

# Markets Start Strong on Expectations of Soft Landing

FEBRUARY 2024



**Daniel Wildermuth**  
Portfolio Manager, Asteria  
Strategies

All three major indexes – the S&P 500, Dow, and Nasdaq – have enjoyed a great start to the year with the S&P 500 and the Dow hitting new highs and the Nasdaq flirting with a record. The market strength results largely from investors’ belief that the Federal Reserve will successfully execute a “soft landing”. If the Fed can keep the economy growing while rapidly lowering interest

rates remains an unknown at this point, yet the likelihood continues to rise.

are counting on rate cuts coming soon, but the central bank has cautioned that rate cuts are still some way off. Federal Reserve Governor Christopher Waller recently warned that any lowering of interest rates this year will need to be “carefully calibrated and not rushed,” and other officials suggested that investors appear to be expecting rates to come down too fast. European Central Bankers recently shared the same perspective at the World Economic Forum in Davos. Comments by bank officials worldwide suggest that rates will be lowered this year, but markets appear to have priced in very aggressive reductions coming soon.

Other challenges could have even more serious impacts. In the U.S., commercial real estate is bracing for a record amount of maturing loans and a surge in defaults as

---

*“Historically, new highs have been indicative of more new highs until a meaningful shift in the macro environment occurs.”*

---

While many have highlighted that recent highs make further gains difficult, particularly given today’s rich equity valuations, there is ample precedent that the rally may likely continue. Between 1950 and 2021, the S&P 500 set more than 1,000 record highs, and one year later less than 7% of the time the markets had declined by more than 20%, according to an analysis by Royal Bank of Canada. Historically, new highs have been indicative of more new highs until a meaningful shift in the macro environment occurs.

Yet, while much seems to have gone well for the economy recently, concerns still linger. Most investors

property owners are forced to refinance at higher rates. One recent estimate put the losses at over \$1 trillion out of a \$3 trillion market. Over the last couple years, many owners were able to exercise one- or two-year extensions built into their original loans, but these are widely expiring. Many owners are now facing demands for additional capital while rising vacancies create challenges that will raise defaults. This dynamic could cause a meaningful shift in the macro environment.

Overseas, European struggles are continuing and could cause greater pain to U.S. economy. Germany, the economic engine of Europe, contracted 0.3% during

fourth quarter after growing only 1% (adjusted for inflation) from the end of 2017. By comparison, the U.S. grew 13% over the same period. Economic growth of France, Italy and Spain was anemic enough that officials are still guessing on whether or not their economies actually grew in 2023.

While recent good news has recently driven markets higher, we believe that expectations for the market in 2024 should be tempered. The market could easily continue up, particularly in the short-term, but at current valuations we believe it's unlikely that equities return double digits annually over the next few years. Rather, it appears that much good news is already priced into markets, and unexpected developments could slow growth and potentially derail U.S. markets, at least temporarily. We remain somewhat optimistic but also very cautious as there are many potential pitfalls.

#### **IMPORTANT DISCLOSURES**

*This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.*

*This material contains opinions of the author or speaker, but not necessarily those of Quartz Partners, LLC. The opinions contained herein are subject to change without notice. Forward looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable but are not assured as to accuracy. There is neither representation nor warranty as to the current accuracy or liability for, decisions based on such information. Past performance is not indicative of future results. No part of this material may be reproduced or referred to in any form, without express written permission of Quartz Partners, LLC.*

*Investment Advisory Services offered through Quartz Partners, LLC, an SEC-Registered Investment Advisor. Use of the term "registered investment adviser" or being "registered" with the SEC, or any state securities authority does not imply a certain level of skill or training.*