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02.01.2024 | **MONTHLY** MARKET UPDATE CBIZ.COM/ON-THE-MARGIN

January 2024 Recap

Anna Rathbun, CFA, CAIA, Chief Investment Officer

PRELUDE

With a third consecutive month of gains in the equity markets, the "soft landing" narrative is sweeping the public discourse on the US economy. "The Fed has done it!" "Congratulations to the Fed!" And it is certainly possible that we may not see a downturn in the economy and that the economy will continue to roar from here. It may be that we have entered a new bull market and that the markets will be smooth sailing. But the strip on which that soft landing could occur is quite narrow, and we are still flying in midair. When the promise of artificial intelligence is driving major indices to record highs through a handful of stocks, while small cap stocks are still wading in bear market territory, it would be wise to heed what the market may be pricing in.

GLOBAL EQUITY

Equity markets started the year with some selling pressure but ended January having reached record highs. Under the surface, however, we find meaningful dispersion of returns. The record highs of the S&P 500 Index were driven by the Magnificent Seven[1] stocks, the same names that drove equity markets up in the prior year. With the remaining names in the S&P 500 Index lagging behind, the record-setting January was not supported by sufficient breadth in the markets. Also, sectors representing the cyclical areas of the economy, such as Materials, Industrials, and Consumer Discretionary fell behind, reflecting the weakness that we have seen in manufacturing PMI's for many months now. For the U.S. major indices, the record highs of January were not the tide that lifted all boats.

TABLE 1: **Global Equity**	JAN	QTD	YTD	1 YR
Dow Jones Industrial Average	1.31	1.31	1.31	14.36
S&P 500 Index	1.68	1.68	1.68	20.82
Russell 2000	-3.89	-3.89	-3.89	2.36
Russell 1000 Growth	2.49	2.49	2.49	34.99
Russell 1000 Value	0.10	0.10	0.10	6.08
MSCI ACWI USD	0.59	0.59	0.59	14.70
MSCI EAFE USD	0.58	0.58	0.58	10.01
MSCI EM USD	-4.64	-4.64	-4.64	-2.94
MSCI ACWI ex US USD	-0.99	-0.99	-0.99	5.88

Source: Bloomberg, as of 1/31/2024. Past performance does not guarantee future returns.

The risk-on spirit extended selectively beyond the North American shores. The developed markets, represented by the MSCI EAFE Index, participated on the upside, but the gains were muted due to the strengthening US dollar. On the other hand, emerging markets did not fare well due to a steep selloff of Chinese equities following a continued pressure on its real estate market. MSCI China USD returned −10.6% in January, applying negative pressure on the entire EM index. Going forward, there remains significant headwind to international economies. The interconnectedness of the Chinese economy to most European countries means that the weakness of the world's second largest economy has a negative impact on their western partners. In addition, the war in the Middle East and its fallout on shipping routes impacts economies outside of the United States more so than the domestic market.

1 The Magnificent Seven stocks: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla

FIXED INCOME

U.S. Treasury yields did not change meaningfully for the month as the enthusiasm surrounding potential March Fed rate cuts subsided. The tight labor market and robust consumer spending work against the Fed's goal of bringing inflation down to its 2% target. And the Fed, during its January meeting, left monetary policy unchanged, communicating that inflation rate still remains "elevated" and that they would not consider rate cuts until they had more confidence. It is difficult to know what set of data would support the Fed's "confidence" to normalize interest rates, but the general consensus is that the Fed could potentially start cutting rates late spring to early summer.

TABLE 2: **Fixed Income**

	JAN	QTD	YTD	1 YR
Bloomberg US Aggregate	-0.27	-0.27	-0.27	2.10
Bloomberg 1-3 Yr Gov/Credit	0.39	0.39	0.39	4.18
Bloomberg Treasury 5-7 Yr	0.11	0.11	0.11	2.18
Bloomberg Investment Grade Corp	-0.17	-0.17	-0.17	4.16
Bloomberg High Yield Corp	0.00	0.00	0.00	9.28
JPMorgan EMBI Global Diversified	-1.02	-1.02	-1.02	6.58

Source: Bloomberg, as of 1/31/2024. Past performance does not guarantee future returns.

Various movements across the Treasury yield curve meant diverging returns for fixed income indices. In general, duration was not friendly to investors, and the Bloomberg US Aggregate Bond Index started the new year on a negative footing. Corporate credit was mixed – investment grade credit spreads compressed in January as the new issuance market proved robust with ample demand while high yield spreads widened. Despite the third consecutive gains in the S&P 500 Index, the widening of the high yield credit spread gives us pause on the sustainability of the risk-on momentum.

POSTLUDE

Setting monetary policy was a little easier two years ago when inflation was 9%. Now, we are slowly approaching the Fed's target of 2%, and it has become more difficult to make the right call for the Fed. 2024 may be a pivotal year in which the central bank risks overtightening. The mandate for the Fed is price stability, not necessarily 2% inflation. With most inflation figures having stabilized for the past six months, we may have already reached the goal, even if it is above 2%. It would be helpful for the economy to achieve that elusive soft landing if the Fed would begin normalizing rates sooner rather than later. But if we are fixated on that 2% inflation, we may need to see the economy slow down considerably in order to get there. Such a policy path would narrow the already tight landing strip for the economy.

Anna Rathbun serves as the Chief Investment Officer for CBIZ Investment Advisory Services. Her tenure with the firm has spanned economic and market research, portfolio construction, and creating insights in investment themes to share with the investment community. Anna began her career in investments at Wellington Management, and subsequently, Harvard. She has served as a Managing Director for a registered investment advisory firm where she specialized in alternative investments. She is a graduate of Harvard University with a B.A. in Economics. Her early passion for the arts led her to classical music, for which she obtained a Master of Music and Doctor of Musical Arts from the Cleveland Institute of Music. Anna's career in music spanned a wide spectrum of performances to a faculty position at her alma mater. With a unique background that embraces both finance and the arts, Anna is dedicated to the issue of financial sustainability for organizations serving a mission.