Smarter Way to Invest

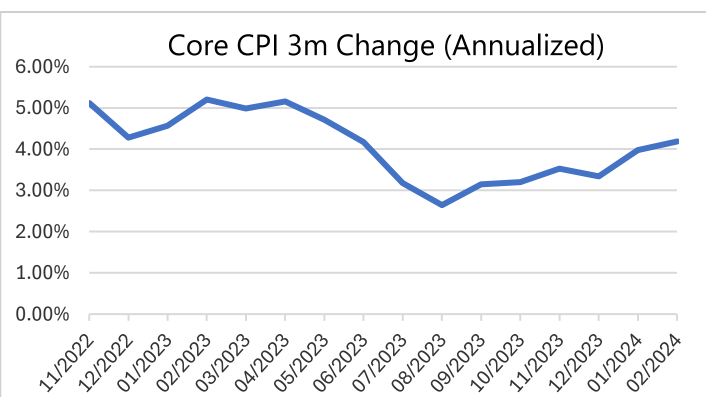
Economic and Asset Class Momentum

Market Update MARCH 2024

March exhibited strong returns across major asset classes, with the recent rally propelling the S&P 500 index and several other major equity indexes to reach new all-time highs to close out the month. All major asset classes saw positive returns for the month with equities and commodities leading the way.

February's inflation metrics remained relatively unchanged from the previous month. Headline CPI saw a modest increase from 3.09% to 3.15% year-over-year growth. However, PCE Core inflation, another crucial metric, saw a slight decline from 2.88% to 2.78% year-over-year. However, looking at the CPI changes over a 3-month basis reveals a less optimistic picture, with a steadily increasing trend of costs beginning to rise again. This data suggests rate cuts may come later than anticipated.

On March 20th, the second FOMC meeting of 2024 took place, with the federal funds rate remaining at 5.25-5.50% for the fifth consecutive meeting. The Fed reiterated their stance on not reducing rates until inflation reaches a sustainable 2% target. The release of the Summary of Economic Projections (SEP), which occurs quarterly, provided insight into FOMC members' projections on GDP, inflation, unemployment, and the Federal Funds rate path. The median projections for the federal funds rate remained unchanged for December 2024, with approximately three 25 bps rate cuts expected[1]. However, projections for later periods have become more hawkish, with the federal funds rate projected to decline to just 3.90% for December 2025[1]. Furthermore, projections for real GDP were revised upward, and the unemployment rate was slightly lowered, indicating a belief that the economy may remain stronger than originally anticipated. This optimism of economic resilience was supported by the recent upward revisions in Real GDP growth for Q4 2023 to 3.4% year-over-year growth.



"In Q4 2023, 73% of S&P 500 constituents exceeded their earnings estimates[2], and the index as a whole posted a 4.0% year-over-year growth in earnings. This marks the second consecutive quarter posting positive year-over-year earnings growth."

Additionally, the ISM Manufacturing PMI, a diffusion index (where a reading below 50 indicates contraction), has finally crossed above the 50 threshold for the first time since October 2022, marking a positive shift and serving as an encouraging leading economic indicator. However, the ISM services PMI has continued its downward trajectory and both the Manufacturing and Services PMI do remain well below their 10-year averages.

As we conclude the first quarter of 2024, equity markets have showcased strong resilience across the large and mid cap equity sectors, with the S&P 500 index reaching all-time highs in both February and again in March, reaching 5254.35 as of quarter-end. These impressive returns have occurred alongside a rise in the 10-year Treasury yield, which began the year at 3.88% and rose by 32 basis points to 4.2% by the end of the first quarter. The equity rally and recent momentum has been fueled by a robust earnings season that has exceeded expectations. In Q4 2023, 73% of S&P 500 constituents exceeded their earnings estimates[2], and the index as a whole posted a 4.0% year-over-year growth in earnings. This marks the second consecutive quarter posting positive year-over-year earnings growth. Most notably, communication services emerged as the leading sector with a growth rate of 45%. The S&P 500's forward P/E ratio now stands at 21.84 at the end of March, significantly higher than the 10-year average of approximately 17.7[3], suggesting that the market is pricing in relatively minimal risk and holds optimistic expectations for companies' growth prospects moving forward. The well-known Artificial Intelligence (AI) theme has continued to contribute to much of the optimism in the equities market with 179 S&P 500 companies citing "AI" on earnings calls[4]. Ultimately, only time will reveal the validity of the unfolding AI narrative and the extent to which efficiencies derived from AI technologies will translate into tangible realized earnings growth for companies.

1. https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20240320.pdf
2. https://insight.factset.com/earnings-insight-infographic-q4-2023-by-the-numbers
3. https://insight.factset.com/sp-500-earnings-season-update-february-16-2024
4. https://insight.factset.com/second-highest-number-of-sp-500-companies-citing-ai

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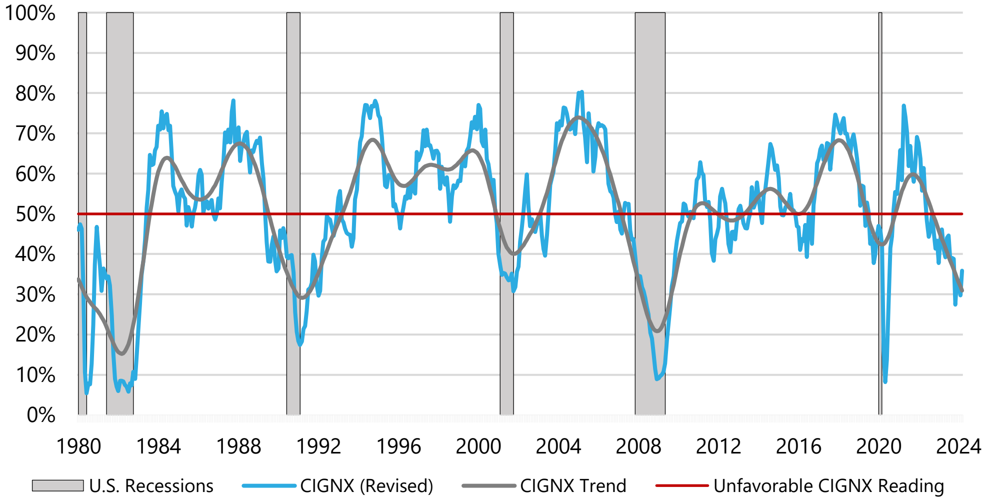
MARKET SENTIMENT= MIXED

Signal Update MARCH 2024

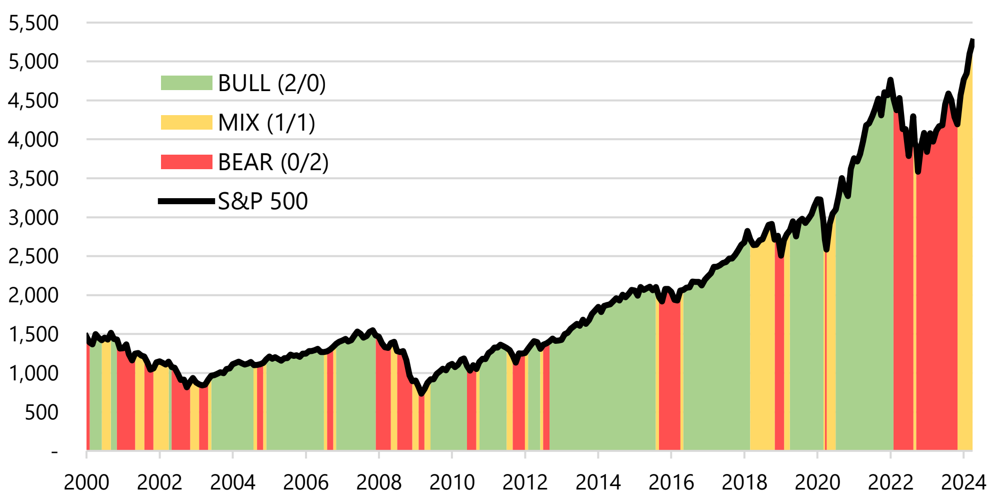
CIGNX = 35.9



Our **CIGNX** Economic Indicator has a revised reading of **35.9**, up from last month's revised reading of **29.7**. While the reading is up from last month, this is indicative of continued sluggish economic activity and a continued unfavorable trend in economic activity. This remains well below our baseline threshold of **50.0,** indicative of unfavorable conditions, and below the baseline reading of **40.0**, which we typically interpret as the economy experiencing recessionary conditions. **Our overall economic outlook remains negative.**

MONTH (2023)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
CIGNX (Revised)	32.6	29.7	**35.9**									
CIGNX Trendline	33.0	32.0	**30.9**									

ALPHA = Positive (Buy) OMEGA = Negative (Sell)



Our short-term **(Alpha)** signal remained **Positive** during the month of March, while our intermediate-term signal **(Omega)** remains **Negative**, indicating the near-term market trajectory is favorable while the long-term outlook for the market trajectory is unfavorable. We remain in a "Mixed" positioning across each of our Dynamically managed Portfolios, with a slightly reduced exposure to equities. **Our overall market sentiment outlook is Mixed.**

MONTH (2023)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ALPHA	BUY	BUY	**BUY**									
OMEGA	SELL	SELL	**SELL**									

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Asset Class Indices	S&P 500 Index	S&P 400 Index	S&P 600 Index	U.S. Agg Bond Index	S&P GSCI Index	S&P 1500 Real Estate
Monthly	3.22%	5.60%	3.24%	0.92%	4.73%	2.14%
Year to Date	10.56%	9.95%	2.46%	-0.78%	10.36%	-0.90%

Market Review MARCH 2024

U.S. Lg Cap Stocks

In March, the S&P 500 Index continued its rally with a positive gain of 3.22%, further solidifying its position as the leader among market capitalization indices on a year-to-date basis, at 10.56%. However, it lagged behind its mid and small-cap counterparts slightly for the month. Large cap equities have maintained their momentum each month thus far in 2024, setting new all-time highs for two consecutive months – as of both February month-end and again as of March month-end.

U.S. Md Cap Stocks

In March, the S&P 400 Mid Cap Index continued its impressive performance with a significant gain, bringing its total year-to-date performance to 9.95%, just shy of large caps. Building on its outperformance from the previous month, the mid-cap index led the market this month with a robust return of 5.60%, which further solidified its position as a strong segment within the U.S. equities market, keeping up with large caps thus far in 2024 and outpacing small caps by a large margin.

U.S. Sm Cap Stocks

The S&P 600 Small Cap Index showed signs of improvement this month, although it has continued to lag behind both large and mid-cap segments year-to-date. The small-cap index returned 3.24% for the month, marking a positive turn for small-cap stocks, which started the year off in the negative. This resurgence suggests a potential shift in momentum for small-cap stocks as they strive to catch up with their larger peers in the market.

U.S. Bonds

After struggling for the first two months of the year, The Bloomberg U.S. Aggregate Total Return Index showed signs of a rebound in March with positive performance, posting a modest return of 0.92%. Though bonds continue to face challenges amidst the elevated interest rate environment, March was a welcome shift after experiencing negative returns in the first two months of the year. Notably, the yield curve remains inverted (since July 2022), with the 2-year to 10-year Treasury yield spread inversion surpassing the previous 624-day inversion observed in August 1978, setting a new record.

Alternative Assets

The S&P GSCI Total Return Index surged by 4.73% this past month, maintaining its position as a top-performing asset class year-to-date. Most notably, precious metals such as gold and silver have experienced significant rebounds, boasting monthly returns of over 8.00% and propelling gold to new all-time highs. Moreover, other commodity sub-asset classes within the GSCI index have displayed robust gains since the beginning of the year. Among these, oil has been a standout performer, with the Brent Crude oil index recording a remarkable 17.57% return for the year.

U.S. Real Estate

The S&P 1500 Real Estate Index returned 2.14% for the month, a continuation in momentum from last month's gain of 2.06%. However, the prevailing theme within this asset class sector continues to be the downward pressure of elevated interest rates, causing real estate to struggle alongside other interest-rate-sensitive sectors such as bonds and small cap equities. The real estate index remains in the negative with year-to-date returns of -0.90%, though the last two months of positive returns are encouraging and may point to this sector beginning to stabilize.

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