Public

This Month in the Markets

April 2024

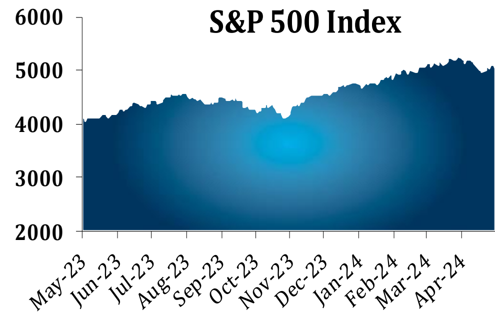
Equity Commentary

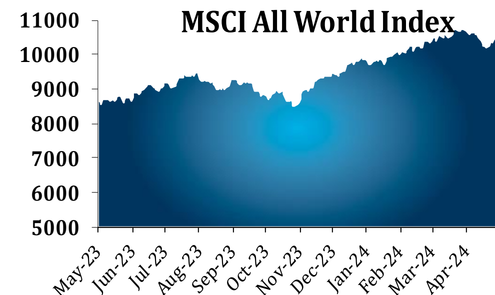
Higher Rates are Not Good for Stocks

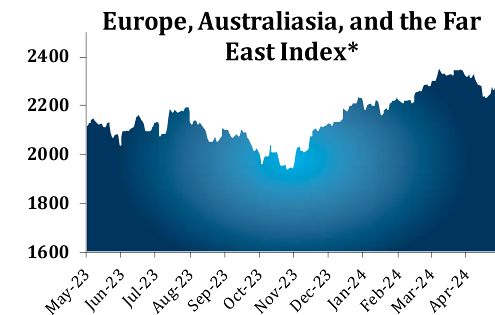
In April, the equity markets faced a challenging environment following a significant repricing in the bond market. Rising yields triggered this repricing due to more persistent inflation. As a result, the MSCI ACWI Index was down 3.3%. However, a continued Chinese rebound provided some support, leading to a slight rise of 0.4% in the MSCI Emerging Markets Index. On the other hand, the S&P 500 fell 4.1%. Growth underperformed value in terms of investment styles, with the MSCI All Country World Growth Index falling 3.6% while the MSCI ACWI Value Index falling 3.0%. The MSCI ACWI Utilities Sector was the biggest gainer, with a rally of 1.1%, driven partly by the market's recognition of the significant demand required for data center expansion. Conversely, the MSCI ACWI Real Estate Sector Index was the largest decliner, with a fall of 6.7%, primarily due to rising bond yields. The Bloomberg Commodities Index increased 2.2% in April, emerging as the top-performing primary asset class.

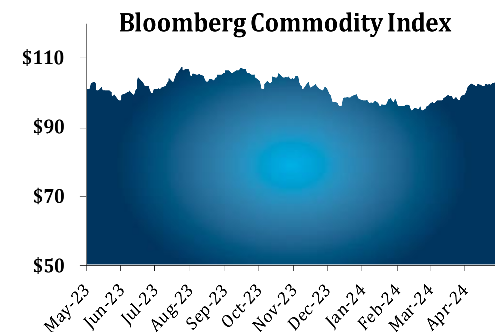
When interest rates rise, the theory suggests that fixed income offers greater competition against assets like REITs or utilities that drive a more significant source of return from dividends. But that didn't happen in April. As rates ramped higher in the month, REITS performed the worst, but utilities performed the best. Sometimes, investing heuristics fail to explain the whole story. Another prevalent story revolves around investing in the "new." The idea is to ride the wave of change, which is often exciting and garners media attention. This right now involves many narratives surrounding artificial intelligence, for example. But as Morgan Housel says, "The way to get luckier is to find what is repeatable." There are a lot of broken stock charts out there that reflect a period where COVID distorted so much in terms of consumption that proved to NOT be repeatable. Stocks that look cheap because they rose so much on the back of a one-time surge in specific consumption where the revenue growth achieved will not be repeatable. Our belief in an attempted focus on compounders forces us to try to see through these distortions, which are affecting so much of the macro and micro landscape, so that we can hopefully focus on companies involved in truly secular trends that will be able to grow for the years to come. The products and services that lend themselves to this persistence can offer exceptional long-term value.

Match Group experienced the largest underperformance in April, with its stock falling 15%. Concerns over weaker user engagement and negative customer reaction to Tinder price hikes drove this decline. In contrast, Alphabet Inc. emerged as the top performer, with its stock rising 7.9%. This positive performance resulted from a strong quarter, accelerating revenue growth, and a recent restructuring leading to margin expansion. The company's decision to initiate a dividend and an additional $70 billion share repurchase plan also contributed to its stock's upward trajectory.









*MSCI EAFE Index

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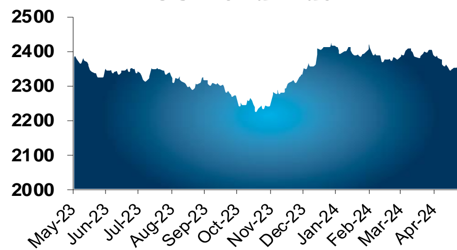
Fixed Income Commentary

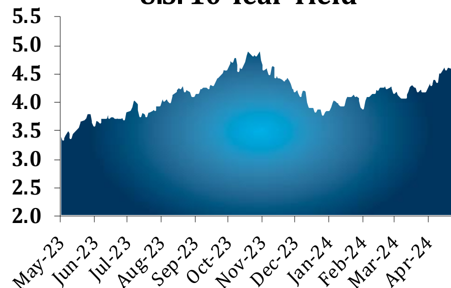
Higher Rates (Again)

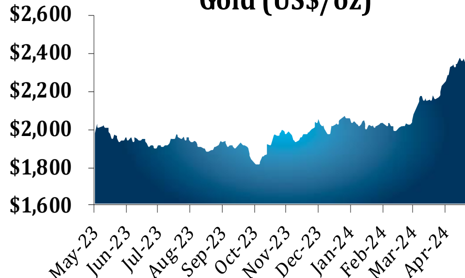
After widening marginally on the back of geopolitical fears in mid-April, credit spreads ended the month unchanged. As we noted in last month's market review, corporate credit spreads are one standard deviation below the 10-year average, and close to record-tight levels. As a reminder, the lower the credit spread, the lower the compensation for investors taking on credit risk. Nonetheless, we saw another indication of investor's voracious appetite for corporate credit in late April when Boeing came to market to issue $8 billion of debt across six tenors. According to Bloomberg, Boeing received $77 billion worth of orders. As such, the new issue was oversubscribed by almost 10x! Boeing ultimately tightened the pricing (lowered the yield on the new debt) and upsized the amount issued from $8 billion to $10 billion. As of the end of April, investment grade issuers have issued $629.6 billion of debt, +37% year-on-year (YoY).

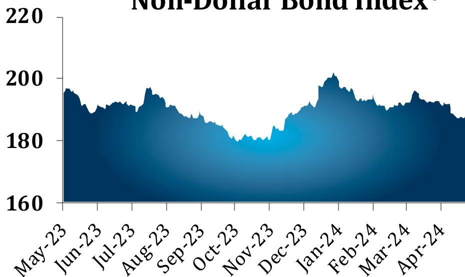
While credit spreads were unchanged MoM, treasury rates were materially higher. Each tenor from the 2-year and higher increased by over 0.40% which led to a jump higher in interest rate volatility as proxied by the Move index. For example, the 2-year treasury rate rose 0.41% to 5.01%, while the 10-year rose 0.47% to 4.67%. The increase in interest rates was driven by higher-than-expected inflation prints, and robust (though weakening at the margin) labor market data. The Core Consumer Price Index (core CPI), which excludes food and energy, rose 3.8% YoY. Shelter inflation has remained elevated and accounted for 64% of the 3.8% figure. However, even excluding shelter, so called super core inflation rose 4.8% YoY. Looking under the hood, transportation services (24% weighting of super core), especially motor vehicle insurance, was the dominant driver accounting for over half of the 4.8% figure. The Medical Care Services component (24% weight to Super Core CPI) has increased in each of the last 3 months also. We will be watching to see if inflation broadens out to other sectors and/or how quickly the shelter and transportation components decline (which we expect). In reaction to the higher-than-expected inflation data, the market further priced out interest rate cuts– both the timing and the number of cuts. As per fed fund futures, there is now only one 0.25% rate cut expected in 2024. This compares to the expectation for six cuts at year-end 2023 and just under three cuts at the end of March 2024. As such, market expectations regarding the future path of interest rates have adjusted materially over the first four months of the year.

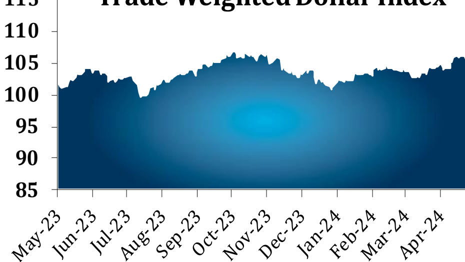
The Federal Open Market Committee (FOMC) left the fed funds rate unchanged in its May 1st meeting, however, did pare the pace of balance sheet decline (known as "quantitative easing"). The FOMC reduced the maximum amount of treasuries they would let roll off the balance sheet each month from $60 billion to $25 billion. The adjustment was made to reduce the chances of any market disruption; however the Fed intends to continue reducing the balance sheet (mainly through mortgage-backed securities) into 2025. In the press conference, Chair Powell commented that inflation was moving in the right direction despite the uptick over the last few months. However, he did note that it will "likely take longer for us to gain confidence that we are on a sustainable path down to 2% inflation." In his view, rates are already restrictive, and economic conditions warrant holding rates steady, preferring 'higher for longer' as opposed to resuming the rate hiking cycle.











*Merrill Lynch Global Broad Market, Ex US Dollar Index

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