KS Trust®
Wealth & Investment Management

Quarterly Economic Commentary

April 2024

Market Returns

	12/31/2023	03/31/2024	% Gain/Loss
Dow	37,690	39,807	6.1%*
S&P 500	4,770	5,254	10.6%*
NASDAQ	15,011	16,379	9.3%*

**Total Return Including Dividends*

By Jim Watts, KS Trust Senior Portfolio Manager

As expected, the first quarter of 2024 was positive for the equity markets. Actually, it was better than I anticipated. There was only one negative sector: Real Estate, which was at -0.5%. Leading the pack was Communication Services, up 15.8%; Energy, up 13.7%; and Technology, up 12.7%. I expect April to be less enthusiastic but positive and May and June to be flat or negative.

During the first quarter, the Fed did as I expected and stayed on the sidelines concerning interest rate hikes and cuts. For the past six months or more, their message has been "higher for longer," and they seem to be holding to their word. Some believed they would be cutting rates by now, but that expectation has been pushed out for a few more months. However, I think they will possibly cut rates in the latter part of the third quarter. Then, I suspect they will cut rates immediately after the election unless economic conditions worsen significantly. Currently, the economy is performing well in this interest-rate environment.

I have taken excerpts from the 04/01 UBS Daily House View to give insight into their thoughts on the Fed and their expectations for rate cuts in 2024.

"Federal Reserve Governor Christopher Waller has indicated that recent data pointing to higher-than-expected inflation have reinforced the case for delaying the start of the rate-cutting cycle. Speaking at an Economic Club of New York gathering on Wednesday, Waller said 'there is no rush to cut the policy rate' right now and that 'it is prudent to hold this rate at its current restrictive stance perhaps for longer than previously thought to help keep inflation on a sustainable trajectory toward 2%.' The more hawkish tone of Waller's remarks did little to dent optimism in equity markets, with S&P 500 futures down just 0.1% on Thursday after the index rallied 0.9% on Wednesday—hitting its 21st all-time high so far in 2024 and taking the year-to-date gain above 10%. Nor did the latest Fed commentary change our view that the central bank remains on track to cut rates this year, starting at its June policy meeting.

The Fed is biased toward easing policy this year. Despite his caution on inflation, Waller noted that rate cuts are not off the table. He added that further expected progress on lowering inflation 'will make it appropriate' for the central bank to begin cutting rates this year. The Fed's latest dot plot indicated that the median forecast from policymakers was still for three rate cuts by the end of this year, which aligns with our view. In addition, the Fed sees the current level of rates as well into restrictive territory.

Inflation should trend lower in the coming months. We believe that higher-than-expected releases in January and February were partly driven by temporary factors, including seasonal price hikes at the start of the year, and we expect the decline in inflation to resume in the coming months. In addition, business surveys have indicated that consumers are pushing back harder against further price increases, and overall, softer economic conditions this year should help to ease inflationary pressures.

Growth shows signs of moderating, and the labor market appears to be cooling off. US growth is expected to moderate from an unsustainable pace. It ran at an annualized 4% rate in the second half of last year, but the Atlanta Fed's GDPNow model is tracking growth of a much lower rate of 2.1% for the first quarter of this year. Recent trends in the labor market should also comfort the Fed, as the unemployment rate rose to the highest level in two years, and growth in average hourly earnings slowed to just 0.1%, month over month in February. So, we maintain the view that conditions should be suitable for the Fed to trim rates by the June meeting."

I am not as dovish as UBS on interest rate cuts. As mentioned in my previous paragraph, I don't believe the Fed will cut rates until the late third or mid-fourth quarter. I still believe the Fed when they say "higher for longer." To me, the economy seems to be too resilient right now. With higher oil and gas prices, especially getting ready to go into the summer driving season, I think inflation will prove to be stickier than the investment community realizes.

Here are my expectations for the equity markets over the remainder of the year. April is typically one of the better months of the year for the market. I am not expecting a significant, positive push, but holding onto our gains in the first quarter and maybe adding to them slightly during April is not out of the question. I believe the "Sell in May and Go Away" may happen for a few reasons this year. First, we have had such an excellent start to 2024 with the equity markets; inflation data will prove to be stubborn, and the uncertainty surrounding the upcoming elections. I think these concerns will last until late in the third quarter when we will see some clarity in the election process, inflation will ease more, and the Fed will be ready to start lowering interest rates. I think we will have another solid finish for the year, adding to the gains earned in the first quarter. In short, expect negative volatility from May through September, with the markets settling down in late October or early November to finish 2024 strong.

Interest rates on fixed-income investments have become even more tilted to the short end. The five percent milestone is still possible, but mainly 12 months or less for CDs and US T Bills. Investments in US Government Bonds or Corporate Bonds yielding 5% likely have a call feature, keeping their interest rate exposure reasonably short-term. I have been locking in longer-term interest rates where possible because I believe that the Fed will start to reduce interest rates later this year, but the market will anticipate this, taking interest rates lower in anticipation of the Fed's moves. I see this beginning to happen now.

Reviewing from the January Commentary, what are my ten expectations for 2024?

1) Interest rates will trend lower, but the Fed will be reluctant to lower rates until at least the second half of the year;
2) Bonds will perform better in 2024 than in 2023;
3) Oil prices will remain in the $75 - $95 range;
4) 2024 will continue to be very precarious geopo litically with no resolution in Israel or Ukraine;
5) China will make a proposed annexation of Taiwan;
6) Iran and N. Korea will continue to push the envelope militarily;
7) The US stock market will end the year with a high, single-digit or low, double-digit return;
8) The US will not go into a recession;
9) Gridlock will continue in domestic politics, but there will be no government shutdown;
10) And I will not make any predictions for the 2024 Presidential election!

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We are committed to maintaining a clear focus on building and preserving client's wealth and enhancing their quality of life, both now and in the future. Working in a fiduciary capacity, the KS Trust team provides a single point of contact for a full array of investment services.

Our team's collective knowledge and experience forges our ability to serve our clients more extensively and develop a clear path. It allows us to address the increasingly complex challenges of today's landscape and provide comprehensive financial advice with a clear vision for the future.

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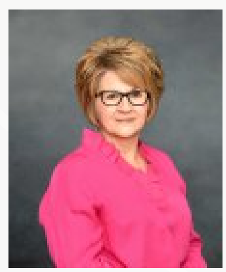

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