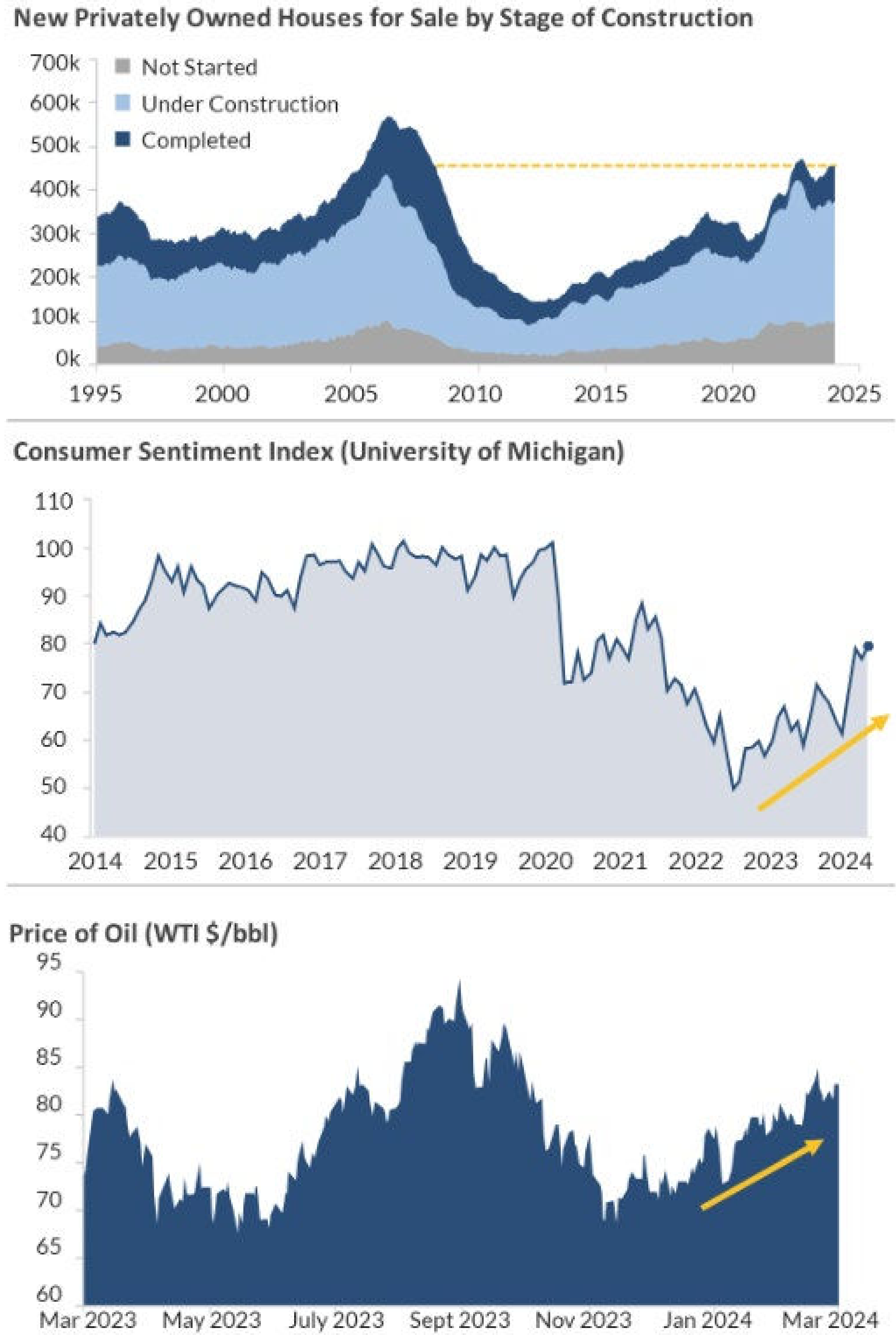
MOOREINSIGHTS

Why Do Investors Expect Fewer Interest Rate Cuts This Year?

One reason is that inflation progress is slowing. Another reason is that the U.S. economy remains resilient despite higher rates. Figure 4 graphs three data points that underscore this resilience. The top chart graphs the number of new homes for sale by stage of construction: not started; under construction; and completed. The chart shows home construction activity is at levels not seen since before the 2008 financial crisis, despite the average 30-year fixed-rate mortgage sitting near a 15-year high of 7%.

Figure 4 – Data Highlights the U.S. Economy's Resilience



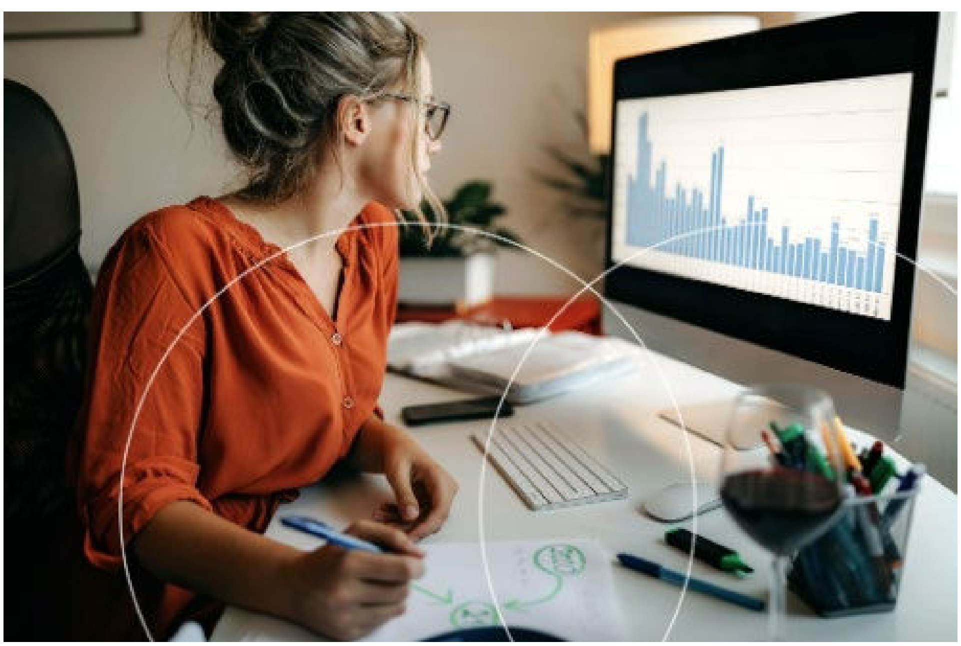
Source: U.S. Census Bureau, University of Michigan. Data as of 3/31/2024.

The middle section shows consumer sentiment rose to a 2.5-year high in March after setting a record low in June 2022. Multiple factors are contributing to the improved sentiment, including a tight labor market, rising stock prices and home values, expectations for a continued decline in inflation, and a solid economic backdrop. The bottom chart tracks the price of a barrel of West Text Intermediate crude. Crude oil prices have risen from approximately $70 per barrel at the start of the year to $83 per barrel at the end of Q1, an increase of roughly +18.5%. Oil is a cyclical commodity, so rising oil prices suggest demand is strong and may hint at underlying strength in the U.S. economy.

Equity Market Recap – Stocks Post a Second Consecutive Quarter of Strong Gains

The opening section discussed the stock market's strong start to the year. Following an impressive +11.6% gain in Q4, the S&P 500 returned +10.4% in Q1. Small cap stocks underperformed during the quarter, as the Russell 2000 Index returned +5.0%. Ten of the eleven S&P 500 sectors posted gains, with cyclical sectors outperforming their defensive counterparts. The energy, financial, and industrial sectors each outperformed the broader S&P 500 Index, while the real estate, utility, and consumer staple sectors underperformed as the stock market rallied.

International stocks underperformed U.S. stocks for a fourth consecutive quarter during Q1. Over the past twelve months, the MSCI EAFE Index of developed market stocks has returned +14.8%, or roughly half of the S&P 500's +29.4% return. The MSCI Emerging Market Index has returned only +6.8%, or approximately one fourth of the S&P 500. A few themes may explain why international stocks continue to underperform. First, international stock market indices lack exposure to leading artificial intelligence companies like Microsoft, Nvidia, and Super Micro Computer. Second, as discussed above, the U.S. economy continues to expand despite higher rates. In contrast, some countries and regions outside the U.S. are already feeling the impact of higher interest rates. Investors have been attracted to the U.S. for both its AI exposure and relative economic strength.



Credit Market Recap – Bonds Trade Lower After a Strong Fourth Quarter

While stocks started the year off with strong gains, bonds traded lower during Q1. The losses came as investors realized that the continued resilience of the U.S. economy meant the Federal Reserve may not need to cut interest rates as much, which caused Treasury yields to rise. The Bloomberg U.S. Bond Aggregate Index, which tracks a broad index of investment-grade rated bonds, posted a total return of -0.7%. It was a sharp reversal from Q4, when the index posted its first quarterly gain since Q1 2023 and its biggest quarterly gain since 1989. In the corporate bond category, investment-grade bonds underperformed high-yield bonds during Q1. Over the past twelve months, high-yield corporate bonds have generated a total return of +8.8%, which factors in the interest payments received. Investment-grade corporate bonds generated a +3.5% total return over the same period. The high-yield bond universe continues to benefit from multiple themes. First, the group yields 7.83% at the end of Q1, which is 2.45% higher than investment-grade bonds. This extra yield helps boost high-yield's total return. Second, as Figure 4 highlights, the U.S. economy has remained resilient despite higher interest rates. With the U.S. economy expanding at a solid pace, high-yield bonds' credit risk has remained stable, limiting the number of defaults.

Second Quarter Outlook – Themes to Watch

The big investment themes were mostly unchanged during the first quarter. Stocks continued to trade higher, and the U.S. economy remained in expansion mode. While the market now expects fewer interest rate cuts this year, the primary reason is that investors and the Fed believe the U.S. economy can handle higher interest rates. Economic theory suggests that higher interest rates should slow economic activity as the cost of capital increases, but the data tells a different story this cycle. Home construction activity is the strongest since before 2008, consumer sentiment recently hit a 2.5-year high, and unemployment remains below 4%.

It's difficult to overstate the uniqueness of this economic cycle. There was unprecedented monetary and fiscal stimulus in 2020 and 2021, followed by a rapid rise in interest rates in 2022 and 2023 as inflation reached levels not seen since the 1970s. In the housing market, many homeowners locked in low mortgage rates during the past few years, which has effectively limited the impact of rising interest rates. The labor market remains relatively tight after five million workers left the labor force during the pandemic and didn't return, which has not been seen before. These themes won't reverse quickly and will have long-lasting impacts, which both the Federal Reserve and markets must navigate. We will continue to monitor financial markets and the economy, provide timely updates to you, and adjust portfolios as needed.

This Quarter In Numbers

Figure 5

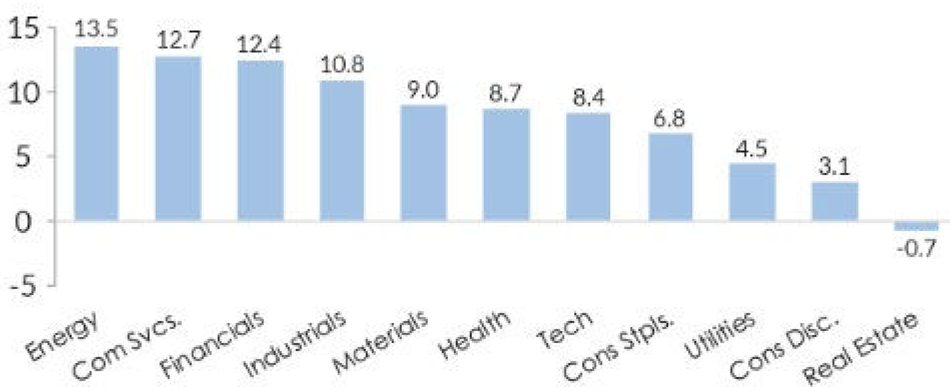
U.S. Style Returns (1Q 2024 in %)

	Value	Blend	Growth
Large	8.9	10.4	11.3
Mid	8.1	8.5	9.4
Small	2.6	5.0	7.5

Data Reflects Most Recently Available As of 3/31/2024

Figure 6

U.S. Sector Returns (1Q 2024 in %)



Data Reflects Most Recently Available As of 3/31/2024

Figure 7

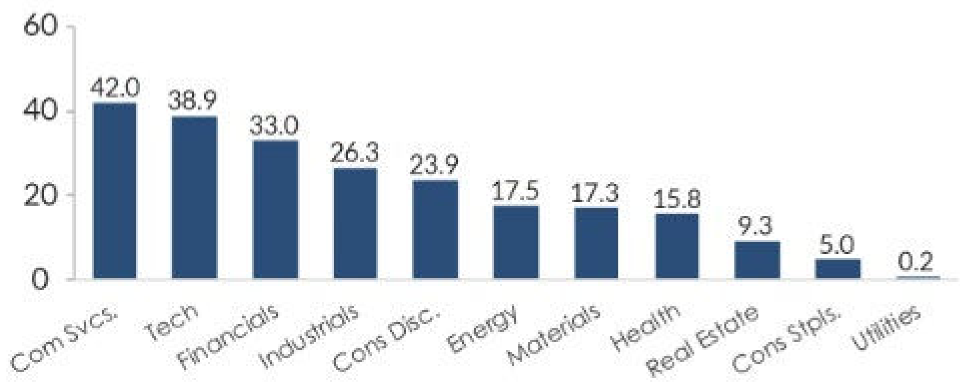
U.S. Style Returns (1-Year in %)

	Value	Blend	Growth
Large	19.8	29.4	38.7
Mid	19.8	21.8	25.9
Small	18.1	19.3	20.2

Data Reflects Most Recently Available As of 3/31/2024

Figure 8

U.S. Sector Returns (1-Year in %)



Data Reflects Most Recently Available As of 3/31/2024

Moore Invested Disclosure

Advisory Services offered by Arkadios Wealth. Moore Invested and Arkadios are not affiliated through any ownership.

Past performance does not guarantee nor is indicative of future results. This summary of statistics, price, and quotes has been obtained from sources believed to be reliable but is not necessarily complete and cannot be guaranteed. All securities may lose value, may not be insured by any federal agency and are subject to availability and price changes. Market risk is a consideration if sold prior to maturity. Information and opinions herein are for general informational use only and subject to change without notice.

Our mailing address is:
2827 Peachtree Rd NE, Suite #510
Atlanta, GA 30305
(404) 905-2290