December 31, 2023

Cantor Fitzgerald Equity Dividend Plus

MARKET AND PORTFOLIO COMMENTARY

Separately Managed Account

Economic and Market Review

With a strong fourth quarter rally for stocks, the S&P 500 generated well above-average returns of over 26% for 2023. Other large-cap benchmarks, such as the Russell 1000 Value, also experienced a strong fourth quarter, but full year returns were less robust than the technology-heavy S&P. It is worth noting that while the S&P outperformed the Russell for 2023, it significantly underperformed it during the bear market of 2022. Consequently, when looking at the two-year period, returns for the S&P 500 and the Russell 1000 Value are almost identical, both up around 1.5% on an annualized basis. It is especially noteworthy that the large-cap benchmarks ended the two-year period virtually the same given the extreme performance disparity between the indexes each year and given the very narrow market leadership in 2023. For example, the largest seven stocks in the S&P 500 returned 76% last year, while the other 493 stocks returned 14%, illustrating how a small number of very large companies drove the index higher.

LARGE CAP BENCHMARKS 2021 - 2023

% Return	1 Year	2 Years	3 Years
Russell 1000 Value	11.43	1.46	8.79
S & P 500	26.29	1.70	10.0
EDP Strategy	**4.42**	**1.54**	**9.95**

One could argue that gyrations in the equity markets for the last two years were driven by interest rates. With inflation at 40-year highs in 2022, the Federal Reserve's Open Market Committee, led by Jerome Powell, aggressively raised interest rates from 0% to over 5%. Higher rates in 2022 did a number on equity valuation levels, compressing price/earnings multiples, especially on the highest valued segment of the market (i.e. growth and technology stocks). Chairman Powell spent most of the last two years delivering a consistent message that he believed rates would need to remain higher for longer to whip inflation. As 2023 progressed, it became evident with each monthly inflation report that price increases were moderating. November CPI was reported at 3.1%, much lower than the 9.1% peak rate in the summer of 2022, but still marginally higher than the Fed's stated target of 2%. Following its December meeting, the FOMC disclosed its economic projections for 2024 which revealed that committee members believe rate cuts will be on the table by midyear. This news provided further impetus for investors to buy stocks. Most analysts and economists had been predicting that the Fed would be unable to tame inflation without triggering a recession. At least at this point, it appears the Fed may have accomplished this unlikely feat.

Looking Forward

Where do markets go from here? It should be more about earnings growth and not interest rates as markets move forward. It appears that stocks may have already discounted potential interest rate cuts in 2024 with the fourth quarter rally and subsequently higher P/E ratios. Having said that, some analysts have suggested that the FOMC could cut rates as many as six times this year. If we look back at the end of 2024 and see six rate cuts, we would likely be in a very challenging economic environment, which would not be good for earnings or equity returns. If, however, we see 3 or 4 cuts this year, markets are likely to enjoy a relatively favorable environment for earnings and prices. Earning expectations were quite low when 2023 started, but improved throughout the year when it became evident a recession was not unfolding. Market leadership broadened in the fourth quarter rally as a result, and we would expect the broadening to continue this year as markets look forward to improving earnings later this year and into 2025. While it appears the Fed has navigated a soft landing, the US consumer is showing some signs of softness and employment growth seems to be slowing. The U.S. presidential election, global geopolitical instability and the potential for a Fed misstep are all factors that might break in ways that could be disruptive to the economy and markets.

Strategy Update

Your Equity Dividend Plus portfolio participated nicely in the fourth quarter rally. The one-year number was in line with other dividend strategies, but less than the Russell 1000 Value, after outperforming it substantially in 2022. The two-year annualized number, therefore, is on par with the benchmarks. Cash flow for 2023 generally exceeded expectations with money market returns spiking higher and option premiums coming in line with our objectives. Portfolio valuation levels remain attractive at approximately 12 times earnings, well below the forward earnings P/E of the S&P at 20 and the Russell 1000 Value at 15 times. For the quarter, we purchased Devon Energy and United Parcel Service. Devon offers well above-average dividend income potential with its last twelve months dividend yield over 6%. Company management instituted a variable dividend following Covid which is unusual for U.S. companies but has proven to be an attractive way to return cash to shareholders. This offers management flexibility to align dividend payments with current earnings. United Parcel Service stock was purchased following a sell-off related to its most recent union contract negotiations. The stock trades below market multiples and offers a yield above 4%. We sold WK Kellogg following its spinoff from Kellogg Company, which was renamed Kellanova. We also eliminated Organon from the portfolio as we became concerned about its ability to maintain its dividend at current levels.

Annualized Total Returns: Equity Dividend Plus Composite

For periods ended December 31, 2023

	4Q2023	1 Year	3 Years	5 Years	10 Years	Inception (12/31/2008)
EDP (% Gross of Fees)	8.89	4.42	9.95	9.56	7.62	11.41
Russell 1000 Value	9.48	11.43	8.79	10.87	8.38	11.07
EDP (% Net of Max Fees)	8.14	1.35	6.75	6.36	4.48	8.18

We encourage you to contact us with any questions you may have. For additional firm wide information please visit our website at cantorassetmanagement.com or call us at (855) 9-CANTOR.

Important Disclosures

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