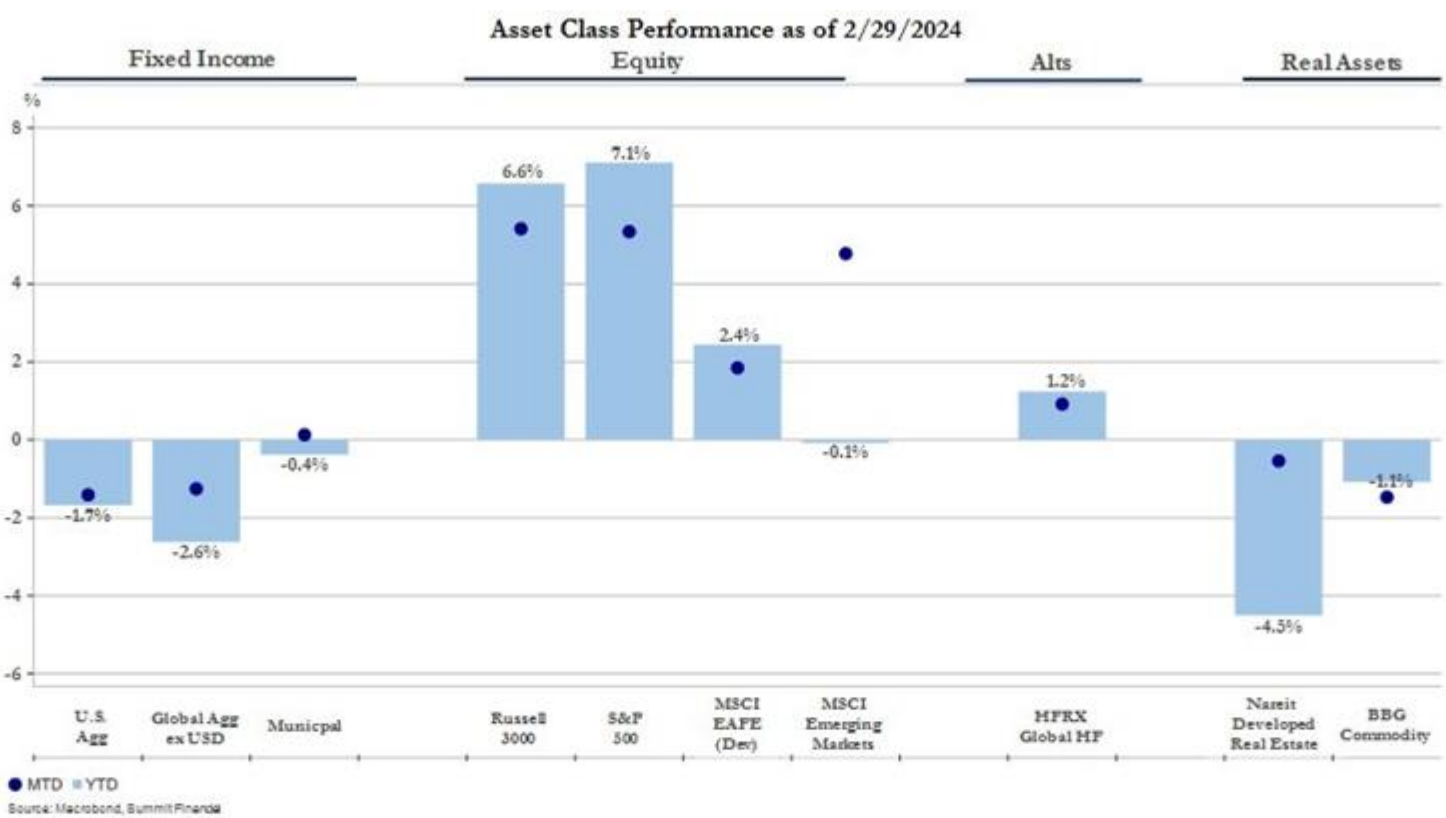
MEEDER WEALTH MANAGEMENT

February 2024 Investment Newsletter

Key Takeaways

- Modest economic growth expectations continue to be surpassed in the U.S., leading to a broadening 'soft-landing' consensus. On the contrary, more optimistic expectations leave markets more susceptible to disappointment.
- The anticipated timing of the Fed's first rate cut keeps extending. While market participants entered the year expecting six cuts, three or fewer cuts now appear more likely as the Fed has emphasized its decisions will be data dependent.
- Inflation prints will continue to make headlines but the data has been trending lower with the Fed's favored inflation indicator, PCE, getting closer to the 2% target. CPI is also falling but is running slightly hotter due to a larger constituent weight in housing.
- Supportive economic data and better than expected earnings from U.S. companies powered another strong month for risk assets. Roughly three-quarters of U.S. companies exceeded Q4 earnings expectations with ~90% reported.
- Newly found complacency with a soft-landing scenario has contributed to expanding investor risk appetite evidenced by a variety of factors stemming from historically tight credit spreads to the recent surge in crypto assets.
- February was supportive for international stocks, although they continue to lag U.S. counterparts. Chinese equities rose more than 8% supporting emerging market equities. Japan has been a standout performer within developed, ex. U.S. indices.
- Rates rose in the belly of the curve over the month, reflecting stronger economic data and growth expectations. With the rise in rates, duration-sensitive assets generally suffered.
- Alternative assets continue to gain in popularity within diversified portfolios. Within the private equity sector, exit activity is set to increase as M&A and IPO conditions loosen and funds look to return capital to investors.
- As investor optimism continues to impact markets and raise valuations, it's a time to remain disciplined and express a modest preference toward quality and liquidity across asset classes and within portfolios.

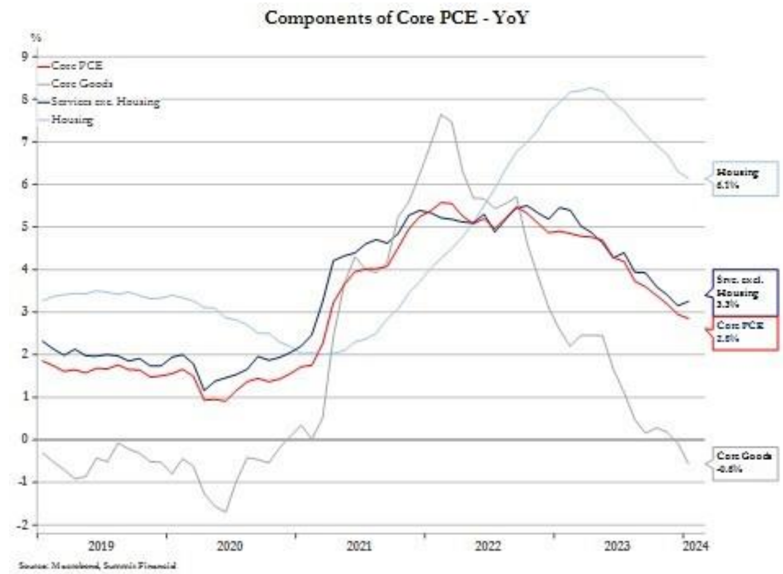


Economy

Following a strong start to 2024, the U.S. economy remained resilient in February and continued its growth trajectory, driven by falling inflation, a resilient labor market, real wage growth, and positive consumer sentiment.

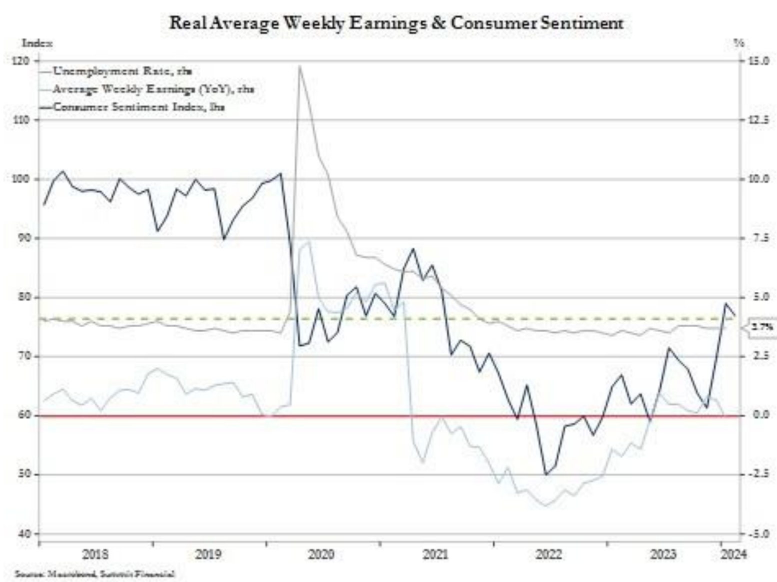
Inflation Continues to Trend Lower Despite Sticky Housing Prices

- Core PCE, the Fed's preferred measure of inflation, has continued its downward trend to start 2024 with the most recent reading coming in at 2.8%.
- Core goods inflation has seemingly been eliminated with prices declining 0.6% YoY, while services ex. housing ticked up slightly.
- Housing prices remain sticky, increasing ~6.1% YoY, and continue to pull up the overall measure.
- With the Fed stressing that any decision to cut rates will be data dependent, trends in sticky sectors will likely be a key topic at future FOMC meetings as it seems the final stretch in the battle against inflation will be the most difficult.



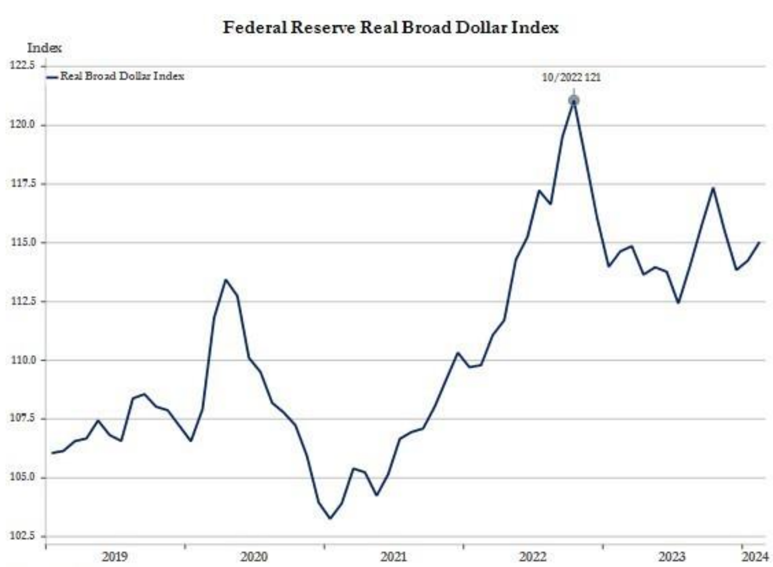
Favorable Consumer Trends Continue to Support U.S. Economic Growth

- Real wage growth turned back positive in the second half of 2023 and remained above zero through February.
- Naturally, this continues to support overall sentiment as consumers maintain purchasing power.
- The labor market has also remained strong, with unemployment staying below the Fed's preferred 4.0% level.
- While it remains unclear whether a soft-landing will be achieved and if GDP growth can continue to outpace expectations, for now, favorable trends in pricing and labor continue to support the consumer-driven U.S. economy.



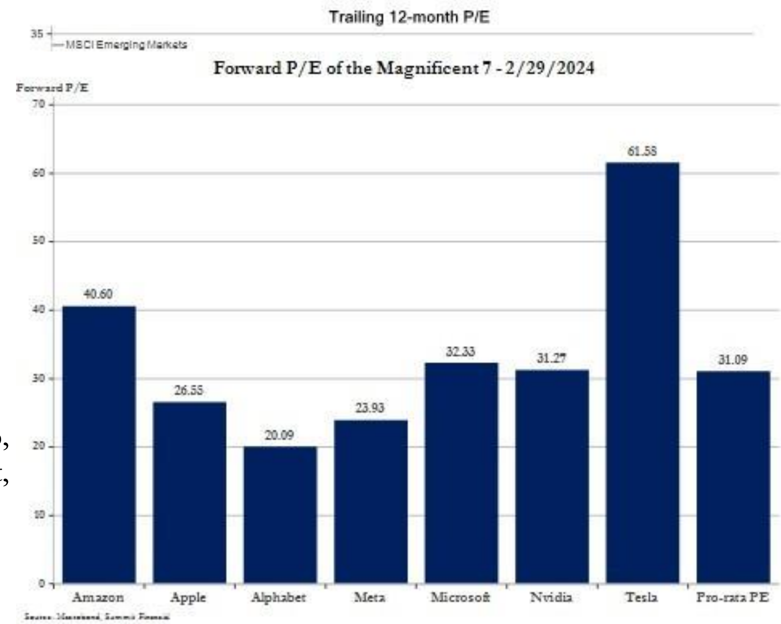
USD Strength Continues into 2024

- Higher relative yields, coupled with a resilient economy, have led to continued strength for the USD, despite many economists calling for it to start showing cracks in 2024.
- Higher-for-longer benchmark rates should continue to bolster the USD, and the case for future declines will continue to weaken if U.S. economic growth remains strong.
- Capital continues to flow into the U.S., further reinforcing the USD's role as the world's reserve currency despite any short-term bumps in the road.



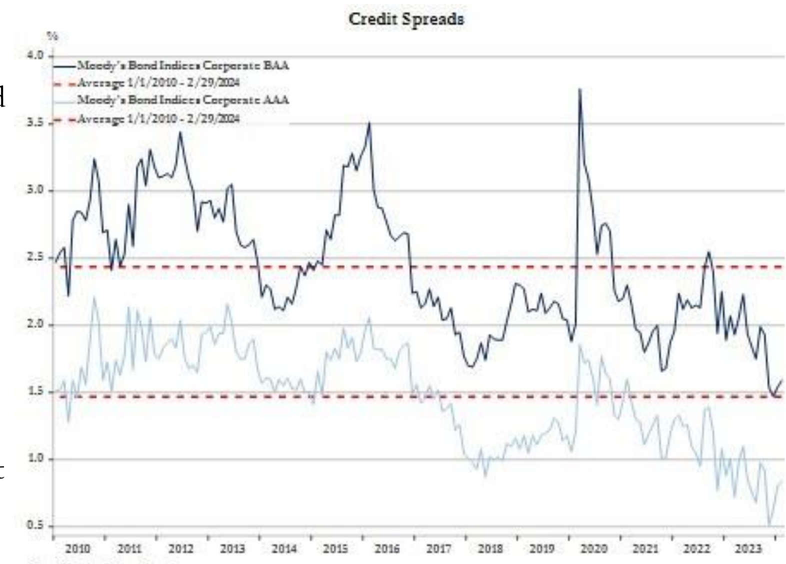
Markets

Is the Market in an AI Bubble?



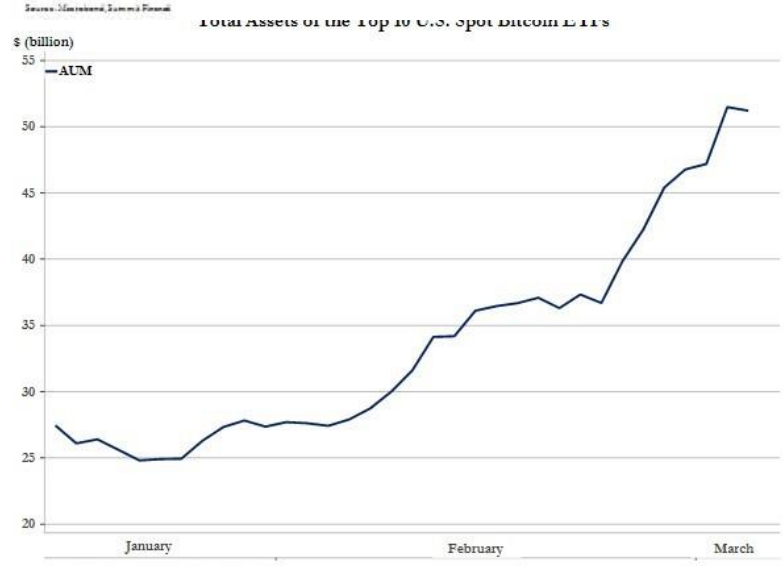
- AI enthusiasm, led by current posterchild Nvidia, caused some to question whether a speculative bubble is brewing.
- Despite the rally, it's uncertain that bubble territory can be declared. Nvidia currently trades at ~28x forward P/E, although valuations are rising.
- The Magnificent 7's pro-rata forward P/E of 31 is elevated, but can be partially justified by a higher level of quality relative to the broader market.
- Margins for these companies currently average near 23%, approximately 2.5x the ~9% margin of the broad market, and all have strong balance sheets.
- To further put the situation into perspective, forward P/Es were over 100x during the 2000 Dotcom Bubble.

Economic Strength Continues to Drive Tightening Spreads



- Investment-grade bonds were negative for the month and year-to-date but higher yields offer support and will help to erode those losses as time goes on.
- Credit-sensitive portions of the market (ex. high yield) outperformed due to tightening spreads and higher starting yields.
- Munis fared better than taxable investment-grade bonds due to more favorable market technicals.
- Credit spreads continuing to grind lower is indicative of general complacency with the soft-landing scenario. Tight pricing leaves little room for error should key factors surprise to the downside.

Bitcoin ETF Assets Growing at Record Pace



- Since their January 11th launch, investors have piled into Bitcoin ETFs at a historic pace with total assets of the top 10 funds currently topping $50B.
- BlackRock's iShares Bitcoin Trust eclipsed $10B in assets on 2/29, the fastest a new ETF has ever reached that milestone, making it the second largest.
- The Grayscale Bitcoin Trust ETF remains the largest, while Fidelity's Wise Origin Bitcoin Fund is third on the list and has over $6B, making it their third-largest ETF.
- Despite their popularity and recent price spikes, Bitcoin and other similar cryptocurrencies have struggled to find true use cases that could lead to some determination of economic or fundamental value. They are also notoriously volatile, and any potential allocation should be viewed with caution.

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