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Oxford Harriman Market Commentary

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Large Cap Stocks Trade Higher

Mega-cap stocks fueled a continuation of positive returns for large cap stocks to start 2024. The S&P 500, NASDAQ 100, and Dow Jones Industrial Average each set new all-time highs last month, with these indices increasing 1.6%, 1.0% and 1.2%, respectively, in January.

In continuation of last year's trend, the companies with the biggest market caps accounted for a substantial portion of the early-year gains. Although large cap stocks had a strong January, the Russell 2000 Index declined 3.9% for the month.

Sectors were also mixed during January with five of the eleven S&P 500 sectors trading higher. Communication Services, Financials, and Health Care were the best performers, while Real Estate, Consumer Discretionary, and Materials traded lower.

International stocks traded lower in January and underperformed U.S. stocks. The MSCI EAFE Index of developed market stocks declined 0.5%, while the MSCI Emerging Market Index traded lower by 4.5%.

Bonds, as measured by the iShares Core U.S. Aggregate Bond Index, declined .15% as Treasury yields modestly increased in January.

Interest Rate Cut Potential Presents Uncertainty

Speculation continues as to when the Federal Reserve may cut interest rates. At its most recent meeting in January, the Federal Reserve held interest rates steady and hinted that rate hikes are finished for the current tightening cycle. While both actions were expected, post-meeting statements may have confused the market. The central bank noted that it wants further confirmation that inflation will return to the 2% target before cutting interest rates.

Investors were surprised by the statement after seeing inflationary pressures ease over the past six months and assumed interest rates didn't need to stay at current levels. As mentioned in our fourth quarter commentary last year, we feel it may be premature to expect the Fed to cut rates during the first quarter of this year.

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It appears the Fed is willing to cut interest rates this year as a proactive measure to support the economy should this be warranted.

The future path of interest rates remains uncertain after the January meeting. The Fed's January statement provides it with maximum flexibility to adjust monetary policy as needed, cutting rates if inflation continues lower but keeping rates at the current level if inflation persists. It appears the Fed is willing to cut interest rates this year as a proactive measure to support the economy should this be warranted.

The question remains of when and by how much the central bank will cut interest rates, as well as the reason for any cuts. Investors and economists have been anxiously awaiting the Fed's next steps, but it appears they will be waiting for at least a few more months.

Interest Rates Matter

Interest rates are an important component of the economy, and any shift in expectations could impact consumer and business behavior. The interest-rate-sensitive segments of the economy that have slowed the most over the past year could begin to improve. As an example, the housing market could pick up if homebuyers believe they can refinance to a lower mortgage rate in the coming years.

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The combination of lower inflation and lower interest rates could also stimulate overall consumer spending and demand. With financing costs projected to decline, businesses may decide to start a new project, expand operations, or move forward with a project that had been on hold. Additionally, lower rates help bolster bank balance sheets which may stimulate additional lending.

Overall, lowering interest rates could stimulate demand and help stabilize the economy after the Fed's aggressive rate hikes. With employment remaining strong and the expectation of lower interest rates, the markets are reacting positively to what historically has been a formula for favorable conditions for long term investors in financial markets.

However, we believe the Fed needs to be careful not to cut rates too early, as lowering rates is one of the most effective tools to stimulate the economy should a recession or unexpected event occur that negatively impacts consumption and spending.

Please reach out with any questions,

Dennis P. Barba, Jr.
CEO & Managing Partner

Michael P. Finkelstein, CFA
Partner

Robert Frenkel, CFP®
Chief Investment Officer

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The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. The NASDAQ 100 Index is an unmanaged group of the 100 biggest companies listed on the NASDAQ Composite Index. The list is updated quarterly and companies on this Index are typically representative of technology-related industries, such as computer hardware and software products, telecommunications, biotechnology and retail/wholesale trade. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The MSCI Emerging Markets Index is designed to represent the performance of large- and mid-cap securities in 24 Emerging Markets. Bloomberg U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Additional information is available upon request. PM-08052025-6365387.1.1