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Q1 2024 Commentary

The stock market marched higher in the first quarter, with the S&P 500 gaining 10.6%, its best start to the year since 2019. The impressive gains were driven mainly by the same winners in 2023, namely artificial intelligence (AI) beneficiaries such as NVDIA (+82%), Microsoft (+12%), and Meta Platforms (+37%), as well as GLP-1 drug makers including Eli Lilly (+35%). The rally was more broad-based in Q1, though, with the financial, industrial, healthcare and energy sectors all posting strong gains. Notable decliners included "Magnificent 7" components Apple (-11%) and Tesla (-29%), as well as aircraft maker Boeing (-26%) amid well-publicized quality control issues. "Value" and small-capitalization stocks also gained during the quarter, though less than the large cap technology-driven indices, with the Russell 3000 Value gaining 8.6% and the small-cap Russell 2000 Value up 2.9%.

The economy has so far continued its remarkable resilience, with fourth quarter 2023 GDP coming in at +3.4% and consensus estimates of +3% for the first quarter of 2024 and +2.2% for the full year. Unemployment remains near historic lows at 3.8%. Inflation has declined considerably from its peak, but still remains above the Fed's 2% target (+3.2% in February). Some commodities have been climbing – notably cocoa, which more than doubled to about $10,000 per metric ton – but also oil, which rose from the low $70s per barrel to the mid $80s during the quarter. The combination of a strong economy and persistent inflation has lowered expectations for rate cuts this year. So far, the Fed has maintained its Fed funds rate target of 5.25-5.5% and lowered its "dot plot" forecast of rate cuts to three in 2024, though it is unclear if any will be coming at all if economic growth and inflation remain elevated.

The backdrop to all of this is of course the upcoming U.S. Presidential election in November, with the presumptive nominees for both parties being the same as in 2020. Whoever wins – along with the makeup of Congress – may have profound implications for both personal and corporate taxes, regulation, and the economy, as well as trade and geopolitics. Especially front of mind are two hot wars (plus a cold one) in which the U.S is at least tangentially involved. We make no predictions here on the outcome but are prepared to digest and act on investment implications quickly.

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Catalysts continue to abound for stocks. Global M&A activity totaled nearly $800 billion in Q1, a 38% increase from last year, including aerospace supplier Kaman, which agreed to be acquired by Arcline Capital for $46 per share in cash in January. Campbell's Soup completed its acquisition of Sovos Brands, owner of Rao's pasta sauce, for $23 per share in March. Companies continue to utilize financial engineering in the form of spin-offs, split-offs and other restructurings, including GE's spin-off of GE Vernova just after quarter end, and Southwest Gas's upcoming IPO of Centuri Group. We believe the current environment is particularly ripe for our approach, and continue seeking excellent businesses trading at a discount to Private Market Value with catalysts to surface values.

Kevin V. Dreyer   Christopher J. Marangi

Important Disclosures

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