# Financial Markets Review

**Q1 2024**

The equity bull market continued to rally in the first quarter as investors remained optimistic about the prospect of U.S. Federal Reserve ("Fed") policy easing and consensus grew around expectations for a soft-landing or no-landing economic scenario. The S&P 500® Index stretched to new record highs and posted a second consecutive quarter of double-digit gains. Investors remained uneasy, however, as the Fed held interest rates steady and strong labor market and inflation indicators pushed back the probability of near-term rate cuts.

The Consumer Price Index ("CPI") remained stuck above the Fed's 2% target, rising to 3.5%[1] during the quarter partially due to higher energy prices and the stubbornly high cost of rents. The Commerce Department's report on GDP growth was reported ahead of expectations at a 3.4% annualized growth rate for the fourth quarter with the advance driven by healthy consumer spending, public and private sector investment, along with an increase in exports. The labor market also showed robust hiring with non-farm payrolls increasing by more than 275,000 on average each month during the quarter. Meanwhile, the unemployment rate ticked slightly up to 3.8%. Corporate earnings growth is forecast to be positive for the third consecutive quarter with Factset estimating 3.6% year-over-year growth in the first quarter.

Positive economic data was balanced with soft reports on the manufacturing sector, which has been in contraction for over a year, as the ISM Manufacturing PMI Index landed at 47.8 in February (a reading above 50 indicates expansion while a reading below 50 indicates contraction). With the 30-year average mortgage rate at 6.8%,[2] the housing market remains challenged as well, as affordability is crimped and supply is constrained by homeowners reluctant to move with locked-in ultra-low rates. Data from the National Association of Realtors reported some improvement in existing home sales, with 4.4 million homes sold in February.[3] While this was a notable increase from the prior quarter, existing home sales are still down more than -25% from the level set two years ago. New homes sales are down about -14% over the same period.

## Stocks

The S&P 500 rose 10.56% during the first quarter, marking the strongest start to the year since 2019. The "magnificent seven" group of stocks (Apple, Microsoft, Nvidia, Amazon, Alphabet, Tesla, and Meta Platforms) continued to lead the market narrative by contributing nearly 40% of the S&P 500 quarterly return. Ten out of eleven sectors were positive, led by communication services which climbed 15.82%, followed by gains of 13.69% and 12.69% for energy and information technology, respectively. Financials and industrials also displayed notable strength with gains of 12.46% and 10.97%, respectively. On the other hand, real estate was the lone negative sector with a -0.55% return. The strength in communication services and information technology drove the outperformance of Growth stocks over Value stocks as the Russell 1000® Growth Index rose 11.41% compared to 8.99% gain for the Russell 1000® Value Index. Large caps outpaced small caps, with a 10.30% return for the Russell 1000® Index compared to the 5.18% return for the Russell 2000® Index. Outside the U.S., foreign developed markets underperformed in the face of a stronger U.S. dollar with the MSCI EAFE Index gaining 5.78%. The MSCI Emerging Markets Index faced similar headwinds with a 2.37% return for the quarter.

## Bonds

After a terrific end to 2023, bond market performance stalled as interest rates rose and the Bloomberg Barclays U.S. Aggregate Index fell -0.78% in the first quarter. The 10-Year U.S. Treasury yield increased 32 bps to end the quarter yielding 4.20%. Corporate bonds slightly outperformed the broader market as both investment grade and high yield credit spreads tightened. The Bloomberg Corporate Bond Index returned -0.40% while the Bloomberg Corporate High

[1] US Bureau of Labor Statistics
[2] Source: Factset, Freddie Mac
[3] SA Annual Rate



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Yield Index produced a gain of 1.47%. Agency mortgage bonds were weaker with the Bloomberg U.S. MBS Index losing 1.04%. Municipal bonds also declined with a -0.39% return for the Bloomberg Municipal Bond Index. Non-U.S. bonds underperformed due in part to the stronger U.S. dollar as the Bloomberg Global Aggregate ex US Index fell -3.21%.

## Disclosures

**All investments are subject to risk including possible loss of principal. Past performance is no guarantee of future results.**

Please note that all performance data and comments are for the period from January 1, 2024 through March 31, 2024. Any sectors, industries, or securities discussed should not be perceived as investment recommendations. The views expressed represent the opinions of AMG Funds and are not intended as a forecast or guarantee of future results. The information and opinions contained herein are current as of March 31, 2024 and are subject to change without notice. Information has been obtained from sources believed to be reliable, but its accuracy, completeness, and interpretation are not guaranteed. The Russell 1000® Index measures the performance of approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000® represents approximately 92% of the U.S. market. The Russell 1000® Value Index is a large-cap value index measuring the performance of the largest 1,000 U.S. incorporated companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000® Growth Index is a market capitalization weighted index that measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000® Index is composed of the 2000 smallest stocks in the Russell 3000® Index and is widely regarded in the industry as the premier measure of small-cap stock performance. The Russell 2000® Value Index is an unmanaged, market-value weighted, value-oriented index comprised of small stocks that have relatively low price-to-book ratios and lower forecasted growth values. The Russell 2000® Growth Index measures the performance of the Russell 2000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 25% of the total market capitalization of the Russell 1000® Index. The S&P 500 Index is a capitalization-weighted index of 500 stocks. The S&P 500 Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. U.S. Long Government Bond Index tracks the market for U.S. dollar-denominated, fixed-rate, nominal U.S. Treasuries and U.S. agency debentures. The MSCI World ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries excluding the United States. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. Please go to msci.com for most current list of countries represented by the index. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). Please go to msci.com for the most current list of countries represented by the MSCI indices. The Bloomberg Global Aggregate ex USD Index is a measure of investment grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in USD are excluded. The Bloomberg U.S. Corporate High Yield Bond Index is a total return performance benchmark for USD-denominated, high yield, fixed-rate corporate bonds having a maximum quality rating of Ba1/BB+/BB+ or below, as determined by the middle of the Moody's, Fitch, and S&P ratings. The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds. The Bloomberg U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds. The Bloomberg U.S. Corporate Bond Index is an unmanaged index representative of publicly issued, SEC-registered U.S. corporate and specified foreign debentures and secured notes The Bloomberg US Mortgage Backed Securities (MBS) Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

The Indices are unmanaged, are not available for investment and do not incur expenses.

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