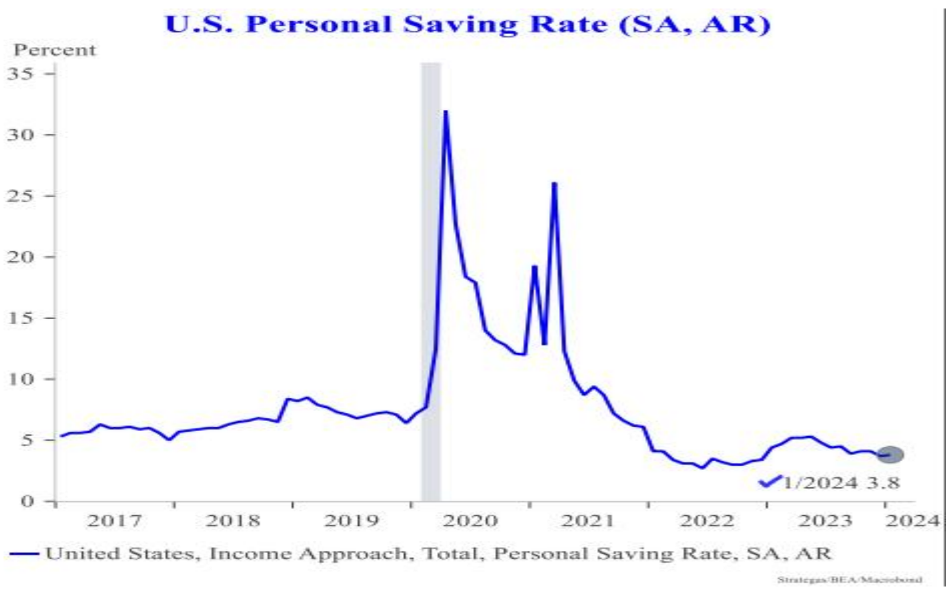
LaFleur & Godfrey
PRIVATE WEALTH MANAGEMENT

Spring 2024 Quarterly Commentary

Dan VanTimmeren Aaron Ritsema
John Koczara

The New Normal: Higher Rates for the Foreseeable Future

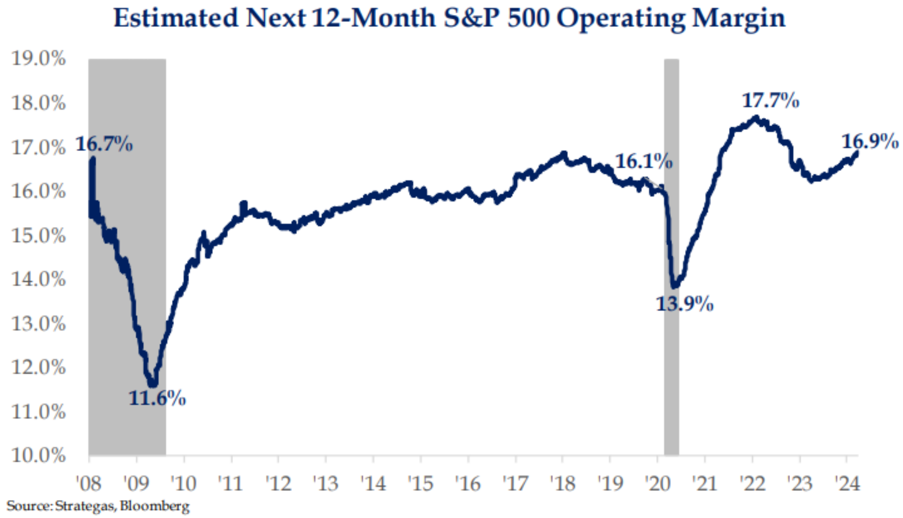
Economic Perspective: Jerome Powell and his colleagues at the Federal Reserve deserve a ton of credit. They have successfully navigated a very challenging economic tightrope coming out of the pandemic. Interest rates are 'normal' once again – and the economy seems to be in a pretty good place. Monetary policy tightening / rate hikes have done their job. Inflation continues to rollover toward the Fed's ultimate goal of 2%. Jobs are plentiful and the unemployment rate remains near full employment by historical standards – with recent readings just below 4%. Consumers, benefitting from solid job prospects, stable interest rates and significant stock market gains (helping 401Ks) over the last year, continue to spend their increased purchasing power (wage gains > inflation). In fact, the National Retail Federation recently forecasted $5.3 trillion of total consumer spending – up 2.5 to 3.5% this year (see chart below left). This compares to the 10-year pre-pandemic average annual sales growth rate of 3.6%. With our economy primarily driven by the consumer, economic growth estimates have risen & the economic bears remain in hibernation.

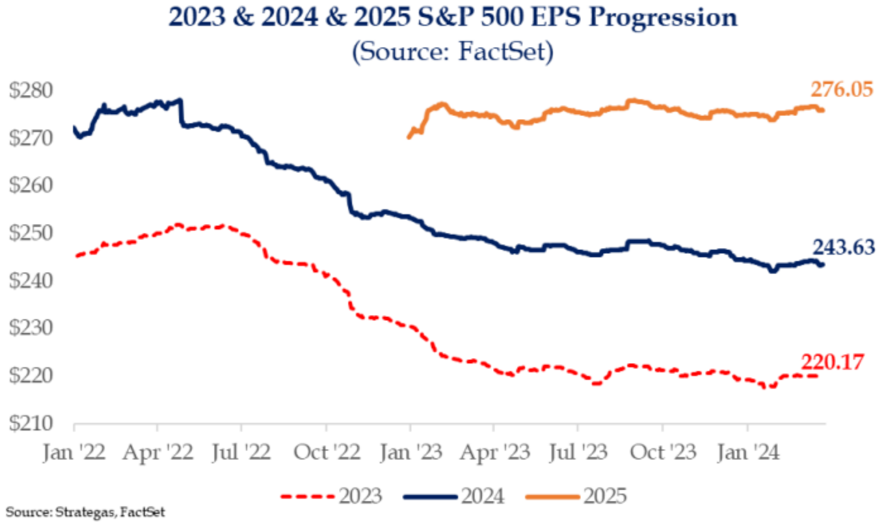


However, there are some signs that an economic cold front may be on the horizon. Consumer personal savings rates (see chart above right) have declined and become a little worrisome. In addition, consumer debt levels have increased (along with interest costs). As a result, consumer confidence levels have moderated from prior peaks. Small business optimism has also been gloomy for some time now. According to the NFIB Small Business Optimism Index, its February reading of 89.4 marked the 26th consecutive month that the index traded below the 50-year average. As a result, leading economic indicators continue to experience headwinds. In fact, the LEI (leading economic indicator) Index has been negative for 19 straight months! We believe businesses are digesting the lagged effect of higher rates. CEOs are still adapting & adjusting to the new normal of higher interest rates for longer. Importantly, as an offset, we are seeing companies continuing to invest. According to Strategas Research, core capital goods investment remains elevated and in an uptrend. This suggests cautious optimism from the private sector. Our investment team believes business investment will continue to be a key barometer to determine the overall strength and durability of our economy.

Market Perspective:

After the strong market returns of 2023 and early-2024, investors are beginning to question how far this bull can run. Valuations have climbed (to one standard deviation above the long-term average) but so have earnings. At the beginning of the year, market strategists predicted 2024 earnings growth of mid to high single digits. However, as a result of higher operating profit margins (see chart below left), recent earnings reports have come in much better-than-expected – propelling new S&P 500 estimates to low double digits (see chart below right)! With a strong earnings backdrop, we have begun to see new leadership in the stock market – away from 'Magnificent 7' darlings of 2023. Specifically, outperformance has come from previously unloved names in the Industrials, Financials, Energy and Communication Services sectors.





Looking Ahead:

The winner of this economic tug-of-war between accommodative fiscal stimulus (deficit spending) and restrictive monetary policy (higher rates) will be difficult to predict. In general, the stock market is telling us everything is fine but the bond market is saying the opposite. With an election on the horizon, no wonder investors are perplexed. A Wall Street Chief Global Strategist that we greatly respect recently told an audience that if you would like to feel better about this crazy world we live in you need a pitcher of water and a baseball bat. He said to put your phone in the pitcher and use the bat on your television. While this may be an extreme way to cope with stock market anxiety in an election year, we agree with the main point he was trying to make! Ignore the noise…everything in the long run will be just fine.