



# Stocks earn their way to a rally.

## Monthly snapshot

- Major global equity market indexes moved higher in February 2024. Investors' optimism regarding generally positive corporate earnings offset concerns that stickier-than-expected inflation data may prompt the Federal Reserve (Fed) and other central banks to delay a pivot to interest-rate cuts.
- Global fixed-income assets recorded negative returns in February. U.S. Treasury yields rose across the curve—with the exception of one-month Treasury bill—for the month (bond prices move inversely to yields).
- It appears that fewer stocks included in the “Magnificent Seven” are having a significant impact on the U.S. equity market—shares of three of the mega-cap tech companies declined during the first two months of 2024—and the January inflation data have dampened investors' hopes for Fed rate cuts in the near term.

Major global equity market indexes moved higher in February 2024. Emerging markets modestly outperformed their developed-market counterparts. Investors' optimism regarding generally positive corporate earnings offset concerns that stickier-than-expected inflation data may prompt the Fed and other central banks to delay a pivot to interest-rate cuts. North America led the major developed markets in February due to strength in the U.S. The Dow Jones Industrial Average and the broad-market S&P 500 Index closed at historically high levels on several trading days in February, while the tech-heavy Nasdaq Composite Index reached a record-high close on the last day of the month. The Pacific region was the primary developed-market laggard in February, as Australia recorded a negative return for the month. The Far East was the top-performing region within emerging markets for the month, led by strength in China. Conversely, Latin America was the most notable underperformer due to relative weakness in Brazil.<sup>1</sup>

Global fixed-income assets, as represented by the Bloomberg Global Aggregate Bond Index, declined 1.3% in February. High-yield bonds registered modest gains for the month and led the U.S. fixed-income market, while corporate bonds and U.S. Treasury securities recorded losses.<sup>2</sup> Treasury yields rose across the curve—with the exception of the one-month Treasury bill—in February. Yields on 2-, 3-, 5- and 10-year Treasury notes increased 0.37%, 0.35%, 0.38% and 0.26%, respectively, over the month. The spread between 10- and 2-year notes widened from -0.28% to -0.39% in February, and the yield curve remained inverted.<sup>3</sup>

Global commodity prices, as measured by the Bloomberg Commodity Total Return Index, fell 1.5% in February. The West Texas Intermediate (WTI) and Brent crude prices rallied during the month as ongoing geopolitical tensions in the Middle East spurred investors' worries about a disruption in oil exports. The WTI and Brent crude oil prices ended February with gains of 3.2% and 1.7%, respectively. The New York Mercantile Exchange (NYMEX) natural gas price plunged 11.4% over the month amid slowing demand due to above-average winter temperatures in the U.S. The 0.6% decline in the gold spot price was attributable to stronger-than-expected U.S. economic data and the rise in U.S. Treasury yields during the month. (The gold price typically moves inversely to bond yields.) Wheat prices were down 3.2% in February due to relatively weaker demand for exports from the U.S.<sup>4</sup>

<sup>1</sup> All equity market performance statements are based on the MSCI ACWI Index.

<sup>2</sup> According to the Bloomberg US High Yield Index, the Bloomberg US Corporate Investment Grade Index, and the Bloomberg US Treasury Index.

<sup>3</sup> According to the U.S. Department of the Treasury. March 1, 2024.

<sup>4</sup> According to market data from The Wall Street Journal.

## Key measures: February 2024

### Equity

Dow Jones Industrial Average	2.50%	↑
S&P 500 Index	5.34%	↑
NASDAQ Composite Index	6.22%	↑
MSCI ACWI Index (Net)	4.29%	↑

### Bond

Bloomberg Global Aggregate Index	-1.26%	↓
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### Volatility

Chicago Board Options Exchange Volatility Index	13.4	↓
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**PRIOR MONTHLY: 14.35**

### Oil

WTI Cushing crude oil prices	\$78.26	↑
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**PRIOR MONTHLY: \$75.85**

### Currencies

Sterling vs. U.S. dollar	\$1.26	↓
Euro vs. U.S. dollar	\$1.08	↓
U.S. dollar vs. yen	149.67	↑

Sources: Bloomberg, FactSet, Lipper

Minutes from the Fed's January 30-31 meeting, released on February 21, revealed that most Federal Open Market Committee (FOMC) members expressed concerns about reducing rates too soon at the risk of reigniting inflation. "Most participants noted the risks of moving too quickly to ease the stance of policy and emphasized the importance of carefully assessing incoming data in judging whether inflation is moving down sustainably to 2 percent." On a more dovish note, a couple of meeting participants "pointed to downside risks to the economy associated with maintaining an overly restrictive stance for too long...In discussing risk-management considerations that could bear on the policy outlook, [meeting] participants remarked that while the risks to achieving the Committee's employment and inflation goals were moving into better balance, they remained highly attentive to inflation risks."

On the geopolitical front, the Russia-Ukraine and Israel-Hamas military conflicts continued in February. Russia's invasion of Ukraine marked its second anniversary on February 24, with little hope for a resolution in the near term. Republican Party leaders in the U.S. House of Representatives rejected a bipartisan bill approved in the Senate that would provide military aid for Ukraine, Israel, and Taiwan, as well as immigration reforms. At the end of the month, negotiations on a ceasefire in the Israel-Hamas war appeared to be in jeopardy following a clash between Israeli soldiers and Palestinian civilians in Gaza as many residents were caught in a chaotic rush to obtain supplies from 30 trucks delivering aid to the territory.

The U.S.- and U.K.-led coalition (with support from Australia, Bahrain, Canada, Denmark, and the Netherlands) continued to engage in a military conflict with the Houthi movement, an Iran-backed militant group that seized Sanaa, Yemen's capital, in 2014. In late February, the coalition struck 18 Houthi targets in Yemen, including underground weapons storage facilities, missile storage facilities, air defense systems, radars, and a helicopter. In a news release, the U.S. Central Command noted that the military strikes sought to "degrade Houthi capability and disrupt their continued reckless and unlawful attacks on international commercial and U.S. and U.K. vessels in the Red Sea, Bab Al-Mandeb Strait, and the Gulf of Aden." The Houthis have attacked U.S. military bases in Iraq and Syria, as well as numerous commercial ships in the Red Sea. This has forced international shipping companies to reroute their vessels around the Cape of Good Hope in South Africa, putting upward pressure on freight costs.

## Economic data

### U.S.

- The Department of Labor reported that the U.S. consumer-price index (CPI) rose 0.3% in January following a 0.4% upturn in December. The CPI advanced 3.1% year-over-year—matching the annual increase in December and exceeding market expectations. Costs for energy services (electricity and utility gas services) and housing were the largest contributors to the month-over-month rise in the CPI, increasing 0.5% and 0.4%, respectively. Food prices were up 0.4% in January and rose 2.6% over the previous 12-month period. The 3.9% rolling 12-month rise in core inflation, as measured by the CPI for all items less food and energy, was unchanged from the year-over-year upturn in December—the smallest annual increase since August 2021. Core inflation was up 0.4% in January, marginally higher than the 0.3% month-over-month rise in December.

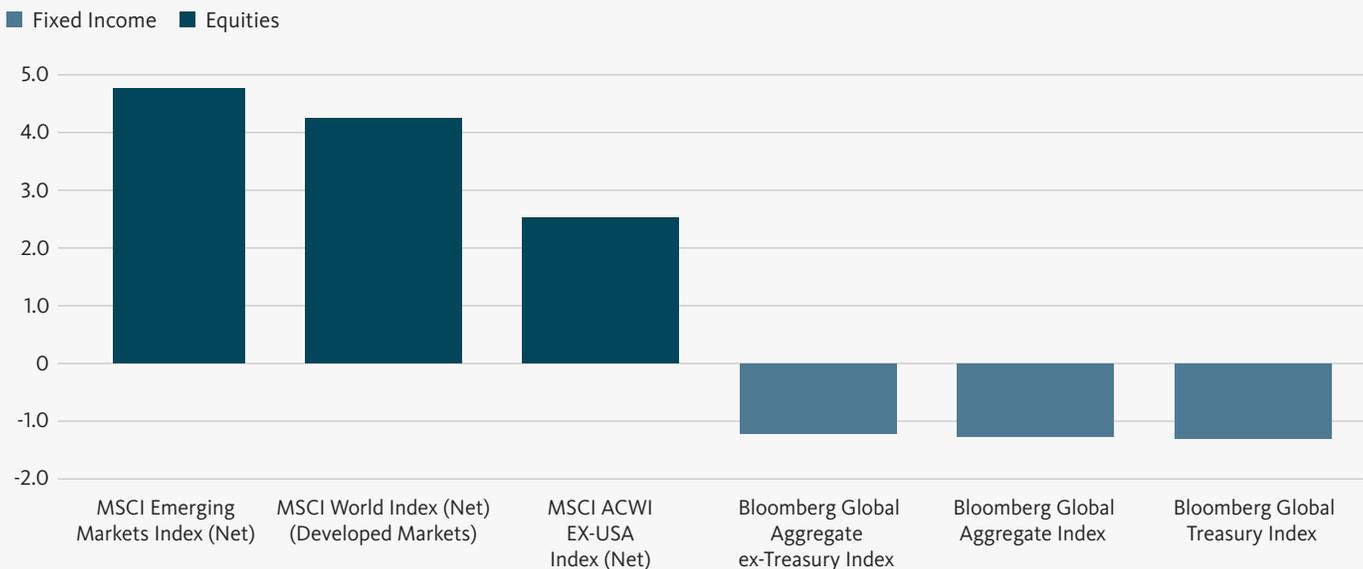
- According to the second estimate from the Department of Commerce, U.S. gross domestic product (GDP) grew at an annualized rate of 3.2% in the fourth quarter of 2023, slightly lower than the initial estimate of 3.3% and down from the 4.9% rise in the third quarter. The U.S. economy expanded by 2.5% for the 2023 calendar year, topping 2022's 1.9% annual rise, bolstered mainly by increases in consumer spending—which comprises more than two-thirds of U.S. GDP—and nonresidential fixed investment (purchases of both nonresidential structures and equipment and software). The largest contributors to GDP growth for the fourth quarter included consumer spending, exports, state and local government spending, and nonresidential fixed investment. The government attributed the lower economic growth rate in the fourth quarter relative to the previous three-month period primarily to slowdowns in private inventory investment (a measure of the changes in values of inventories from one time period to the next) and federal government spending.

## U.K.

- The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the Consumer Prices Index (CPI), fell 0.6% in January, following a 0.4% upturn in December. The CPI advanced 4.0% year-over-year, matching the annual increase for the previous month. The largest contributors to the 12-month rise in inflation included alcohol and tobacco, as well as communication. These more than offset a decline in housing and housing services costs. Core inflation, which excludes volatile food prices, rose at an annual rate of 5.1% in December, unchanged from the year-over-year increase in December.<sup>5</sup>

<sup>5</sup> According to the ONS. February 14, 2024.

### Major Index Performance in February 2024 (Percent Return)



Sources: FactSet, Lipper

- It appears that the U.K. economy slipped into recession—defined as two consecutive quarters of negative GDP growth—at the end of last year. According to the initial estimate of the ONS, U.K. GDP fell 0.2% over the fourth quarter of 2023, following a 0.1% dip during the third quarter. However, GDP was up 0.1% year-over-year versus the fourth quarter of 2022. Production output decreased 1.0% over the last three months of 2023, hampered mainly by a notable slump in manufacturing. The services sector dipped 0.2% in the fourth quarter, as weakness in the wholesale and retail trade, motor vehicles and motorcycles repair, and education subsectors counterbalanced growth in administrative and support service activities. Output in the construction sector fell 1.3% during the fourth quarter, attributable primarily to significant downturns in new work, particularly private new housing.<sup>6</sup>

## Eurozone

- Eurostat pegged the inflation rate for the eurozone at 2.8% for the 12-month period ending in January, marginally lower than the 2.9% annual increase in December. Prices for food, alcohol and tobacco rose 5.6% year-over-year in December, but the pace of acceleration slowed from the 6.1% annual rate for the previous month. Costs for services and non-energy industrial goods were up 4.0% and 2.0%, respectively, year-over-year. Conversely, energy prices plunged 6.1% over the previous 12 months following a 6.7% annual decline in December. Core inflation, which excludes volatile energy and food prices, rose at an annual rate of 3.3% in January, down 0.1 percentage point from the 3.4% year-over-year increase in December.<sup>7</sup>

<sup>6</sup> According to the ONS. February 15, 2024.

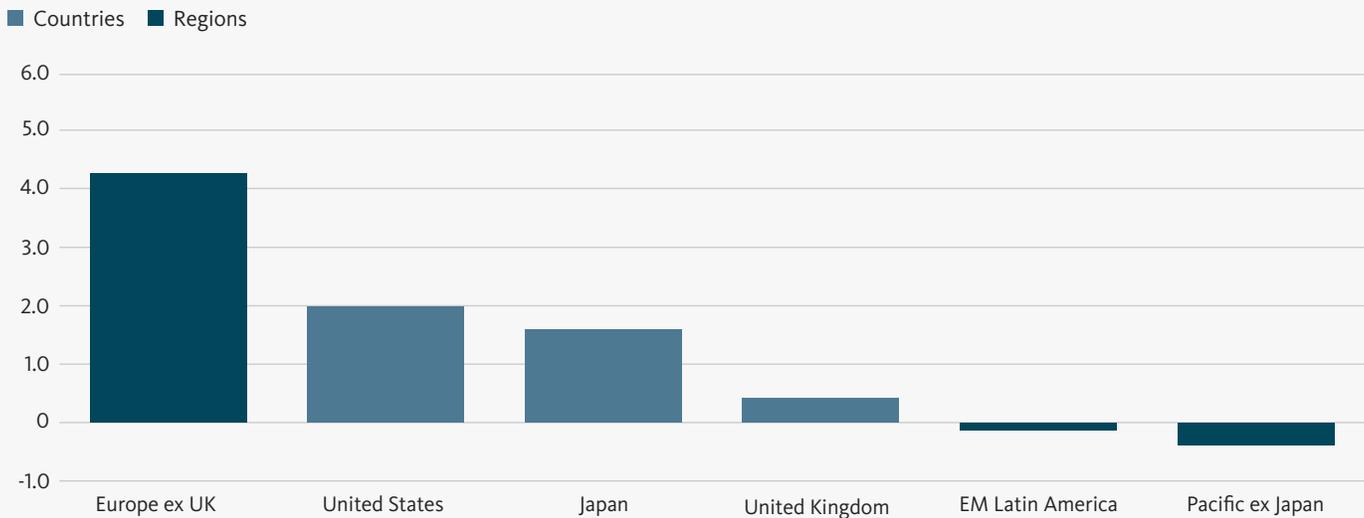
<sup>7</sup> According to Eurostat. February 22, 2024.

### Fixed-Income Performance in February 2024 (Percent Return)



Sources: FactSet, Lipper. See “Corresponding Indexes for Fixed-Income Performance Exhibit” in the Index descriptions section for more information.

## Regional Equity Performance in February 2024 (Percent Return)



Sources: FactSet, Lipper. See “Corresponding Indexes for Regional Equity Performance Exhibit” in the Index descriptions section for more information.

- According to Eurostat’s second estimate, eurozone GDP was flat in the fourth quarter of 2023, a slight uptick from the 0.1% decline in the third quarter, but increased 0.5% for the 2023 calendar year. The economies of Slovenia, Portugal, and Cyprus were the strongest performers for the fourth quarter, expanding 1.1%, 0.8% and 0.8%, respectively. Conversely, Ireland’s GDP fell 0.7%, while the economies of Estonia, Romania, and Finland each contracted by 0.4% during the quarter.<sup>8</sup>

## Central banks

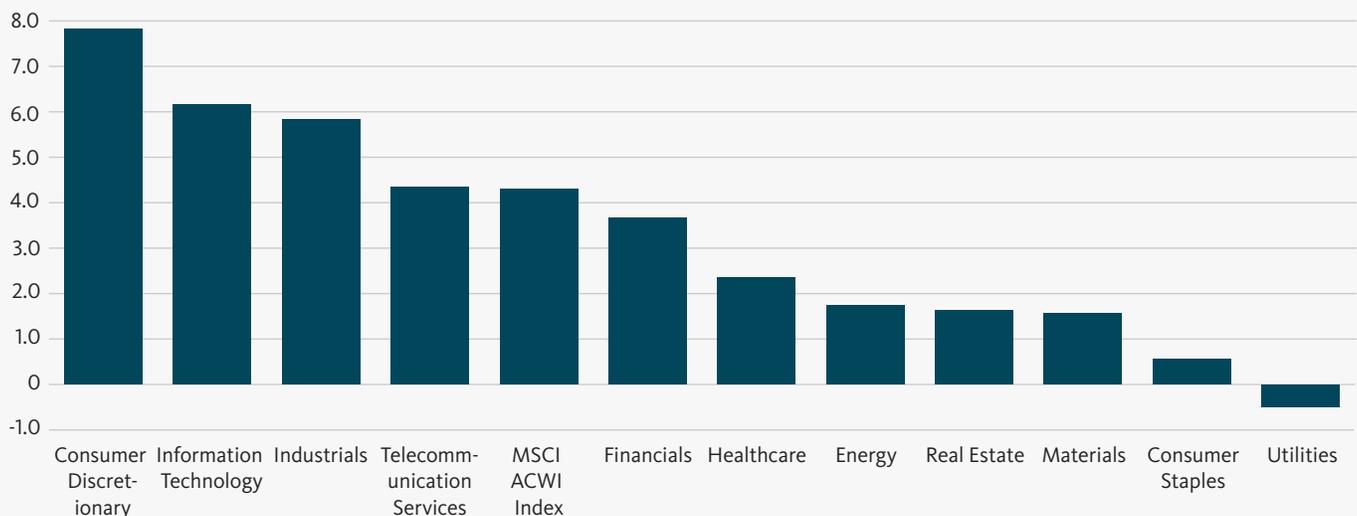
- During a prerecorded interview, which was aired on “60 Minutes,” a CBS television network news program, in early February, Fed Chair Jerome Powell said that the central bank is focusing on a timeframe for a pivot to interest-rate cuts. However, he cautioned that a shift in monetary policy is not imminent. Citing the ongoing strength in the U.S. economy, Powell commented, “We feel like we can approach the question of when to begin to reduce interest rates carefully.” Powell noted that the Fed is seeking to ensure that it does not leave interest rates too high for too long, leading to an economic slowdown, while simultaneously reducing rates in a manner that does not reignite inflation. “There is no easy, simple, obvious path. We think the economy’s in a good place. We think inflation is coming down. We just want to gain a little more confidence that it’s coming down.”

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<sup>8</sup> According to Eurostat. February 14, 2024.

- In a speech at a speech at Cardiff University Business School in Wales on March 1, Bank of England (BOE) Chief Economist Huw Pill said that interest-rate cuts are “some way off.” He commented, ““I need to see more compelling evidence that the underlying persistent component of UK CPI inflation is being squeezed down to rates consistent with a lasting and sustainable achievement of the 2% inflation target before voting to lower Bank Rate.” Pill also announced that the central bank most likely will implement a new, system for economic forecasting that will evaluate the impact on interest rates of major events such as the total closure of the Red Sea to shipping. The BOE faced criticism after it underestimated the rise in inflation following the COVID pandemic and Russia’s invasion of Ukraine. The BOE’s next monetary policy meeting is scheduled for March 21.
- During an appearance on Antena 3, a Spanish TV network, on February 28, European Central Bank (ECB) Vice President Luis de Guindos noted that, despite a slowdown in inflation in the eurozone, the central bank needs to see more inflation data before reducing interest rates. De Guindos said, “When the data we receive on inflation, and underlying inflation, make it clear that we’re approaching 2%, monetary policy will be modified.” He also expressed his view that disinflation will continue “once our projections indicate that the data we receive, on both headline and core inflation, show that we are getting closer to 2%, then the direction of monetary policy will change.” The ECB’s Governing Council will conduct its next monetary policy meeting on March 7.
- Bank of Japan (BOJ) Board Member Hajime Takata stated that the central bank may discontinue its negative interest-rate policy in the near future. Takata told local business leaders in Shiga, in western Japan, “There are uncertainties for Japan’s economy, but my view is that the [2% inflation] target is finally coming into sight.” Following Takata’s remarks on February 29, the Japanese yen rose 0.7% vs. the U.S. dollar. The BOJ’s next monetary policy meeting is scheduled for March 18-19.

### Global Equity Sector Performance in February 2024 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

## SEI's view

We still expect more subdued economic growth in the U.S. in 2024, perhaps deteriorating into a stagnant/mildly recessionary environment along the lines currently seen in the U.K. and much of Europe. While interest rates may no longer be rising, they remain high and are starting to bite harder. Households have smaller savings cushions to draw upon to sustain spending in excess of their incomes. Credit-card usage is up sharply and, as a result, delinquency rates are climbing. The situation is not yet critical or indicative of recession, but households will be more heavily reliant on a continued robust jobs market and strong wage growth in the months ahead. The good news is that the job market is still tight. However, there are signs of weakness cropping up.

Until January of this year, the U.S. inflation rate had decelerated more quickly than we had expected. The U.S. led the global acceleration of inflation in 2021 and 2022; in 2023, it led the way down. Both the U.S. and the eurozone have enjoyed a decline in inflation back toward the 2% level, measured on a year-over-year basis, though the CPI reading in the U.S. came in higher than expected in January. The U.K. and France have been lagging in terms of inflation levels, but, nonetheless, have registered a rather sharp slowdown from their inflation-rate peaks.

While stock indexes fared notably well in 2023, it is important to note that many widely followed indexes are capitalization-weighted and, therefore, the largest stocks have a disproportionate effect on performance. This was certainly the case in 2023, as the “Magnificent Seven” mega-cap tech stocks (Apple, Microsoft, Google parent Alphabet, Amazon.com, Nvidia, Meta, and Tesla) drove the bulk of the gains.

At the beginning of 2024, investors had anticipated continued equity market dominance from the Magnificent Seven, double-digit corporate earnings growth, massive interest-rate cuts from the Fed, and inflation that drops to 2% or lower and remains subdued. It appears that fewer stocks included in the Magnificent Seven are having a significant impact on the U.S. equity market; shares of three of the mega-cap tech companies declined during the first two months of this year. Furthermore, the January inflation data—a greater-than-expected 3.1% rise in the U.S. CPI—have dampened investors' hopes for Fed rate cuts in the near term.

Unlike the stock market, the U.S. bond market's rally in 2023 was broad, driven by a pivot in central bank policy that saw an end to interest-rate hikes. Despite the upturn in the bond market last year (and falling yields, as bond prices and yields move inversely), as well as bumpy performance in the first two months of 2024, we think that yields will likely remain more attractive than they have been in decades. This is good news for income-seeking investors.

**It appears that fewer mega-cap tech companies included in the “Magnificent Seven” are having a significant impact on the U.S. equity market, and the January inflation data have dampened investors' hopes for Fed rate cuts in the near term.**

## Glossary of Financial Terms

**Yield** is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value, or face value.

**Yield curve** represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (are (which is used to assess the risk of default of companies or countries). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates that short- and long-term yields are closer together.

An **inverted yield curve** occurs when short-term yields exceed long-term yields. While an inverted yield curve historically has predicted economic recessions, it is an indicator—not a forecast.

The **federal-funds rate** is the interest rate charged to lending institutions on unsecured overnight loans. It is set by the U.S. Federal Reserve's Federal Open Market Committee. The rate is increased when the Federal Reserve wants to discourage borrowing and slow the economy and decreased when the Federal Reserve wants to spur economic growth.

**Economic output** comprises a quantity of goods or services produced in a specific time period.

**Monetary policy** refers to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.

A **recession** is a significant and prolonged downturn in economic activity.

## Index Descriptions

The **MSCI All Country World Index (ACWI)** is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **Bloomberg Global Aggregate Bond Index** is a market capitalization-weighted index that tracks the performance of investment-grade (rated BBB- or higher by S&P Global Ratings/Fitch Ratings or Baa3 or higher by Moody's Investors Service) fixed-income securities denominated in 13 currencies. The index reflects reinvestment of all distributions and changes in market prices.

The **Bloomberg US High Yield Index** tracks the performance of fixed-rate, publicly issued, non-investment-grade (rated BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody's Investors Service) bonds.

The **Bloomberg US Corporate Investment Grade Index** tracks the performance of the investment-grade, fixed-rate, taxable corporate bond market.

The **Bloomberg US Treasury Index** tracks the performance of fixed-rate, nominal debt issued by the US Treasury.

The **Bloomberg Commodity Total Return Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

**Consumer-price indexes** measure changes in the price level of a weighted-average market basket of consumer goods and services purchased by households. A consumer price index is a statistical estimate constructed using the prices of a sample of representative items whose prices are collected periodically.

## Corresponding Indexes for Fixed-Income Performance Exhibit

U.S. High Yield	ICE BofA U.S. High Yield Constrained Index
Global Sovereigns	Bloomberg Global Treasury Index
Global Non-Government	Bloomberg Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
U.S. Mortgage-Backed Securities (MBS)	Bloomberg US Mortgage Backed Securities Index
U.S. Asset-Backed Securities (ABS)	Bloomberg US Asset Backed Securities Index
U.S. Treasuries	Bloomberg US Treasury Index
U.S. Treasury Inflation-Protected Securities (TIPS)	Bloomberg 1-10 Year US TIPS Index
U.S. Investment-Grade Corporates	Bloomberg US Corporate Bond Index

## Corresponding Indexes for Regional Equity Performance Exhibit

United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex U.K.	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

## Disclosures

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There are risks involved with investing, including loss of principal. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Narrowly focused investments and smaller companies typically exhibit higher volatility. Bonds and bond funds will decrease in value as interest rates rise. High-yield bonds involve greater risks of default or downgrade and are more volatile than investment-grade securities, due to the speculative nature of their investments.

Diversification may not protect against market risk. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.

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