Q1

Economic & Market Review

First Quarter 2024

Economic Review

First Quarter 2024

US Targets Soft Landing in 2024

The US economy grew at a 3.4% annualized rate in the fourth quarter of 2023, underpinned by robust consumer spending and business investment.

The labor market remains healthy, with employers adding 303,000 jobs in March and more workers entering the job market. **The headline unemployment rate decreased to 3.8%,** marking a streak of 26 months below 4%, the longest such stretch since the late 1960s.

Consumer spending, which accounts for more than two-thirds of US GDP, increased by 0.8% in February, the largest increase since January 2023. **Consumer confidence held steady in March** as waning fears of a recession were replaced with anxiety about the state of politics heading into this year's presidential election.

US manufacturing activity rebounded in March, with the ISM Manufacturing index jumping 2.5% and finally crossing the expansion threshold of 50% after 16 months in contraction territory. Factory production and new orders increased, but employment in the sector remained subdued.

The Fed Holds Steady Again

The Federal Reserve maintained its federal funds target range between 5.25% and 5.50%, marking the fifth consecutive meeting without a change. Despite the slight uptick in inflation, Fed officials still expect to make three 0.25% rate cuts this year, but reduced the number of forecasted cuts in 2025 from four to three.

The past two months of inflation data haven't significantly altered the Fed's view that inflation is coming down to its target of 2%, **but the figures also haven't given Fed officials enough confidence to begin cutting rates now.** As a result, Fed Chair Jerome Powell did not provide any insight into the timing of the first rate cut other than that it is on track for some time this year.

Updated Fed projections show a slight increase in inflation from 2.4% to 2.6% and a considerable upward revision to economic growth from 1.4% to 2.1% this year. Fed policymakers are basically split on the number of rate cuts this year, with 10 seeing three or more cuts and 9 expecting two or fewer cuts.

Economic Review

First Quarter 2024

Europe and Japan Stagnate; Bank of Japan Ends Negative Interest Rate Policy

The Eurozone economy narrowly avoided a recession, stagnating in the fourth quarter (0.0% growth), as inflation and high borrowing costs hindered economic activity. Germany, the region's largest economy, weighed on European growth the most, contracting 0.3% and officially entering recession. In contrast, Spain and Italy experienced a 0.6% and 0.2% expansion, respectively.

The European Central Bank (ECB) is also holding its policy rates steady despite significantly higher recession risks compared to the US. Like the Fed, the ECB is waiting to see more evidence of inflation moving toward its long-term target. In its most recent forecast, the ECB expects inflation to decline to 2.3% this year (from 2.7% in its December forecast), presenting a case for rate cuts perhaps sooner than in the US.

Japan's economy expanded slightly (0.1%) in the fourth quarter, avoiding a recession on strong capital expenditures and net trade, where exports rose more than imports. However, private consumption, which accounts for 60% of the economy, declined 0.3%, slowing the economy.

In a historic shift, **the Bank of Japan (BOJ) raised its key interest rate from -0.1% to about 0.0% in its latest meeting, marking its first rate hike in 17 years!** This decision was the result of Japan's largest companies agreeing to increase salaries by about 5.3%, the largest wage increase in more than 30 years, to combat the rising cost of living. This move ends the world's last negative interest rate policy.

China and India Surge Ahead; Brazil Slows

China's economy grew 5.2% in 2023. It entered 2024 burdened by a strained property sector, weak consumer and business confidence, and Western trade sanctions, but economic data from January and February point to a strong start to the year for the world's second-largest economy.

India's economy grew 8.4% 2023, fueled by strong manufacturing and construction activity. Asia's third-largest economy is on pace for a strong start to 2024, which could bolster Prime Minister Modi's re-election chances in the upcoming election.

Brazil's GDP growth stagnated in the fourth quarter of 2023 (0.0% growth), following tepid growth of 0.1% in the prior quarter, and sapping momentum entering the new year. Brazil's central bank has cut its benchmark interest rate by 2.5% since August, but it still stands at 11.25%, keeping borrowing costs high.

Market Review: Stocks

First Quarter 2024

Stocks Continue Climb with Stellar Start to 2024

Domestic and international stocks extended their rally in Q1, supported by durable economic growth, strong corporate earnings, and expectations for interest rate cuts later this year. The bullish sentiment among investors was fueled by clear indications that economic growth continues, despite a variety of geopolitical tensions and indications that inflation may not be cooling as fast as previously hoped.

US stocks got off to an especially strong start in 2024, with large cap stocks rising 10.6%, as measured by the S&P 500 index. The market rose steadily over the period, setting multiple new all-time closing highs during the quarter. Over the past 15 months, US large caps have risen nearly 40%—clearly an unsustainable pace—so investors are counseled to temper their exuberance.

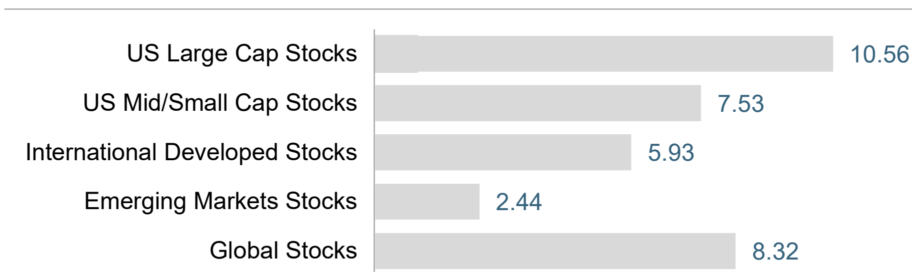
Despite enthusiasm for AI-related investments, Technology (up 12.7%) was not the top-performing sector in Q1. **Communication Services** (up 15.8%) **and Energy** (up 13.7%) **topped the charts.** Even the worst-performing sectors in Q1 made some progress, with Utilities rising 4.6% and Consumer Discretionary up 5.0%. That all sectors posted gains speaks to the breadth of the first quarter advance.

Mid and small cap US stocks underperformed large cap stocks to start the year, with the Wilshire 4500 stock index rising 7.5% in Q1. This continues a trend that began in 2021, with the lion's share of gains coming from a handful of giant US firms.

International developed markets (up 5.9%) **outshined emerging markets** (up 2.4%), though both lagged US stock markets. Economic growth has been less robust outside the US, evidenced by economic challenges in China, as well as the UK falling into a technical recession. Valuations in foreign markets appear attractive compared to the US.

Market volatility, as measured by the VIX volatility index, **remained subdued in Q1**, hovering between 12 and 16 during the quarter, generally below its long-term average.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Large Cap Stocks	10.56	29.88	11.49	15.05
US Mid/Small Cap Stocks	7.53	26.96	2.96	11.53
International Developed Stocks	5.93	15.90	5.31	7.85
Emerging Markets Stocks	2.44	8.59	-4.68	2.61
Global Stocks	8.32	23.81	7.46	11.45

Past performance is not a guarantee of future results. Returns for periods longer than one year are annualized. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Mid/Small Cap (Wilshire 4500 Completion Index), International Developed (MSCI Europe Australasia Far East Index), Emerging Markets (MSCI Emerging Markets Index), and Global Stocks (MSCI All Country World Index). Growth of $1,000 chart market segmentations as follows: US Stocks (Wilshire 5000 Index) and Foreign Stocks (All Country World Index ex US).

Market Review: Bonds

First Quarter 2024

Bonds Give Up Some Ground in Q1 as Interest Rate Cuts Remain Elusive

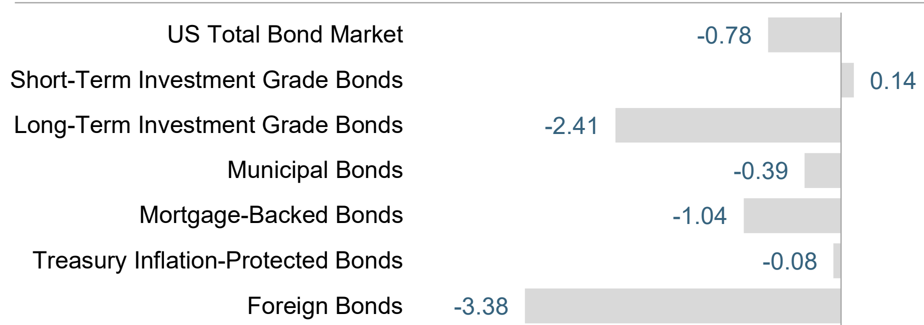
US government bond yields rose to start the year, as inflation eased less than expected, making it more likely the Fed will delay interest rate cuts to later in 2024. Investors had been expecting some relief by mid-year, however that looks less likely now as any actions by the Fed will be “data dependent”—meaning there must be clear signs inflation is nearing the Fed’s 2.0% target. Against this backdrop, The 2-year US Treasury yield rose from 4.23% to 4.59% in the quarter, while the 10-year US Treasury yield increased from 3.88% to 4.20%.

With bond yields on the rise, US bond prices declined in Q1, with the Bloomberg US Aggregate Bond index dropping 0.8% on the period. The Fed’s cautious approach to monetary policy is keeping borrowing costs high, while investors are also becoming more concerned with financing the ever-growing national debt, suggesting bond markets may remain volatile in 2024.

High yield bonds were one of the few fixed income bright spots in the first quarter, gaining 1.5%, as investors grew more confident about the strength of the economy and the ability of riskier companies to repay debt. Low duration short-term government bonds (up 0.1%) and Treasury Inflation-Protected Securities (down 0.1%) also held their value in the face of higher yields. On the opposite end of the spectrum, long duration fixed income performed worst, with long-term US government bonds falling 2.4% in Q1.

Tax-exempt municipal bonds (down 0.4%) **also retreated, but fared better than their taxable counterparts in the first quarter.** Munis continue to provide solid value to investors in the highest tax brackets, and the outlook remains positive as economic growth supports a strong government tax base and municipal balance sheets.

Returns for the Quarter (%)



Period Returns (%)

*Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Total Bond Market	-0.78	1.70	-2.46	0.36
Short-Term Investment Grade Bonds	0.14	3.16	-0.38	1.24
Long-Term Investment Grade Bonds	-2.41	-1.15	-6.04	-0.62
Municipal Bonds	-0.39	3.13	-0.41	1.59
Mortgage-Backed Bonds	-1.04	1.39	-2.84	-0.39
Treasury Inflation-Protected Bonds	-0.08	0.45	-0.53	2.49
Foreign Bonds	-3.38	-1.42	-8.38	-3.72

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Market Review: Alternatives

First Quarter 2024

Gold, Energy, and Commodities Rise in Q1; REITs Lag

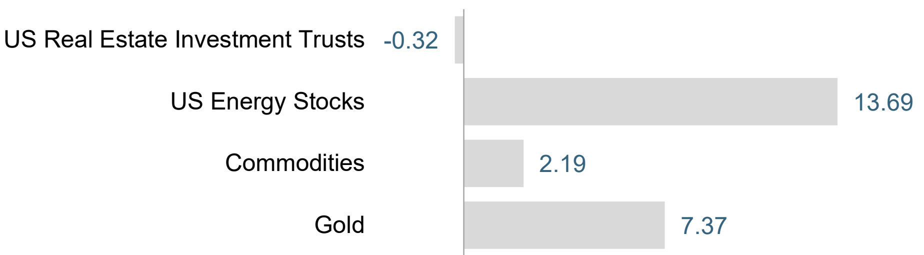
Performance of alternative investments was generally strong in the first quarter, with gold and energy making strong advances, and commodities posting solid gains. REITs, in contrast, struggled under the weight of continued higher interest rates.

Gold extended its streak to start the year, rising 7.4% **in the first quarter**. The precious metal has risen 18.4% over the past 6 months and moved back in favor with investors, including central bank buyers. With persistent inflation and geopolitical worries, many are looking to gold as a store of value and a source of diversification.

US energy stocks surged in Q1, rising 13.7% on the period after a dismal 2023. The sector benefited from higher oil prices, which were largely driven by supply cuts, strong demand, and geopolitical risks. **Commodities, while more subdued, still posted a positive return** of 2.2%, indicating a steady demand for raw materials in a growing global economy. Energy and livestock were the best performing commodities, while agriculture and industrial metals saw more modest gains.

Real estate investment trusts got off to a slow start in 2024, falling 0.3% in Q1 and substantially trailing equity markets. Higher interest rates have elevated borrowing costs for real estate investors, hurting both cash flow and property valuations. Commercial office space faces additional challenges from changes in work habits, such as teleworking, and the economic problems facing many large metro downtown areas.

Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*
US Real Estate Investment Trusts	-0.32	10.37	4.03	4.14
US Energy Stocks	13.69	18.03	29.67	13.02
Commodities	2.19	-0.56	9.11	6.38
Gold	7.37	11.85	9.40	11.82

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Market Summary

Index Returns

Q1 2024	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
	STOCKS				BONDS/DOLLAR	
	10.56%	7.53%	5.93%	2.44%	-0.78%	2.22%

Since Jan. 2001	US Large Cap	US Mid/Small Cap	International Developed	Emerging Markets	US Bond Market	US Dollar
Avg. Quarterly Return	2.4%	2.9%	1.7%	2.4%	1.0%	0.4%
Best Quarter	20.5% **Q2 2020**	30.3% **Q2 2020**	25.8% **Q2 2009**	34.8% **Q2 2009**	6.8% **Q4 2023**	7.1% **Q1 2020**
Worst Quarter	-21.9% **Q4 2008**	-27.9% **Q1 2020**	-22.7% **Q1 2020**	-27.6% **Q4 2008**	-5.9% **Q1 2022**	-5.8% **Q2 2009**

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Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2024, all rights reserved. Bloomberg data provided by Bloomberg.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2024

400
380
360
340
320
300

Dec 31 Jan 31 Feb 29 Mar 31

“Fed Minutes Suggest Rate Hikes Are Over, but Offer No Timetable on Cuts”

“US Inflation Edged Up in December after Rapid Cooling Most of 2023”

“S&P 500 Closes at First Record High in Two Years as Tech Fuels US Stocks”

“US Jobs Growth of 353,000 Blasts Past Expectations as Labor Market Stays Hot”

“Eurozone Industrial Production Unexpectedly Expands amid Signs Recovery for Sector”

“UK Retail Rebound Promises Quick Route Out of Recession”

“Dow, S&P 500, Nikkei Surge to Records after Nvidia’s Blockbuster Earnings Spark Global Rally”

“US Treasury Yields Rise in February as Fed Pivot Is Delayed”

“Gold Rallies to All-Time High”

“US Unemployment Ticks Higher to 3.9% and Wage Growth Slows”

“US Small-Business Optimism Weakens on Inflation Worries”

“Global Era of Negative Interest Rates Ends as Japan Goes to Zero”

“US Senate Approves Measure Averting Government Shutdown”

“US Durable-Goods Orders Rebound and Business Investment Rises”

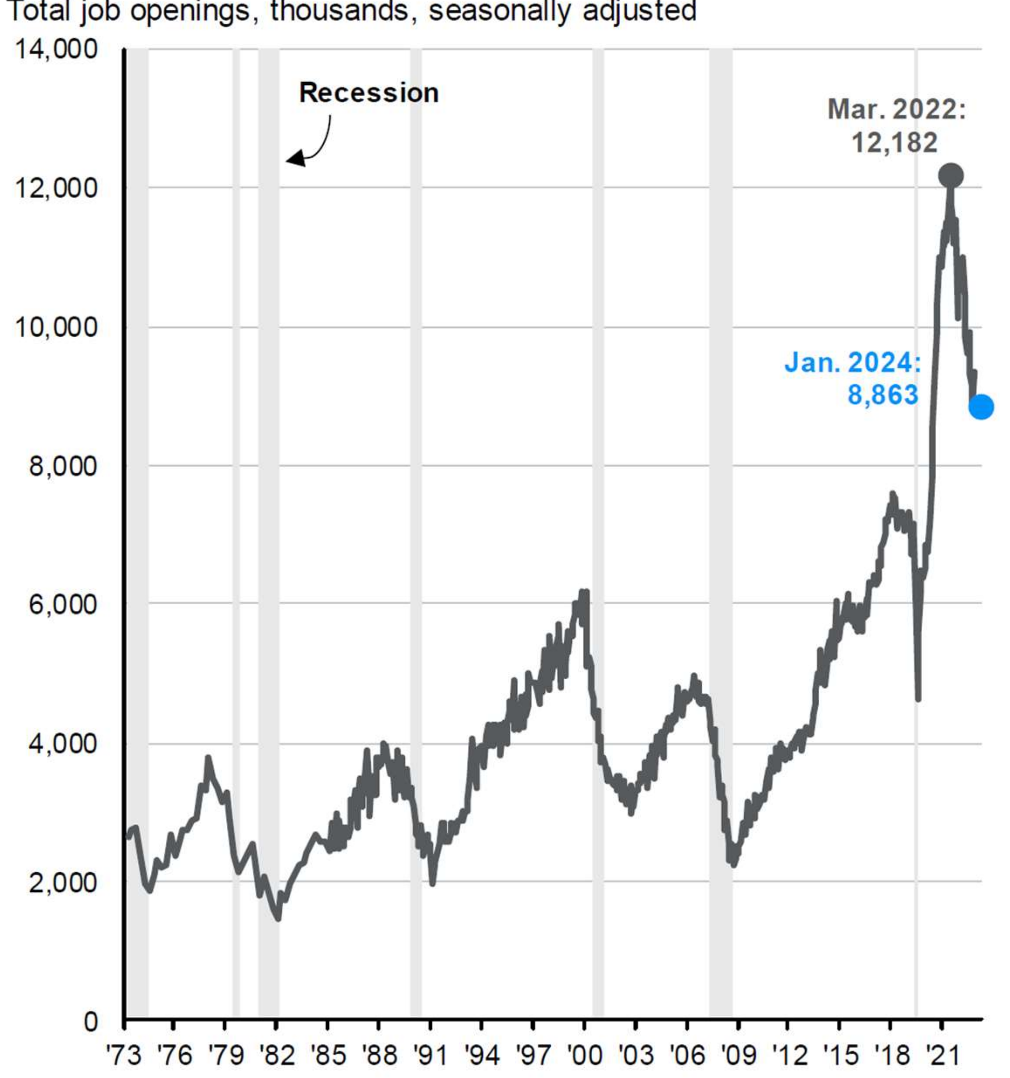
“Markets around the World Set Records in First Quarter”

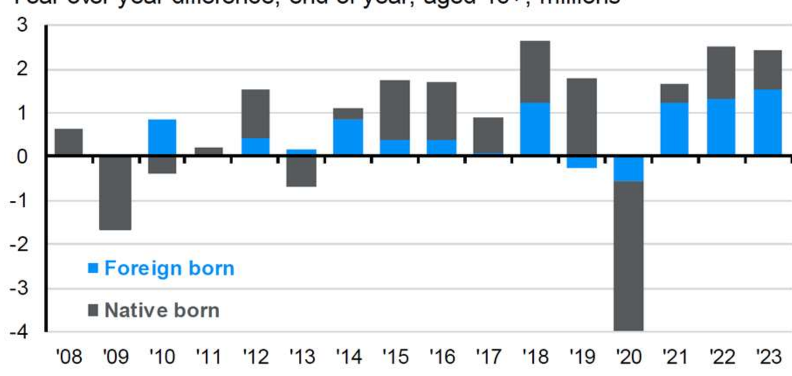
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2001.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Labor Supply

First Quarter 2024





The chart to the left shows job openings, that is, unfilled positions. A higher number means it's harder to find workers to fill positions, suggesting an economy running hot. Openings peaked at over 12 million in March 2022, indicating a very tight labor market. Although they have since dropped to under 9 million, that is still well above historical norms and reflects one source of inflation the Fed is watching carefully.

The chart above shows strong growth in the U.S. workforce the last three years, driven by increased participation (more choosing to work) and a surge in immigration. This has led to impressive job gains without a spike in wage growth–and subsequent higher inflation–as seen on the following page.

Source: J.P. Morgan Asset Management. * JOLTS job openings from February 1974 to November 2000 are J.P. Morgan Asset Management estimates. Labor force data are sourced from the Current Population Survey, also known as the household survey, conducted by BLS. This survey does not ask respondents about immigration status and may include undocumented workers, although it likely undercounts the undocumented population. *Guide to the Markets – U.S.* Data are as of March 31, 2024.

Unemployment and Wages

In the chart below, the black line represents the unemployment rate and the blue line shows the rate of wage growth over time. The dashed horizontal lines show the long-term average of each. As expected, these indicators exhibit an inverse relationship. Note the sharp decline in wage growth from its 2022 high and the accompanying modest rise in unemployment. In an ideal scenario, wage growth would continue to trend downward without much of an upward spike in unemployment, a so-called "soft landing."

Civilian unemployment rate and year-over-year wage growth

Private production and non-supervisory workers, seasonally adjusted, percent

	50-year avg.
Unemployment rate	6.2%
Wage growth	3.9%

May 1975: 9.0%
Nov. 1982: 10.8%
Jun. 1992: 7.8%
Jun. 2003: 6.3%
Oct. 2009: 10.0%
Apr. 2020: 14.8%
Mar. 2022: 7.0%
Feb. 2024: 4.5%
Feb. 2024: 3.9%

16%
14%
12%
10%
8%
6%
4%
2%
0%

'73 '75 '77 '79 '81 '83 '85 '87 '89 '91 '93 '95 '97 '99 '01 '03 '05 '07 '09 '11 '13 '15 '17 '19 '21 '23

Source: BLS, FactSet, J.P. Morgan Asset Management. Private production and non-supervisory jobs represent just over 80% of total private nonfarm jobs. *Guide to the Markets – U.S.* Data are as of March 31, 2024.

Federal Finances

First Quarter 2024

This national debt (below) is the cumulative sum of the annual deficits, shown as a percentage of GDP to illustrate its magnitude relative to the size of the economy. The chart's future projections compare the Congressional Budget Office's (CBO) baseline projections (in black) to those if the Tax Cuts and Jobs Act (TCJA) is extended beyond its current 2025 expiration date (in red). In either scenario, debt is forecast to reach an all-time high as a percentage of GDP. Opinions vary widely on how much debt is too much; that is, the point at which a growing federal debt burden causes significantly higher interest rates, inflation, and/or general financial markets dislocation. We continue to monitor the debt situation closely.

Federal net debt (accumulated deficits)

% of GDP, 1940-2034, CBO Baseline Forecast, End of fiscal year

TCJA extension*
2034: 124.4%
2024: 99.0%
2034: 116.0%
Forecast
140%
120%
100%
80%
60%
40%
20%
'40 '48 '56 '64 '72 '80 '88 '96 '04 '12 '20 '28

Source: J.P. Morgan Asset Management. *Adjusted by JPMAM to include estimates Congressional Budget Office May 2023 report "Budgetary Outcomes Under Alternative Assumptions About Spending Revenues" on extension of TCJA provisions. Forecasts are not a reliable indicator of future performance. *Guide to the Markets – U.S.* Data are as of March 31, 2024.