Dear O'Brien Client,

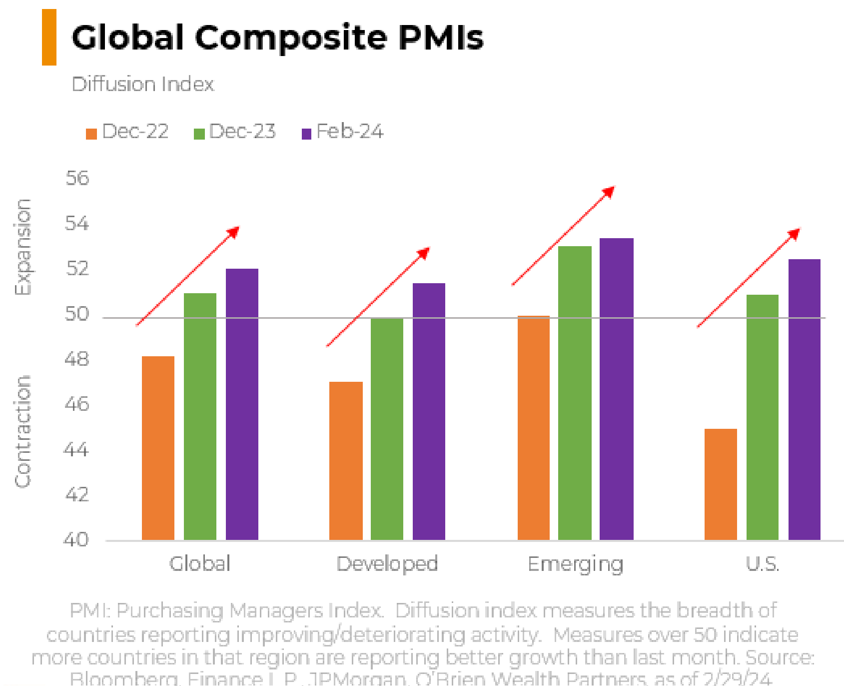
Last year's holiday season cheer continued into the first quarter of 2024 for investors, as global stocks surged 8% to close out the quarter at a new all-time high. U.S. investment grade bonds experienced a modest pullback during the quarter, as interest rates rose following concerns that inflation has stalled at a still-elevated level.

	1Q 2024	2023	3 Years	5 Years		1Q 2024	2023	3 Years	5 Years
U.S. Large Cap Stocks	10.6%	26.3%	10.7%	14.6%	Real Estate Stocks	-1.3%	11.4%	0.8%	3.2%
Global Stocks	**8.2%**	**22.2%**	**6.3%**	**10.5%**	Emerging Market Stocks	2.4%	9.8%	-5.4%	2.1%
Non-U.S. Developed Market Stocks	5.8%	18.2%	4.1%	6.8%	Investment Grade Bonds	-0.4%	8.2%	-2.3%	1.3%
U.S. Mid Cap Stocks	8.6%	17.2%	4.9%	10.4%	Municipal Bonds	-0.4%	6.4%	-0.6%	1.5%
U.S. Small Cap Stocks	5.2%	16.9%	-1.5%	7.3%	**U.S. Aggregate Bond Index**	**-0.8%**	**5.5%**	**-2.8%**	**0.2%**
Non-U.S. Stocks	4.7%	15.6%	1.4%	5.6%	Mortgage-Backed Bonds	-1.0%	5.0%	-3.1%	-0.5%
High Yield Bonds	1.5%	13.5%	1.9%	3.8%	Treasuries	-1.0%	4.1%	-3.0%	-0.2%
Gold	7.4%	12.8%	8.9%	10.7%	Commodities	2.2%	-7.9%	9.4%	6.4%

Past performance is no guarantee of future returns. You cannot invest in an index. 3-year & 5-year returns are annualized.
Source: Morningstar Direct, O'Brien Wealth Partners, as of 3/31/24.

Global stocks have risen 25% since last Halloween. The only times they have exceed that pace of return over a similar period (i.e roughly five months) was in the immediate aftermaths of the Global Financial Crisis and the post-COVID recessions. While we do not know what the future may bring, this period of performance is another example of the importance of having the discipline to stay invested in uncertain environments.

Turning to the global economic backdrop, the first quarter of the year was highlighted by signs of a pick-up in the pace of activity in many regions around the world. The chart below illustrates the trend using surveys of supply chain purchasing managers.



PMI: Purchasing Managers Index. Diffusion index measures the breadth of countries reporting improving/deteriorating activity. Measures over 50 indicate more countries in that region are reporting better growth than last month. Source: Bloomberg, Finance L.P., JPMorgan, O'Brien Wealth Partners, as of 2/29/24.

At the end of 2022, most supply chain managers globally were reducing their orders to their supplier companies on recession concerns (the orange bars were below "50"). By the end of 2022 the demand switch had been turned back on – more purchasing managers were increasing their orders to their suppliers than reducing them (the green bars moved above "50"). The most recent data from February (the purple bars) indicate that supplier demand has become even more widespread as we progressed through the quarter.

This improvement in demand is a positive for the global economy as it further reduces the risk of imminent recession. But a side effect from that demand growth is that inflation is no longer slowing at the pace it once was and is starting to show signs of stabilizing above the targets of major central banks[1] around the world. Those central banks, in turn, have become more hesitant to start reducing interest rates, leading investors to reduce the number of rate cuts they expect this year from an average of seven 25 basis point cuts to roughly three as the quarter progressed[2].

Against this global backdrop, the U.S. picture remains largely unchanged. The expansion continues but remains mature. Job openings have declined. Wage growth has slowed in response, but not as quickly as inflation – resulting in a boost to inflation-adjusted incomes and therefore spending. Given that consumer spending still accounts for roughly 70% of the economy, as long as these dynamics persist the probability a recession occurs in the U.S. in 2024 remains low.

While imminent recession odds remain low, growth drivers still need to become more balanced to increase the odds expansion can continue for the foreseeable future.

Economies with long runways for expansion exhibit growth across a wider variety of sectors (e.g. housing, manufacturing, services, etc.) than what the U.S. is currently experiencing. Some combination of easier access to credit for consumers and businesses, lower borrowing costs, corporate profit growth, more subdued inflation, and a slower – but still positive – pace of hiring will likely be necessary for that to happen.

We have seen some progress for those economic drivers over the past several months. The pace of credit tightening by banks has slowed, but they have not yet turned to outright easing. Corporate profits are no longer declining. The Federal Reserve (Fed) is no longer raising rates, although its current policy stance remains restrictive. Hiring continues, but at a pace that may be too strong to allow inflation pressures to continue cooling toward the Fed's target.

In short, economic headwinds are slowing, but they are not yet tailwinds and a wait-and-see approach remains warranted.

Finally, 2024 is an election year in the U.S., so we wanted to share some context to think about investing during what can be stressful and emotional times for many investors.

Past performance is no guarantee of future returns, but in prior election years we have tended to see a pick-up in market volatility during the back half of the year (as the election itself approaches) and in the immediate aftermath of those elections. Often that volatility has been in a positive direction. This positive average second-half returns hold true regardless of which political party wins the Oval Office.

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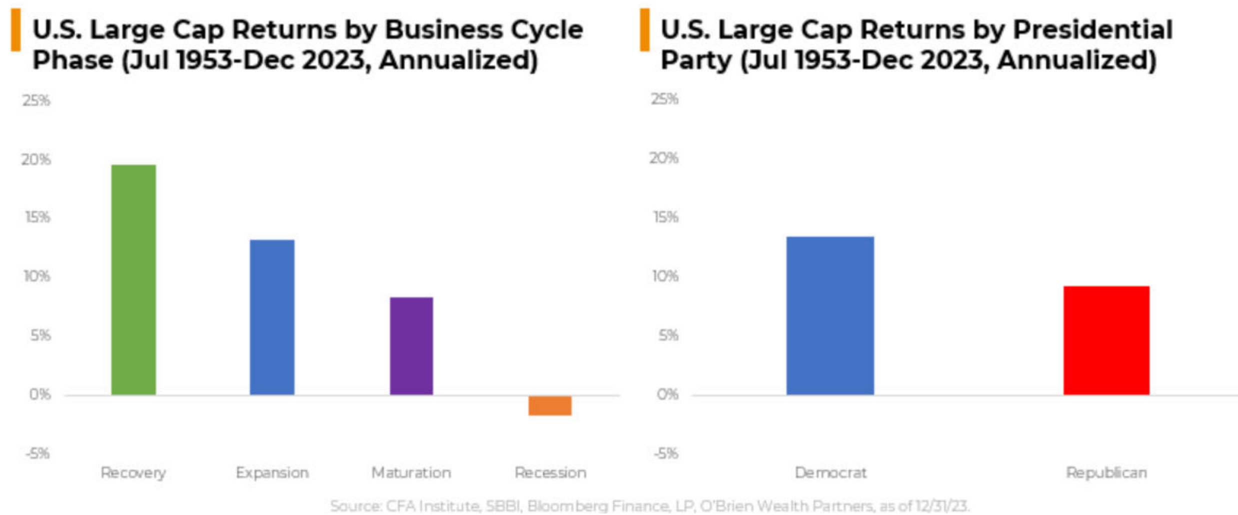
[1] Federal Reserve, European Central Bank, Bank of England, Bank of Canada.
[2] Calculations based on Overnight Index Swaps. Source: Bloomberg Finance, LP, O'Brien Wealth Partners, as of 3/31/24.

History also suggests that, for long-term investors shifts in the economy have tended to have a more meaningful impact on performance than which political party controls the Oval Office. As shown in the left chart below, U.S. large cap stocks over the past 70-odd years have experienced a wide variety of return patterns depending on where the economy is in its business cycle (the movements into and out of recession).



By comparison, over that same period U.S. large cap stocks have, on average, experienced a roughly 10% annualized return regardless of which political party is in possession of the Oval Office.

In sum, we continue to remain fully invested and well diversified across markets, but we are not adding incremental risk to portfolios as we await more economic clarity.

We hope you are all taking care and staying healthy. If you have questions, or would like to talk, please reach out to your Advisor or any member of our investment team.

Your O'Brien Team

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