FIRST QUARTER 2024

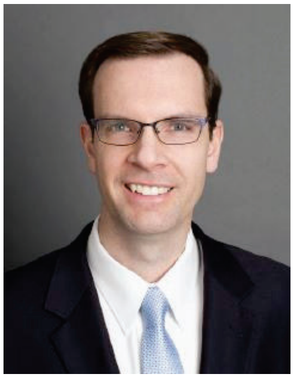
MARKET COMMENTARY

Capital Wealth Management, LLC

Despite “stickier” inflation and limited softening in consumer spending at home and heightened geopolitical risks abroad, financial markets’ momentum continued. The change in Federal Reserve expectations was among the quarter’s most dominant themes. Investors’ belief that the Fed would lower rates six times this year gave way to the increased likelihood of three reductions, consistent with the Fed’s thinking. Now, the out of consensus forecast calls for no Fed action in 2024. Financial markets, outside of the most interest-rate sensitive segments like longer duration bonds and real estate stocks, were unfazed and took the evolving debate in stride.

Lawrence F. Dooley Jr., CFA

CHIEF INVESTMENT OFFICER



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The S&P 500 Index recorded its best first quarter return in five years. To put the index's 10.6% total return in perspective, in a single quarter the S&P 500 Index return exceeded its longer-term average annual return of less than 10%. Though the S&P 500 Communications Services and Information Technology sectors continued their outperformance, a welcomed broadening out of stock market strength propelled energy, financial and industrial S&P 500 stocks to strong, double-digit gains. Mid-cap stocks, as measured by the S&P 400 Index, gained 10% while small cap stocks (Russell 2000 Index) lagged with a 5% return.

International stocks (MSCI EAFE Index) rose nearly 6% but would have registered stronger and comparable gains to the domestic stock market in the absence of a stronger dollar (The WSJ Dollar Index rose over 3% last quarter).

Unlike last year when price/earnings expansion (P/E expansion) drove stock returns, we believe fundamental considerations-most especially corporate earnings-will dictate stock market performance for the near future.

The US Treasury yield curve experienced a parallel shift to higher interest rates. US Treasury yields from the 2-year Treasury Note to the 30-year Treasury Bond rose about thirty basis points during the quarter. Ultrashort and short-term bonds reported marginal quarterly gains while long-duration bonds like the 10-year and 30-year US Treasury experienced losses of about 1.7% and 4%, respectively. Credit-sensitive bonds (high yield, convertibles, and bank loans included) that are more highly correlated with stocks gained 1% to 2%. In general, the movement to lower credit spreads helped to partially offset the negative impact of higher interest rates.

A broad basket of commodity stocks gained about 2%. There was a significant dispersion in returns among commodities. Cocoa prices (think chocolate!) more than doubled due to a global supply shortage caused by unfavorable weather conditions. Unleaded gasoline rose about 14% while natural gas prices fell nearly 30%. The cost of April gasoline shipments into New York Harbor rose over 30% since the beginning of the year.

Publicly traded real estate investments trusts (REITs) were among the weakest asset class, showing quarterly losses of about 1% to 2%. Encouragingly, real estate stocks gained favor last month as investors recalibrated their interest rate expectations for 2024.

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