First Carolina Wealth

March 25, 2024

THOUGHTS TO START YOUR WEEK

Tax time is here!

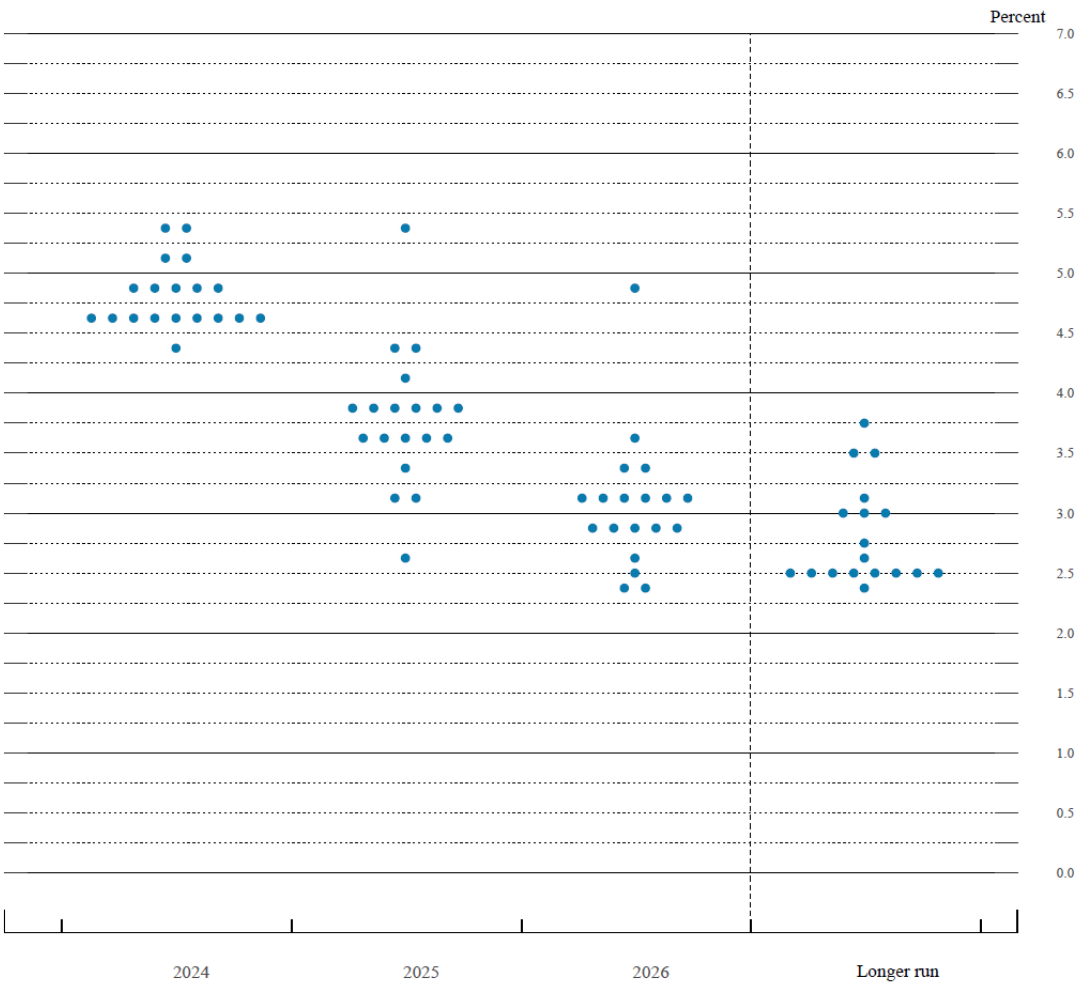
Do not dread the experience… learn from it!

- Remember to always declare every nickel of income but reduce it by every nickel of deduction/credit. Income reporting is number one on the audit red flag program. If someone paid you for services, just assume they filed a Form 1099 with the IRS. A difference between income disclosed on a filed 1099 and your filed 1040 raises questions.
- Do not automatically take the standard deduction, even at its current high level. Rather, keep track of permitted medical expenses and all charitable contributions. Even with the current limitations on state and local tax (SALT) deductions to $10,000 per couple per year, you could still find adequate deductions to justify itemizing. **Do not forget that North Carolina has enacted the SALT work-around law that allows you to pay and deduct SALT at the level of your LLCs that generate the tax before they flow through to your individual return, thereby avoiding the SALT personal limitations.**
- If you become depressed, just remind yourself that you must make income in order to pay income tax! This is what we call a "good problem" in the Tax Planning business!

Weekly Economic Insights From Our Investment Managers

Equity markets were once again fueled by AI (Artificial Intelligence) optimism and a seemingly dovish Fed last week. News that Apple is looking to use Google's AI technology in future phones, Nvidia's announcement of yet another new AI chip, and Micron's posting of better-than-expected earnings coupled with the Fed raising their growth forecast and leaving three rate cuts in the dot plots propelled the markets to all-time highs. The goldilocks data just kept pouring in all week, as steady jobless claims were reported and FedEx announced strong earnings. With all the good news, it's no surprise that markets largely ignored inflationary data out of the Composite PMI and a spike in existing home sales. Overseas data was received positively with some foreign central banks cutting rates and taking further hikes off the table. Even China reported positive retail sales and production output. The bond market liked the message and caught a little bid sending longer term rates down several basis points.

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



NOTE: Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. One participant did not submit longer-run projections for the federal funds rate.

Source: FOMC Summary of Economic Projections March 20th, 2024

Key Takeaway:
Last week's data was undoubtedly supportive of the no/soft landing thesis (where the Fed uses its tools to combat inflation without destroying the economy), which further supports the rally we've seen in equities. AI is alive and firing on all cylinders!

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The Week Ahead:
The big event for this week falls on Good Friday (the markets will be closed), when we get PCE data, which is the Fed's preferred gauge of inflation. We will also get a peek at the consumer on Friday via income and spending and a speech from Fed Chair Powell. Other notables are highlighted on the chart below.

Tuesday March 26 2024			Actual	Previous	Consensus	Forecast
08:30 AM	US	Durable Goods Orders MoM FEB		-6.1%	1%	0.7%
08:30 AM	US	Durable Goods Orders Ex Transp MoM FEB		-0.3%	0.4%	0.3%
09:00 AM	US	S&P/Case-Shiller Home Price MoM JAN		-0.3%		-0.1%
09:00 AM	US	S&P/Case-Shiller Home Price YoY JAN		6.1%	6.8%	6.5%
10:00 AM	US	CB Consumer Confidence MAR		106.7	106.7	106.5
04:30 PM	US	API Crude Oil Stock Change MAR/22		-1.519M		
Wednesday March 27 2024			**Actual**	**Previous**	**Consensus**	**Forecast**
10:30 AM	US	EIA Crude Oil Stocks Change MAR/22		-1.952M		
10:30 AM	US	EIA Gasoline Stocks Change MAR/22		-3.31M		
06:00 PM	US	Fed Waller Speech				
Thursday March 28 2024			**Actual**	**Previous**	**Consensus**	**Forecast**
08:30 AM	US	GDP Growth Rate QoQ Final Q4		4.9%	3.2%	3.2%
08:30 AM	US	Corporate Profits QoQ Q4		3.7%		3.3%
08:30 AM	US	GDP Price Index QoQ Final Q4		3.3%	1.6%	1.7%
08:30 AM	US	Initial Jobless Claims MAR/23		210K	215.0K	212.0K
09:45 AM	US	Chicago PMI MAR		44	46	46
10:00 AM	US	Michigan Consumer Sentiment Final MAR		76.9	76.5	76.5
10:00 AM	US	Pending Home Sales MoM FEB		-4.9%	1.5%	2.7%
10:00 AM	US	Pending Home Sales YoY FEB		-8.8%		2.4%
Friday March 29 2024			**Actual**	**Previous**	**Consensus**	**Forecast**
08:30 AM	US	Core PCE Price Index MoM FEB		0.4%	0.3%	0.3%
08:30 AM	US	Personal Income MoM FEB		1%	0.4%	0.3%
08:30 AM	US	Personal Spending MoM FEB		0.2%	0.4%	0.3%
08:30 AM	US	Goods Trade Balance Adv FEB		$-90.2B		$-88.0B
08:30 AM	US	PCE Price Index MoM FEB		0.3%	0.4%	0.4%
08:30 AM	US	PCE Price Index YoY FEB		2.4%	2.4%	2.4%
08:30 AM	US	Retail Inventories Ex Autos MoM Adv FEB		0.3%		0.1%
08:30 AM	US	Wholesale Inventories MoM Adv FEB		-0.3%		0.1%
11:30 AM	US	Fed Chair Powell Speech				

Source: Trading Economics (https://tradingeconomics.com/united-states/calendar#)

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Tidbits & Technicals:

Headwinds

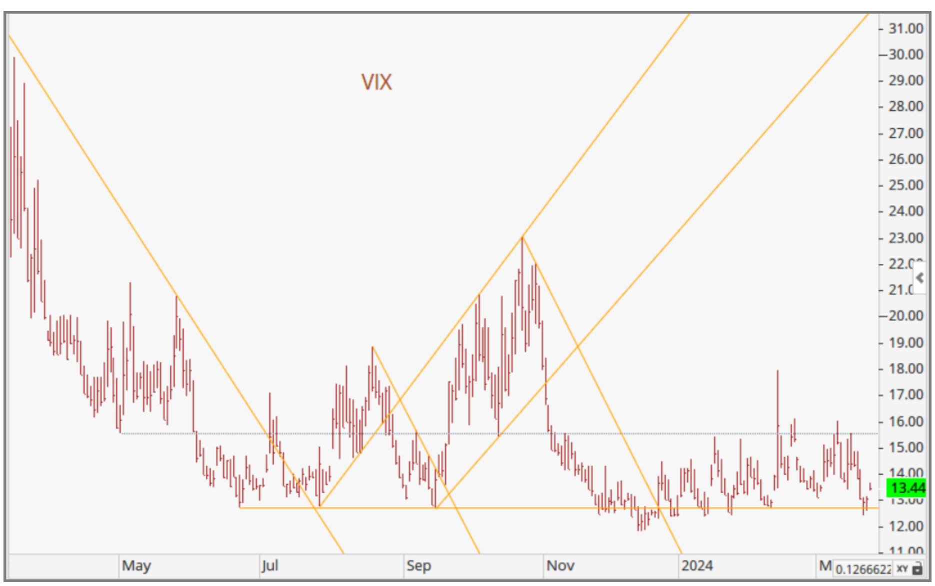
- Valuations are frothy given the current rate environment, leaving the markets subject to a potential swift pullback
- "Higher for Longer" – Risk that the Fed waits too long to begin lowering rates and threatens economic growth
- Narrow leadership with just a few mega cap tech stock leading
- Seasonally weak period lasts through the end of March

Tailwinds

- Optimism surrounding Artificial Intelligence (AI)
- Fed pivoting from raising rates to potentially cutting in the future
- Strong labor market
- Solid economic growth
- Continued earnings growth (the pace of which may be slowing)
- Momentum

Sentiment

- Credit spreads remain tight, signaling the bond market (aka "smart money") is not worried about a recession in the near future.
- The VIX (CBOE Volatility Index) is trading near cycle lows (note: periods of low volatility for a long time are often subject to change.
- The CNN FEAR & Greed Index remains above neutral in the "Greed" category, showing investors' current appetite for risk is strong.



Intermarket Trends:

- The major indices (Dow Jones Industrial Average, S&P 500, and NASDAQ) all posted new highs last week.
- Bond investors have been pricing in the idea of "Higher for Longer" recently, with 10-year treasury yields flirting with the upper-middle part of this year's trading range.
- The US dollar rallied towards the upper end of this year's trading range last week due to foreign central banks being the first to cut rates and others taking further rate hikes off the table.
- Gold has recently made all-time highs.
- Industrial metals caught a bid recently, and copper recently broke out of a multi-month trading range.
- Oil is nearing the top of its 2024 range but remains well below last year's highs.

Tying it all together:

Amidst a solid economic backdrop, reasonably strong earnings, and optimism surrounding AI fueling momentum, it's not surprising the equity markets made new highs last week. For the rally to continue, we'll want to see a more accommodative Fed stance, and we will want to see that sooner rather than later (exactly what we saw this week). The bond market is beginning to price in "Higher for Longer," and should that sentiment spill over into the equity markets with valuations this lofty, a swift pullback could occur. I'd view any such pullback as a buying opportunity, should the overall economic picture remain bright. Keep in mind that 5-10% pullbacks are very common in the stock market and typically happen a couple times per year. I find the breakout in copper very interesting, as this typically signifies renewed economic growth is underway. Coupled with rising Oil (also a key growth metric), low volatility, tight credit spreads, and bullish momentum, this market could just do what most bull markets do and surprise investors to the upside.

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