BLUE GRANITE CAPITAL, LLC

INVESTMENT COMMENTARY, APRIL 2024

Another quarter is in the books and stocks continue their tremendous path upward. Technology stocks, especially “AI driven,” have once again been the marquee performers, however this has coincided with a significant broadening of the market, with energy, financial and communication sectors having performed quite well. As we have been anticipating, this has created a healthier investment environment for a well-diversified stock portfolio, while applying the brakes to endless headlines about the Magnificent 7. Sure, Nvidia and Facebook have once again led the pack, but notably ten stocks in your portfolios gained more than 10% in the first quarter. Not to be lost, The S&P 500 Index gained 10.55%, adding to the 11.68% gain in the fourth quarter of 2023. By any standards and economic conditions, a 22%, 6-month gain is quite remarkable.

This past week, the much-anticipated March Consumer Price Index (Inflation) report once again was hotter than expected and rattled both the equity and bond markets. Inflation remains stubbornly high; dampening hopes the Federal Reserve will cut interest rates this year. More surprising than rising inflation, has been the strength and resilience of the economy and how low unemployment has remained, despite higher interest rates imposed by the Fed. To this point, Fed Chair Powell has voiced patience, choosing to “let things play out” underscoring the Fed’s belief that interest rates are high enough to further curb inflation without severe damage to the economy.

Without a doubt, the equity markets have benefitted in a surprising and positive way, which at current levels, warrant caution. That said, domestic economic government reports have supported the broadening of the stock market rally, as new housing inventory shows improvement, employment numbers remain strong, and inflation is now trending near 3%. Economic concerns arise when you broaden the lens globally. China’s economy continues to struggle with their 3rd consecutive year of declines in their major stock index and Europe remains constrained by high energy costs and production declines. The bottom line—global investment must go somewhere, and the U.S. continues to be the safest bet.

As stated above, one of the most notable developments in the first quarter was the discernible shift in investor preferences away from the dominant 'Magnificent Seven' stocks. As inflationary pressures have recently intensified with persistently higher interest rates, investors have reevaluated their sector allocations, favoring industries perceived to be less sensitive to inflation and more resilient in a tightening monetary environment. Consequently, sectors such as utilities, consumer staples, and select areas of healthcare have witnessed renewed interest, with investors seeking refuge in defensive and income-generating assets and exhibiting returns exceeding the overall technology sector.

Looking ahead, the economic outlook for the remainder of 2024 remains uncertain. Renewed inflationary pressures are problematic, and corporate earnings are forecast to slow, potentially pressuring stock market performance in the near term. Furthermore, pending elections, geopolitical tensions and global macroeconomic developments will continue to influence market sentiment and economic prospects. As we navigate these challenges our disciplined investment approach to risk management, sector diversification, and a focus on long-term fundamentals remains paramount. We have certainly enjoyed the steady broadening rally to start this year, however we continue to be cautious at or near historic market highs.

We thank you for your continued trust and support. Please call us if there is anything you would like to discuss. Enjoy the beautiful spring season.

Best regards,

Scott, John & Dave.