notion that the Fed's policy decision on Wednesday may provide more clarity on how these reports factor into the Fed's thinking. The modestly negative bias in the stock market was also related to a growing sense among some participants that stocks are due for a pullback. The Invesco S&P 500 Equal Weight ETF (RSP) declined 0.7% this week. Six of the 11 S&P 500 sectors logged declines. The rate-sensitive real estate sector was the worst performer by a decent margin, dropping 3.1%. The consumer discretionary sector was the next worst performer, declining 1.2, and the energy sector saw the largest gain, rising 3.7% and the materials sector registered a 1.5% gain. Source: Briefing.com

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More Americans Are Treating Their 401(k)s Like Cash Machines

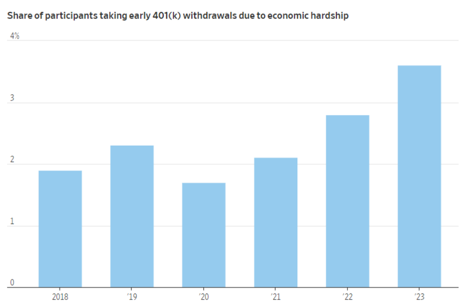
The 401(k) is doing double duty as both a retirement account and a source of emergency funds for more Americans.

A record share of 401(k) account holders took early withdrawals from their accounts last year for financial emergencies, according to internal data from Vanguard Group. Overall, 3.6% of its plan participants did so last year, up from 2.8% in 2022 and a prepandemic average of about 2%.

Retirement plans such as the 401(k) are designed to keep Americans' nest eggs out of reach until later in life. And values in these accounts have risen substantially, in part because of a strong stock market and programs that automatically funnel money from people's paychecks into their 401(k) accounts.

These surging balances, however, have helped make more people comfortable dipping into their accounts when needed.

Americans are dealing with conflicting financial forces. While hiring has been strong and workers' earnings keep rising, the cost of groceries, child care and car insurance keeps climbing. More people are carrying heftier balances on their credit cards.



Note: Based on nearly five million 401(k)-type accounts
Source: Vanguard Group

Pulling money out

Emergency distributions hit back-to-back record highs in 2022 and 2023, according to Vanguard, which administers 401(k)-type accounts for nearly five million people and published the data ahead of an annual report scheduled for June.

The Internal Revenue Service allows withdrawals for hardship-related reasons, including preventing evictions and paying medical and tuition bills. People who take them from traditional accounts must pay income tax, plus often a 10% penalty if they are younger than 59½ years old.

Nearly 40% of those who took a hardship distribution last year did so to avoid foreclosure, compared with 36% in 2022. In 2023, more than 75% of hardship distributions totaled $5,000 or less, according to Vanguard.

Recent changes in federal law have loosened the rules governing when people can tap their retirement accounts for hardship-related reasons. For example, under a 2018 law, Congress did away with a requirement to take a 401(k) loan before a hardship distribution.

About 13% of participants had a 401(k) loan outstanding at the end of 2023, up from 12% the year before. As interest rates have risen, more investors may be turning to 401(k) loans to avoid higher-cost debt, said Dave Stinnett, head of strategic retirement consulting at Vanguard.

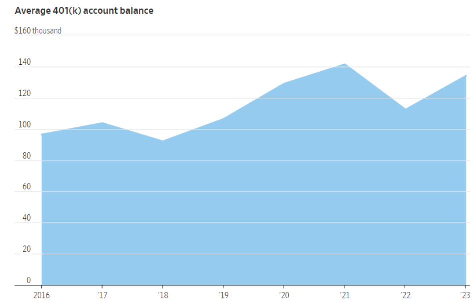
The law allows participants to borrow generally up to half of their balance, or $50,000, whichever is less. Stinnett said many workers like the idea of borrowing from themselves, since that means they repay their own account over time, along with interest set by the retirement plan.

Those who default on loans from traditional pretax 401(k) accounts must pay income taxes and often a 10% penalty on the unpaid balance.

Putting money in

Average account balances rose 19% in 2023, according to Vanguard, a welcome change from 2022, when falling stock and bond markets wiped 20% from the average 401(k) balance.

The growing popularity of automatic enrollment has moved more workers into 401(k) accounts. Among the more than 1,500 employer plans that use Vanguard's 401(k) administration services, 59% automatically enrolled new hires in 2023, up from 34% in 2013.



Note: Based on nearly five million 401(k)-type accounts
Source: Vanguard Group

Nearly three in 10 plans with automatic enrollment started workers out at a savings rate of 6% of pay or higher. In 2013, just 13% of plans with auto-enrollment used a starting savings rate of 6% or more.

More people are increasing their 401(k) contribution rates annually, in part because of programs that put retirement savings on autopilot, said Stinnett.

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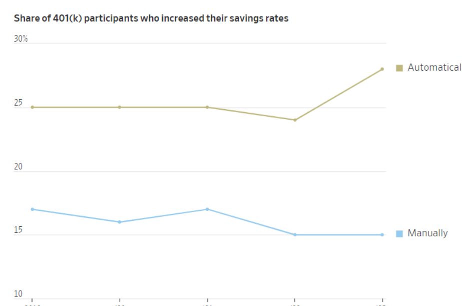

Note: Based on nearly five million 401(k)-type accounts
Source: Vanguard Group

A majority of plans that automatically enroll new hires also automatically increase employees' savings rates, typically by 1 or 2 percentage points a year until reaching a cap that is often 10% or more of pay, according to Vanguard. Employees are free to opt out.

A record 43% of 401(k) participants saved more in 2023 than they did in 2022.

The spread of such auto-escalation programs has helped boost the money going into these accounts. Workers contributed an average of 11.3% of pay, including the employer match, in 2022, the latest year for which data are available from Vanguard. That is up from 10.4% in 2016, and close to the 12% to 15% annual savings rates that many advisers recommend.

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