CFO Economic Outlook: April 2024 Update

The U.S. stock market demonstrated remarkable resilience, maintaining its robust performance throughout the first quarter 2024. The S&P 500, representing the 500 largest publicly traded U.S. companies, surged by +10.2%, further building on the impressive +27.9% total return over the past 12 months. The NASDAQ Composite, with a heavier focus on growth-oriented technology stocks, delivered a solid +9.1% return for the first quarter. The Dow Jones Industrial Average (DJIA), a collection of thirty U.S. large-cap stocks, posted a respectable +5.6% gain over the first quarter, adding to its +19.6% return over the last 12 months.

As we stated in our last quarterly letter, we still believe that economic indicators are pointing towards the U.S. economy experiencing late business cycle expansion with declining probabilities for a recession this year. We continue to believe the most likely outcome for the rest of 2024 is that the economy will remain strong enough to support some nominal earnings growth at the cost of minimal movement toward the Fed's inflation objective of 2%. Inflation has remained sticky this year which has also contributed to April market volatility as reality has been setting in that the Fed will not be cutting interest rates in 2024 as aggressively as the market had hoped for. The Fed has had minimal movement towards its targeted inflation rate of 2%. The longer inflation remains out of striking distance of the Fed's inflation target, the less likely we are to see rate cuts, unless the Federal Reserve needs to cut rates to truly stimulate a weakening economy.

The key economic question for 2024 is whether the global central banks, led by our own Federal Reserve, can continue to navigate a soft landing without creating a material recession. The consensus investor view at the end of March 2024 was for a continuation of the *Goldilocks* environment of not too hot and not too cold that will result in a soft economic landing, a continued decline in inflation toward the Fed's target of 2% inflation, and double-digit corporate earnings growth. We think that outcome is unlikely, and the U.S. economy will either weaken enough for at least a mild recession, with earnings falling short of investor expectations; or the economy remains just strong enough to support earnings growth at the risk of little progress on inflation with the Fed keeping interest rates higher for longer.

The long-predicted recession could materialize later this year, although it should be brief and shallow. The main arguments for a recession are the lingering effects of monetary tightening from the Fed and from rising long-term interest rates. While the absence of a recession thus far has increased market expectations for a soft landing, historical comparisons point out that a recession prior to this point would have been on the early side compared to history. Can a productivity boom rescue and revive the U.S. and global economies via AI, automation, and robotics? Only time will tell, but we believe that outcome is overly optimistic over the balance of 2024 as several Fed officials have taken a more hawkish stance on rate cuts due to the economy's stalled progress bringing annual inflation down to the Fed's target of 2%.

CFO CAPITAL MANAGEMENT
PLAN PROTECT PROSPER

Given the complicated and uncertain economic and financial market backdrop, investors are facing a challenging and difficult period. Moreover, the danger to the financial markets from continued escalation in Europe and Middle East wars cannot be overstated, while anticipating our own political dysfunction from Washington as November 2024 draws closer. Finally, until convincing evidence for a soft-landing outcome emerges, we believe that the U.S. will continue on a path to (at least) a mild recession, which argues for capital preservation and supports our conservative stock allocation strategy. For fixed income investments, we are focused on taking advantage of any higher yields over the next 3 to 6 months to further increase credit quality and duration exposure. Please do not hesitate to call us at any time to discuss your investment portfolio strategies.

Respectfully submitted,

The CFO Capital Management Team

Custodial and Securities Services Offered Through Charles Schwab & Co., Inc • Member: FINRA & SIPC
Advisory Services offered through CFO Capital Management. CFO-CM and Schwab are not affiliated.
Fairfield Office: 1305 Post Road, Suite 202, Fairfield, CT 06824 • Phone 203-221-0202 • www.cruicefinancial.com