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As equity markets extended their rally beyond the Fourth Quarter of 2023, we noticed the broader market coming alive by joining in on the recent bullish run. In addition to the "Magnificent Seven," other sectors including financials, industrials and energy played supporting roles in the First Quarter results of 2024. All-time market highs were repeatedly established with technology companies leading the way, driven on the backs of Artificial Intelligence and anticipated interest rate cuts for this year. As portfolio values reached/exceeded high-water marks established over two years ago, the patient investor is now anxiously focused on what comes next.

Based on 2024 to 2025 earnings projections, our fundamental range for the Dow Jones Industrial Average is 35,300 to 40,300. We have transitioned from a theme of "When will we see a recession?" to "When will the rate cuts occur and how many?" Recent indications from the Federal Reserve have been consistent with our expectations of maintaining current interest rates for longer. The hotter than expected March Consumer Price Index report also lends to our perspective on how the Fed will move forward during 2024 with any rate cuts being pushed back.

On the flipside, we do not currently see any threat of rising rates; therefore, the fear of a recession is currently on the backburner. Reiterating our belief that rates should remain steady is based on two thoughts. First, inflation remains sticky and current rates can assist in "managing" inflation at this point. Secondly, any further increase in rates may have a diminishing marginal impact on reducing inflation. For example, higher interest costs on corporate Profit & Loss statements will often be offset by higher retail pricing passed onto consumers resulting in an endless inflationary cycle if consumers are willing to buy.

During this period of inflation, we did not see corporate profit margins deteriorate due to higher cost of goods sold (COGS). There were some cases where margins surprisingly improved. This supports the ability of corporations to pass on higher costs and in some instances, where corporations have jumped on the "inflation" bandwagon, raise prices on goods & services despite no increase in COGS. Of course, we recognize that margins are also impacted by good managerial decisions to reduce expenses. These same management teams should also take a hard look at balancing short-term profit margins against long-term sustainable growth in an inflation-friendly environment.

As consumers, the ability to support higher prices is contingent on various spending and saving patterns. There are indications that personal income growth is outpacing certain areas of inflation. This is positive for the consumer but negative in the battle against inflation. Another observation is how greater income should also translate into greater savings. However, in certain reports, the propensity to save for the future has somewhat softened in the post-Covid era. This may be short-term in nature as the concept of mortality fades over time since the pandemic.

We do expect healthy pullbacks during the year but remain optimistic for the long-term. We will continue to focus on fundamentals and not worry too much about how many rate cuts will occur and when. Should you have any questions about how this information impacts your portfolio or your financial plan, please feel free to reach out to your advisor.