CBIZ ON THE MARGIN

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March 2024 Recap

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PRELUDE

The first quarter of 2024 was a reminder of one of the most powerful drivers of equity markets: momentum. Throughout the quarter, a narrow leadership of the Magnificent Seven stocks broadened out to other areas of the S&P 500 Index, and even small cap stocks showed signs of optimism. Supporting the positive sentiment and momentum are the prospect of a lower interest rate environment and the idea that we may be in a new bull market fueled by an unanticipated economic strength. If the momentum continues to broaden out, the market may be pricing in the best-case scenario: companies and consumers experience little to no disruption to cash flow in a high interest rate environment. Such a scenario would require a high economic growth momentum that would most likely be leveraged and/or continued fiscal support from the Federal Government. Either way, both scenarios require future borrowing, and that higher for longer cost of capital will ultimately matter. In the real economy, there is no finish line where we get to wear a crown of soft landing. The time frame here is open ended, and if economic history has taught us anything, it is the humility of unanticipated consequences.

GLOBAL EQUITY

The first quarter (Q1) of 2024 marked the best quarterly performance since 2019. The S&P 500 Index was up nearly 11%, and even the Russell 2000 Index representing small cap stocks raced during March to post gains in the mid-single digits for the quarter. As mentioned in the *Prelude*, the quarter began with the Magnificent Seven pulling the major U.S. indices, but some time in mid-February, the gains began to broaden out to include the cyclical areas of the markets. From a sector standpoint, the more “Value”-oriented areas rose during the quarter with Financials and Industrials recording double-digit gains while the Materials sector was not far behind with 9% performance. You can see the markets broadening out from a style perspective as well in March: the long-hailed leadership of the Growth style took a pause as the Russell 1000 Value Index outperformed its Growth counterpart by more than 3%.

TABLE 1: **Global Equity**	MAR	QTD	YTD	1 YR
Dow Jones Industrial Average	2.21	6.14	6.14	22.24
S&P 500 Index	3.22	10.56	10.56	29.97
Russell 2000	3.58	5.17	5.17	19.72
Russell 1000 Growth	1.76	11.41	11.41	39.12
Russell 1000 Value	5.00	8.99	8.99	20.33
MSCI ACWI USD	3.14	8.20	8.20	23.29
MSCI EAFE USD	3.29	5.78	5.78	15.36
MSCI EM USD	2.48	2.37	2.37	8.18
MSCI ACWI ex US USD	3.13	4.68	4.68	13.29

Source: Bloomberg, as of 3/31/2024. Past performance does not guarantee future returns.

International markets also posted positive returns for the month but from a quarter’s perspective, lagged the U.S. markets. The general risk-on sentiment on the U.S. continent spread across the oceans during March, with the MSCI EAFE and MSCI EM returning solid lower single-digit returns. From a valuation perspective, the most expensive market is the U.S. and international markets have the potential to bounce back from a value standpoint. However, the tricky aspect of this expectation is knowing whether the lower valuations may be a signal of weakness ahead. In other words, is it cheap for a reason? We know that there are pockets of excitement in the overseas markets, like Japan and India, but in terms of market capitalization, the largest markets seem to be stuck in a malaise. Europe continues to battle energy problems, which is weighing heavily on economic activity, and in China, the impact of the property market difficulties is difficult to ascertain.

Under these circumstances, it is not as surprising to see the U.S. dollar rise against major currencies during Q1 – despite high valuations, the U.S. market seems to be where growth is promising and risk/reward relationship is balanced from a geographic standpoint.

FIXED INCOME

The highly anticipated "dot plot" and economic projections were released by the Federal Reserve in March, the first one since December of 2023. February and March release of inflation data had been stubbornly high and suggestive of a potentially hawkish Fed. However, the three rate cuts for 2024 implied at the December 2023 meeting had not changed, and both equity and bond markets rallied. As usual, things get lost in the shuffle, and certain aspects of the economic projection did not make the headlines. In short, the fed funds rate projections for 2025 and 2026 were *raised*: for 2025, from 3.6% to 3.9%, implying just one cut instead of two from December, and for 2026, from 2.9% to 3.1%. In fact, the longer run projection for the policy rate increased from 2.5% to 2.6%.

TABLE 2: **Fixed Income**	MAR	QTD	YTD	1 YR
Bloomberg US Aggregate	0.92	-0.78	-0.78	1.70
Bloomberg 1-3 Yr Gov/Credit	0.40	0.42	0.42	3.50
Bloomberg Treasury 5-7 Yr	0.67	-0.87	-0.87	0.63
Bloomberg Investment Grade Corp	1.29	-0.40	-0.40	4.44
Bloomberg High Yield Corp	1.18	1.47	1.47	11.18
JPMorgan EMBI Global Diversified	2.09	2.04	2.04	11.28

Source: Bloomberg, as of 3/31/2024. Past performance does not guarantee future returns.

The March projection painted a more hawkish picture of the central bank, perhaps one that is acknowledging the stickiness of inflation and the policy that is needed to respond to it. It is still higher for longer, just not in 2024.

For the month, U.S. Treasury yields fell mostly across the curve, leaving fixed income indices in the positive territory. Corporate credit spreads also compressed further swayed by the risk-on mood, and corporate bond indices lead our fixed income table. For the quarter, it was another mixed experience for fixed income investors. The benchmark index, The Bloomberg US Aggregate Bond Index returned -0.8% as sticky inflation and strong employment data pulled yields upward. With equity markets performing well, the first quarter was another good period to be in the high yield bond market, as a lower duration profile, narrowing spreads, and high coupon profile worked well for junk bond investors.

POSTLUDE

CBIZ clients and friends with whom I have crossed paths know that I love my job. They know because it is written on my face and because of the way I talk about my amazing team. **I think now is the perfect time to introduce you to our Director of Research, Joe Nitting.** Functionally, Joe heads our research in all asset classes, both public and private, and oversees the portfolio construction process. But he is so much more to our CBIZ team. Joe is instrumental in setting the culture of collaboration and creativity, while guiding the team with a steady hand. In other words, I could not do my job without him. Going forward, our readers will also get to know this amazing person: Joe will author the *On the Margin* monthly letter, bringing his expertise on the markets to you from his desk. I have truly loved communicating with you over the last four years, but I also know that a fresh perspective is always a good thing. For our clients, I will continue to be the Chief Investment Officer, working closely with Joe to bring best-in-class investment services to you. So here is to a new adventure with our readers – Joe, the stage is all yours.

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.

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