OBSERVATIONS: *Nasdaq reaches new all time-high, Fed's preferred gauge for inflation eases*

- Markets traded higher last week with small caps (Russell 2000 Index) gaining +3.0% and the S&P 500 gaining +1.0%. During the week the yield on a 10-year Treasury fell -7 basis points to 4.18%.[1]
- New home sales increased in January to 661k, but this was below expectations and the three previous months of home sales were revised lower. There is currently about 8.3 months of supply of new homes for sale which is well above the long-run average of about 6.1 months.[1]
- Pending home sales fell in January -4.9% month-over-month (MoM) from December—in contrast analysts were expecting a small MoM gain in January—and now stand down -6.8% year-over-year (YoY).[1]
- The Case-Shiller National Home Price Index increased for the 11th-straight month and rose to +5.5% YoY in December—the latest data available—from November's +5.0% YoY figure.[1]
- Durable goods orders fell by -5.1% MoM in January, which was lower than expectations, however durable goods orders excluding transportation (autos/aircraft) were only down -0.3% MoM.[1]
- Personal Consumption Expenditures (PCE)—the Fed's preferred inflation index—showed continued easing of inflationary pressures in January. The headline PCE Index was in-line with expectations and fell to 2.4% YoY down from December's 2.6% YoY, while core-PCE fell to 2.8% YoY down from December's 2.9% YoY.[1]
- The January ISM Manufacturing PMI fell short of expectations—consensus estimates were for a slight gain from December—but the index fell to 47.8 down from December's 49.1 figure.[1]

EXPECTATIONS: *Congress avoids partial shutdown, earnings wrap up*

- With 97% of the S&P 500 having reported quarterly earnings, Q4 earnings are set to be +4.0% YoY. Overall, 73% of firms reported a positive earnings surprise, which is below the 5-year (77%) and 10-year (74%) averages for this measure and the magnitude of the earnings surprise (+4.1% over expectations) in Q4-2023 was below longer-run averages for this measure as well.[2]
- Congress has once again passed a stop-gap funding measure that averted a partial shutdown of the Federal Government that was due to commence this past Saturday by extending funding for a portion of government bodies until 22-March. Congress must still act again by this Friday (8-March) to fund the remainder of the government on either a stop-gap or full fiscal-year basis.[1]

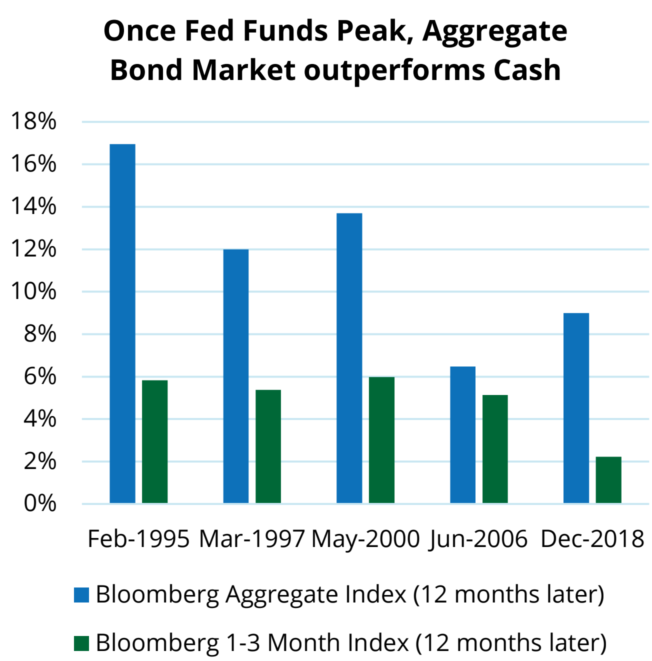
ONE MORE THOUGHT: *Attractive T-Bills and Investing at all-time highs.*[3]

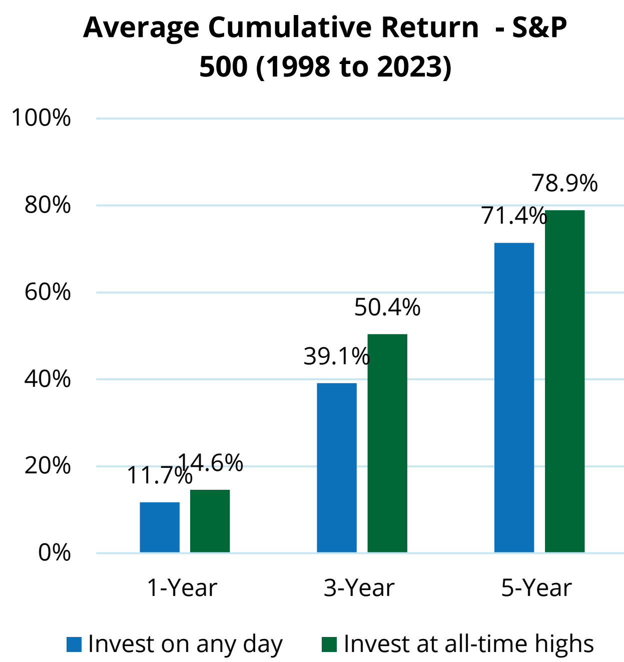
We continue to see investors flock to money markets (both mutual funds and T-Bills) as the competition for capital has leveled out somewhat with short-term interest rates rising—money market mutual funds now boast over $6.0 trillion in assets. Overall, it makes sense. Investors compare what they expect to earn in riskier assets and by comparison money market instruments look attractive given where current yields rest, near 5% for money markets. Hard to blame anyone for that logic. The problem, as we see it, is that the comparison is a little incomplete in that the operative word in the prior comparison is "current yields." The challenge as we see it is with the uncertainty of future yields, particularly when comparing money markets and T-Bills to assets like equities which we know to be a very long duration asset. Given inflation data and monetary policy considerations we think that this monetary policy tightening cycle is closer to the end and would expect that when we describe "current yields" in money markets one year from now they are likely to be lower. What we further know is that once policy rates peak, money markets and

[1] *Bloomberg LP*
[2] *FactSet Earnings Insight 29-Feb-2024*
[3] *Clearstead, JP Morgan, Macrobond, Bloomberg LP*

T-Bills tend to underperform other asset classes. Investors are better off linking the assets that they invest in with the timeframe of their liabilities. Our argument is that money markets and T-Bills should not be owned in lieu of assets that are designed to meet long-term objectives—e.g., long-term retirement savings. For example, T-Bills or money market funds can be used for managing short -term liabilities that one may have, be that tax payments, capital calls, capex, funding tuition, etc.—they are not however, by themselves, well suited to grow savings towards long-term targets. Meanwhile, we do field a variety of questions on equity markets as they have reached peak levels and what that may portend. History does offer some lessons here for longer-term investors. First, the market is near all-time highs much more frequently than one would think. In fact, the S&P 500 has spent over 40% of the time within 5 percentage-points of an all-time high. In fact, there is generally not much difference when comparing average outcomes of investing on any given day versus investing at all-time highs (see Chart of the Week). Pulling it all together, with a long enough horizon sitting in 'cash' is worse than sitting in the markets. It is for many of these reasons why we like to refocus on financial planning and allowing that process to guide how assets are allocated, and indeed cash does play an important role in that process as we noted.

CHART OF THE WEEK





Source: Clearstead, Bloomberg, JPMorgan

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