IRONWOOD WEALTH ADVISORS
a registered investment advisor
DISCIPLINED WEALTH MANAGEMENT

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March 2024 - Bull Markets are Great! But stampedes make me vigilant for the short-term.

Market Update

(all values as of 02.29.2024)

Stock Indices:

Dow Jones	38,996
S&P 500	5,096
Nasdaq	16,091

Bond Sector Yields:

2 Yr Treasury	4.64%
10 Yr Treasury	4.25%
10 Yr Municipal	2.53%
High Yield	7.63%

YTD Market Returns:

Dow Jones	3.47%
S&P 500	6.84%
Nasdaq	7.20%
MSCI-EAFE	2.23%
MSCI-Europe	1.23%
MSCI-Pacific	3.98%
MSCI-Emg Mkt	-0.27%
US Agg Bond	-1.68%
US Corp Bond	-1.67%
US Gov't Bond	-1.59%

Commodity Prices:

Gold	2,051
Silver	22.87
Oil (WTI)	78.25

Currencies:

Dollar / Euro	1.08
Dollar / Pound	1.26
Yen / Dollar	150.63
Canadian /Dollar	0.73

Macro Overview: Every now and then, the economy is described as being a "Goldilocks" economy. Like Goldilocks' preferred porridge, it is not too hot nor too cold, but just right and bullish for stocks. At present, we subscribe to that thinking, but also note that the three bears did show up at the end of this precautionary tale. No doubt the bears will eventually come visit, but that's an outcome we don't see anywhere on the visible horizon.

The Federal Reserve decided to leave rates unchanged in February, igniting concerns among the financial markets that interest rates may not fall as soon as many had expected. Larger than anticipated inflation data and resilient employment is deterring the Fed from lowering rates too soon. As a reminder, contrary to earlier mainstream expectations of 5+ rate cuts, we anticipate no more than 2-3 rate cuts beginning no sooner than mid-year.

The Consumer Price Index (CPI) revealed that inflation was running at 3.1% for the past year as of January, down from 3.9% in December. Some analysts believe that it may be too soon for the Fed to determine when it will lower rates, even though inflation is clearly abating.

A global recessionary environment is evolving, with recent economic data showing that the U.K. and Japan have both fallen into a technical recession. Global growth forecasts by the International Monetary Fund (IMF) indicate a broad pullback in economic expansion among various countries worldwide. We view this as a mid cycle economic slowdown and not the precursor of a more protracted global contraction.

Interest rates remained stubborn in February as Treasury bond yields rose slightly across all maturities, known as a shift up in the yield curve. Larger than expected inflation data as well as the Fed's hesitancy to lower rates, drove bond yields higher in February. We view this as an opportunity to continue increasing bond exposure and duration. Three Fed officials announced that the pace of rate cuts will be contingent on future economic data. They differed as to when any rate cuts would materialize, two suggested "later this year" while one estimated this summer. The Fed's most significant factors when determining any reduction in rates remain inflation, employment, and economic growth.

Unemployment rose to the highest level in two years, hitting 3.9% in February, as reported by the Department of Labor – but continued the longest stretch of unemployment below 4% since ethe 1960s. Wage growth also slowed from the previous month, possibly signaling a cooling labor market as perceived by economists.

Requirements for large banks to hold more capital are being proposed by the Federal Reserve. A proposal to boost bank capital by 19% is seen as a preparation for a possible retraction in economic activity. Regulators including the FDIC and the Office of the Comptroller of the Currency support the heightened capital requirements. Banks argue that the additional capital requirements would increase lending costs and tighten loan availability for consumers and businesses.

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OVER 100 MILLION PEOPLE ARE NOT IN THE WORKFORCE

Rates Remain Hesitant in February – Fixed Income Overview

Interest rates rose slightly across all maturities in February, resulting in what is known as a shift up in the yield curve. The Fed's resistance to lower its key rate, the Fed Funds rate, resulted in markets expecting elevated rates for a longer period. Communications from Fed officials indicate that rates may not be reduced until the summer or perhaps even the fall.

The benchmark 10 year treasury bond yield ended February at 4.25%, up from 3.95% at the beginning of the year. The shorter term 2 year treasury bond, yielded 4.64% at the end of February, up from 4.33% at the beginning of January. The slight increase in both maturities led to an increase in rates on some consumer loans during the month. (Sources: Treasury Dept., Federal Reserve)

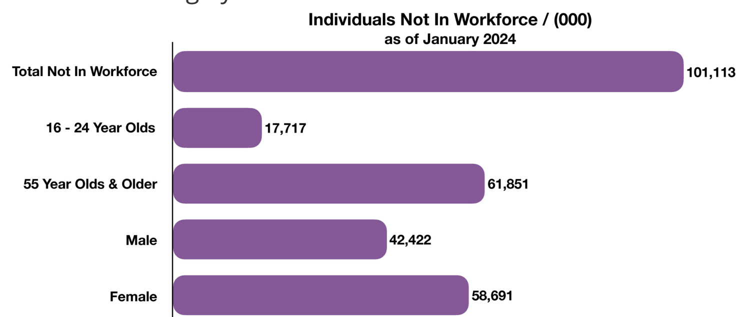
Stocks Advance In February – Domestic Equity Overview

All eleven sectors of the S&P 500 Index posted positive results in February, with technology, financial, and healthcare making up the largest sectors of the index. The Dow Jones Industrial Index and the Nasdaq also posted positive gains in February.

The technology sector now accounts for roughly 30% of the S&P 500 Index, a level not seen since the early 2000s. One of today's core distinctions is that corporate earnings today are much more attractive than the early 2000s. Some analysts view this dynamic as a disparity and imbalance in the equity markets – a view we don't entirely share.

Over 100 Million Are Not In The Workforce – Labor Market Dynamics

Department of Labor data released this past month reveal that over 100 million people are not in the workforce, either by desire or available for work. Data vary across all age groups and gender, yet do show that a large proportion of the U.S. population is not working by choice.



As of January 2024, over 100 million people were not in the workforce, of which 61.85 million were age 55 or older, composing the largest non working age group. There were 17.7 million age 16 to 24 that were also not in the labor force. Reasons behind not being in the labor force vary, however, factors during the pandemic are believed to have altered workforce availability and desire to work. Government subsidies and work from home requirements during the pandemic shifted work patterns and habits, leading to millions either dropping out of the workforce, or retiring early. An increase in wealth among older workers over the past three years influenced some to retire early, even though they could still find employment if desired. The lack of qualified workers has been a growing concern among companies looking to hire, as the pool of talented employees has shrunk over the past few years. (Source: U.S. Bureau of Labor Statistics)

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NET WORTH FOR THOSE AGE 65 OR OLDER GREW BY $91,000 FROM 2019 TO 2022

Wealth Among Seniors Grew During The Pandemic – Demographics

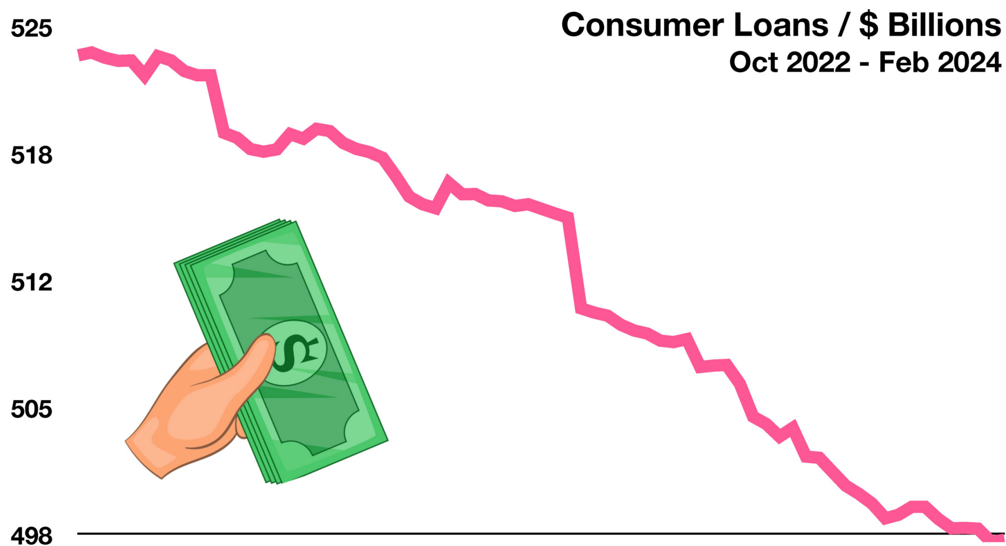
A recently released study by the Federal Reserve Bank of St. Louis found that the median increase in net worth for those age 65 or older grew by $91,000 from 2019 to 2022. The time period which was predominantly during the pandemic, saw home values and financial assets increase in value the most among seniors. More than half of the wealth increase came from home values, while 48% came from retirement accounts and other financial assets.

Younger age groups also saw an increase in wealth during the same period, but nearly not as much as seniors who have already accumulated real estate and financial assets during their earlier years. Those age 18 to 39 saw a median increase in wealth of $31,600 from 2019 to 2022, both from real estate and financial assets. The intermediate age group of 40-64, also experienced an increase in wealth, which encompasses growing families in the prime of their wealth accumulation years driven by income and asset gathering.

Sources: Federal Reserve Bank of St. Louis

Consumer Loans Are Falling – Consumer Finance Behavior

Outstanding loans among consumers have been falling since October 2022, reflecting a drop from auto loans to credit card balances. Such data can be viewed differently, either as a positive or negative result of economic circumstances and consumer sentiment.



A number of variables determine loan activity among consumers, including loan approval, income, sentiment, and need for a loan. Historically, an increase in loan activity has been optimistic as increased income and sentiment among consumers leads to heightened loan requests. Also affecting loans recently are loan approvals, where banks and finance companies have increased lending requirements among consumers and businesses, making it more difficult to obtain a loan. A drop in wages or an increase in living expenses may also deter consumers from taking out loans, as financial constraints make it challenging to qualify and repay loans. The Federal Reserve tracks and analyses loan activity and data for signs of consumer hesitation and sentiment, which eventually affects the economy, since over two-thirds of GDP is contingent on consumer expenditures.

Sources: Federal Reserve

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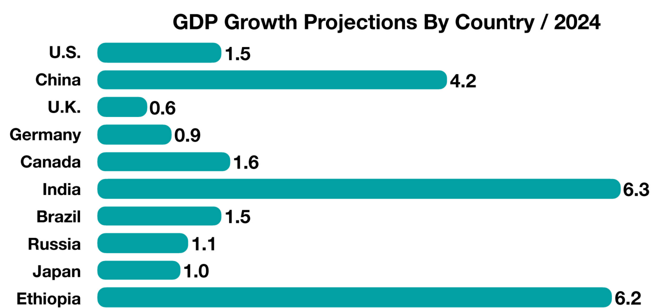
UNEMPLOYMENT RATE ROSE IN FEBRUARY TO 3.9%, THE HIGHEST LEVEL IN TWO YEARS

Global Economy Slowing due to higher interest rates and other interconnected factors: Global growth projections and changing business activity internationally, are indicating a global pullback in economic activity, with an evolving mild recessionary environment. This supports our long-standing view of a domestic and international "rolling" recession whereby certain sectors are contracting while other segments are expanding. This is a much more favorable outcome to higher interest rates versus all or most economic sectors contracting simultaneously.

Each year, the International Monetary Fund (IMF) releases a forecast of global GDP growth by country. Projections for 2024 are lower than they have been in prior years, with a noticeable pullback with developed economies. The IMF projects that both emerging markets and developed economies are projected to grow by 4% in 2024. GDP growth estimates for the U.S. are conservative, at 1.5%, while projections for China are at 4.2% and 6.3% for India.



France, Japan, and the U.K. have slipped into technical recessions, defined by two consecutive quarters of declining GDP data. Germany is also running the risk of falling into a technical recession as well. Germany and Japan are critical economic components of the global economy, with vast manufacturing and production, representing over $3 trillion of total global exports. Economic data coming from China reveals that housing prices have been falling and property developers have been defaulting on their debt over the past year, possibly affecting consumer sentiment and expenditures in the country. Thus far, the U.S. has avoided a recessionary environment, even as other developed economies have begun to falter. International trade activity with other countries, as well as domestic consumer expenditures, will be critical factors in validating any retraction in the nation's economy. (Sources: CIA World FactBook, IMF)

Unemployment Ticks Up & Wage Growth Slows – Labor Market Update: The unemployment rate rose in February to 3.9%, the highest level in two years. The Department of Labor also reported that wage growth slowed in February from the previous month. The Department made substantial revisions in February to previous data, clarifying the slow down in wage growth more clearly. Wage growth in February decreased significantly from the beginning of the year in January, surprising various analysts and economists. One of the Labor Department's substantial revisions included data showing that the economy had added 353,000 positions in January, yet later reported that the number was actually 229,000. The Department also identified that native born Americans with a job fell by 881,000 over the past year to 129.3 million, while foreign born workers with a job rose by 1.5 million to 31 million over the same period. Sectors experiencing employment gains include some lower paying jobs in healthcare, government, and food services. (Source: Department of Labor)

Market Returns: All data is indicative of total return which includes capital gain/loss and reinvested dividends for noted period. Index data sources; MSCI, DJ-UBSCI, WTI, IDC, S&P. The information provided is believed to be reliable, but its accuracy or completeness is not warranted. This material is not intended as an offer or solicitation for the purchase or sale of any stock, bond, mutual fund, or any other financial instrument. The views and strategies discussed herein may not be appropriate and/or suitable for all investors. This material is meant solely for informational purposes, and is not intended to suffice as any type of accounting, legal, tax, or estate planning advice. Any and all forecasts mentioned are for illustrative purposes only and should not be interpreted as investment recommendations.