JENSEN PRIVATE CLIENT

First Quarter
2024

Quarter In Review

Jensen Private Client

Firm Update

We hope your Spring is blossoming. Here in the Pacific Northwest we experience all types of weather (sometimes all within an hour), but those warm rays of sun make us optimistic for the months ahead.

We also hope your tax season is wrapping up successfully. Many of us that are Oregonians enjoyed a somewhat rare "kicker" — when the state returns cash to taxpayers if a certain threshold of revenue is collected. For us, this welcome bonus prompts a review of financial balance sheets to see if there are warranted changes to our investment plans. We believe our clients are appropriately situated according to their personal financial situation, but if you have any questions or thoughts, contact us.

2024 also sees another general election year, and as financial advisers, we highly recommend you ignore the increasing "noise" that it generates! If you have concerns regarding your investments, please do not hesitate to connect with us. We enjoy meeting with you, so call us and we would be delighted to host you in our office.

First Quarter 2024 in Review

For the first quarter of 2024, as measured by the S&P 500 Index, equity markets continued their growth trend from 2023. Information Technology sector stocks were the largest contributors to the S&P 500's return, another trend carried over from last year as investor enthusiasm for the development of artificial intelligence (AI) models and associated investments remain at the forefront. Further, the first quarter market advance was broad-based, with appreciation in 10 out of 11 sectors and a decline only in the Real Estate sector. Also in the quarter, the Fed held interest rates steady, though it continued to signal future cuts later in the year if inflation moderates as forecast. Though, with the labor market remaining robust and prices higher than projected, the number and degree of these cuts remains the subject of much debate.

Looking Ahead

Despite strong equity market performance in the first quarter, we maintain a neutral near-term outlook.

Market gains continue to be led by a narrow handful of stocks. Specifically, in 2024's first quarter the combined weight of the five largest companies in the S&P 500 Index — Microsoft (MSFT), Apple (AAPL), Amazon (AMZN), Nvidia (NVDA), and Alphabet Inc. (GOOGL) — equated to more than 27%. Furthermore, four of these stocks accounted for greater than 45% of the Index's total first quarter return. These gains were fueled by strong financial results and favorable exposure to growth opportunities such as cloud computing and artificial intelligence. While we expect these growth trends to continue, it is far from certain that the companies' share prices will appreciate at the same torrid trajectory for the entirety of 2024 and beyond.

Additionally, the capital markets continue to send mixed signals. Equity market indicators suggest that economic challenges stemming from restrictive monetary policy are behind us and earnings estimates indicate a continuation of steady growth, predicting low-double-digit gains for S&P 500 Index companies in both 2024 and 2025. On the other hand, the fixed income market is indicating a pending economic slowdown. In particular, the Treasury yield curve — the difference between 10-year and 3-month Treasury yields — has been inverted for the past 17 months. Such inversions — when short-term rates are greater than long-term rates — are rare but have accurately predicted all 10 recessions since 1955, typically with a lag of 12 to 24 months.

This combination of narrow stock market leadership and cautionary signals from the Treasury market suggest that some equity investors are engaging in the dangerous exercise of "fighting the Fed." However, we acknowledge the uniqueness of the current economic environment. Idiosyncratic factors include secular growth prospects from increased technology investments; unique, pandemic driven economic fluctuations and associated policy responses; and that 2024 is a presidential election year when administrations are highly incentivized to bolster economic growth. These factors may allow the economy to achieve a "soft landing." However, we believe investors may be overly optimistic about the prospects for aggressive rate cuts in 2024 so long as inflation remains elevated and the labor market imbalanced.

Stepping back, we remain confident that unpredictable markets create opportunities for long-term investors focused on high-quality companies. High-quality businesses can benefit from durable competitive advantages, steady free cash flow generation and attractive long-term growth opportunities. In an environment characterized by high interest rates and an uncertain macroeconomic outlook, we believe these high-quality attributes can provide resiliency via pricing power and financial flexibility. Our goal remains to own a portfolio of companies positioned to grow and accrue business value. We seek to participate in this value creation as investors via the long-term ownership of what we believe are fairly priced, high-quality stocks. We believe the attributes noted above enable quality companies to generate business returns consistently above their cost of capital, ultimately resulting in shareholder value creation.

Connect With Us

Thank you for your continued confidence in Jensen. We are tremendously grateful for your ongoing support, and as always, please do not hesitate to contact us with any questions you may have.

S&P 500 Index: Is a market value weighted index consisting of 500 stocks chosen for market size, liquidity and industry group representation. The Index is unmanaged, and one cannot invest directly in the Index.

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