ACIMA
PRIVATE WEALTH

ECONOMIC & INVESTMENT PERSPECTIVES

April 1, 2024

MARCH: STRONG FIRST QUARTER FOR STOCKS
GLOBAL RECESSION RISKS DECLINING

Figure 1: 3/31/2024 Returns (source: Bloomberg)
Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	YTD	1YR	vs. 52-wk High	vs. 52-wk Low
US Aggregate Fixed Income	AGG	0.9%	-0.7%	1.6%	-3.0%	6.9%
Investment Grade Corp Bonds	LQD	1.5%	-0.9%	3.6%	-2.2%	10.9%
U.S. Treasury Bonds	GOVT	0.8%	-0.7%	0.1%	-3.8%	5.5%
U.S. 20+ YR Treasuries	TLT	0.8%	-3.7%	-7.8%	-13.1%	14.8%
Muni Bonds	MUB	-0.1%	-0.3%	2.7%	-1.1%	6.8%
US High Yield	HYG	1.1%	1.5%	9.1%	-0.4%	8.4%
Non-US Corp Bonds	IBND	1.2%	-2.3%	4.4%	-4.0%	9.0%
Emerging Markets Bond LC	EMLC	-0.7%	-2.4%	3.2%	-6.1%	6.0%
Global Equity						
ACWI Global Equity	ACWI	3.3%	8.2%	23.2%	-0.2%	24.7%
ACWI Global Equity ex US	ACWX	3.3%	4.6%	12.9%	-0.4%	18.9%
International Developed	EFA	3.4%	6.0%	15.2%	-0.2%	21.6%
Emerging Markets	EEM	2.7%	2.2%	6.9%	-2.2%	12.9%
Global Equity by Region						
United States	VTI	3.3%	9.9%	29.3%	-0.4%	29.8%
Europe	IEUR	3.8%	5.1%	14.2%	-0.3%	22.8%
Asia ex-Japan	AAXJ	2.9%	1.8%	2.2%	-4.1%	11.2%
China	MCHI	1.9%	-2.5%	-17.6%	-20.4%	11.7%
Japan	BBJP	3.5%	11.5%	24.8%	-1.0%	24.0%
Latin America	ILF	1.2%	-2.1%	25.0%	-4.7%	22.1%
US Equity						
US S&P 500	IVV	3.3%	10.4%	29.8%	-0.3%	29.6%
NASDAQ 100 QQQ	QQQ	1.3%	8.6%	39.3%	-1.2%	43.4%
US Large Growth	IWF	1.9%	11.3%	38.9%	-1.1%	41.0%
US Large Value	IWD	5.0%	8.9%	20.1%	-0.3%	25.0%
US Eqwt S&P 500	RSP	4.5%	7.8%	19.1%	-0.3%	27.0%
US Mid Cap	IJH	5.6%	9.9%	23.2%	-0.4%	31.2%
US Small Cap	VTWO	3.6%	5.1%	19.8%	-0.7%	30.1%

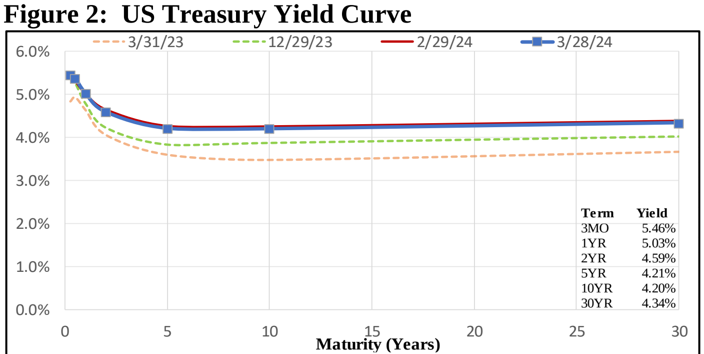
Despite a slight uptick in inflation, interest rates stabilized in March, driving stocks and bonds higher for the month. US equities notched new all-time highs, capping a strong first quarter, but bonds are still down so far this year. Performance highlights for the month and year-to-date (YTD) are summarized below.

- Bonds: The US Aggregate index (AGG) gained 0.9% in March (-0.7% YTD). Long-term Treasuries (TLT) rose 0.8% (-3.7% YTD). Corporate bonds (LQD) rose 1.5% (-0.9% YTD), and high yield (HYG) rose 1.1% (+1.5% YTD) as credit spreads narrowed. Non-US bonds were mixed this month but have under-performed YTD as the US dollar strengthened.
- Global equity (ACWI): +3.3% in March (+8.2% YTD).
- US Equity: The broad market (VTI) rose 3.3% (+9.9% YTD), and the S&P 500 (IVV) was up 3.3% (+10.4% YTD). Small (VTWO) and mid cap stocks (IJH) were strong this month but have under-performed large caps YTD and over the last several years. Ten out of eleven sectors posted gains for the month, led higher by energy stocks, which rose 10.5% (+13.5% YTD) as oil prices surged to more than $83 per barrel. Other sector leaders during the first quarter include communications, financials, and industrials, all of which gained more than 10% YTD.
- Non-US Equity: Developed markets (EFA) rose 3.4% in March (+6.0% YTD), with continued strength in Japan (BBJP +3.5%, +11.5% YTD). Emerging market stocks (EEM) rose 2.7% (+2.2% YTD) on solid returns across Asia (including China); Latin American stocks were mixed (Mexico up, Brazil down).

Interest Rates and the Economy

The yield curve (Figure 2) plots the interest rates (vertical axis) for various US Treasury maturities (horizontal axis). Yields were stable in March as the Federal Reserve (Fed) again held interest rates steady and reiterated plans to cut rates this year as inflation nears the 2% target. Core Personal Consumption Expenditures data (core PCE, the Fed's preferred inflation metric) is 2.8% now (February year-over-year). The inverted yield curve (short-term > long-term yields) signals economic slowdown or recession ahead. The benchmark 10-year US Treasury now yields 4.20%.

Figure 2: US Treasury Yield Curve

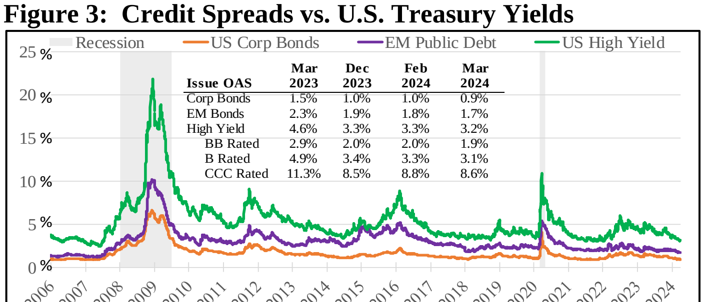


Source: Board of Governers of the Federal Reserve System via St. Louis Fed (FRED)

For bonds other than US Treasuries, we track the option-adjusted spread (OAS) between their yields and Treasuries of comparable maturities (Figure 3). Low or narrowing spreads signal optimism, while high or widening spreads signal fear. Spreads narrowed in February and remain well below average historically.

- Investment grade corporate bond spreads narrowed to +0.9% this month and are well below year-ago spreads of +1.5%.
- High yield (non-investment grade) spreads narrowed to +3.2% and are down from +4.6% a year ago. Spreads of the riskiest bonds (rated CCC & below) declined to +8.6% over Treasuries, down significantly from +11.3% spreads one year ago.
- Emerging market spreads narrowed to +1.7% but have been very stable over the past year. Emerging market credit has outperformed US bonds due to higher yields and stable currencies.

Figure 3: Credit Spreads vs. U.S. Treasury Yields



Source: Ice Data Indices, LLC via St. Louis Fed (FRED)

Global Recession Risks Declining

Despite on-going economic and geopolitical concerns, global equity markets (ACWI) have recovered to new all-time highs, largely due to the strength and resilience of the US, which is by far the largest sub-component of global equity indices (62% of ACWI). The US economy continues to grow at an historically high rate (Q4 real GDP growth of 3.4%, annualized) with unemployment below 4% even as the Fed has aggressively hiked interest rates to slow the economy and tame inflation. US equities have rebounded strongly as recession fears have subsided.

As US-based investors, we tend to focus on the US economy and markets, but it is important to remember that the US accounts for only one-quarter of global Gross Domestic Product (GDP). Approximately three-quarters of the world's economic activity occurs outside of our borders. Because global economies and markets are highly inter-connected through trade, technology and geopolitics, it is helpful to broaden our perspective. Figure 4 lists the world's largest economies by GDP and the current recession risk for each (Bloomberg's survey of economists' forecasts).

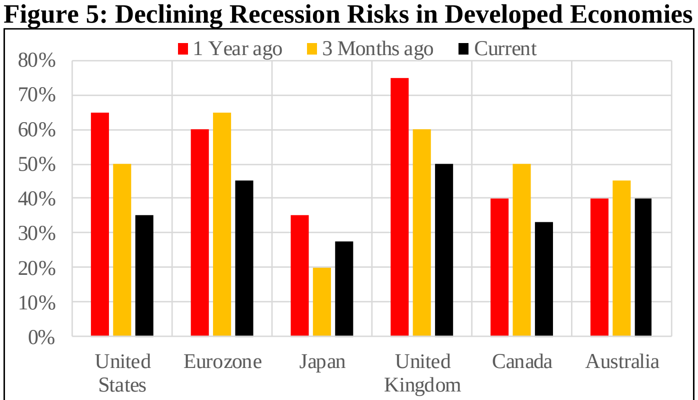
Figure 4: Recession Risk in the World's Largest Economies

Country/Region	Classification	GDP% (sorted)	Recession Probability	Recession Risk
United States	Developed	25.4%	35%	Moderate
China	Emerging	17.9%	10%	Low
Eurozone	Developed	14.2%	45%	High
Japan	Developed	4.2%	28%	Moderate
India	Emerging	3.4%	0%	Low
United Kingdom	Developed	3.1%	50%	High
Canada	Developed	2.1%	33%	Moderate
Brazil	Emerging	1.9%	10%	Low
Australia	Developed	1.7%	40%	Moderate
Korea	Emerging	1.7%	15%	Low
Mexico	Emerging	1.5%	20%	Moderate
Indonesia	Emerging	1.3%	2%	Low

Source: Bloomberg

The risk that the US will fall into recession in the next 12 months is moderate, now 35% according to Bloomberg's consensus forecasts (< 20% is low; >40% is high). Europe is at higher risk, with the UK at 50% and the eurozone at 45%; within the eurozone, Germany is likely already in recession (75% recession probability) as their manufacturing and export-driven economy struggles. Other developed (advanced) economies have moderate recession risks (Japan, Canada and Australia). Emerging economies have lower recession risks, especially India, one of the world's fastest-growing economies. These risks have declined over the past year, especially in developed economies, as illustrated in Figure 5.

Figure 5: Declining Recession Risks in Developed Economies



Source: Bloomberg

One year ago, the US economy was in a precarious position; the Fed had increased interest rates from near zero to over 5% to slow the economy and fight inflation. These rate hikes caused upheaval for banks, and only aggressive action by the Fed, FDIC and the government averted what could potentially have been a systemic banking crisis after several high-profile bank failures. At that time, the probability that the US economy would fall into recession was very high (65%) according to economists' forecasts. The resilience of our economy and talk of pending Fed rate cuts has led to a sharp decline in recession risk more recently.

Since the pandemic, the world's developed economies have been on a path similar to the US, with high inflation (supply chain disruptions, rising labor costs) and aggressive central bank rate hikes. Europe has had the added challenge of war on its doorstep (Ukraine). A year ago, recession risks were very high in the UK (75%) and across the eurozone (60%); those risks have moderated somewhat but remain elevated. The other developed economies tend to be tightly connected regionally through trade relationships; Canada moves with the US, while Japan and Australia are more affected by the slow economic improvements in China.

Recession risks have moderated around the world amid resilient growth and declining inflation. That resilience is reflected in the strong performance of global stock markets (Figure 6).

Figure 6: Global Equity Returns in the Largest Markets

Largest Countries by GDP	ETF	Global %GDP	YTD	1 Year	Current vs. 52-wk High	Current vs. 52-wk Low
United States	VTI	25.4%	9.9%	29.3%	-0.4%	29.9%
China	MCHI	17.9%	-2.5%	-17.6%	-21.4%	11.7%
iShares MSCI Eurozone ETF	EZU	14.2%	7.6%	16.4%	-0.4%	27.2%
Japan	BBJP	4.2%	11.5%	24.8%	-1.0%	24.0%
iShares MSCI India ETF	INDA	3.4%	5.7%	31.3%	-1.6%	33.0%
iShares MSCI U.K. ETF	EWU	3.1%	3.5%	10.6%	-0.1%	13.5%
JPM BetaBuilders Canada ETF	BBCA	2.1%	4.6%	15.2%	-0.4%	22.4%
iShares MSCI Brazil ETF	EWZ	1.9%	-7.3%	25.7%	-9.3%	20.6%
iShares MSCI Australia ETF	EWA	1.7%	1.3%	11.8%	-1.5%	20.5%
South Korea	EWY	1.7%	2.4%	12.5%	-1.6%	23.2%
iShares MSCI Mexico ETF	EWW	1.5%	2.2%	19.1%	-0.6%	32.2%
iShares MSCI Indonesia ETF	EIDO	1.3%	0.9%	-1.5%	-9.1%	12.9%
ACWI Global Equity	**ACWI**		**8.2%**	**23.2%**	**-0.2%**	**24.7%**

Bottom Line

Stocks and bonds rallied in March as the slight uptick in inflation seemed unlikely to lessen the potential for interest rate cuts this year by the Fed and its global central bank counterparts. Global stocks are at all-time highs. Though these gains have largely been powered by the strength of US equity markets, others have been strong as well. So far this year, Japanese stocks have gained 11.5%, out-performing the US. Over the past twelve months, stocks in most of the world's largest economies have logged double-digit gains, led by India (+31.3%); Chinese and Indonesian economies and markets have struggled, posting negative returns.

These strong equity returns are the result of the resilience of the US and global economies, which have (so far) defied expectations. Recession fears and forecasts have declined significantly, but that is not an "all clear" signal. Even without recession, growth in the US is expected to slow, which may impact the growth of corporate profits and stock prices. Real GDP growth across Europe is expected to be anemic (1% or less) for the foreseeable future, and China's recovery (or lack thereof) broadly impacts Asia and Australia. It is impossible to know where future returns will be strongest; diversification continues to be critical.

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