February 2024

Monthly Market Commentary

Now that we are a month into the new year, we hope that you are off to a great start with all that you set out for! For those residing in Wisconsin, these historically high temperatures sure have been nice especially coming from record snow levels! Spring is right around the corner where we get to look forward to a nice spring cleanup, baseball, and more time outside! As always, we wish you continued health and happiness in 2024!

A constructive backdrop for the economy is starting to manifest with the prospects of a soft landing taking the front seat as we start 2024. With the FED now acknowledging that they have reached their neutral policy rate without a spike in unemployment and inflation moving in the right direction, bodes well with their policy mandate of stable prices and maximum employment. Its fair to say that we are now past the peak of this FED tightening cycle with rate cuts on the horizon in the second half of the year; however, markets have been too aggressive pricing in almost 6 rate cuts that may not materialize with the current economic backdrop. Primarily, we are in a disinflationary environment and not deflation, the two of which are very different. Simply put, inflation is still growing but at manageable levels alongside the growth trend. Runaway inflation that is way over economic growth, as well as deflation are not good. However, modest inflation alongside economic growth are good environments for markets. Given this backdrop, we expect the FED to make some maintenance cuts as and when necessary, vs market expectations of aggressive cuts that generally manifest only when there is an external shock, or the economy is in contraction. Threading the needle with respect to policy with precision is an extremely difficult task and it seems the FED has done a decent job so far despite being late to raise rates.

Structurally, there are still areas of concern that cannot be ignored. Commercial real estate remains under pressure with mid/small banks having outsized exposure while their asset portfolios remain underwater due to the aggressive tightening cycle. Broad indexes are very concentrated with a handful of names performing well while the broad breadth remains very anemic. Government debt is at a staggering level and growing rapidly that may not be sustainable in the long term while running deficits to the tune of $1.5T consistently is a problem. Having a balanced approach to risk remains prudent while opportunistically taking advantage of market volatility.