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INVESTMENT MANAGEMENT

Q1 2024 Markets in Review

Markets' pricing of a spring rate cut fell—and then the Fed removed all doubt

Amidst the prevailing economic resilience and ongoing inflationary pressures, the Federal Reserve's recent guidance has added weight to the unlikelihood of rate cuts before summer. This stance reflects a nuanced understanding of the current economic landscape, where policymakers balance the need for stimulus against the risk of exacerbating inflationary pressures.

The market's recalibration of rate cut expectations—from six cuts to three for the year—suggests a more cautious approach driven by a reassessment of economic data and central bank communications. Investors and analysts are now closely scrutinizing indicators such as employment figures and consumer spending patterns for further insights into the Fed's future policy actions in 2024 and on into 2025.

This drastic shift in just three months reinforces our opinion that it continues to be extremely difficult to get the macro right.

U.S. remains concentrated—but there's been a shift in leadership

Seven stocks are contributing two-thirds of the S&P 500 returns—but they're not the seven you might think. Take a look at this year's biggest winners as names like Apple, Alphabet, and Tesla lag YTD.

The New "Magnificent Seven?"

| Company Name | YTD Performance |
|--------------|-----------------|
| Nvidia | +82% |
| Meta | +37% |
| Amazon | +19% |
| Microsoft | +12% |
| Eli Lilly | +34% |
| Broadcom | +19% |
| Berkshire | +17% |

Leading Laggards

| Company Name | YTD Performance |
|--------------|-----------------|
| Tesla | -29% |
| Apple | -11% |
| Alphabet | -8% |

Source: Morningstar. Data as of 3/28/2024

As January and February goes, so goes...?

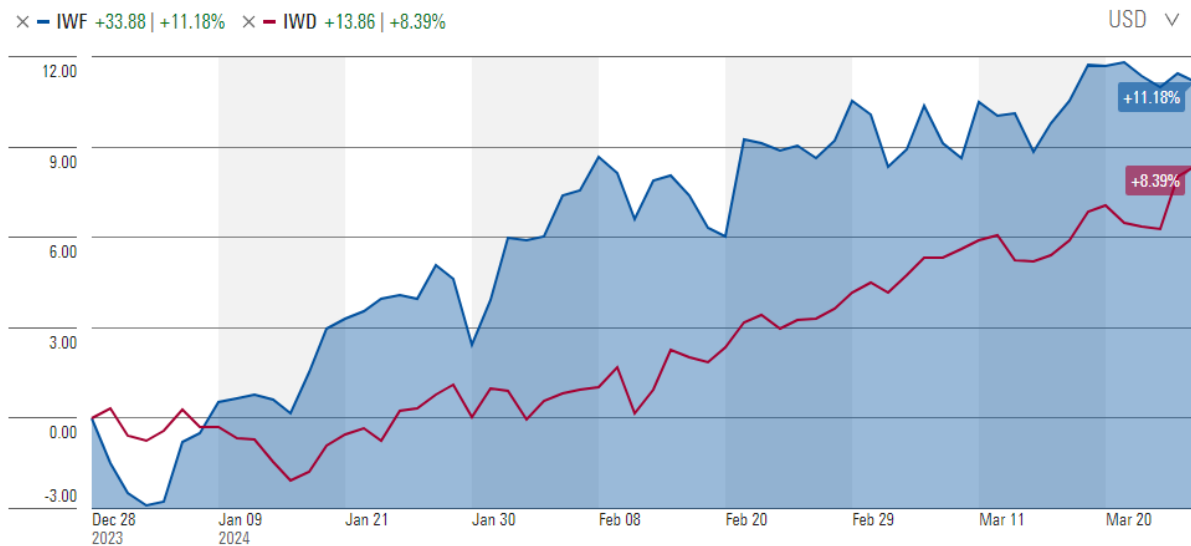
Since 1930, there have been only five instances where positive months in January and February ended in a negative year—and this has happened only twice in the last 36 years.

| Year | January | February | Next 10 Months |
|------|---------|----------|----------------|
| 1930 | 6.4% | 2.6% | (31.2%) |
| 1931 | 5.0% | 11.9% | (51.8%) |
| 1936 | 6.7% | 2.2% | 22.8% |
| 1937 | 3.9% | 1.9% | (38.6%) |
| 1938 | 1.5% | 6.7% | 21.0% |
| 1943 | 7.4% | 5.8% | 10.8% |
| 1944 | 1.7% | 0.4% | 17.2% |
| 1945 | 1.6% | 6.8% | 25.7% |
| 1950 | 2.0% | 2.0% | 26.6% |
| 1951 | 6.4% | 1.6% | 14.8% |
| 1954 | 5.4% | 1.1% | 43.3% |
| 1955 | 2.0% | 1.0% | 27.8% |
| 1959 | 0.5% | 0.5% | 10.8% |
| 1961 | 6.5% | 3.2% | 15.5% |
| 1964 | 2.8% | 1.5% | 11.6% |
| 1965 | 3.4% | 0.3% | 8.4% |
| 1967 | 8.0% | 0.7% | 14.0% |
| 1971 | 4.3% | 1.2% | 8.3% |
| 1972 | 2.1% | 2.8% | 13.5% |
| 1975 | 12.7% | 6.4% | 14.4% |

| Year | January | February | Next 10 Months |
|------|---------|----------|----------------|
| 1983 | 3.7% | 2.3% | 15.5% |
| 1985 | 7.8% | 1.2% | 20.7% |
| 1986 | 0.6% | 7.5% | 9.8% |
| 1987 | 13.5% | 4.0% | (10.8%) |
| 1988 | 4.2% | 4.7% | 6.9% |
| 1991 | 4.4% | 7.2% | 16.7% |
| 1993 | 0.8% | 1.4% | 7.7% |
| 1995 | 2.6% | 3.9% | 29.1% |
| 1996 | 3.4% | 0.9% | 17.8% |
| 1997 | 6.2% | 0.8% | 24.5% |
| 1998 | 1.1% | 7.2% | 18.6% |
| 2004 | 1.8% | 1.4% | 7.4% |
| 2006 | 2.6% | 0.3% | 12.5% |
| 2011 | 2.4% | 3.4% | (3.6%) |
| 2012 | 4.5% | 4.3% | 6.4% |
| 2013 | 5.2% | 1.4% | 24.2% |
| 2017 | 1.9% | 4.0% | 15.0% |
| 2019 | 8.0% | 3.2% | 17.9% |
| 2024 | 1.7% | 5.3% | ? |

Sources: Morningstar and Blackrock. Data as of 2/29/2024. U.S. stocks are represented by the S&P 500 TR Index from 3/7/1957 to 2/29/2024 and the IA SBBI U.S. Large Stock TR USD Index from 1/1/1926 to 3/4/1957, which are unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Growth's outperformance vs. value marches on



Source: Morningstar, NYSE Arca. Data as of 3/28/2024.

Cash levels remain elevated

Assets of Money Market Funds

Billions of Dollars

| | 3/27/2024 | 3/20/2024 | \$ Change* | 3/13/2024 |
|---------------|-----------------|-----------------|--------------|-----------------|
| Government | 4,895.64 | 4,905.90 | -10.26 | 4,971.99 |
| Retail | 1,543.39 | 1,541.25 | 2.14 | 1,536.74 |
| Institutional | 3,352.25 | 3,364.65 | -12.40 | 3,435.25 |
| Prime | 1,023.96 | 1,019.44 | 4.52 | 1,016.16 |
| Retail | 749.96 | 748.27 | 1.70 | 744.16 |
| Institutional | 273.99 | 271.17 | 2.82 | 272.00 |
| Tax-Exempt | 121.26 | 121.20 | 0.06 | 120.28 |
| Retail | 110.56 | 110.09 | 0.47 | 109.50 |
| Institutional | 10.70 | 11.10 | -0.41 | 10.79 |
| Total | 6,040.85 | 6,046.53 | -5.68 | 6,108.43 |
| Retail | 2,403.91 | 2,399.61 | 4.31 | 2,390.39 |
| Institutional | 3,636.94 | 3,646.93 | -9.99 | 3,718.04 |

*Change in money market fund assets is primarily driven by flows and can be used as a proxy for net new cash flows.
Note: Components may not add to the total or compute to the \$ change due to rounding.

Source: Investment Company Institute. Data as of 3/28/2024.

As cash yields are poised to fall later in the year, what about bonds?

When cash yields drop, bonds usually show a positive price return because of their inverse relationship with interest rates—otherwise known as “interest rate risk.” As interest rates fall, newly issued bonds have lower coupon rates, making older bonds with higher rates more appealing. This boosts demand for existing bonds, raising their prices.

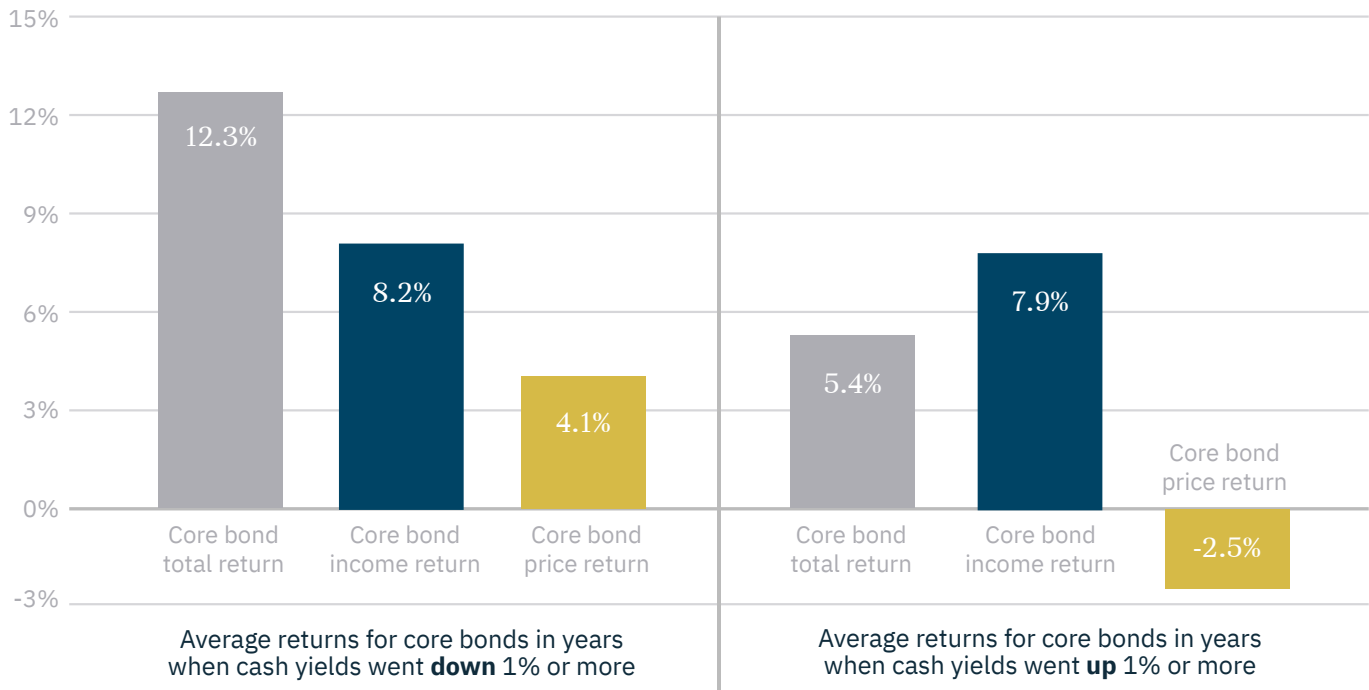
Here’s why it happens:

- **Bond Prices and Yields:** When interest rates fall, bond prices rise—and vice versa. Higher coupon rates on older bonds become more valuable in a lower rate environment.
- **Coupon Payments:** Fixed coupon payments on bonds become more attractive when rates decline compared to lower rates in the market.
- **Yield to Maturity (YTM):** The total return expected on a bond if held to maturity decreases as bond prices rise due to falling rates.
- **Price Return:** Falling rates lead to higher bond prices, resulting in a positive return for bondholders selling at a higher price.

Overall, this positive price return reflects investors seeking better yields in a low-rate setting, driving up prices of higher coupon bonds. Understanding this inverse relationship is crucial for navigating bond markets and investment strategies.

Bonds historical positive price returns as cash yields fall

Calendar Year Returns (1976-2023)



Source: Morningstar. Data as of 2/29/2024. U.S. core bond total return represented by the IA SBBI U.S. Gov IT TR Index from 1/1/1976 to 1/3/1989 and the Bloomberg U.S. Agg Bond TR Index from 1/3/1989 to 2/29/2024. U.S. core bond income return represented by the IA SBBI U.S. Gov. IT TR Index from 1/1/1976 to 1/3/1989 and the Bloomberg U.S. Agg. Bond IR Index from 1/3/1989 to 2/29/2024. Cash represented by the SBBI 30-day T-Bill TR Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

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