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February 2024 Market Recap

By Dan Frost

Highlights

- The U.S. economy continued to expand in the fourth quarter.
- Stocks were up across the board in February.
- Markets showed some signs of broadening out.
- Interest rates were up during the month.

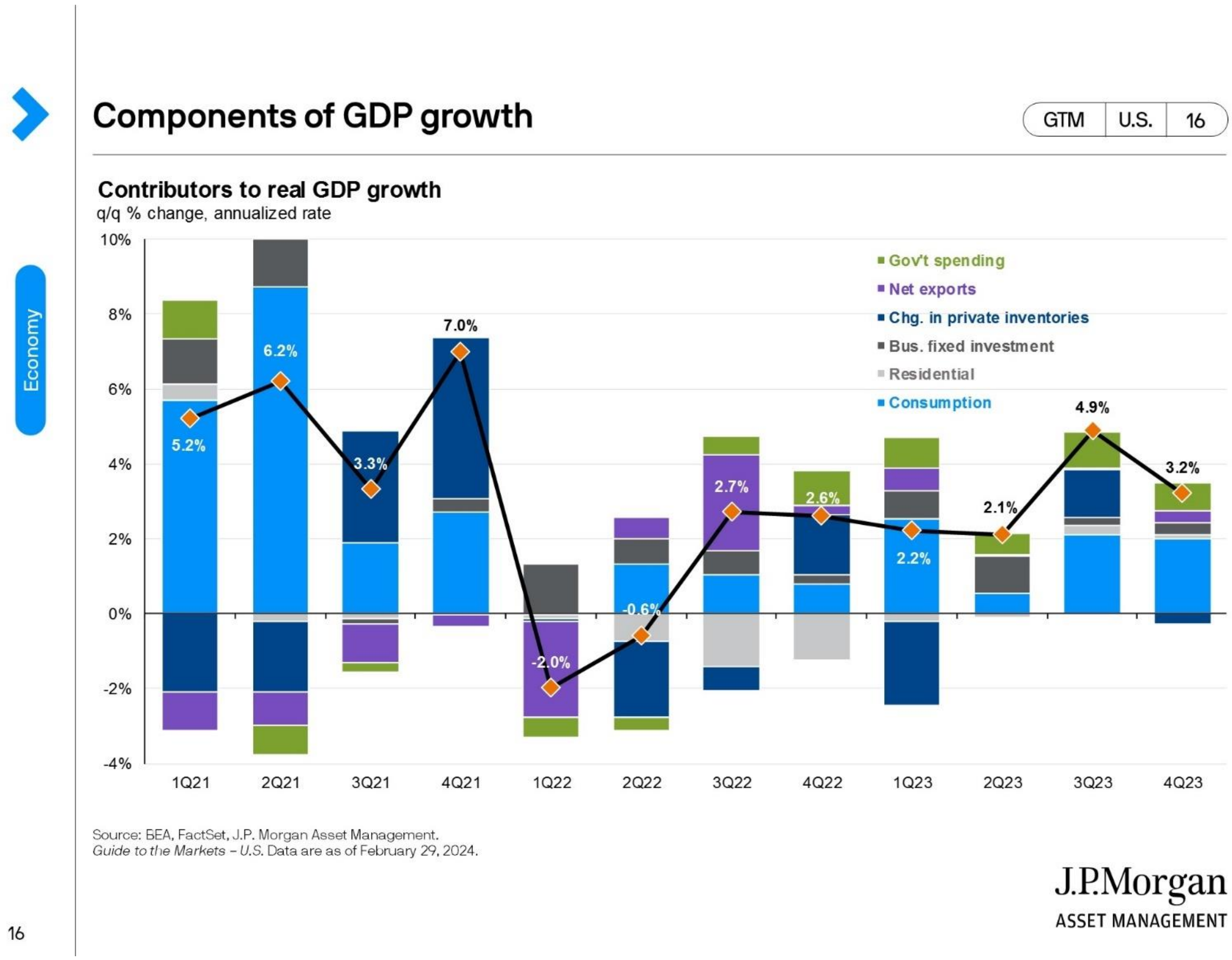
Economic Update

Growth

The U.S. continued to expand in the fourth quarter of 2023, with an impressive, annualized growth rate of 3.2%. Although this represented a slight deceleration from the preceding quarter, it surpassed expectations by a significant margin. Consumption remained a primary driver of economic growth, with both goods and services seeing strong performance.

One particularly encouraging aspect was the unexpected surge in trade, which increased at a rate of 6.4% annually. However, this positive was offset by a downward revision in inventory data, which detracted from overall growth.

Looking ahead to 2024, it's anticipated that economic growth will moderate somewhat, but key factors such as consumer resilience, progress in disinflation, and a modest recovery in the housing sector are expected to support continued positive growth for the economy, albeit at a slower pace.



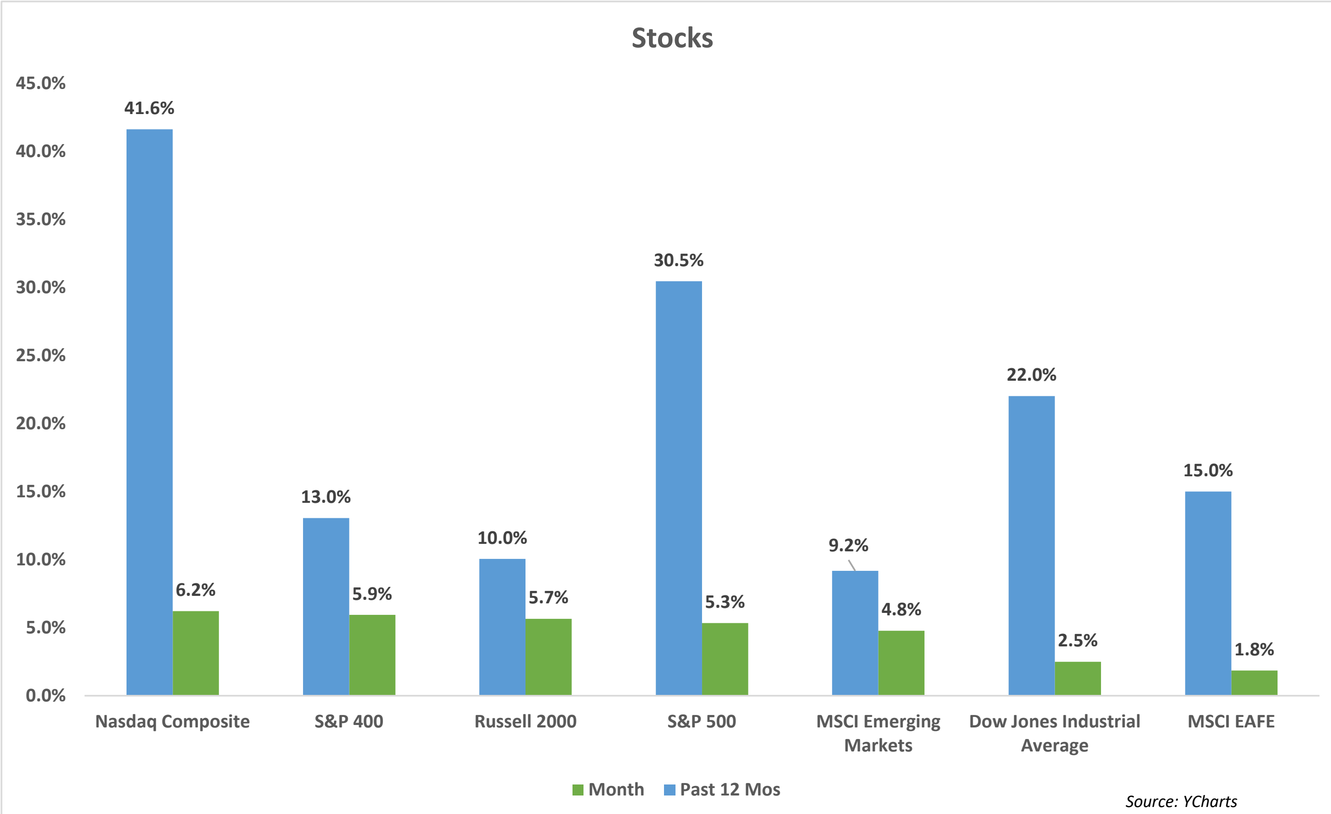
Stocks and Bonds

Equities rallied across the board as the NASDAQ led the way with a 6.2% gain in February. In somewhat of a reversal from last month, mid- and small-cap stocks were among the top performers with both the S&P 400 and the Russell 2000 posting gains of around 5.9% and 5.7%, respectively.

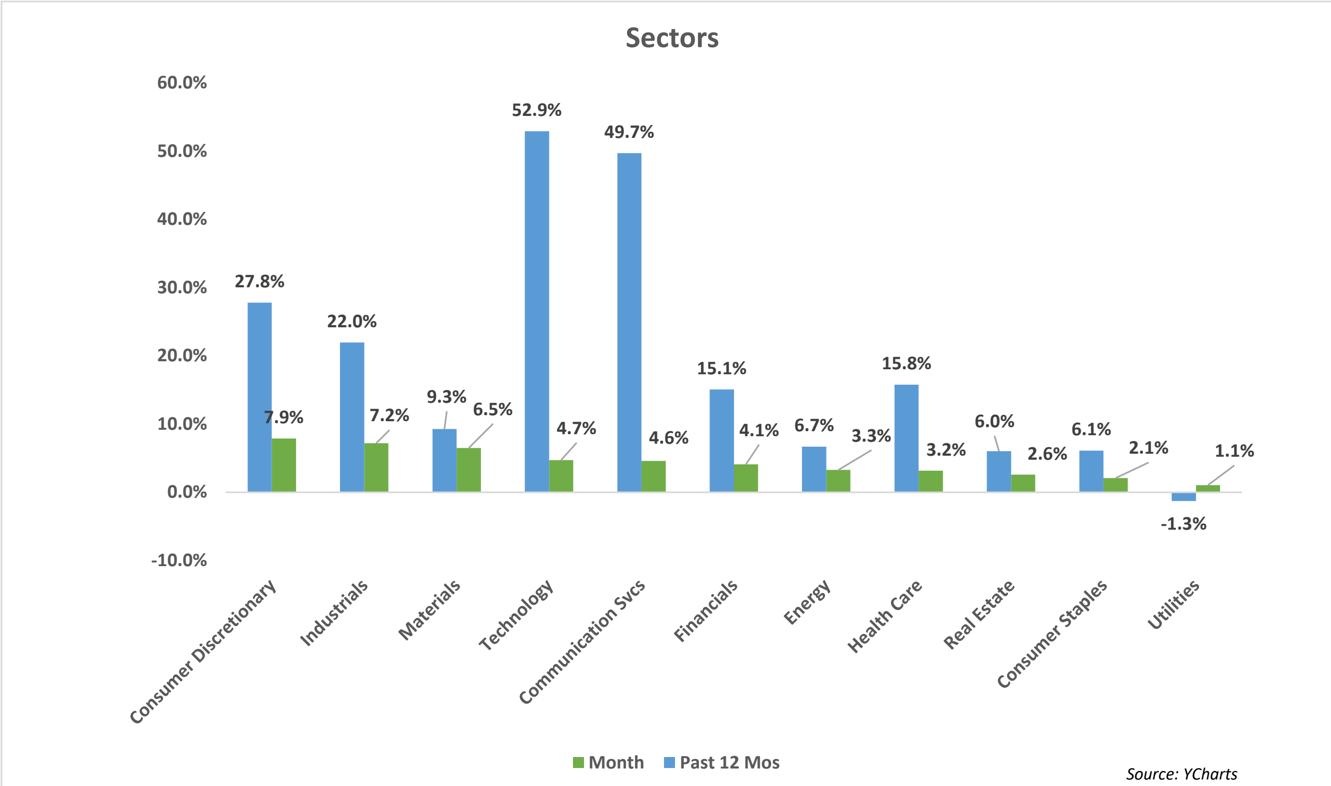
The S&P 500 traded above 5,000 for the first time in February and ended the month at a new all-time closing high of 5,111.06. This brings the total number of record highs for the S&P 500 to 14 so far in 2024 (six in January and eight more in February.) The index posted its fourth consecutive month of gains, rising 5.3%.

The Dow Jones Industrial Average also posted several new closing highs with seven more in the month of February, on top of the same number for both January and December. For the month, the Dow closed at 38,996.39, but was the relative laggard with a 2.5% gain.

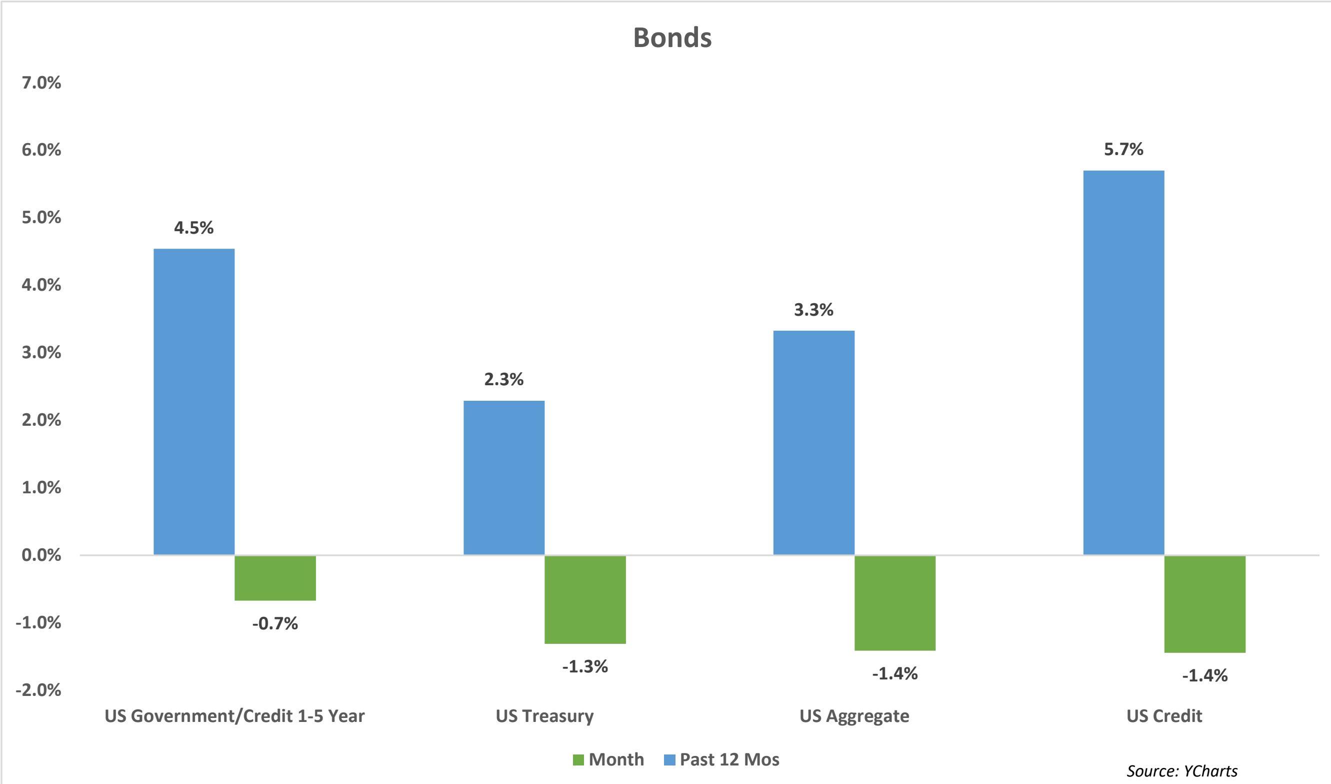
Outside of the USA, foreign stocks were broadly positive with the MSCI EAFE up 4.8% and the MSCI Emerging Markets up 1.8%.



All eleven sectors advanced higher in February. Consumer Discretionary led the way with a 7.9% gain, followed by Industrials at 7.2% and Materials at 6.5%. Every other sector lagged the return of the S&P 500 for the month, including Technology and Communication Services, which are home to five of the "Magnificent Seven" stocks. At the other end of the spectrum, Real Estate, Consumer Staples, and Utilities returned 2.6%, 2.1%, and 1.1%, respectively.



Treasury yields rose across the board even as equities rallied. Intermediate duration instruments posted the largest increases; 2-year, 3-year, and 5-year yields all increased by 35 bps or more, resulting in negative fixed income returns during the month.



New Highs

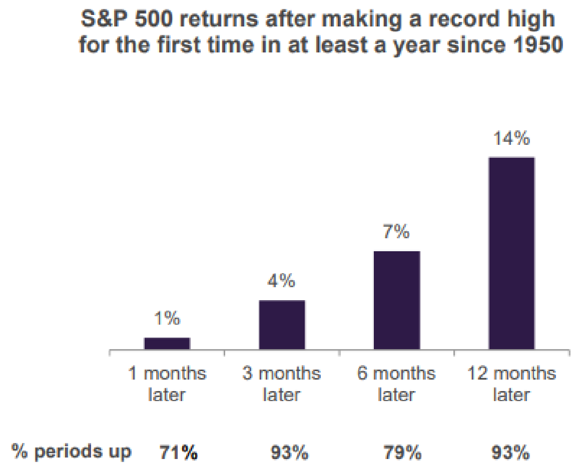
Following a nearly two-year stretch where the S&P 500 did not reach a new high, the market finally broke out of that range earlier this year and has continued to set new closing highs on a consistent basis. As noted earlier, the S&P 500 has closed at a new all-time high 14 times in 2024 through the end of February, while the Dow has closed at a new high 21 times over the past three months.

A natural question is what this might mean for the stock market going forward?

From a historical perspective, new highs in and of themselves do not appear to have a harmful impact on future returns. According to a study by Truist Advisory Services, following past instances since 1950 where the market hits a new high, the S&P 500 was up a year later 93% of the time.

Record market highs after prolonged periods tend to be a positive sign

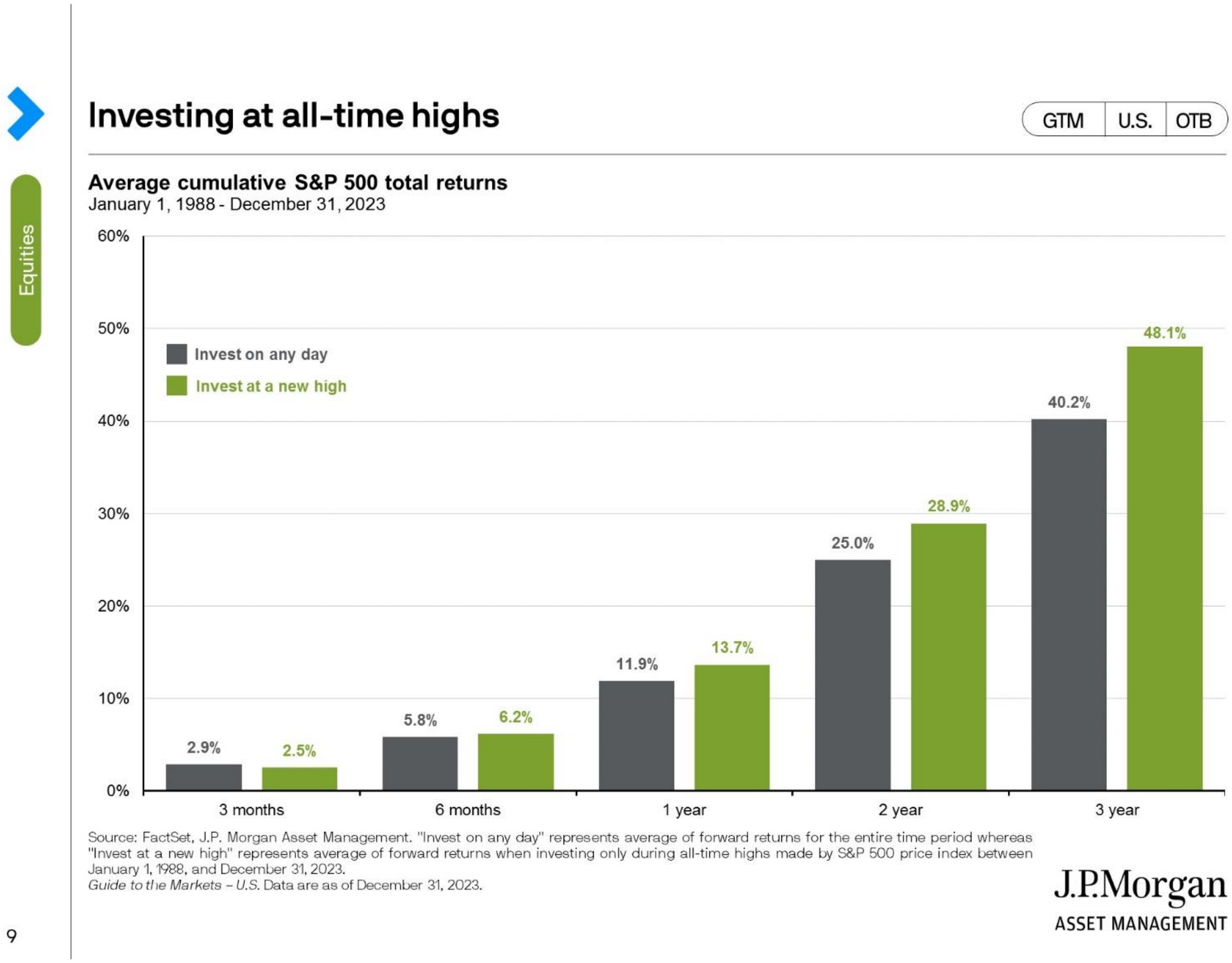
Earlier this year, the S&P 500 moved to a record high after not having done so for at least a year. Following past instances, the S&P 500 was up 12 months later in 13 out of 14 occurrences, or 93% of the time, with an average gain of 14%. The one negative outlier was the May 2007 signal, as a recession unfolded in 2008. This reiterates the importance of the Fed's ability to engineer a soft economic landing, which the market appears to be pricing in. We view this as a positive signal, though like all historical studies, it should not be used in a vacuum.



Data source: Truist IAG, FactSet. Past performance does not guarantee future results.

TRUIST Wealth

JP Morgan published a similar study that compared investing in the market on any given day compared to investing at a new high. Surprisingly, the study found that returns were actually *higher* over subsequent periods when money was invested at a new high.



Both of these studies would seem to indicate that investing when the markets are at all-time highs, in and of itself, does not have a detrimental impact on future returns.

Does that mean everything will be sunshine and flowers going forward? Most likely, the answer to that question is "no."

The S&P 500 is closer to a top than it is to a bottom. At some point it will go down, and it may go down by a lot. The average peak-to-trough decline in any given calendar year averages around 14%.

If one were to rewind to February of 2020, just over four years ago, the S&P had just reached its highest point in the bull market that had been ongoing since the depths of the financial crisis in March 2009. News of Covid-19 was popping up in the headlines with increasing frequency and we all know what happened next.

The S&P 500 immediately experienced one of the most rapid selloffs in its entire history with a peak to trough decline of 33.8% in just over a month. However, the recovery that followed was also one of the fastest in modern history and the index hit new all-time highs by August of that same year.

Stocks entered another less severe, but longer lasting bear market beginning at the end of 2021 and only recently having made a full recovery.

If you had known the market was going to tank beginning on February 19th, 2020, you likely would have refrained from investing, but no one could have accurately predicted this outcome.

Here's a thought exercise. What would have happened if you would have invested a big chunk of cash that day and then immediately went into a coma and were just now waking up? In other words, you did what you should probably do most of the time anyway, which is to invest and then let the market do its thing. You didn't panic and sell at the bottom or even try to dollar-cost-average into the market. You just invested and walked away and didn't look again for four years.

Despite enduring an initial 33.8% drawdown, followed by a two-year period of decline that saw the market plunge nearly 25% from its peak, your investment would have still grown at a compounded rate of over 12% over the last four years.

So, what are the take aways?

First, don't try to time the market. By my count, the S&P 500 closed at a new record high over 240 times between 2013 and early-2020. The odds that you will pick the one day that the market closes at a high and get out in time to save yourself the pain of a significant drawdown are extremely small.

Second, emphasize time *in* the market as opposed to *timing* the market. Time does eventually heal all wounds. The market may not recover as quickly next time around, but it eventually will recover. History shows that bear markets are like trying to hold a beachball underwater. You may be able to submerge it for a while but eventually the buoyancy wins out and it breaks through the surface again. Look at any long-term historical chart of the market. Stocks mostly trend up and to the right and you must be invested to take advantage of that tendency.

Finally, don't neglect diversification. Recent years have favored large-cap stocks, with the 'Magnificent Seven' responsible for a large portion of the gains in the S&P 500. Midcap, small-cap, and foreign stocks have been a relative drag on performance. At some point the baton will get handed off to these other areas of the market.

Investing is more fun when the markets go up, but the long-term also includes the periods when the markets decline or go sideways. Being mentally prepared ahead of time will pay dividends, both figuratively and literally.

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