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February 2024 Recap

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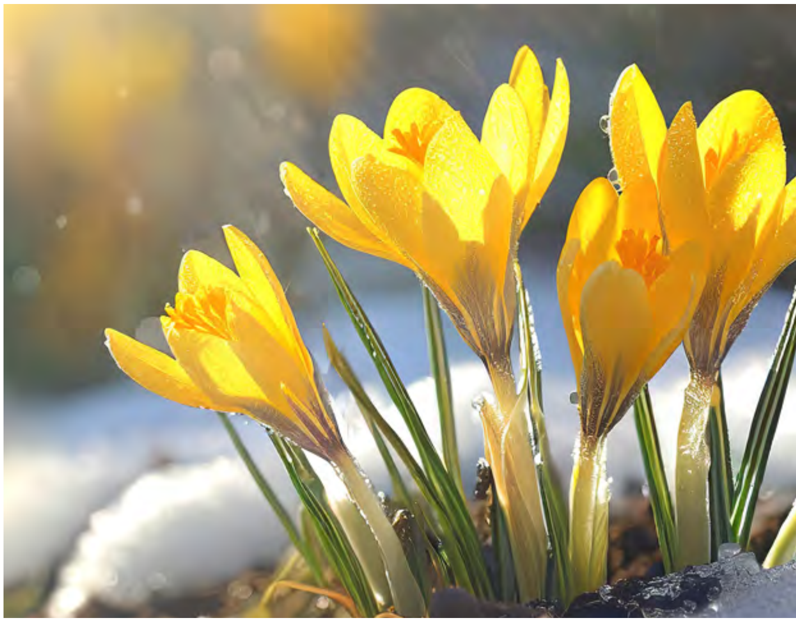
PRELUDE

February was a month of unexpected surprises. In addition to the unseasonable warm days, we also saw an uptick in economic data. Beginning with a blowout jobs number for January at the beginning of the month, February gave us a recovery in manufacturing PMI's as well as strong-than-expected inflation figures. But there were downside surprises as well. Retail sales from consumers were a big miss, the housing market stumbled, and consumer sentiment also took a hit as we closed out the month. Of course, the U.S. economy is massive and complex, and headline numbers do not always tell the whole story. Underneath the surface, the information is more nuanced and points to an unsurprising trend – one of careful businesses and highly leveraged but choosy consumers that we have been watching for many months. But Wall Street does not always mirror Main Street, and financial markets continued to show strength into the second month of 2024.



GLOBAL EQUITY

It was another positive month for the U.S. equity markets with some evidence of healthy breadth in trading. The S&P 500 Index gained a solid 5.3% while also broadening out with all 11 sectors registering positive returns. Industrials and Materials, representing the cyclical side of the economy gained alongside Tech and Communication Services. Small caps also rose considerably with a 5.7% return.

TABLE 1: **Global Equity**	FEB	QTD	YTD	1 YR
Dow Jones Industrial Average	2.50	3.84	3.84	21.96
S&P 500 Index	5.34	7.11	7.11	30.36
Russell 2000	5.65	1.54	1.54	9.97
Russell 1000 Growth	6.82	9.49	9.49	45.78
Russell 1000 Value	3.69	3.80	3.80	13.97
MSCI ACWI USD	4.29	4.90	4.90	23.08
MSCI EAFE USD	1.83	2.42	2.42	14.37
MSCI EM USD	4.76	-0.11	-0.11	8.71
MSCI ACWI ex US USD	2.53	1.51	1.51	12.47

Source: Bloomberg, as of 2/29/2024. Past performance does not guarantee future returns.

With the smaller end of the market gaining steam, the public discussion turned to talk of a real bull market gaining momentum. With upside surprises in earnings growth in the S&P 500 companies[1], it is easy to be optimistic. But we should remember that a lot of the earnings gain is attributable to mega cap tech companies, and it is also easy to get swept up in the excitement of artificial intelligence. Fear of missing out is a real sentiment for investors.

International markets also posted positive returns despite the persistent currency headwind. The U.S. dollar continued to strengthen against major currencies due to upside inflationary surprises that make "higher for longer" monetary policy more likely for the Federal Reserve. The MSCI EAFE Index representing the developed international markets returned 1.8% for the month with strength in Continental Europe and continued outperformance in Japan. In addition, emerging markets made a comeback with China's strong performance. The strong economic activity leading up to the Lunar New Year celebrations provided a healthy boost to travel and leisure stocks and resulted in an unexpected bounce in the markets. The momentum was not long lasting, however, as market activity resumed, with loss in investor confidence that led to continued outflows, even with earnest state-led effort to prop up the markets. And as China's underperformance has resulted in shrinking market share in the MSCI EM Index, India's consistent outperformance has led to a second place in market capitalization in the emerging market benchmark.

1 FactSet Earnings Insight reports 4% year-over-year blended earnings growth rate as of 2/29/2024

FIXED INCOME

For the month of February, the U.S. Treasury yield curve shifted upward. Much of the lift was on the front end of the curve, which is the most expressive of the market anticipation of the Fed's monetary policy. We started the month with strong headlines from the Bureau of Labor Statistics for the month of January[2], and even the lagging manufacturing PMI's began to show signs of recovery[3]. Adding to the strong economic indicators, February saw an upside surprise in all three major inflation figures: consumer price index, producer price index, and the personal consumption expenditure deflator index. Despite some of the deterioration in the fringes of the economy, these figures make policy setting difficult for the Fed. At this rate, we do not expect to see the first rate cut toward normalization of rates until the second half of the year, and "three" may be the maximum number of cuts by the Fed in 2024.

TABLE 2: **Fixed Income**	FEB	QTD	YTD	1 YR
Bloomberg US Aggregate	-1.41	-1.68	-1.68	3.32
Bloomberg 1-3 Yr Gov/Credit	-0.36	0.02	0.02	4.57
Bloomberg Treasury 5-7 Yr	-1.64	-1.53	-1.53	3.16
Bloomberg Investment Grade Corp	-1.50	-1.67	-1.67	5.95
Bloomberg High Yield Corp	0.29	0.29	0.29	10.99
JPMorgan EMBI Global Diversified	0.98	-0.05	-0.05	10.05

Source: Bloomberg, as of 2/29/2024. Past performance does not guarantee future returns.

Higher yields mean lower prices for bonds, and the negative returns dominate our fixed income table. Fixed income continues to be challenged for a third year running as rates have been volatile in anticipation of Fed policy. Investors have been surprised by the seemingly insatiable demand for corporate credit — new issuance market has been robust and the outsized demand has compressed spreads to historical narrows. And why wouldn't you want these bonds? With yields north of 5% for investment grade corporates and near 8% for high yields, investors have not seen such attractive income for over a decade. However, the tight spreads leave investors wondering if they are being compensated sufficiently for taking credit risk, above and beyond the yields risk-free Treasury notes provide.

POSTLUDE

When you have a large and complex ecosystem of economic incentives in multiple industries, it is difficult, if not impossible, to boil it down to a simple narrative about the health of the economy. But that is the world we live in, where the public discourse is divided into a bipolar scenario of bulls versus bears and soft versus hard landings. Underneath the broad swath of views, we see details that leave us less certain about the intermediate-term trajectory of Main Street than the financial markets would imply. But while we remain cautious about valuations, growth narratives, and geopolitics, we also carry optimism about the U.S. economy in our diversified portfolios. A good friend of mine once told me that she has learned not to bet against the U.S. economy, and I believe that remains true into the 21st century. It is prudent to execute rebalancing with discipline when valuations are high, but we remain fully invested in our diversified portfolios based on the long-term optimism in the human tendency to drive toward better outcomes.

2 Bureau of Labor Statistics reported January nonfarm payroll gains of 353,000 and an unemployment rate of 3.7%
3 Purchasing Manager Index: Figures above 50 indicate expansion; figures below 50 indicate contraction

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.