

February 2024

DeMarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 2/29/2024

Global Overview

Global equities rallied last month, but bond markets faced challenges amid rising yields. While the U.S. and Europe reported modestly positive economic news, the primary catalyst for larger-cap returns both domestically and internationally was the massive growth and earnings beat posted by Nvidia. While Nvidia drove large-cap developed markets, China's stock market saw a bit of recovery following months of stock market free fall, leading emerging markets to make successful gains. Nevertheless, robust earnings reports in the U.S. helped drive the MSCI World Index to a 4.2% gain in February.

U.S. Markets & Economy

Domestic equities rallied across all market cap sizes last month. Beginning with the Fed, Chairman Powell has been indicating for months that there will be no rate cut in March. Moreover, he recently communicated that Fed officials are considering three cuts throughout the year, totaling 75 basis points. While it took time for market expectations to adjust to this sentiment, market-implied rates finally align with Fed official's expectations of cuts throughout 2024. This convergence was driven in part by higher-than-expected inflation data reports. January month-over-month core CPI reported a 0.4% growth (with expectations of 0.3%), primarily bolstered by shelter costs. Furthermore, PPI grew 0.3% month-over-month, representing the largest increase in five months. Most notably, production continued to struggle last month as evidenced by the ISM Manufacturing PMI unexpectedly falling further to 47.8, while New Orders fell as well to 49.2 reflecting slowing demand for manufactured goods. The employment market remains tight with initial jobless claims reaching 215k. Notably, while unemployment figures suggest a tight labor market, indicators such as job quits point to reduced confidence in the labor market, as total job quits have been steadily declining to 3.4 million from the 4.5 million peak in early 2022. While economic news reported mixed results, consumer sentiment has skyrocketed the last few months from the November low of 61.3, but fell slightly in February to 76.9, despite strong stock market gains. These gains were further lifted in February by strong earnings reports that rolled in throughout the month. Earnings figures include overall S&P 500 earnings growth around 9% and 81% of companies reporting beating expectations. While the "Magnificent 7" continued to provide earnings beats (with the exception of Tesla), it was Nvidia that blew past earning expectations, reporting quarterly earnings of \$5.2 per share vs consensus forecast of \$4.6 per share. This drove the S&P 500 Index to set a new all-time intraday high of 5,111 and ended the month advancing 5.3%. Furthermore, the Russell 2000 Index outpaced large-caps growing 5.7% in February due to spillover momentum from large-cap earnings and high small-cap inflows driven by investors' perception of the undervalued nature of the index. Notably, the trailing P/E ratio for the Russell 2000 is now in line with its historical average, following months of being undervalued relative to history.

The positive performance in the domestic equity market did not extend to the corporate and government bond market. This was primarily due to the shift in market expectations that the Fed would not cut rates in March. Consequently, U.S. Treasury yields soared higher during the month, with the 10-year Treasury yield increasing from 399 to 425 basis points, thus negatively impacting bond returns. This rise led to a decline in prices for longer-duration bonds, as evidenced by the Bloomberg U.S. Govt/Credit Index, which lost 2.4% in February. However, high yield bonds saw modest gains as high yield spreads tightened over the month, decreasing from 359 to 329 basis points. Investment-grade corporate spreads also tightened further to 100 basis points, with the industrials and utilities sectors dragging returns due to widening spreads.

International Markets & Economy

European stock exchanges felt the rally as Nvidia's earnings echoed worldwide, which sparked demand for technology stocks and equities more broadly. Inflation-wise, Euro Area month-over-month inflation continued its decline, dropping 0.4% in January. Despite falling inflation, ECB officials still caution against rate cuts, citing concerns about

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February 2024

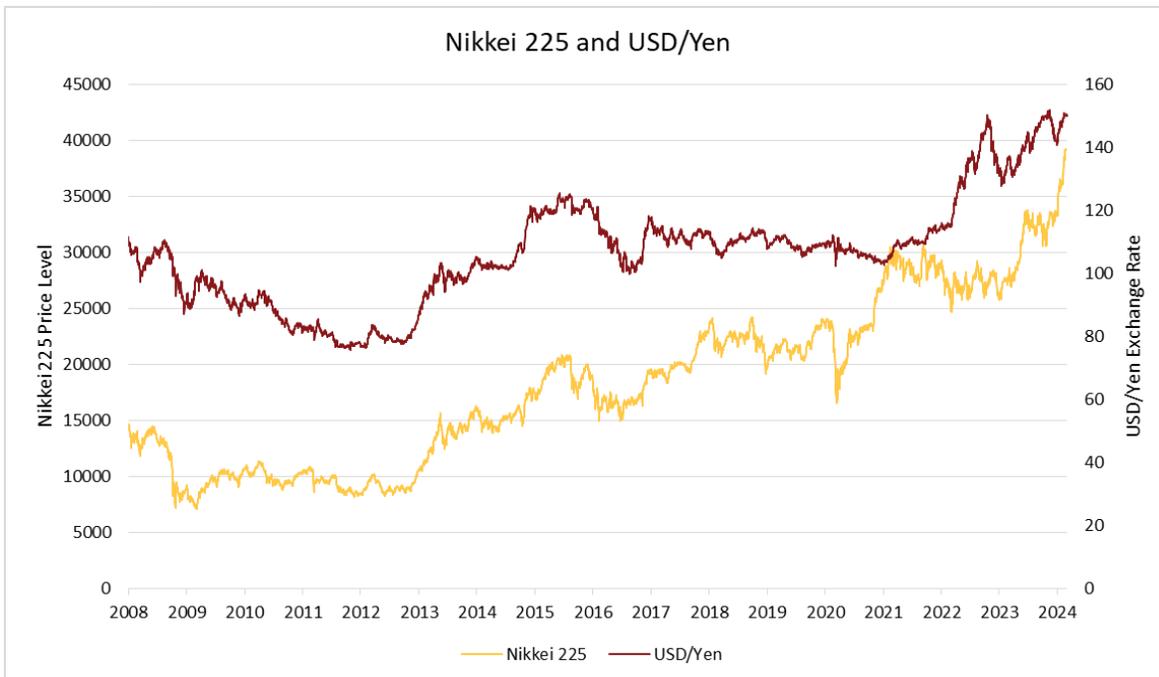
Page 2 of 6

potential rapid wage growth, which reached 5.3% last month. Consequently, the futures market scaled back its overall predicted rate cuts for 2024, now standing at 90 basis points. Production numbers are showing signs of recovery, with strong industrial reports from Ireland indicating a boost in overall industrial production. Composite PMI reports, while still in contraction (<50), have been inching upward each month and now rest at 48.9. One final note on Europe, it appears that the U.K. slipped into a technical recession reporting GDP of -0.1% in Q3 and -0.3% in Q4. Overall, the MSCI Europe Index gained 1.6% in February. Emerging markets also had a positive month, returning 4.8% in February. The largest EM index weights, India and China, both posted positive broad-based country returns. While China still grapples with its real estate bubble and deflation, government stimulus targeting infrastructure and manufacturing helped to offset losses in the property sector. Additionally, travel and consumer sales from the Lunar New Year holiday boosted the economy, leading the MSCI China Index to gain 8.4% in the month. Conversely, India advanced 2.6% at the hand of exports hitting an all-time high in January and continuing strong PMI reports, with a Composite PMI now reaching 61.5. Similar to the Russell 2000 Index, the strong returns in China led the MSCI Emerging Market price level to rise and to now be marginally overvalued relative to its historical trailing P/E.

In the News

Japan's stock market, as measured by the Nikkei 225, has been on the upswing over the last decade following 20+ years of market decline. The index's price level in February finally broke the all-time high set in December 1989. While Japan is presently facing some economic struggles, including higher than expected inflation, the continued accommodative monetary policy as well as the weakening Yen have acted as a tailwind for market growth. As seen in the chart below, as the Yen grows it depreciates against the USD, and Japan is able to increase net exports and boost value of corporate earnings made abroad. The takeaway here is that while Japan has been a beneficial place to invest in, additional alpha could have been generated from managers that hedged currency. However, the weakening Yen alone is not responsible for market growth, but the market growth is rather a product of corporate profits (EPS) that have more than tripled since 2008. While unrestrictive monetary policy enabled corporations to have favorable operating conditions, it has also enabled inflation to grow in recent months. Thus far, wage growth has kept up with the growing CPI to fuel consumer spending, but Japan's annual wage negotiations occur in March and April, so their outcome will be a huge factor on Japan's market and whether or not it will continue the hot streak.

Chart of the Month



Source: WSJ & Macrotrends

Data as of 2/29/2024

DeMarche Dashboard

Data and Commentary for Periods Ended 2/29/2024

February 2024

Page 3 of 6

Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	4.24	10.67	5.49	24.96	8.64	11.66	9.06
	Bloomberg US Agg Bond TR USD	(1.41)	2.08	(1.68)	3.33	(3.16)	0.56	1.43
	Russell 3000 TR USD	5.41	12.23	6.58	28.60	9.90	13.94	12.03
	DJ Industrial Average TR USD	2.50	8.96	3.84	22.03	10.25	10.86	11.62
	NASDAQ Composite PR USD	6.12	13.11	7.20	40.47	6.85	16.39	14.09
	MSCI EAFE NR USD	1.83	7.86	2.42	14.41	4.45	6.77	4.39
	FTSE Treasury Bill 3 Mon USD	0.43	1.38	0.90	5.45	2.55	2.02	1.35
	Bloomberg Commodity TR USD	(1.47)	(3.74)	(1.08)	(3.94)	7.15	5.66	(1.84)
Domestic Equities	S&P 500 TR USD	5.34	11.98	7.11	30.45	11.91	14.76	12.70
	S&P MidCap 400 TR	5.94	13.20	4.13	13.05	6.65	10.38	9.43
	S&P SmallCap 600 TR USD	3.32	11.94	(0.75)	6.50	2.31	7.72	8.53
	Russell 1000 TR USD	5.40	12.15	6.87	29.81	10.66	14.43	12.39
	Russell 1000 Growth TR USD	6.82	14.34	9.49	45.93	12.49	18.77	15.66
	Russell 1000 Value TR USD	3.69	9.55	3.80	14.01	8.41	9.38	8.74
	Russell Mid Cap TR USD	5.59	12.13	4.08	15.46	5.51	10.35	9.45
	Russell Mid Cap Growth TR USD	7.52	15.05	6.94	25.03	3.13	11.59	10.88
	Russell Mid Cap Value TR USD	4.78	10.92	2.90	10.87	6.80	8.94	8.19
	Russell 2000 TR USD	5.65	13.95	1.54	10.05	(0.94)	6.89	7.13
	Russell 2000 Growth TR USD	8.12	17.19	4.66	14.18	(4.59)	6.50	7.33
	Russell 2000 Value TR USD	3.27	10.85	(1.42)	5.61	2.49	6.62	6.55
International Equities	MSCI ACWI Ex USA NR USD	2.53	6.61	1.51	12.51	1.32	5.44	3.96
	MSCI EAFE NR USD	1.83	7.86	2.42	14.41	4.45	6.77	4.39
	MSCI EAFE Growth NR USD	3.38	10.59	4.60	16.62	2.36	7.69	5.54
	MSCI EAFE Value NR USD	0.18	5.01	0.11	12.12	6.25	5.38	2.99
	MSCI Japan NR USD	3.00	12.46	7.75	26.93	3.03	7.25	6.23
	MSCI AC Asia Ex Japan NR USD	5.60	3.35	(0.16)	4.94	(8.40)	1.78	4.02
	MSCI Europe NR USD	1.56	6.51	1.44	12.60	5.97	7.30	3.95
	MSCI United Kingdom NR USD	0.03	3.15	(1.31)	5.45	7.10	4.44	2.11
	MSCI EAFE Small Cap NR USD	0.38	5.92	(1.27)	6.26	(1.85)	4.21	4.27
MSCI EM NR USD	4.76	3.80	(0.11)	8.73	(6.30)	1.89	3.01	
Fixed Income	Bloomberg US Govt/Credit TR USD	(1.36)	2.04	(1.59)	3.69	(3.14)	0.87	1.60
	Bloomberg US Govt/Credit Interm TR USD	(0.99)	1.51	(0.79)	4.38	(1.53)	1.24	1.51
	Bloomberg US Govt/Credit Long TR USD	(2.44)	3.66	(3.93)	1.59	(7.68)	(0.02)	2.23
	ICE BofA US High Yield TR USD	0.30	4.01	0.31	10.97	1.86	3.99	4.26
	Credit Suisse HY USD	0.32	4.01	0.49	11.29	2.18	4.05	4.19
	Morningstar LSTA US LL Index TR USD	0.91	3.26	1.59	11.49	5.69	5.26	4.49
	FTSE WGBI NonUS USD	(1.31)	0.88	(3.74)	2.60	(9.29)	(3.63)	(1.95)
	Bloomberg Gbl Agg Ex USD TR USD	(1.18)	0.86	(3.45)	2.74	(7.37)	(2.40)	(1.41)
REITs	FTSE Nareit All REITs TR	1.78	5.47	(3.14)	4.20	3.21	4.02	6.50
	Wilshire US REIT TR USD	2.36	8.53	(1.51)	7.93	5.66	4.75	6.62

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

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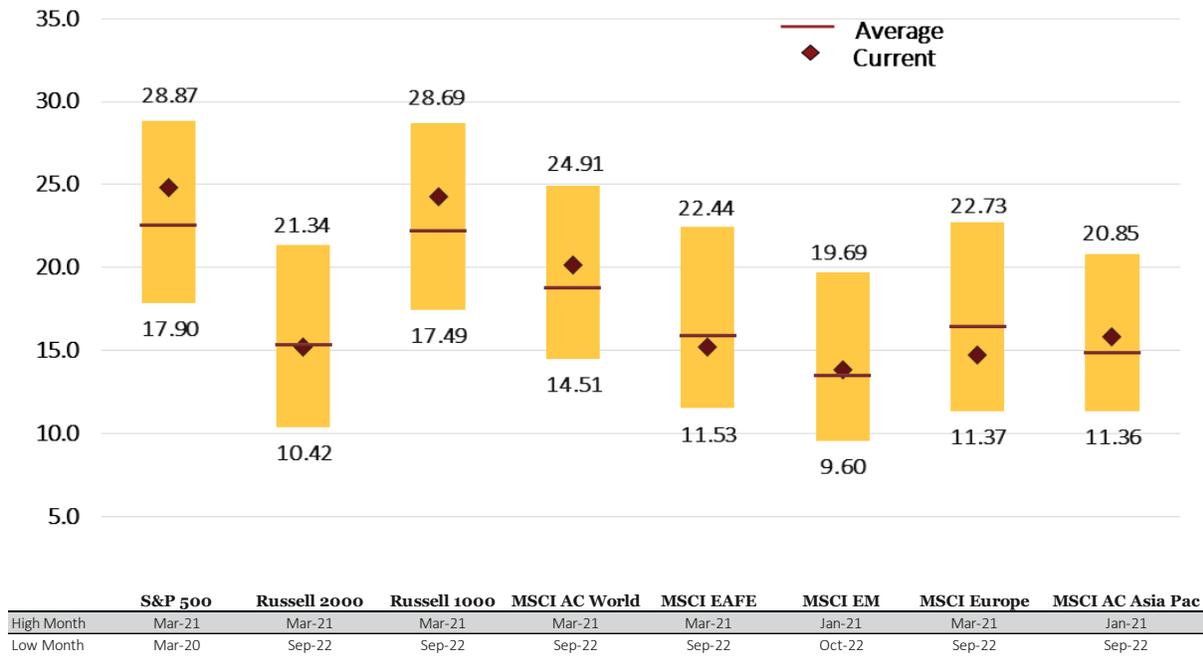
DeMarche Dashboard

Data and Commentary for Periods Ended 2/29/2024

February 2024

Page 4 of 6

Current Trailing P/E vs. Trailing 5-Year High, Low, Average



Source: Morningstar

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³ per US \$		Inflation ²
	Latest ¹	2024 ¹	2025 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	3.20	2.15	1.71	3.70	4.21	-	-	3.90
China	1.00	4.69	4.24	5.20	2.36	7.18	6.79	0.40
Japan	-0.10	1.00	1.00	2.40	0.70	147.94	130.40	2.00
United Kingdom	-0.30	0.66	1.16	3.80	4.12	1.27	1.24	5.10
Euro Area	0.00	0.64	1.33	6.40	3.07	1.09	1.09	3.10
Germany	-0.30	0.28	1.11	5.90	2.42	1.11	1.09	3.39
France	0.10	0.62	1.20	7.50	2.91	0.92	1.09	3.00
Italy	0.19	0.70	1.23	7.20	3.90	1.11	1.09	2.42
Canada	0.20	0.86	1.89	5.70	3.46	1.35	1.33	2.40
India	1.70	6.16	6.52	6.78	7.06	83.25	82.47	5.10
Mexico	0.10	2.49	2.03	2.90	9.17	17.14	18.84	4.76
Brazil	0.00	1.82	2.02	7.60	10.78	4.91	5.09	5.06

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2024 & 2025 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

DeMarche Dashboard

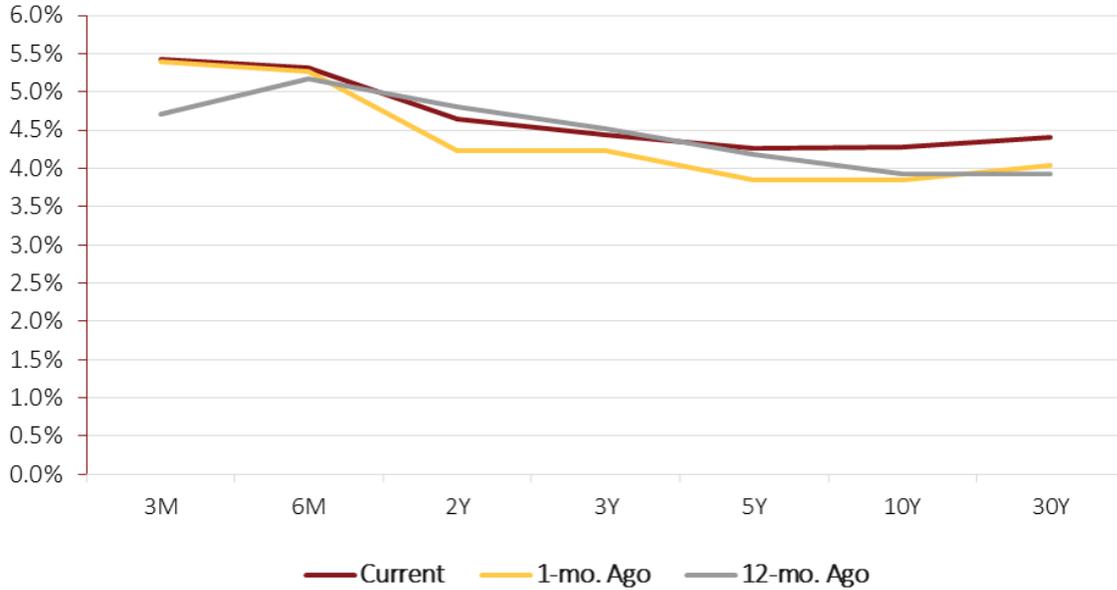
Data and Commentary for Periods Ended 2/29/2024

February 2024

Page 5 of 6

U.S. Treasury Yield Curves

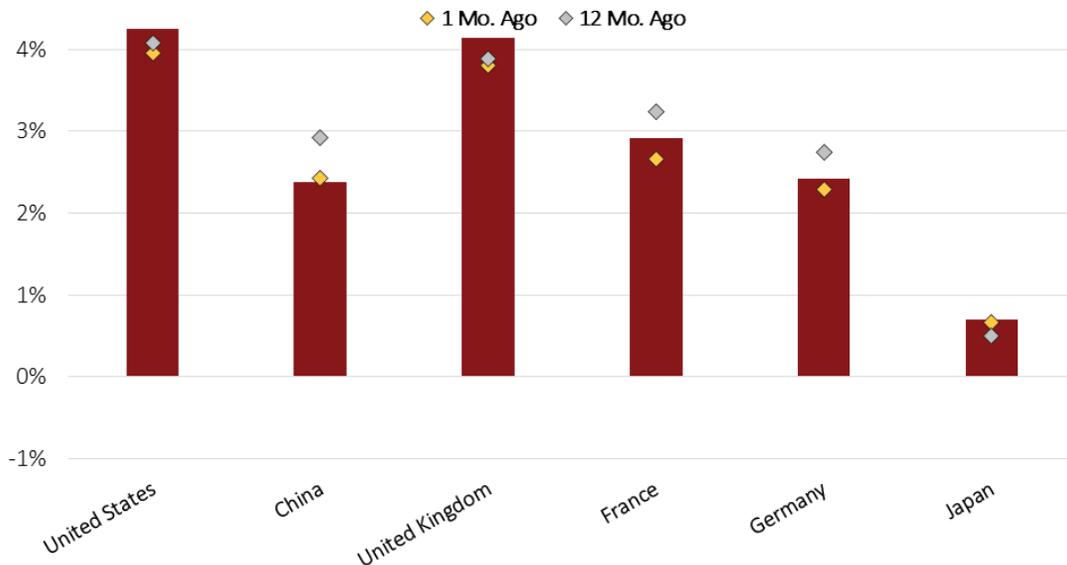
as of 2/29/2024



Source: Federal Reserve Bank

10-Year Sovereign Yields

as of 2/29/2024 (most recently available)



Source: Trading Economics

DeMarche Dashboard

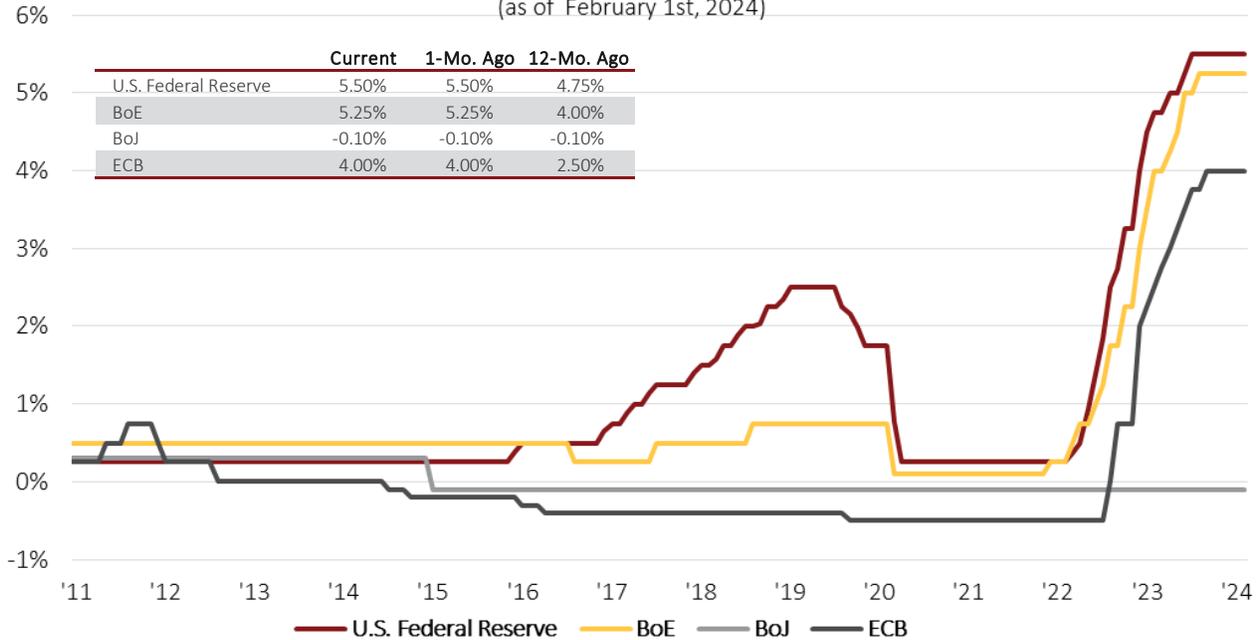
Data and Commentary for Periods Ended 2/29/2024

February 2024

Page 6 of 6

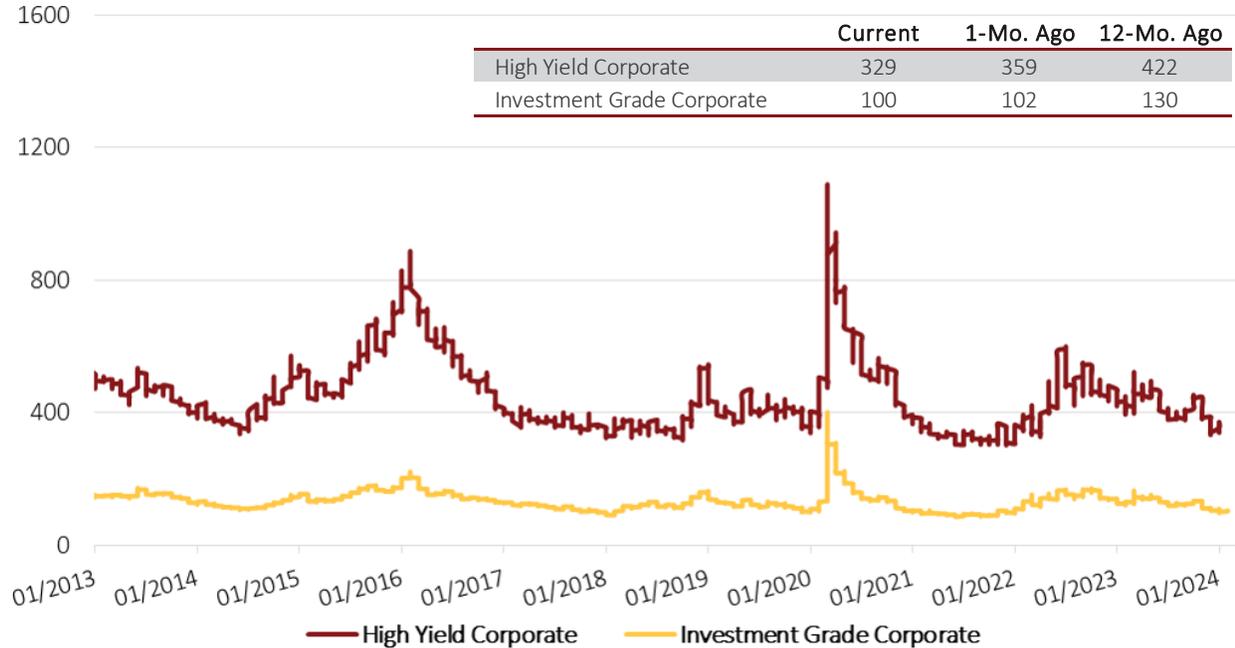
Central Bank Policy Rates

(as of February 1st, 2024)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank, Bank of America