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Pleasant Weather?

Global Markets and Regions

	1st QTR	2024 YTD
US	10.40%	10.40%
Developed Europe	5.40%	5.40%
Asia	5.70%	5.70%
Emerging Markets	2.40%	2.40%

US Markets

	1st QTR	2024 YTD
Dow 30	6.10%	6.10%
Large Cap Cos.	10.60%	10.60%
Mid. Cap Cos.	9.93%	9.93%
Small Cap Cos.	2.45%	2.45%
Bonds	-0.75%	-0.75%

Spring is beginning to emerge bringing more pleasant weather. It can be rainy, but milder conditions are starting to present themselves. But will it transition to a hot stormy summer?

The Federal Reserve's battle against inflation has been the dominant factor determining the near term condition of equity markets. Are they going to be Hawks or Doves, aggressively restrictive in fighting inflation or more permissively accommodating with their policies? Indications or statements one way or the other have been depressive or supportive of markets. The markets pay close attention to the comments of Fed Chairman Jerome Powell and the various Fed Governors regarding the direction of Fed policy.

They last raised the key Fed Funds rate in July of 2023, capping over a year of aggressive rate increases. The impact on equity markets over that period was pervasively negative, because recessions are generally the result of Fed aggressiveness. But not this time, or at least not yet. The economy continues to show its resiliency in the face of inflation and the Fed's activities to contain it.

The pause in interest rate increases seemed to indicate that inflation has been tamed, but the goal of 2% inflation had not yet been reached. Markets alternately celebrate or are discouraged by the changing prospects for inflation. Does the Fed need to induce a recession in order to get inflation completely under control?

The rate of inflation has fallen dramatically. Disinflation is continuing. General monetary conditions are reflective of declining inflation. Financial credit markets are not showing obvious signs of stress yet, but that could change. Growth continues to be evident in the data that the Fed bases their decisions on. Gross Domestic Product (GDP) has continued in a positive direction, the unemployment rate remains reasonable and inflation is slowing towards their stated target of 2%. It remains at around 2.6%, based on the latest data. The concern is, will ringing out that last bit of inflation tip over the economy and the markets?

There are a number of positive developments in longer term economic trends. The Economy is still continuing to emerge from the Dark Ages of Covid. Home building and sales are picking up again after the shock of huge increases in mortgage interest rates. Energy prices have remained relatively stable despite the declaration of the end of fossil fuel. The American consumer continues to spend. There is a bit of a manufacturing boom going on as companies are expanding capacity in the US and reshoring capacity from overseas. The artificial intelligence boom alone is resulting in massive investments in semiconductors and software. The innovative creativity of the US economy is still the envy of the world.

Corporate America has continued to deliver the goods in terms of earnings and revenues. The “Magnificent Seven” high technology companies have led the way with spectacular financial performance. These gigantic companies have, to a large degree, carried the economy and the equity markets. The rest of the market appears to be starting to catch up.

We are completing three quarters of year over year earnings growth. Fourth quarter earnings season has just been completed and reported. Full year 2023 earnings and revenue targets were slightly exceeded. The estimates for 2024 have been rising modestly, and at this point are projected to increase 9-10%. April kicks off the beginning of the first quarter 2024 earnings reports, which are forecast to be modestly positive. The Magnificent Seven are diverging a bit in their performance, but other market sectors are starting to draw attention.

Historical equity valuations have been described as “stretched”, but are not universally considered excessive. Forward optimism continues for the time being. Maybe we can avoid storms this year.