

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW FIRST QUARTER 2024

What Happened:

The good times kept rolling as the 2023 bull market rally continued into the new year. The S&P 500 index set 22 new all-time closing highs during the first quarter making it the best start to a year since 2019. Except for real estate, all sectors of the market saw advances in the first quarter. This is a positive sign showing that investors are looking beyond the Magnificent Seven for attractively priced stocks that were previously overlooked.

The durability of the rally will be greatly influenced by corporate earnings. Analysts are expecting first quarter earnings to grow by 3% year-over-year then increase dramatically for the remainder of the year. In fact, estimates of earnings growth are pegged at 9% for all of 2024 and 14% for 2025. This bodes well for a continuation of the rally.

Investors are by and large a nervous bunch, and nothing makes them more nervous than a string of record highs. Mostly, they worry about an impending market correction (a decline of 10%) and what to do about it. Our response is to remind everyone that corrections are a normal part of investing. They occur about once per year on average and trying to time them is a losing strategy. Corrections are typically short lived and once they run their course, the market moves forward again. In short, they are nothing to be overly concerned about. We remind our clients that our portfolios are well-diversified and will withstand market downturns.

First Quarter 2024 Performance:

S&P 500 Index (large stocks)	10.6%
Russell 2000 Index (small stocks)	5.2%
MSCI EAFE Index (international stocks)	5.8%
Bloomberg U.S. Aggregate Bond Index (bonds)	(0.8)%

Prognosis:

The economy continues to exceed expectations. Hardly anyone is talking about recession anymore. With the expectations of rising corporate earnings, moderating inflation and possible easing by the Federal Reserve, 2024 is shaping up to be another positive year for the markets, even if we get a short-term correction. One could argue that some sectors are a bit frothy, but valuation metrics for most stocks are not significantly out of whack, and earnings growth will help bring stock metrics to more reasonable levels.

History also gives us hope. Going back to 1950, whenever the market advanced 8% or more in the first quarter, it finished higher 93% of the time with average full year gains of 23% (according to Dow Jones Market Data). History doesn't give us guarantees, but it reassures us, nonetheless.

Spring is upon us! Wishing you all the best as warm weather comes our way.

SCK