

Market Intelligence

March 2024

"In the short run, the market is a voting machine, but in the long run, it is a weighing machine."

-Ben Graham, *Security Analysis*

Rarely are stocks perfectly priced. Rather, the market behaves like a pendulum, constantly swinging between varying degrees of optimism and pessimism. Warren Buffett, protégé of the father of value investing, Ben Graham, maybe said it best: "be greedy when others are fearful and fearful when others are greedy." But, in the moment, it can be difficult to tell if the exuberance or despair around us is rational and justified or not. The S&P 500 (the largest 500 companies in the US) has gained 7% already this year after advancing 26% in 2023. Are these gains being driven by "irrational exuberance" or are they supported by fundamental economic and business growth? This month, we will dive into 2023 company earnings.

US Companies, on average, grew their earnings in the 2024. Profits for the S&P 500 were up 4% in the 4th quarter 2023 versus the same quarter of 2022.¹ We believe this has been a leading catalyst for the market to move higher this year despite myriad concerns regarding inflation, interest rates, geopolitical conflicts, and the upcoming US Presidential election. In other words, its hard to argue with results.

Perhaps more importantly, companies have been outperforming expectations. For Q4 2023, more than 70% of S&P 500 companies reported positive earnings surprises. Meaning, they outperformed the consensus estimates of the best Wall Street analysts. As of December 31st, it was expected that the S&P 500 would increase earnings by 2% in 2023, but actual results came in closer to 4% year-over-year growth. Additionally, expectations for 2024 have been increasing as well, potentially marking an inflection point in corporate earnings which have been relatively flat for more than two years. In other words, the pendulum has swung back toward optimism and companies are backing it up with results. In addition to robust earnings growth for AI-focused companies like Microsoft and NVIDIA, companies like Target, Amazon, and General Motors all grew earnings as well, demonstrating the financial health and spending ability of US households which has been supported by a strong labor market and rising wages.

254
Mentions



HOT TOPIC Inflation

The term "inflation" was mentioned at least once during the earnings conference calls of 254 S&P 500 companies from Dec. 15 through Feb 23.

45%

TOP GROWTH SECTOR

Communication Services

The Communication Services sector reported the highest earnings growth of all 11 sectors in the S&P 500 at 45%.

4.0%

Earnings

KEY TAKEAWAY

The S&P 500 reported growth in earnings of 4.0% - the second-straight quarter of Y/Y growth.

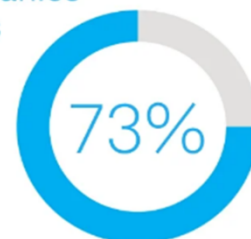
73

GUIDANCE

73 S&P 500 companies issued negative EPS guidance for Q4 - above the ten-year average of 62.

73% of S&P 500 Companies Exceed EPS Estimates

73% of S&P 500 companies reported actual EPS above estimated EPS - below the five-year average of 77%.



¹ Factset as of February 29, 2024



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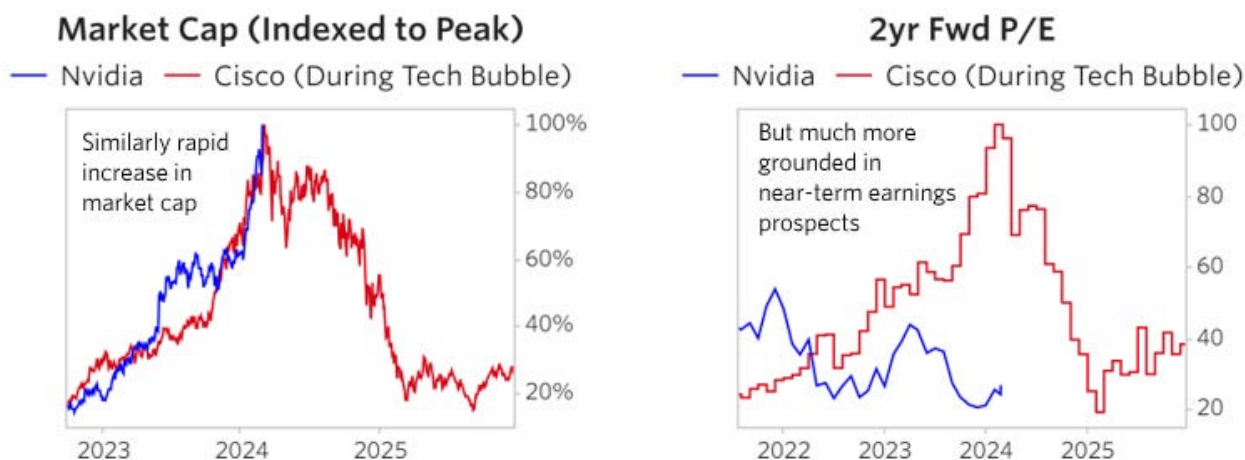


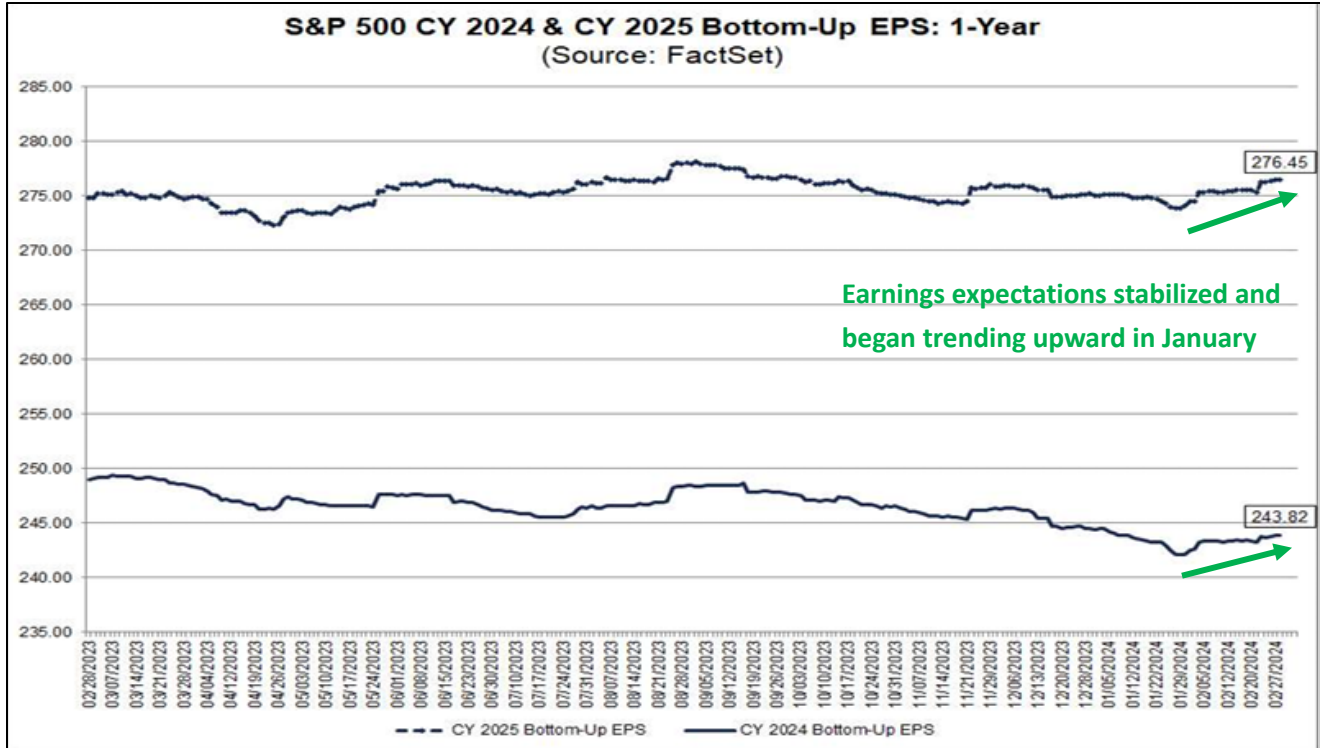
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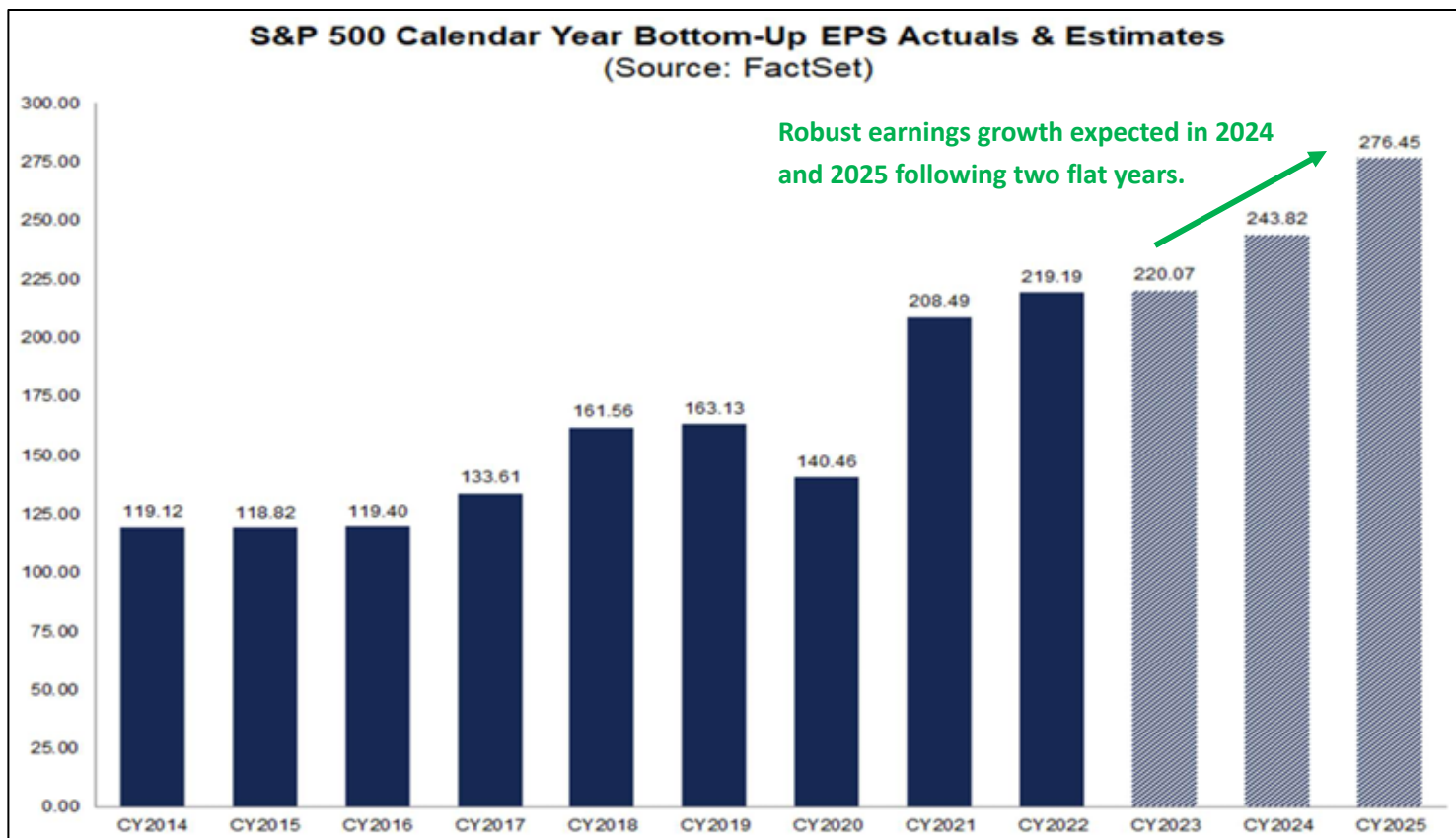
While periods of optimism are generally good for future returns, they leave the market and investors vulnerable to sudden negative shifts in sentiment. That's why we recommend remaining diversified and prudently rebalancing portfolios when asset allocations move outside of target ranges.

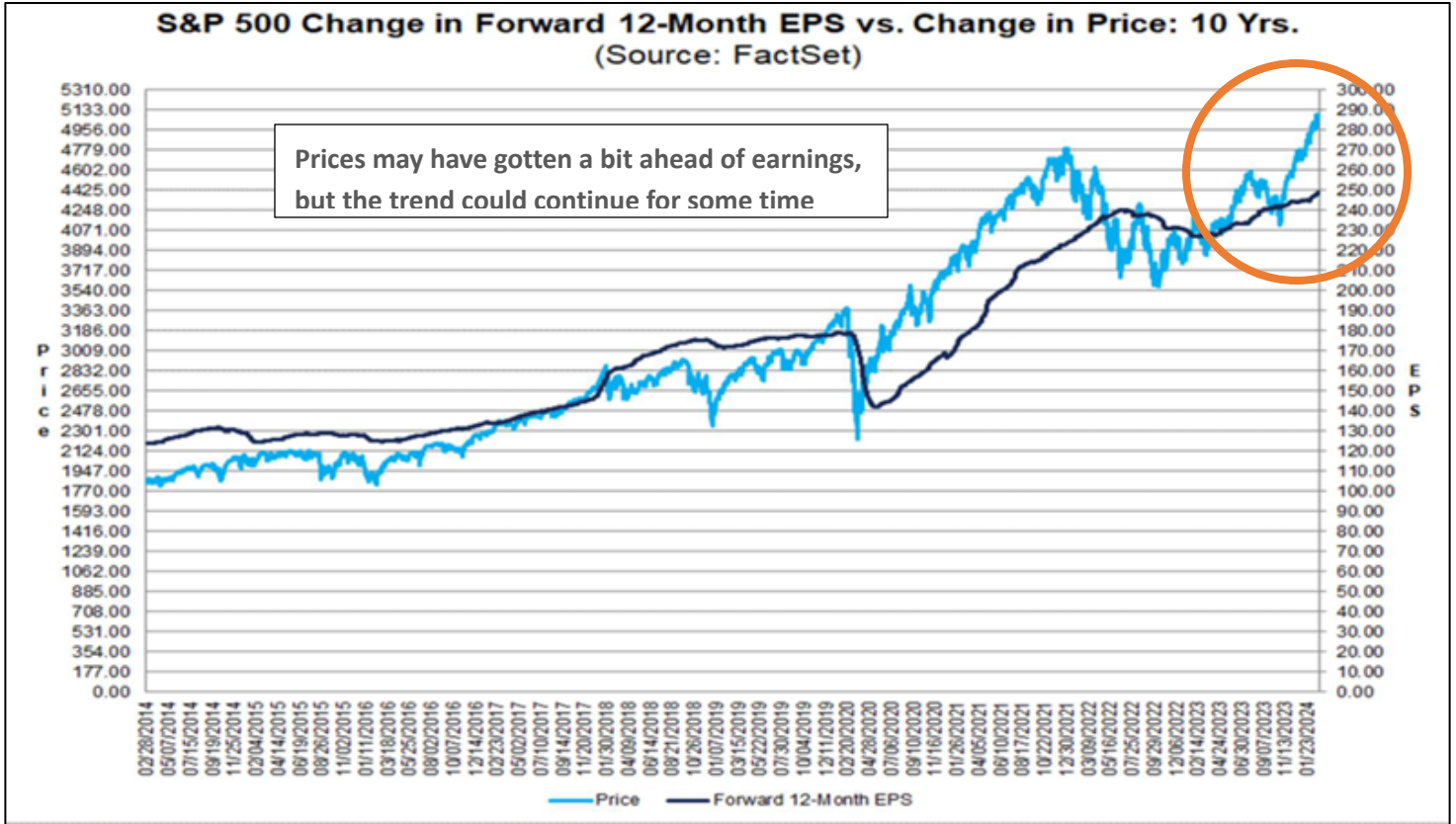
Today, we are increasingly being asked if the environment resembles the dot-com bubble of the late 1990s. Stock prices relative to earnings in large US companies are certainly elevated, but we do not see a bubble environment. For example, NVIDIA, posterchild of the generative artificial intelligence enthusiasm, has returned 463% since the beginning of 2023. But, the company has grown revenue by 265% during the same time. NVIDIA's semiconductors (computer chips) are a leading enabler of artificial intelligence. During the dot-com bubble, Cisco's communications equipment was at the heart of the internet build-out. We can see that the meteoric price rise of NVIDIA closely matches that of Cisco 25 years ago (left chart), but based on expected future earnings, NVIDIA looks no where near as expensive as Cisco during the dot-com bubble. When prices are elevated, caution is warranted, but we also see very positive innovations happening across our portfolios which should benefit companies, the economy and society for years to come.

Case Study: Nvidia Today vs Cisco at Tech Bubble Peak









Outlook & Positioning Summary



Economy

✓ Economic Growth

3.3% US Gross Domestic Product (Q4 2023)

✓ Employment

Solid, but showing signs of slowing

✓ Households

Low fixed rate mortgages, unemployment low, wages growing, inflation moderating, sentiment rising

• Financial Conditions

Inflation Remains Above Target, Interest Rates Elevated, Bank Lending Declining. US Government Spending on Infrastructure.



Markets

✓ Valuation

Many Assets Trading At-or-Below 15-20 Year Averages

• Earnings

Outperforming expectations but relatively modest growth

• Trend

Equity markets are being driven by the anticipated direction of interest rates.

• Investor Sentiment

Investors quickly turned bullish in Q4, but starting to moderate

Asset Class Returns

Category	Representative Index	1 Month	YTD	2023	1 Year	3 Years	5 Years
US Large Companies	S&P 500	5.3%	7.1%	26.3%	30.5%	11.9%	14.8%
US Large Companies	S&P 500 Equal Weight Index	4.2%	3.3%	13.9%	13.3%	8.7%	11.6%
US Dividend Companies	WisdomTree High Dividend Index	1.5%	0.2%	0.2%	1.1%	9.6%	7.2%
US Growth Companies	Russell 3000 Growth	6.9%	9.3%	41.2%	44.0%	11.3%	18.0%
US Value Companies	Russell 3000 Value	3.7%	3.5%	11.7%	13.5%	8.0%	9.2%
US Small Cap Equity	Russell 2000	5.7%	1.5%	16.9%	10.1%	-0.9%	6.9%
Global Equity	MSCI All-Country World	4.3%	4.9%	22.2%	23.2%	6.8%	10.5%
Foreign Developed Equity	MSCI EAFE	1.8%	2.4%	18.2%	14.4%	4.4%	6.8%
Emerging Market Equity	MSCI Emerging Markets	4.8%	-0.1%	9.8%	8.7%	-6.3%	1.9%
US Fixed Income	Bloomberg Barclays US Agg. Bond	-1.4%	-1.7%	5.5%	3.3%	-3.2%	0.6%
US Fixed Income	Bloomberg Barclays Municipal Bond	0.1%	-0.4%	6.4%	5.4%	-0.2%	1.9%
Global Fixed Income	Bloomberg Barclays Global Agg. Bond	-1.3%	-2.6%	5.7%	3.1%	-5.5%	-1.0%

Source: YCharts as of February 29, 2024. Annualized returns for data longer than 1 year

Past performance may not be representative of future results. All investments are subject to loss. Forecasts regarding the market or economy are subject to a wide range of possible outcomes. The views presented in this market update may prove to be inaccurate for a variety of factors. These views are as of the date listed above and are subject to change based on changes in fundamental economic or market-related data. The ETFs presented above are not intended to be benchmarks for performance. Rather, they are intended to be demonstrative of a particular sector or segment the investment universe discussed. Each ETF was selected as opposed to an index to more accurately reflect what an investor might experience. There are other ETFs or indices that might be representative of the same spaces. However, we believe the ones shown are sufficiently representative to assist us in explaining our investment thesis.

Please contact your Advisor in order to complete an updated risk assessment to ensure that your investment allocation is appropriate.