



## Approaching a Soft Landing?

U.S. stocks soared higher in the first quarter of 2024, fueled by a robust US economy and easing inflation. This positive backdrop drove profits higher, propelling the S&P 500 to a 10.2% return.

In the previous quarter, we noted that a broader participation in the market rally was necessary for a sustainable recovery. This has indeed happened. While the Technology and Communication Services sectors, which included a large portion of the 'Magnificent 7' companies, remained top performers in Q1 2024, other sectors like Energy, Financials, and Industrials are also contributing to the gains (see Chart 1). This wider participation indicates there's a path to a healthier market.

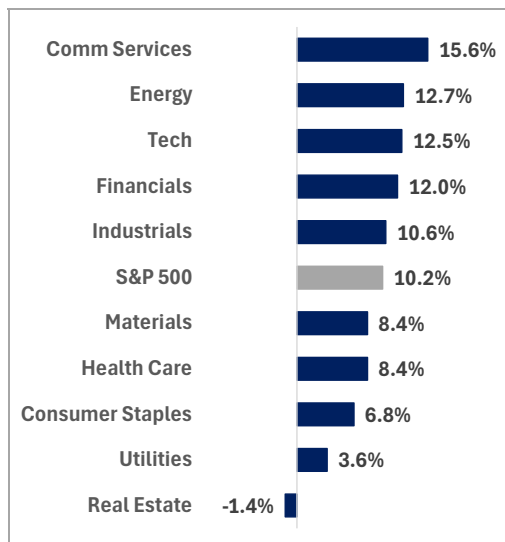
Furthermore, the continued economic growth, with a GDP increase of 2.5% for all of 2023 and 1.6% in Q1 2024, suggests that the Federal Reserve's soft landing strategy - cooling inflation without triggering a recession - might be working.

Historically, strong performance in the first quarter is a positive sign for the rest of the year. During the last 30 years, the S&P 500 has gained over 10% in the first quarter only four other times. During those years, the average gain for the remaining quarters was a significant 11.2%. And the average annual return was 24.6% in those years. (see Chart 2)

### Can there still be a derailment?

Despite a strong start to the year and a broader participating of sectors in the recovery, lingering uncertainties cast a shadow on a soft landing. This unease

**Chart 1: S&P 500 Sector Performance for Q1 2024**



Source: Morningstar, as of 3/31/24

## Endowment Tip

### How Do Gift Acceptance Policies Drive Endowment Giving?

**Answer: Trust.** Strong gift acceptance policies foster trust – the cornerstone of all church giving, including gifts that can help an endowment grow.

Gift acceptance policies serve as a strategic roadmap, guiding church leaders as they navigate the complexities of donations while upholding the church's values and mission. Clear criteria for accepting gifts ensure alignment with a church's endowment vision and its long-term financial goals. Furthermore, these policies foster transparency, which is key to earning donor trust and enhancing the credibility and sustainability of your endowment fund.

Gift acceptance policies establish in advance how the church will handle bequests, donor-restricted gifts, and non-cash gifts. They guide church leaders and donors in the disposition and use of gifts and demonstrate thoughtful consideration of donor wishes and church goals.

Best-practice policies can also serve as a shield against potential conflicts of interest or problematic donations. Putting in place clear guidelines for assessing the suitability of contributions helps to ensure that gifts enhance rather than compromise the mission and impact of your endowment.

By fostering trust through clear and well-defined gift acceptance policies, your church lays the groundwork for gaining new endowment gifts, allowing your endowment to flourish for years to come.

*ECF includes gift acceptance policies as a component of its sample endowment policies and encourages churches to adopt them as a part of a comprehensive endowment structure.*

translated into increased volatility throughout April, a stark contrast to the optimism of the first quarter. Even with seemingly strong fundamentals, the possibility of a derailed recovery remains.

**Inflation: Federal Reserve Interest Rate Reversal**

In any economy, the "goldilocks" scenario is a robust economy coupled with low inflation. Although the U.S. lived the "dream" for many years, runaway inflation in 2022 forced the Fed to step in with a series of interest rate hikes in an attempt to cool the overheating economy and bring inflation down to its 2% target. The plan was to eventually ease back on rates once inflation was under control.

Throughout 2023, the market rallied with hopes of a Fed interest rate cut following a significant drop in inflation. But despite the Consumer Price Index (CPI) falling from a peak of 9.1% in June 2022 to 3.0% in June 2023 (see Chart 3), inflation readings have remained stubbornly stuck above the Fed's target of 2%. In addition, a stronger-than-anticipated economy, suggests that inflation could remain higher for longer, which may force the Fed to extend its period of higher interest rates.

Both high inflation and high interest rates pose significant challenges. Inflation eats away at the value of everything, from groceries to investments. Meanwhile, higher interest rates make borrowing more expensive, increasing costs for both individuals and businesses. With less money on hand, consumers and corporations

**Chart 2: S&P 500 Performance for Q1 and YTD During the Last 30 Years**

|      | First Quarter | Year-to-Date |
|------|---------------|--------------|
| 1994 | -4.4%         | -1.5%        |
| 1995 | 9.0%          | 34.1%        |
| 1996 | 4.8%          | 20.3%        |
| 1997 | 2.2%          | 31.0%        |
| 1998 | 13.5%         | 26.7%        |
| 1999 | 4.6%          | 19.5%        |
| 2000 | 2.0%          | -10.1%       |
| 2001 | -12.1%        | -13.0%       |
| 2002 | -0.1%         | -23.4%       |
| 2003 | -3.6%         | 26.4%        |
| 2004 | 1.3%          | 9.0%         |
| 2005 | -2.6%         | 3.0%         |
| 2006 | 3.7%          | 13.6%        |
| 2007 | 0.2%          | 3.5%         |
| 2008 | -9.9%         | -38.5%       |
| 2009 | -11.7%        | 23.5%        |
| 2010 | 4.9%          | 12.8%        |
| 2011 | 5.4%          | 0.0%         |
| 2012 | 12.0%         | 13.4%        |
| 2013 | 10.0%         | 29.6%        |
| 2014 | 1.3%          | 11.4%        |
| 2015 | 0.4%          | -0.7%        |
| 2016 | 0.8%          | 9.5%         |
| 2017 | 5.5%          | 19.4%        |
| 2018 | -1.2%         | -6.2%        |
| 2019 | 13.1%         | 28.9%        |
| 2020 | -20.0%        | 16.3%        |
| 2021 | 5.8%          | 26.9%        |
| 2022 | -4.9%         | -19.4%       |
| 2023 | 7.0%          | 24.2%        |

Source: Morningstar

are likely to cut back on spending, potentially slowing economic growth.

Investors will be closely watching inflation in anticipation of the Fed's next move.

**Valuations**

In addition to concerns about inflation and policy rates, stocks may feel expensive. During the current Q1 earnings season, S&P 500 companies' earnings have only grown by 5.4% (based on 92% of reporting companies, as of May 10). This lags behind the S&P 500's price growth of 9.5% YTD. While the growth of stock prices (9.5%) are nearly double that of earnings (5.4%), analysts expect earnings growth to pick up steam in Q2 with an estimated earnings growth of 9.3%. (See Chart 4)

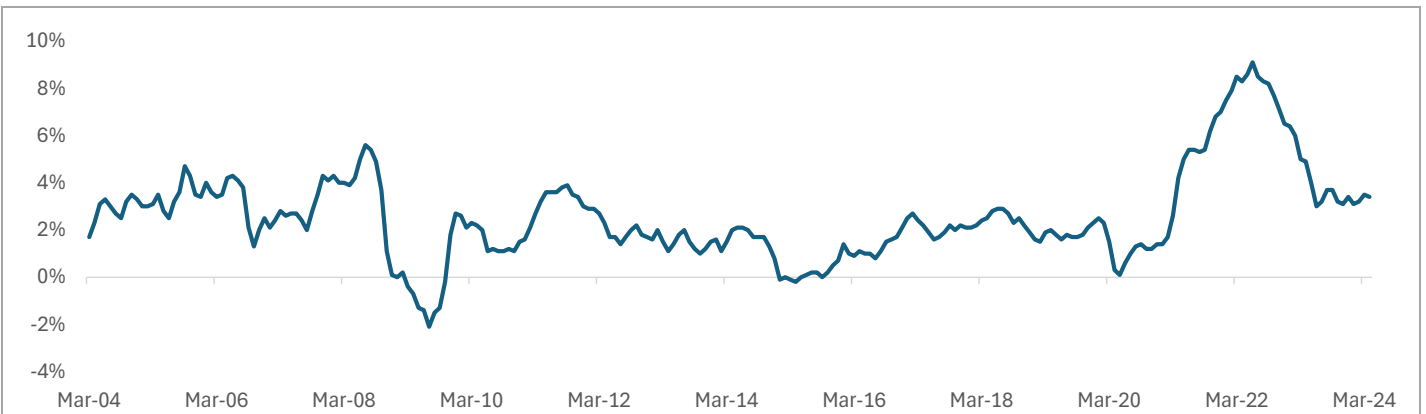
Investors will likely monitor valuations, or more specifically earnings growth, in the face of moves in inflation and interest rates.

**Geopolitical Jitters Add Fuel to the Fire**

As if economic uncertainty and company valuations were not enough, geopolitical tensions are adding another layer of anxiety. Recent flare-ups in the Middle East are reminding investors of the fragility of the global economy. These events can disrupt supply chains, raise energy prices, and dampen investor confidence, all of which can contribute to market volatility.

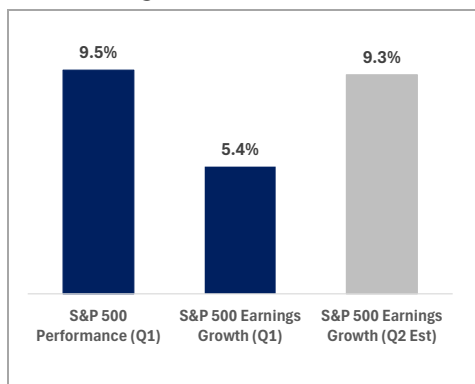
Investors will be on alert for any unexpected developments.

**Chart 3: Consumer Price Index (CPI,% y/y)**



Source: Bureau of Labor Statistics, as of April 2024

### Chart 4: S&P 500 Performance and Earnings Growth



Source: Morningstar, Factset Insights, S&P 500 YTD through 5/10/24

### Summary

While the first quarter delivered strong gains and broader market participation, several challenges could pose a threat, causing volatility. Inflation remains above the Fed's target, potentially leading to extended interest rate hikes. Stock valuations may need to adjust to catch up with earnings growth. Geopolitical tensions and upcoming elections add to the uncertainty. Despite these hurdles, a soft landing remains a possibility, but investors will be watching the balance between inflation and interest rates, earnings growth, and global events to determine if current market momentum holds for the rest of the year.

### Elections

Finally, in the upcoming US election later this year, Americans will vote for their next president. In addition, a total of 468 seats in the U.S. Congress (33 Senate seats and all 435 House seats) are up for grabs. Internationally, elections in Mexico and India will determine new heads of state, the European Union parliamentary elections are scheduled for June, and general elections in the UK are all on the agenda. Investors may expect volatility as policy changes/uncertainty emerge.

## UPCOMING WEBINAR

**Share this webinar with other Episcopal organizations to help them take the first step!**

*Is a neighboring church or Episcopal organization interested in establishing its first endowment? The Episcopal Church Foundation (ECF) is a mission-based nonprofit dedicated to helping organizations build a lasting financial foundation.*

Hosted by the Episcopal Parish Network

### Prepping for an Endowment: What to think about when establishing an endowment

Thursday, June 13, 2024  
3:00pm ET

No endowment? A better way to think about this topic is 'no endowment – yet.' Establishing an endowment for your church is a signal that you are hopeful and visionary. Endowments aren't a luxury for Episcopal churches, they are confirmation we believe in the future of the church and will do what's necessary to ensure our unique Episcopal witness endures for generations. Endowments mean your church believes in the future.

Experience shows that all kinds of churches can become endowed – not just large or old churches, not just those from areas where endowments were the historical norm.

Join us for this workshop where our panelists will cover a variety of questions on establishing an endowment, such as: • When is a good time to get started? • What should you discuss? • Where do funds come from? • What do you need to have in place to be ready for a future gift?

Join EPN partners and endowment experts from the **Episcopal Church Foundation** to learn how you can prepare your parish for an endowment. Leave this workshop with the information needed to address what you need to know to plan for, manage, and oversee an endowment today.

Panelists include:

- Carsten Sierck - Director of Endowment Management, Episcopal Church Foundation; New York, New York
- Anne Richardson - Senior Program Director for Investor Relations, Episcopal Church Foundation; Alexandria, Virginia

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