WEEKLY ECONOMIC UPDATE APRIL 29, 2024

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Last week opened with a rebound rally as investors breathed a sigh of relief that Middle East tensions had eased. The market rally extended into Tuesday, with investors cheering positive corporate earnings reports. By Tuesday's market close, the S&P 500 had gained 2% for the week.[1,2,3]

But investor enthusiasm didn't last, as midweek saw profit taking in all three averages. Rising bond yields threw a wet blanket on market momentum; at one point, the yield on the 10-year Treasury note rose more than 40 basis points from its low earlier in the week.[4]

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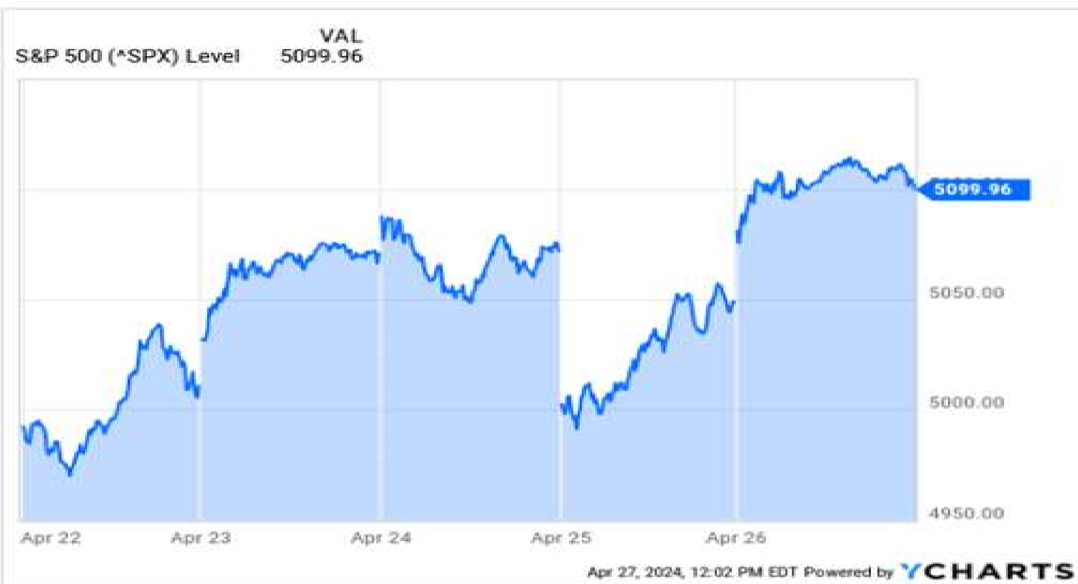
Weekly Market Insights (WMI)

Major Index Return Summary

Name	5D TR	1M TR	YTD TR	1Y TR
Dow Jones Industrial Average	0.67%	-2.57%	2.05%	17.26%
MSCI EAFE	1.74%	-2.55%	3.00%	10.01%
Nasdaq Composite	4.23%	-2.35%	6.32%	35.43%
S&P 500	2.67%	-1.91%	7.38%	27.71%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 04/26/24	4.67%	4.24% 4.15% 3.43%	10.14% ▲ 12.53% ▲ 36.15% ▲

Earnings Vs. Inflation

Corporate earnings and economic reports battled it out last week. In the end, earnings won, at least for this week.
The big economic news was that Q1 GDP grew at a 1.6 percent annualized rate—slower than the 2.4 percent economists expected and less than Q4 2023. The GDP report seemed to support the Goldilocks economy theory—not too hot, but not too cool—a story investors have favored this year.

The PCE (personal consumption expenditures) Index, the Fed's preferred inflation gauge, was embedded within the GDP report. Excluding food and energy, it increased 2.8% from a year ago. It was unchanged from February and slightly higher than expected. It joined a growing list of factors pointing to an uptick in inflation, complicating the Fed's interest rate decision.[5]

This Week: Key Economic Data

Tuesday: Employment Cost Index. Case-Shiller Home Price Index. Consumer Confidence.
Wednesday: FOMC Announcement and Fed Chair Press Conference. Treasury Refunding Announcement. ISM Manufacturing Index. EIA Petroleum Status Report.
Thursday: Motor Vehicle Sales. Jobless Claims. International Trade in Goods & Services. Factory Orders. Productivity and Costs.
Friday: Employment Situation.

Quote of the Week

"Ignorance more frequently begets confidence than does knowledge."

– Charles Darwin

Of Note

In the ever-evolving investment landscape, one thing has persisted for decades: the debate about the superiority of active or passive strategies. While many pundits strongly advocate for one approach over the other, there are now valid arguments that a combination of both active and passive strategies offer portfolio benefits not provided by either alone.

Before reviewing the benefits of combining active and passive investing, let's define each strategy:

• Active investing: Actively buying and selling securities, attempting to outperform the market or an assigned benchmark. Active managers rely on research, analysis, and their judgment to make investment decisions. While potentially offering higher returns, active investing also comes at higher costs and risks.

• Passive investing: Passive investing attempts to match the performance of a specific market index or benchmark. Instead of attempting to beat the market, passive investors seek to match its returns. Passive exposures typically are acquired through low-cost mutual funds or Exchange-Traded Funds (ETFs).

Active management offers several compelling benefits that appeal to advisors and investors seeking returns above the market average. Skilled active managers take advantage of market inefficiencies, exploit mispriced securities, and adjust portfolios in response to changing market conditions. This flexibility allows active managers to potentially generate above-market returns, particularly in volatile or inefficient market stretches.

Active management provides advisors with the opportunity to align their client portfolios with specific investment objectives, risk tolerances and other preferences. By actively selecting individual securities or sectors, active managers can tailor their portfolios to reflect specific goals or values desired by investors.

Furthermore, active management enables investors to take advantage of specialized strategies and asset classes that may not be well represented by passive vehicles. Real assets, such as infrastructure and real estate, and return-seeking bonds, such as global high yield and emerging markets debt, are examples of asset segments that have less than ideal index coverage. Active management expertise can effectively navigate and capitalize on the unique opportunities within these markets to hopefully add additional returns.

Passive investing has gained popularity in recent years due to its simplicity and cost-effectiveness. By tracking market indices, passive funds offer broad diversification across various asset classes at a fraction of the price of active strategies, providing overall lower-cost solutions.

Another advantage of passive investing is its consistency. Since passive funds aim to replicate market performance, investors can expect more predictable returns and reduced portfolio turnover compared to active strategies. This predictability can be particularly beneficial for advisors working with investors who are tempted to chase strong active performers. Removing this temptation allows clients to benefit from the stability of lower turnover.

Finally, passive investing aligns well with the principles of efficient market theory, which states that asset prices reflect all available information and are therefore difficult to consistently outperform. By accepting market returns rather than attempting to beat the market, advisors and clients can focus on activities within their control, such as asset allocation, rebalancing and cost management.

While active and passive investing represent distinct approaches, combining these strategies can create a powerful solution that leverages the strengths of each. By integrating active and passive strategies within a multi-asset portfolio, advisors can construct well-diversified, cost-effective investment solutions tailored to their clients' goals, preferences, and circumstances.

One approach to combining active and passive strategies is through a core-satellite construct. In this model, a diversified core portfolio consisting of low-cost index funds serves as the foundation, providing broad market exposure and stability. Surrounding the core are satellite positions managed actively by skilled fund managers, aiming to add excess returns and enhance overall portfolio performance.

Another approach is to establish the solution's strategic asset allocation, and then implementing it from the bottom up, identifying and allocating to those segments best served by active and those best served by passive management. The active allocations tend to lean towards the market segments that are less efficient, offer a higher risk/return trade-off, or have poor passive coverage. Passive allocations can round out the portfolio by offering inexpensive, broad market diversification in asset segments that possess higher hurdles for excess returns.

The debate between active and passive investing need not be an either/or choice for financial advisors and their clients. By recognizing the unique advantages of each approach and integrating them strategically, advisors can construct well-balanced portfolios that offer the potential for higher returns, lower costs, and reduced volatility.

Ultimately, by harnessing the complementary strengths of both approaches, financial advisors may be able to better serve their clients and help them achieve their long-term financial goals.[6]

Footnotes And Sources

1. The Wall Street Journal, April 26, 2024

2. CNBC.com, April 22, 2024

3. CNBC.com, April 23, 2024

4. CNBC.com, April 24, 2024

5. The Wall Street Journal, April 25, 2024

6. advisorperspectives.com/commentaries/2024/03/21/answer-active-passive-strategies-blueprint-financial-advisors?topic=alternative-investments