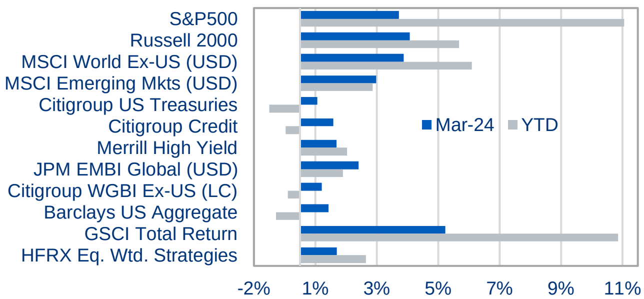
Global Market Review

The surge in global equities continued in March, capping off a stellar first quarter for asset markets. U.S. and Japanese equities, bitcoin, and gold all hit record highs. Global bond markets also rallied. U.S. Treasury yields fell slightly, and credit spreads narrowed to low levels across the rating spectrum. The primary catalysts for these widespread gains remain expectations for a feather-light landing of the U.S. economy and the fervent, if not feverish, hope that advances in AI will trigger a wave of productivity gains and corporate profits. Rising equity prices and narrowing credit spreads have eased financial conditions, blunted the impact of the Fed's tightening, and fueled U.S. consumer spending. The Fed, unfazed by two months of higher-than-expected inflation, kept rates on hold in March. The Bank of Japan raised its policy rate from just negative to barely positive, signaling victory in its long fight against deflation. Oil prices spiked in March. The U.S. dollar was little changed.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



Global equity markets surged higher in March.

Artificial Intelligence Fuels Genuine Rally

The S&P 500 index rose for a fifth straight month in March, gaining 3.2% and closing the month at yet another record high. The U.S. equity market is up 10.6% in the first quarter of the year and 34.4% in the 12 months through March. Although the gains have been widespread across the growth, value, large- and small-cap segments of the market and all economic sectors, the most munificent gains have been provided by NVIDIA, which is up 82.5% so far this year, and a handful of other firms caught up in the AI frenzy (Exhibit 1). This dynamic has led to high levels of equity valuation and market concentration (Exhibit 2)

Exhibit 1. AI Fervor Leads U.S. Stocks Higher

Source: Bloomberg. Index. 2019 = 100. Mag 7 comprises Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia, and Tesla.

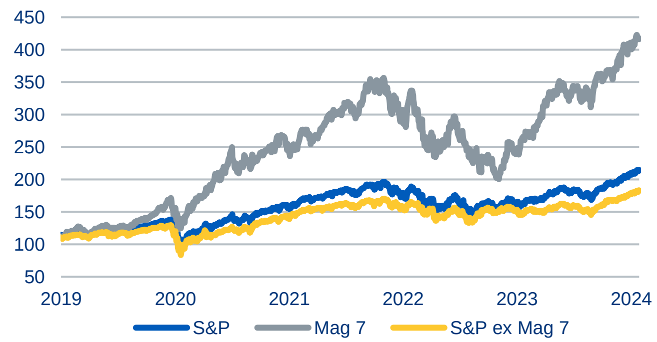


Exhibit 2. NVIDIA Remains Poster Child of AI Frenzy

Source: Bloomberg. Returns in percent. Market Cap in % of S&P 500.

	2023	2024	Cumulative	Trailing P/E	Market Cap
Nvidia	238.9%	82.5%	518.3%	73.9	4.9%
Mag 7	107.0%	17.1%	142.5%	39.9	27.3%
S&P 500	26.3%	10.6%	38.8%	23.5	100.0%
S&P ex Mag 7	12.3%	8.9%	22.3%	20.4	70.8%

The strong stock market rally combined with tight credit spreads on corporate bonds have contributed to an easing of financial conditions that has blunted the impact of the 525-basis point increase in the Fed funds rate (Exhibit 3). Some sectors of the U.S. economy are feeling the lagged impact of Fed tightening. These include highly indebted, low-income households, highly levered firms, and banks with large unrealized losses on securities holdings and heavy exposure to commercial real estate. Nevertheless, overall consumer

1001 Nineteenth Street North
17th Floor
Arlington, VA 22209 USA

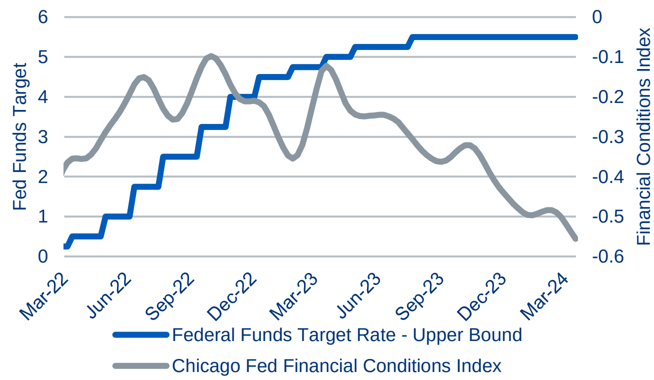
+1 703.243.4433 TEL
+1 703.243.2266 FAX

strategicgroup.com

spending has been sustained by wealth effects from rising equity and house prices, fiscal largesse, and the impact of savings accumulated during the pandemic. As a result, economic growth has been stronger than expected and inflation, although down from a peak of 9% to about 3% currently, remains stubbornly above the Fed's target. Looking forward, some of the factors that have been supporting consumer spending are dissipating. The Fed estimates that the $2.1 trillion in excess savings accumulated by households during the pandemic had been largely consumed by February. Moreover, the size of the fiscal deficit, although still large especially given the strength of the economy, is declining.

Exhibit 3. Easy Financial Conditions Counter Rate Hikes

Source: Bloomberg. Fed Funds rate in percent. Financial Conditions Index (below zero = easy).

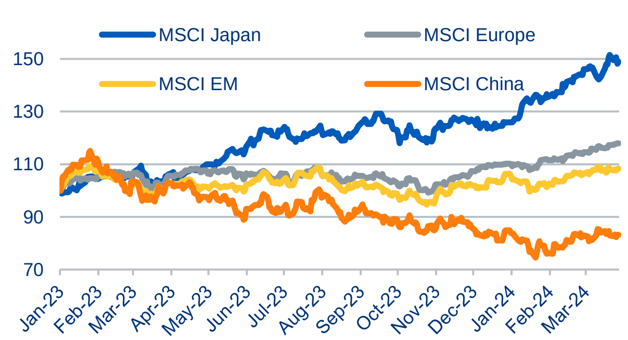


Japanese Equities Rise Further as BOJ Tightens

In a further sign that the lingering deflationary aftershock of Japan's momentous equity and property market bubble of the 1980s is finally ending, the Bank of Japan raised its policy rate to 0.1%, abandoned its control of the yield curve, and stopped most of its asset purchases. The Japanese equity market had attained in February its peak prevailing just prior to the bubble's bursting in 1989. It rose a further 2.5% in March to bring its gain so far this year to 10.5%. Over the 12 months through March, Japanese equities have gained 26.8%. European equity markets, although lagging Japan and the U.S., have also performed well, rising 5.2% in the first quarter and 17.9% in the year through March (Exhibit 4).

Exhibit 4. Japanese Market Surpasses Pre-Bubble Peak

Source: Bloomberg. Index. January 1, 2023 = 100.



Emerging equity markets rose 2.2% in March and are up 2.1% in the first quarter. The poor performance of the Chinese equity market continues to weigh on the broader index. Despite posting a gain of 0.8% in March, Chinese equities remain down 2.3% in the first quarter and 14.6% in the year through March. China's deeply troubled property sector remains the chief concern. Representing about one quarter of China's GDP and outstanding debt, two thirds of household assets, and a large share of local government revenue, China's property sector has changed from being an engine of growth to a source of vulnerability.

Credit Spreads Narrow to Low Levels

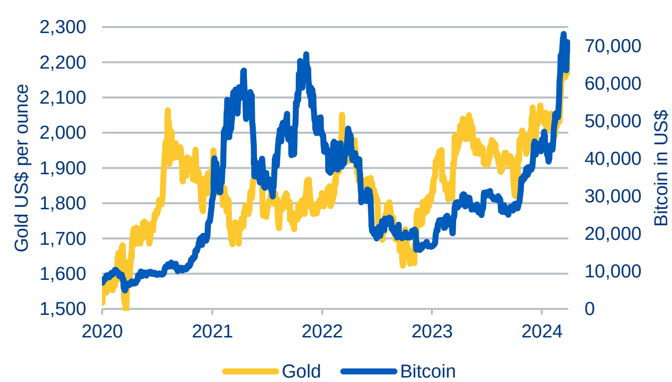
U.S. Treasury yields were little changed in March, declining marginally at the long end of the maturity spectrum. The market, like the Fed, continues to anticipate about three rate cuts this year with the first cut tentatively expected in June. Credit spreads narrowed further in March to low levels across the credit spectrum. As a result, investment grade and high yield bonds registered gains in March of 0.8% and 1.1%, respectively. For the first quarter, however, the investment grade sector is down 0.9% while high yield bonds are up 1.5%.

Bitcoin and Gold Hit All-Time Highs

Bitcoin and gold both reached all-time highs in March, although Bitcoin has fallen back since. Bitcoin's boost was courtesy of the SEC, whose approval of crypto-ETFs has made speculation in Bitcoin prices easier. Gold's rise of 11.6% in the year through March is said to reflect geopolitical concerns and expectations for a pivot to easier monetary policies, although neither rationalization is terribly convincing.

Exhibit 5. Gold and Bitcoin Touch Record Highs

Source: Bloomberg. Bitcoin price in U.S. dollars.



Performance of Major Market Indices through 03-31-2024

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	3.2%	10.6%	10.6%	29.9%	11.5%	15.0%
Russell 2000	3.6%	5.2%	5.2%	19.7%	-0.1%	8.1%
MSCI World Ex-US (USD)	3.4%	5.6%	5.6%	15.3%	4.9%	7.5%
MSCI Emerging Mkts (USD)	2.5%	2.4%	2.4%	8.2%	-5.1%	2.2%
Citigroup US Treasuries	0.6%	-1.0%	-1.0%	0.0%	-2.7%	-0.1%
Citigroup Credit	1.1%	-0.5%	-0.5%	4.3%	-1.9%	1.4%
Merrill High Yield	1.2%	1.5%	1.5%	11.0%	2.2%	4.0%
JPM EMBI Global (USD)	1.9%	1.4%	1.4%	9.5%	-1.1%	0.9%
Citigroup WGBI Ex-US (LC)	0.7%	-0.4%	-0.4%	1.9%	-3.8%	-1.5%
Barclays US Aggregate	0.9%	-0.8%	-0.8%	1.7%	-2.5%	0.4%
GSCI Total Return	4.7%	10.4%	10.4%	11.1%	18.1%	7.8%
HFRX Eq. Wtd. Strategies	1.2%	2.1%	2.1%	6.0%	1.1%	3.0%