The Cobblestone Advisor
Investment Brief
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COBBLESTONE CAPITAL ADVISORS

Against All Odds

Economic data has surpassed expectations thus far in 2024, instilling confidence among investors that the resilience of the US economy may persist in the quarters ahead.

Consumers—the engine of growth for the US economy—have remained particularly healthy, with robust new job creation, historically low unemployment, and real wage growth supporting strong balance sheets and debt service capabilities.

Healthy consumers are helping to support the business sector, which has seen both sales and earnings surpass estimates. Corporate earnings—after declining for three consecutive quarters in 2023—have now grown for two consecutive quarters.

CEOs are optimistic, not just about their companies' current prospects, but also about what they believe lies ahead for the economy. CEO confidence surveys in early 2024 reflected optimism for the first time in two years. CEOs cited an easing in inflation and lower interest rates as developments that should benefit their businesses.

Against this backdrop, bullish investor sentiment has spiked to one of its highest levels since the early 2000s, driving markets to new highs.

Although riskier areas of the market—such as low-quality stocks and sub-investment grade bonds—have outperformed their higher quality counterparts, stock market performance has been relatively broad over the past few months compared to 2023, benefiting investor portfolios.

A highlight of last year was the extraordinary performance of a select number of the largest US stocks, known as the "Magnificent 7." Comprising Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla, these seven stocks accounted for approximately 60% of the US large cap universe's return in 2023.

Thus far in 2024, performance has broadened beyond those seven stocks, with almost three times the number of stocks reaching their one-year highs this year compared to 2023. The result is that stock market perfor-

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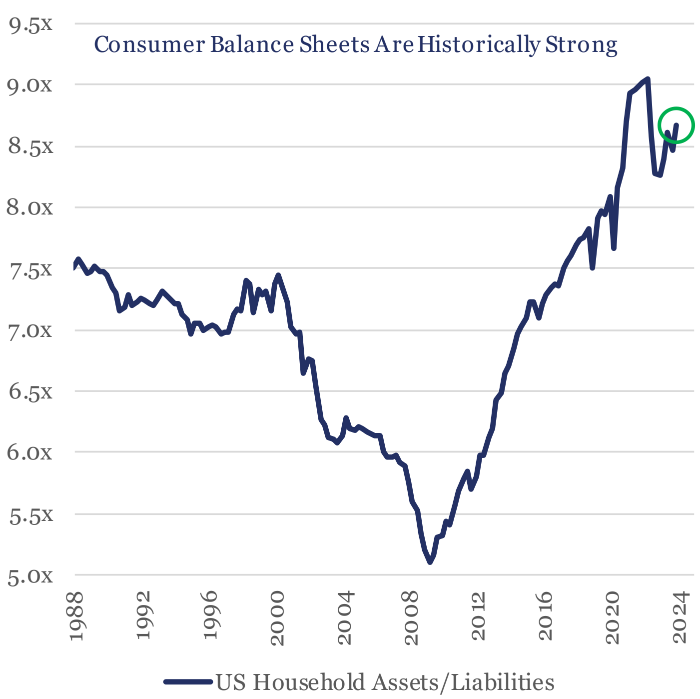

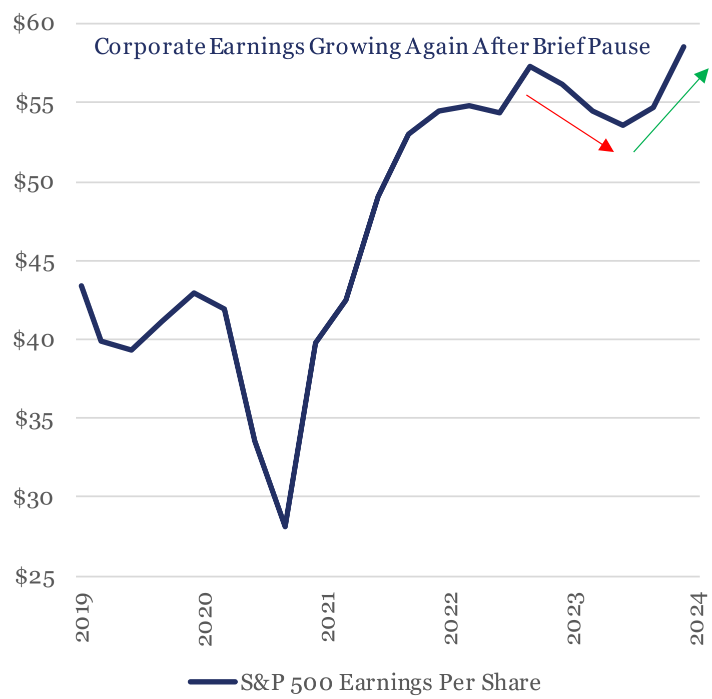

Source: Federal Reserve, S&P Dow Jones, Bloomberg.

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mance over the last several months has been nothing short of exceptional.

Since late October, US stocks have annualized at an astounding 82%. This compares to their long-term annualized return of between 9% and 10%. Even since the beginning of 2023, US stocks have compounded at an annual rate of roughly 30%.

This remarkable performance has undoubtedly fueled optimism among market participants, and the outperformance of riskier market segments suggests that investors expect the recent strength to continue.

Unfortunately, it will not.

In the wake of such strong returns for investors, it is important to maintain a realistic perspective. Recent stellar performance serves as a reminder of the potential rewards of equity investing, but it is essential to approach market return expectations with a balanced perspective, recognizing that volatility and uncertainty are inherent features of the stock market.

Although we are constructive on financial markets over the long term, we expect returns to moderate from these elevated levels in the quarters ahead. While the exact timing remains an open question, the fact remains that the market's furious march upward can't continue indefinitely.

As such, we recommend that investors maintain a diversified portfolio tailored to their risk tolerance, investment objectives, and time horizon.

This not only includes stocks and bonds, but also a diversified selection of alternative investments, which may deliver higher yields and help mitigate economic- and market-associated risks within a portfolio.

Looking ahead, we at Cobblestone remain vigilant and committed to our investors' long-term success, leveraging our expertise and research capabilities to navigate market uncertainties and identify attractive investment opportunities.

As we navigate the complexities of the current investment landscape, our investment strategies remain rooted in our commitment to long-term value creation. We remain agile in response to evolving market conditions, with an investment approach that emphasizes well-balanced allocations across asset classes.

Total Return (%), Ending 3/31/2024				Annualized		
	Qtr	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500 Stock Index	10.6	10.6	29.9	11.5	15.0	13.0
Russell 2000 (Small-Cap Stocks)	5.2	5.2	19.7	-0.1	8.1	7.6
MSCI World Ex. US (International Developed Stocks)	5.5	5.5	15.2	4.9	7.5	4.8
MSCI EM (Emerging Markets)	2.1	2.1	7.9	-5.1	2.2	2.9
Bloomberg US Aggregate Bond Index	-0.8	-0.8	1.7	-2.5	0.4	1.5
Dow Jones US Select REIT	-0.4	-0.4	10.4	3.7	3.0	5.9
Consumer Price Index (% Chg over Period)	1.8	1.8	3.5	5.6	4.2	2.8

Source: Bloomberg.