MARKET PERSPECTIVES

PREPARED BY SMITH GROUP ASSET MANAGEMENT

MARCH 31, 2024

Market Summary

U.S. Equity Markets (%)	1Q'24	1 Year	3 Years	5 Years	10 Years
S&P 500	10.6	29.9	11.5	15.1	13.0
Russell 1000 Growth	11.4	39.0	12.5	18.5	16.0
Russell 1000 Value	9.0	20.3	8.1	10.3	9.0
Russell 2000	5.2	19.7	-0.1	8.1	7.6
Russell 2000 Growth	7.6	20.4	-2.7	7.4	7.9
Russell 2000 Value	2.9	18.8	2.2	8.2	6.9

Top/Bottom Sectors (%)	1Q'24	1 Year
Comm. Services	15.8	49.8
Energy	13.7	17.7
Info. Technology	12.7	46.0
Cons. Discretionary	5.0	28.7
Utilities	4.6	0.4
Real Estate	-0.6	9.6

Price Comparison (in USD)	Mar. 31, 2023	Mar. 31, 2024
Oil (WTI spot)	$75.70	$83.17
Natural Gas	$2.22	$1.76
Gold	$1,987	$2,238
Fed Funds Rate (Upper Target)	5.00%	5.50%
10-Yr Treasury	3.47%	4.21%
VIX	18.70	14.37

Non-US Equity Markets (in USD) (%)	1Q'24	1 Year	3 Years	5 Years	10 Years
MSCI AC World Ex-U.S.	4.7	13.3	1.9	6.0	4.3
MSCI EAFE (Developed)	5.8	15.3	4.8	7.3	4.8
MSCI Emerging Markets	2.4	8.2	-5.1	2.2	3.0

Non-US Regions (in USD) (%)	1Q'24	1 Year
Developed Americas	4.4	16.0
Developed Asia	6.9	17.6
Developed Europe	5.5	14.9

Non-US Regions (in USD) (%)	1Q'24	1 Year
Emerging Americas	-4.0	23.5
Emerging Asia	2.5	6.1
Emerging EMEA	1.1	10.7

Source: MSCI, S&P Global, LSEG; Refinitiv, St. Louis Federal Reserve Bank; Periods greater than one-year have been annualized

Economic & Market Highlights

- One year post the shotgun wedding of Credit Suisse to UBS and the second and third largest bank failures in U.S. history, the U.S. economy has avoided recession, inflation continues its downward trajectory and risk assets continue their upward march.
- The market rally that began in late October continued through the first quarter with the S&P 500 having now risen almost 30% off the October 27 lows.
- Growth stocks continued to outperform value stocks. Over the past ten-years, the Russell 1000 Growth has outpaced the Russell 1000 Value in 30 of 40 quarters, and generated an annualized return 7.0% larger, resulting in a cumulative return more than 200% greater than the Russell 1000 Value (10-year cumulative returns of 340% and 137% for the Russell 1000 Growth and Russell 1000 Value, respectively).
- Although showing some signs of improvement, the hoped-for broadening of U.S. equity markets has not yet fully arrived. The cap-weighted S&P 500 outpaced the equal-weighted by 2.7% for the quarter and the spread over the past 12-months is now 10.5%. 40% of index constituents outpaced the cap-weighted index for the quarter, which compares favorably to the 25% figure for calendar year 2023.
- With the modest improvement in market breadth, the Mag-7 did not dominate the leaderboard in the same fashion as 2023, during which all seven stocks ranked in in the top 10% of index performers. For the quarter, the Mag-7 bar belled the S&P 500 as Nvidia was the best performing stock in the index, rising 82.5% and Tesla was the worst, falling 29.3%. The Mag-7 had three stocks in the top 100 performers (NVDA, META & AMZN) and two in the bottom 100 (TSLA & AAPL).
- According to CBO forecasts, the U.S. labor force is poised to add five million workers to the labor pool. The increase, if accurate, has meaningful positive implications for economic growth and downward pressure on inflation over the coming years. Of course, that also makes an assumptions that the new entrants to the labor pool have the requisite skills to meet unfilled jobs.

Earnings & Valuation Highlights

- **Two things can be true at once:** Most observers of the behavior of corporate management and sell-side analysts are aware that management generally issues more negative guidance than positive guidance, and analysts usually start out overly optimistic and then have to reduce their earnings forecasts as the calendar rolls along. So negative guidance and downward revisions are generally expected, but do not necessarily signal corporate earnings trouble

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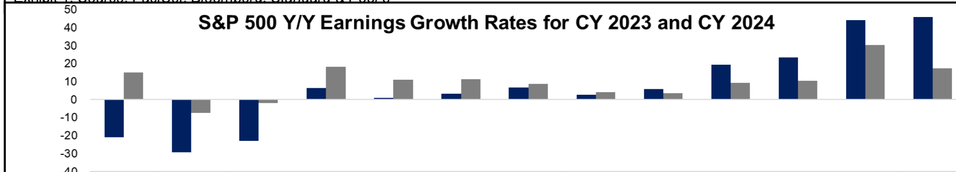
and equity market sell-offs. In the first quarter, however, we observed a unique pattern as sell-side analysts took a more bullish stance and revised their estimates down by less than the average. At the same time, forward guidance issued by corporate managements was worse than average both in terms of the number of companies issuing negative guidance and the magnitude of the negative change. In general, the two groups largely move in lock-step. As to whether sell-side analyst optimism or corporate management pessimism is correct, we'll soon find out; although the latest improving readings for the ISM Purchasing Managers' Index (which is highly correlated to corporate earnings) would indicate sell-side analyst relative optimism is warranted.

- **Where's the next leg of earnings growth coming from?** Over the past year-plus the Mag-7 has grabbed the market headlines as the group drove U.S. equity markets to record highs and left much of the rest of the markets lagging far behind. The rally in the Mag-7 was largely reflective of the phenomenal earnings momentum that peaked in the fourth quarter of 2023 with 68% Y/Y earnings growth, relative to flat to down earnings for the rest of the S&P 500. After more than a year of earnings growth dominance by the Mag-7, the tide is slowly starting to turn. That is not to say that the Mag-7 and mega-cap tech companies don't have strong earnings growth, but by the end of 2024 the Y/Y growth rate of this group is expected to be only slightly above the rest of the S&P 500. Yet mega-cap technology is carrying an almost 50% price/earnings multiple premium to the rest of the S&P 500. Given the slowing Y/Y earnings growth rates of mega-cap technology along with the group's premium valuation, a rotation to more attractively valued segments of the market seems a reasonable outlook. Exhibit 1 shows the Y/Y earnings growth outlook by sector for the S&P 500 and the Mag-7, along with the CY 2024 price/earnings multiple for the group. The chart is sorted based on the largest change in realized 2023 earnings growth and expected 2024 earnings growth. Of note is that Nvidia accounts for over half the growth in the Information Technology sector and the Mag-7, which is to say, not all mega-cap technology companies are created the same and there's still a lot of very attractive growth rates to be found in mega-cap technology.

Exhibit 1: *Source: FactSet, Bloomberg, Standard & Poor's*



	Health Care	Energy	Materials	Info. Technology	S&P 500	Financials	Utilities	Cons. Staples	Real Estate	Industrials	Cons. Disc.	Mag-7	Comm. Services
CY 2023	(20.9)	(29.2)	(22.9)	6.5	1.0	3.4	6.7	2.7	6.0	19.5	23.4	44.0	46.0
CY 2024	15.1	(7.5)	(2.0)	18.2	11.0	11.4	8.9	4.2	3.6	9.3	10.5	30.5	17.4
CY24 P/E	19.1	12.9	21.4	28.5	20.9	15.9	16.0	20.2	17.4	21.7	25.7	35.2	19.1

Conclusion

Current expectations are for first quarter S&P 500 earnings to rise 4-5% Y/Y, with most of the gains attributable to mega-cap technology, but excluding this group earnings will likely be flat Y/Y. However, this pattern starts to shift meaningfully over the next several quarters with the "rest of the S&P 500" reaching Y/Y growth in the low-teens by the fourth quarter. As noted, PMIs have been improving in the U.S., China and Europe through the first quarter, although Europe remains in contraction territory. Improving PMI readings are favorable indicators for the earnings outlook. Household balance sheets in the U.S. and abroad are mostly healthy although some cracks are starting to show as households are now challenged to tap into home equity as a source of financing. Despite soaring inflation, real wages in the U.S. are actually up over the past few years thanks to strong productivity growth, a trend likely to continue if not accelerate thanks to artificial intelligence expanding to all corners of the economy. There are certainly concerns as fiscal policy has turned less supportive and excess savings are running down. However, U.S. employment remains strong, the labor force is growing, inflation is receding and corporate earnings are recovering, all of which appear supportive of continued favorable returns for equity markets and other risk assets.