Post Oak Private Wealth Advisors

ADVISORY, CONSULTING & INVESTMENT MANAGEMENT

1st Quarter 2024

Quarterly Market Commentary

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Stocks rolled into higher territory to start the year, with the big three equity indexes (the S&P 500, Nasdaq Composite and Dow Jones Industrial Average) all setting new record highs throughout the 1st Quarter. For the S&P 500, it's been the best quarterly start to the year since 2019, with the large-cap benchmark gaining 10.5% for the three-month period and the Nasdaq Composite up 9% since the start of the year.

There are elements of a bull market present in the current rally—advancers outnumber decliners on most trading days and more individual stocks are hitting new highs versus new lows daily. Any indication of market weakness has been short lived, with down days followed quickly by solid rebounds as investors buy the dips.

Expectations for Federal Reserve rate cuts to come sooner than later helped fire stock performance earlier in the quarter. But even after Fed chair Jerome Powell tempered those expectations on multiple occasions, investors cheered the reset by pushing nearly all risk assets higher. Economic data also brightened the mood; unemployment remained low, consumers continued to spend, and inflation barometers appeared to be heading in the right direction.

Rebound or rotation?

It naturally feels good to see stocks hitting all-time highs and portfolio values increasing. For us, these type of markets are good opportunities to let the trend be our friend and make hay when the sun is shining. If history is any indication, you might find it interesting to know that the median return for the S&P 500 after a positive string of four straight winter months (November-February) has been 15% from March into year-end. This string has happened 16 times in the last 90 years and has an uninterrupted track record of gains from March into year-end. History doesn't always repeat itself, but it is at least interesting to know.

Participation has broadened to a wider range of stocks, which we have noted in recent letters is a positive development. Some beaten-down sectors like energy, materials and utilities staged comebacks in March, but this doesn't look like a rotation to me. Some of the hotter sectors earlier in the year—technology, communications and consumer discretionary—cooled during March, but performance was broadly positive for the month. Tech stocks have managed to hold their own lately, even with two of Magnificent 7—Apple and Tesla—struggling to maintain pace with the other five. Only one sector, real estate, posted negative performance for the 1st Quarter, a reflection of ongoing struggles in the commercial market and early signs of recovery in the residential market.

Looking at sector returns on a monthly basis can give the impression of a topsy-turvy, continuously rotating market. Even as we watch the market with vigilance, we can never what

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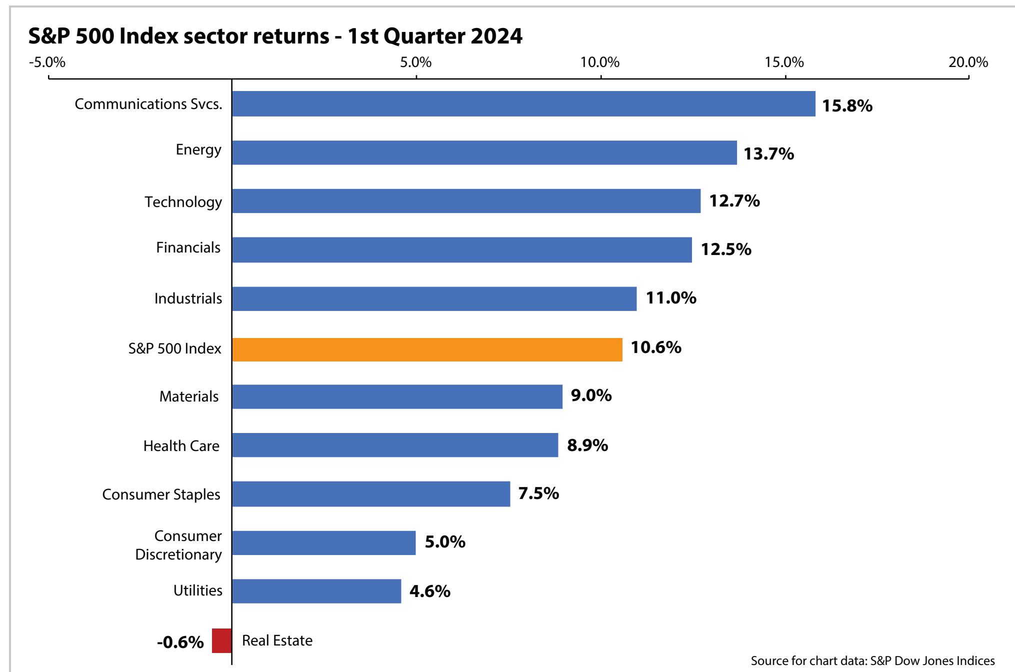

sector will outperform in any given month. This is why diversification becomes so important. In normal times, there's always a bull market somewhere, but we don't chase performance. We maintain broad exposure across sectors to help manage risk, and selectively invest in quality companies as a means of delivering gains to our clients.

No news is good news

The first quarter passed without any action from the Federal Reserve's rate-setting committee. At the conclusion of the most recent meeting on March 20, the Fed held steady on the federal-funds rate, maintaining the 5.25-5.50% range that's been in place since last July. Markets reacted positively on the day, with the major stock indexes reaching new highs as Fed officials affirmed their projections for two or three rate cuts for later this year.

Inflation has been stubbornly steady in recent reports, but it's clear the various supply and demand shocks are fading. Higher prices in some categories such as services and shelter (i.e., the cost of rent and mortgages) have persisted, but most measures have improved significantly. This sets the stage for the widely anticipated Fed rate cuts later this year.

The latest Consumer Price Index report, for instance, showed that prices rose 3.2% on a year-over-year basis in February. This represents a slight uptick from the prior month due to an increase in energy prices. Energy drove the Producer Price Index higher as well, although both the headline and core measures are both still at or below 2%. Core CPI came in at 3.8% but excluding the shelter component results in a year-over-year growth rate of only 2.2%.

These data points are consistent with consumer price inflation that is heading back toward 2%, although it will take some time. In any case, these figures represent the best-case scenario that investors could have hoped for less than two years ago. Still, the Fed has been careful to not declare victory too soon, which is wise in my view.

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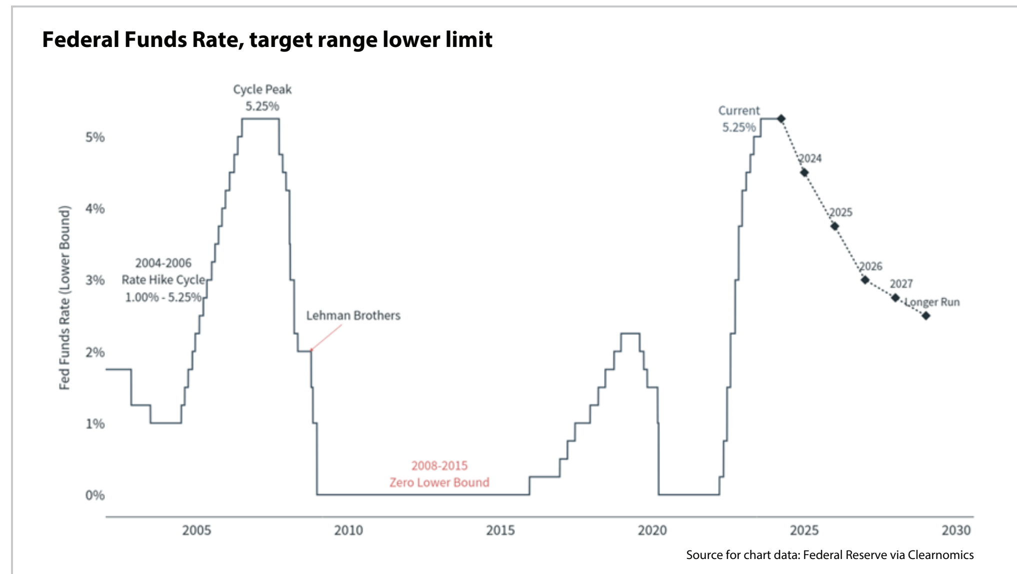

Fed officials also appear to have eased their earlier concerns about the robust job market. Last year, the Fed intimated a desire to see an uptick in unemployment or a slowdown wage growth, both of which would help temper consumer price inflation. Now, central bankers seem more comfortable with the idea that inflation will come down to their preferred target level without contraction in the labor market. That's welcome news for workers of course, as for hopes of economic growth to come.

Finding purpose in your portfolio

As investors, we love when the markets are on a good run. It validates our belief and what the historical track record says—that stocks offer the best opportunities for investors to grow wealth, but we must be mindful of the inherent risks that can come with investing. Without assuming some risk there is no opportunity for reward, but we can be smart and strategic about what risks we take and how we manage risk in the midst of a market cycle.

Watching stocks like the Magnificent 7 ride the bull market wave can tempt investors to jump on board to the exclusion of other sectors, or else miss the boat. Chasing returns is not only risky, it leads you astray from the goals you're investing to achieve.

You don't invest for the sake of investing. You have a purpose for your wealth, and your investment strategy should align to that purpose. We are pleased with our recent performance—our portfolios have outpaced the market even during a strong rally—but we take greater pride when our performance aligns with our clients' objectives. The most important work we do for clients is to ensure their portfolios match their objectives. Those objectives may seem similar (e.g., building wealth for retirement or to leave a legacy to younger generations), but to us they're all unique because you are unique as a client.

Objectives before performance

The part of our jobs that gives us the most joy and satisfaction is when we sit down with clients and talk about their lives, where they're at now and where they want to be in the future. This

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vision forms the basis of the strategies we craft for each of our clients. Investment results and portfolio holdings are secondary to the purpose of your money.

We are so honored to be a part of our clients' financial journeys, whether it be in the management of your personal wealth, your family foundation or your corporate pension. Our task remains the same—to provide the best possible returns based for your individual objectives. Please feel free to contact us if you would like to discuss your financial goals.

Past performance does not guarantee future results. There is no guarantee that any investment strategy or account will be profitable or will not incur loss. Investors should consider the investment objectives, risks, charges and expenses that make up this investment strategy carefully before investing. Investing involves risk, including the possible loss of principal. Share price, principal value, and return on investments will vary, and you may have a gain or a loss when you sell your investment.

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