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Market Update: Mixed Bag for March

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We Have Good News and Bad News

March has seen some mixed results from the markets and the economy. Both stock and bond markets have exhibited some choppy sessions as investors try and digest available data and Federal Reserve (Fed) rhetoric as to when the first interest rate cut may come. So far, the stance from Fed Chair Jerome Powell is that we are "not far" from gaining confidence needed to begin a rate-cutting cycle. In fact, investors are currently pricing in expectations for interest rates to drop in June.

Ultimately, the Fed is data driven, meaning their decision will largely be driven by economic data in two key areas of employment and inflation. Here's the most recent data as reported by the U.S. Bureau of Labor Statistics:

1. **Employment**
    - Good News: The Non-Farm Payrolls report showed the U.S. economy added 275,000 jobs in February 2024, beating estimates of 200,000. This yet again reinforces the continued health of the labor market.
    - Bad News: Last month's reported figure was revised lower by more than 100,000, and the unemployment rate climbed from 3.7% to 3.9%, approaching the highest rate in two years. Keep in mind, this still results in positive job growth and a historically low unemployment rate, however, we do seem to be seeing some signs of fatigue.

2. **Inflation**
    a. Bad News: The Consumer Price Index (CPI), a primary gauge of U.S. inflation, unexpectedly increased to 3.2% in part due to energy costs remaining elevated. This may give the Fed some pause as we are not moving closer to their 2% target inflation rate.
    b. Good News: Core CPI, on the other hand, which doesn't include the more volatile food and energy prices, decreased to 3.8%, nearing a three-year low. Additionally, part of the employment report indicated a slowdown in wage growth, which could be an indicator of lower inflation in the future.

Overall, while the data was mixed, we appear to be on track for lower interest rates at some point this year. And the continued strength of the labor market with moderate inflation reinforces the notion of a relatively healthy economy. All in all, this provides support for the financial markets moving forward.

Two Bears in Four Years

Can you believe it's already been four years since COVID? Even more inconceivable, can you believe we have been through two bear markets in that time (more than 20% drops)?

A picture is worth a thousand words and there is no better way to visualize what the market has been through than the chart below, "Four Years of S&P 500 Index Returns Since its Pre-COVID Peak":

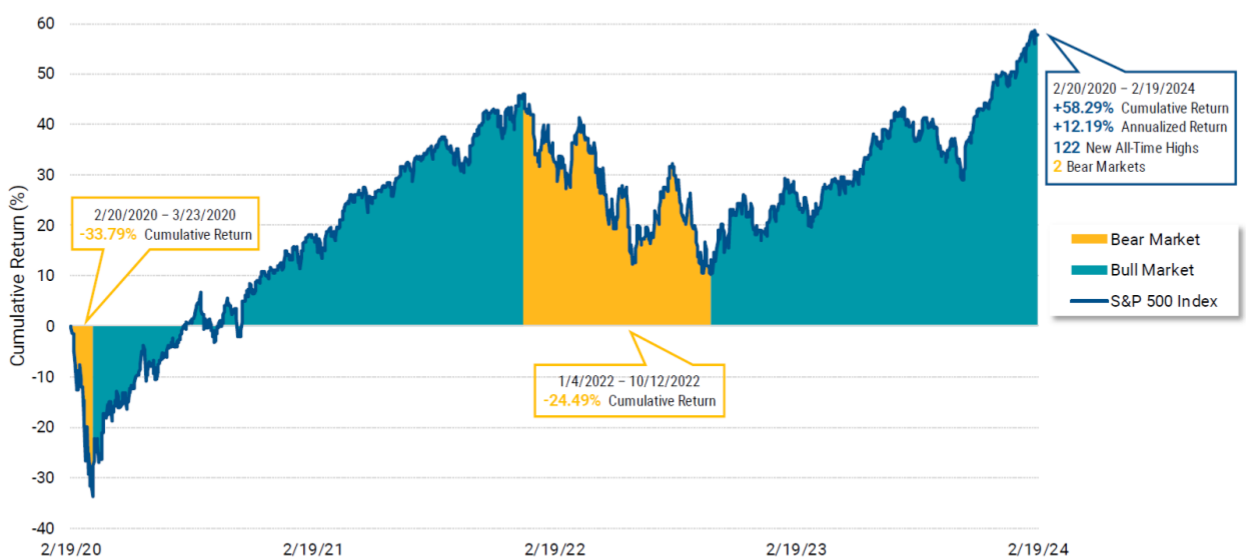
1. **Bear Market Returns**: In the past two years, we had an almost 34% drop in the stock market and then another nearly 25% drop. It's important to remember that bear markets are normal for the markets. Research shows that a 10% drop or greater happens about year and a half, while a drop more than 20% happens about every six years. So, it shouldn't come as a surprise when one shows up, and you certainly shouldn't panic.

2. **Bull Market Returns**: Why shouldn't you panic? Because bull markets (a rise more than 20%) have historically been longer and stronger than the bears. Looking at the graph is a perfect example of this happening. Furthermore, the amount lost during a bear is often quickly made up.

3. **Total Period Returns**: As long-term investors, we shouldn't focus on the single tree of shorter time periods, but instead look at the total forest of investment returns. The four years post COVID have delivered market returns of close to 60%, more than 12% annualized. You wouldn't have wanted to be on the sidelines during any of those times.

Stay diversified, my friends.

Four Years of S&P 500 Index Returns Since its Pre-COVID Peak
From Feb. 20, 2020 – Feb. 19, 2024



Source: Avantis Investors, Bloomberg. Data from 2/20/2020 – 2/19/2024. Past performance is no guarantee of future results.

As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

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