

# Q1 2024 Review and Market Update

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**Jonathan Shiffer**

Chief Investment Officer

Freedom Investment Management, Inc.



# Money Managers



# Money Managers





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## Q1 Market Performance

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# Fixed Income Performance as of 3/31/2024



Broad Fixed Income	Quarter	1 Year
Bloomberg US Agg Bond TR USD	-0.8%	1.7%
Bloomberg Global Aggregate TR USD	-2.1%	0.5%
Treasuries		
Bloomberg US Treasury Bill 1-3 M TR USD	1.3%	5.4%
Bloomberg 1-5 Yr Treasury TR USD	-0.1%	2.4%
Bloomberg Treasury 5-7 Yr TR USD	-0.9%	0.6%
Bloomberg Treasury 7-20 Yr TR USD	-1.9%	-2.4%
Bloomberg US Treasury 20+ Yr TR USD	-3.8%	-7.3%
Bloomberg US Treasury US TIPS TR USD	-0.1%	0.5%
Credit		
Bloomberg Municipal TR USD	-0.4%	3.1%
Bloomberg US Corp Bond TR USD	-0.4%	4.4%
Bloomberg US Corporate High Yield TR USD	1.5%	11.2%

Difficult first quarter for fixed income as rate cuts pushed back

## Underperformance

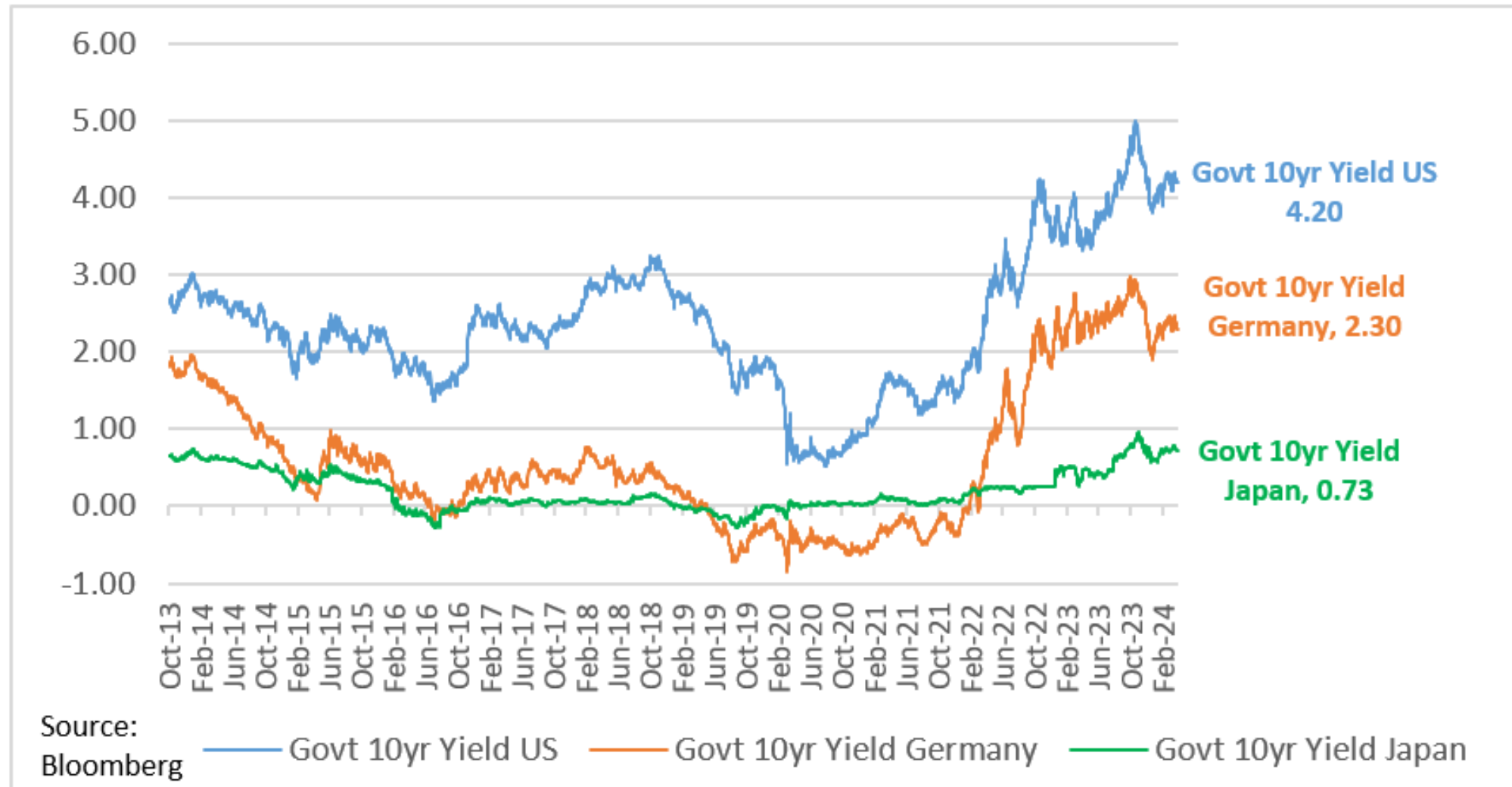
- Long Duration

## Outperformance

- Short Duration
- High Yield

Source: Morningstar

# Bond Yields Partially Reversed Earlier Declines



## Treasury 10-Year Yield Within Striking Distance of 4.5%

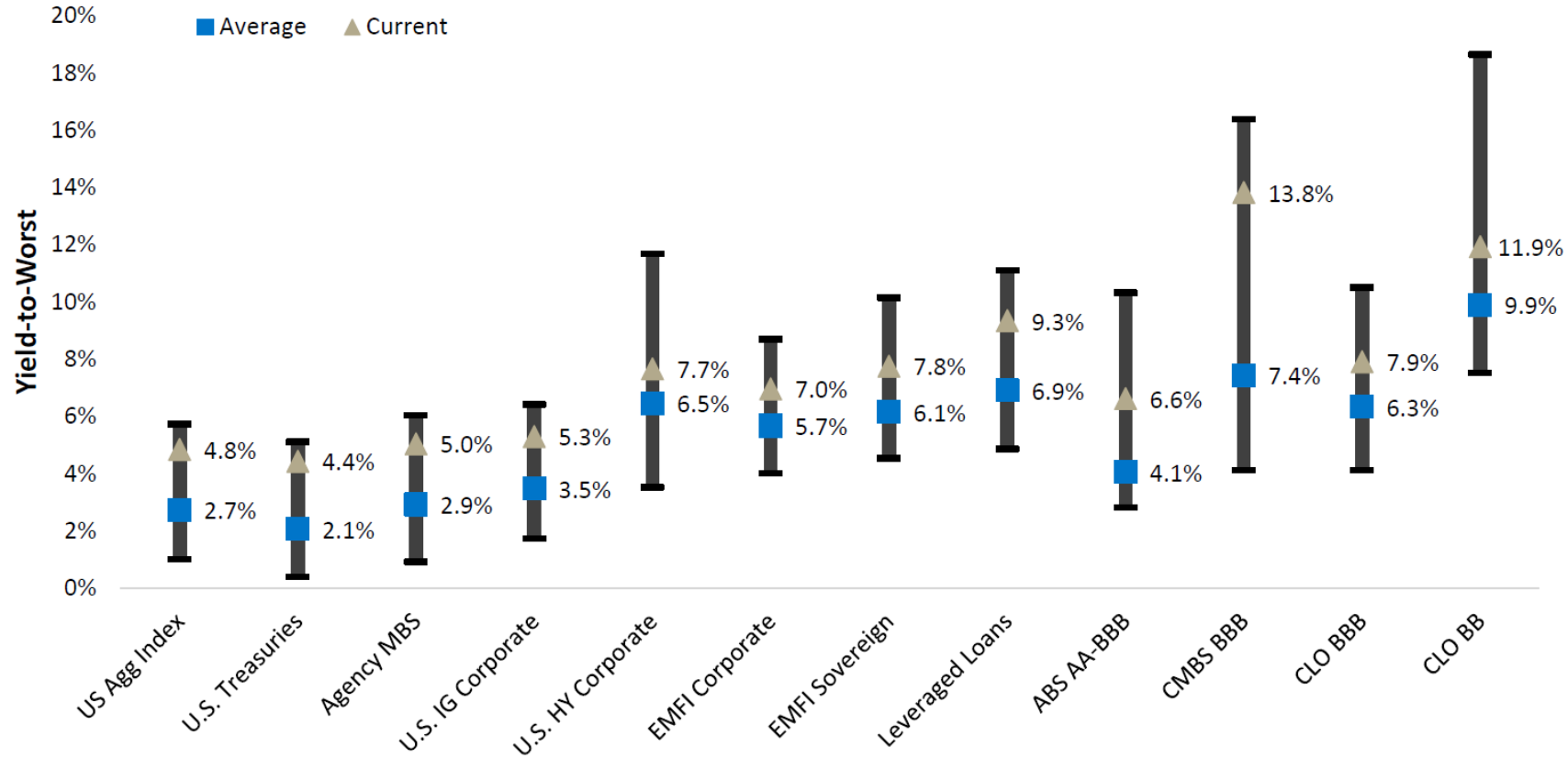


Source: Bloomberg

Bloomberg 

# Bond Yields At Top of 10 Year Range

Yields across fixed income sectors are near the upper end of their respective 10-year ranges.



Source: DoubleLine, Bloomberg. Black bars represent the range from March 31, 2014, through March 31, 2024.

U.S. Treasuries: Bloomberg US Treasury Index; Agency MBS: Bloomberg US Agency MBS Index; IG Corporate: Bloomberg US Corporate Index; HY Corporate: Bloomberg US Corporate High Yield Index; EMFI Sov.: J.P. Morgan Emerging Market Bond Index Global Diversified (JPM EMBI GD); EMFI Corp.: J.P. Morgan Corporate Emerging Market Bond Index Broad Diversified (JPM CEMBI BD); Leveraged Loans: Credit Suisse Liquid Leveraged Loan Index; CMBS BBB-: Bloomberg US Non-Agency CMBS BBB Index; CLO: JP Morgan Indexes; ABS – AA-BBB; ICE BofA AA-BBB US Fixed Rate Miscellaneous ABS Index; US Agg Index: Bloomberg US Aggregate Bond Index.

You cannot invest directly in an index.

# Equity Performance as of 3/31/2024



Domestic Equity	Quarter	1 Year
NASDAQ Composite TR USD	9.3%	35.1%
S&P 500 TR USD	10.6%	29.9%
Russell 1000 Growth TR USD	11.4%	39.0%
Russell 1000 TR USD	10.3%	29.9%
Russell 1000 Value TR USD	9.0%	20.3%
Russell Mid Cap Growth TR USD	9.5%	26.3%
Russell Mid Cap TR USD	8.6%	22.3%
Russell Mid Cap Value TR USD	8.2%	20.4%
Russell 2000 Growth TR USD	7.6%	20.3%
Russell 2000 TR USD	5.2%	19.7%
Russell 2000 Value TR USD	2.9%	18.8%
International Equity		
MSCI ACWI NR USD	8.2%	23.2%
MSCI ACWI Ex USA NR USD	4.7%	13.3%
MSCI Europe NR USD	5.2%	14.1%
MSCI EM NR USD	2.4%	8.2%
MSCI AC Asia Pacific IMI NR USD	4.6%	12.2%
MSCI EM Latin America NR USD	-4.0%	22.6%

Source: Morningstar

## Outperformance

- Rally in US Equities Broadened across market caps and styles

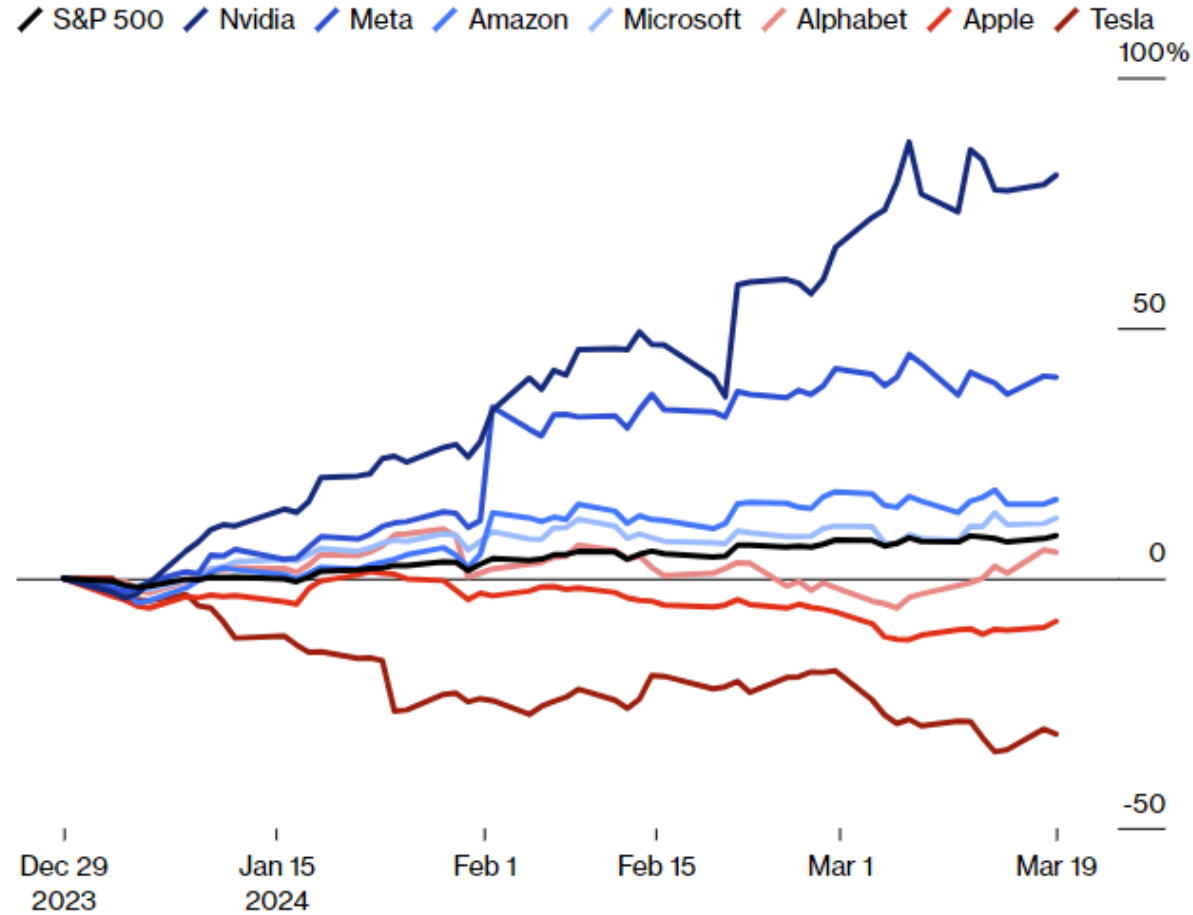
## Underperformance

- Latin America paused after rally
- Emerging Markets
- Small Value

# Magnificent Seven Have Diverged

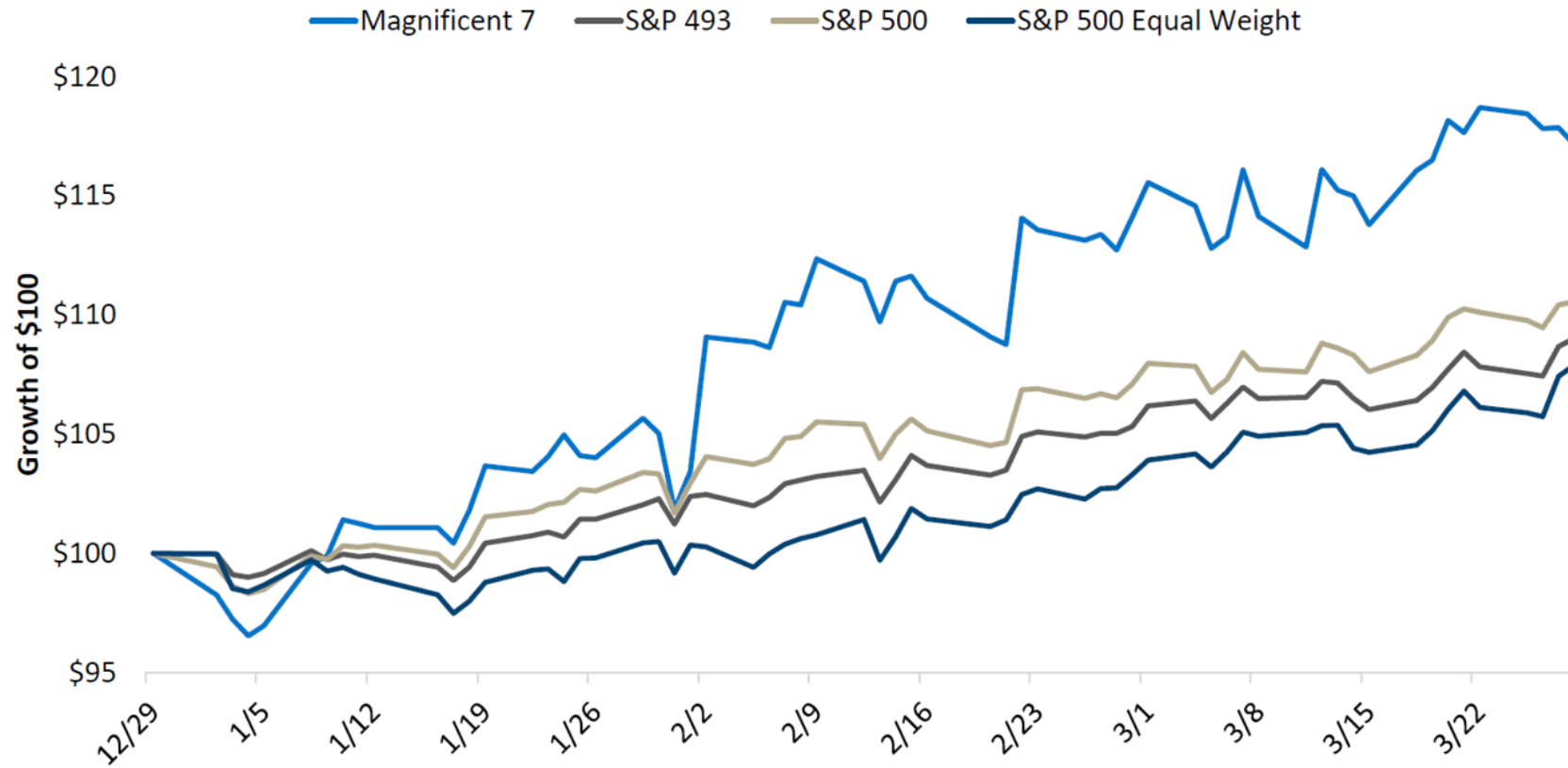
## AI Disconnect

Change in Magnificent Seven stock prices since Dec. 29, 2023



Source: Compiled by Bloomberg

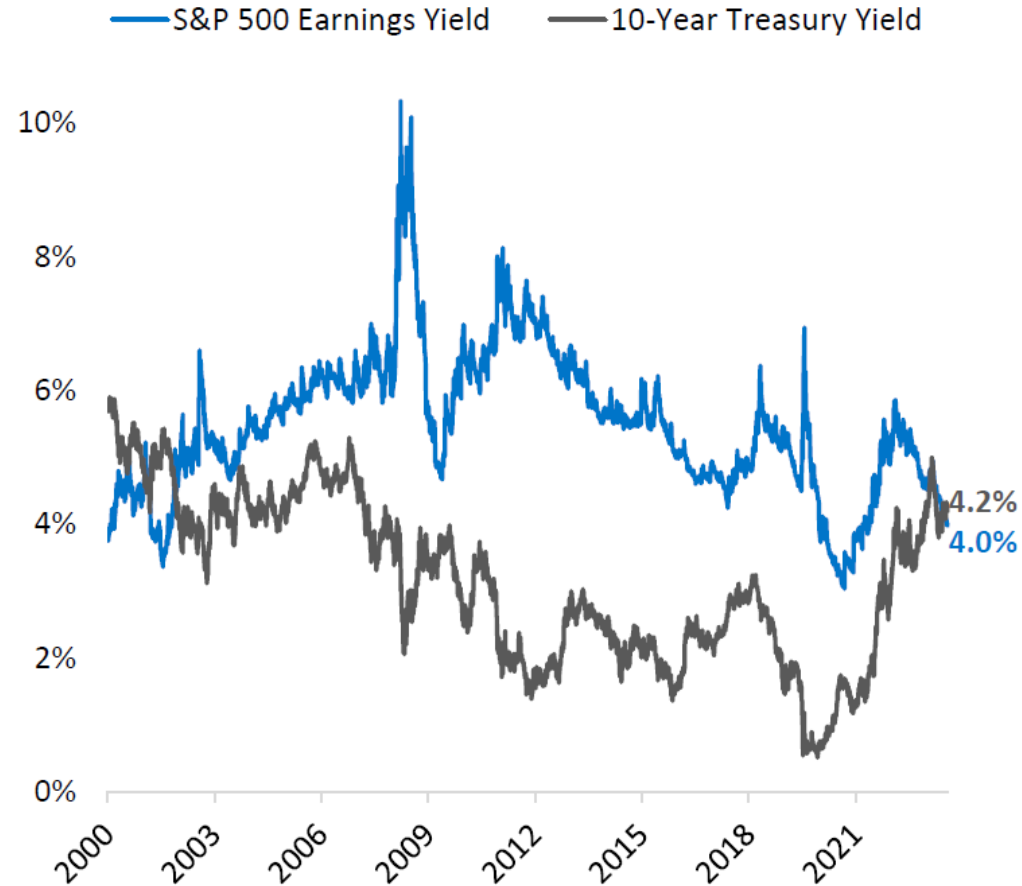
# Equity Rally Broadened in Q1



Source: DoubleLine, Bloomberg. Magnificent 7 is the market cap weighted composition of: MSFT, AAPL, NVDA, AMZN, META, GOOGL, and TSLA. The S&P 493 is the market cap weighted composition of the remaining companies in the S&P 500 Index after removing the Magnificent 7. S&P 500 Index = SPXT Index. S&P 500 Equal Weight = SPXEWTR Index. Magnificent 7 = BM7T Index. December 29, 2023 – March 28, 2024. You cannot invest directly in an index. Securities discussed are not recommendations and are presented as examples of issue selection or portfolio management processes. They have been picked for comparison or illustration purposes only. No security presented within is either offered for sale or purchase.

# Bonds Look Cheap Relative to Stocks

## S&P 500 Earnings Yield vs. 10-Year Treasury Yield



Source: DoubleLine, Bloomberg.

Index	Quarter	1 Year
S&P 500 TR USD	10.6%	29.9%
S&P Energy Select Sector TR USD	13.6%	18.0%
S&P Cmmncton Svces Select Sector TR USD	12.8%	42.3%
S&P Financial Select Sector TR USD	12.5%	33.5%
S&P Industrial Select Sector TR USD	11.0%	26.7%
S&P Materials Select Sector TR USD	9.0%	17.7%
S&P Health Care Select Sector TR USD	8.8%	16.1%
S&P Technology Select Sector TR USD	8.5%	39.3%
S&P Cons Staples Select Sector TR USD	6.9%	5.3%
S&P Utilities Select Sector TR USD	4.6%	0.4%
S&P Consumer Disc Select Sector TR USD	3.1%	24.1%
S&P Real Estate Select Sector TR USD	-0.5%	9.6%

## Relative Outperformance

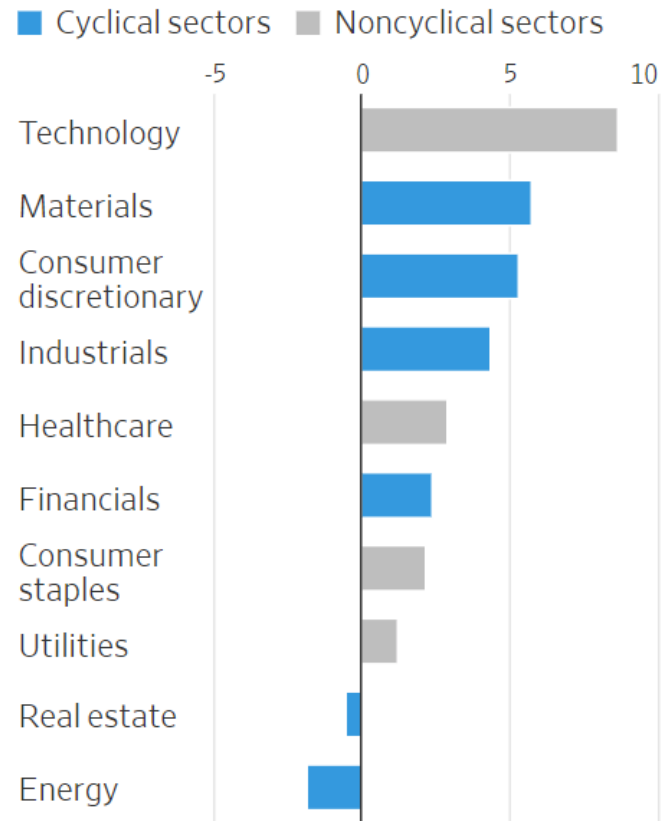
- Cyclical: Energy, Financials, Industrials
- Communication Services

## Relative Underperformance

- Real Estate
- Utilities
- Consumer Staples, Discretionary

Source: Morningstar

Price/earnings ratio relative to the historical average of each sector



Notes: S&P 500 stocks. Historical data going back to 1999.

Source: FactSet

While technology is still the most expensive, cyclical sectors now trade at a premium as well

Index	Quarter	1 Year
S&P 500 Momentum TR USD	22.6%	49.0%
S&P 500 Enhanced Value TR USD	13.5%	28.1%
S&P 500 Growth TR USD	12.8%	33.7%
S&P 500 Quality TR USD	12.2%	29.7%
S&P 500 Quality High Dividend TR USD	8.2%	12.7%
S&P 500 Value TR USD	8.1%	25.6%
S&P 500 Dividend Aristocrats TR USD	7.1%	14.1%
S&P 500 High Beta TR USD	6.9%	26.9%
S&P High Yield Dividend Aristocrats TR USD	6.0%	9.5%
S&P 500 Low Volatility TR USD	5.8%	8.5%

## Relative Outperformance

- Momentum
- Enhanced Value
- Growth
- Quality

## Relative Underperformance

- Low Volatility
- High Dividend

Source: Morningstar

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# Economic Outlook and Asset Class Preferences

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# Asset Allocation Preferences for Q1 2024

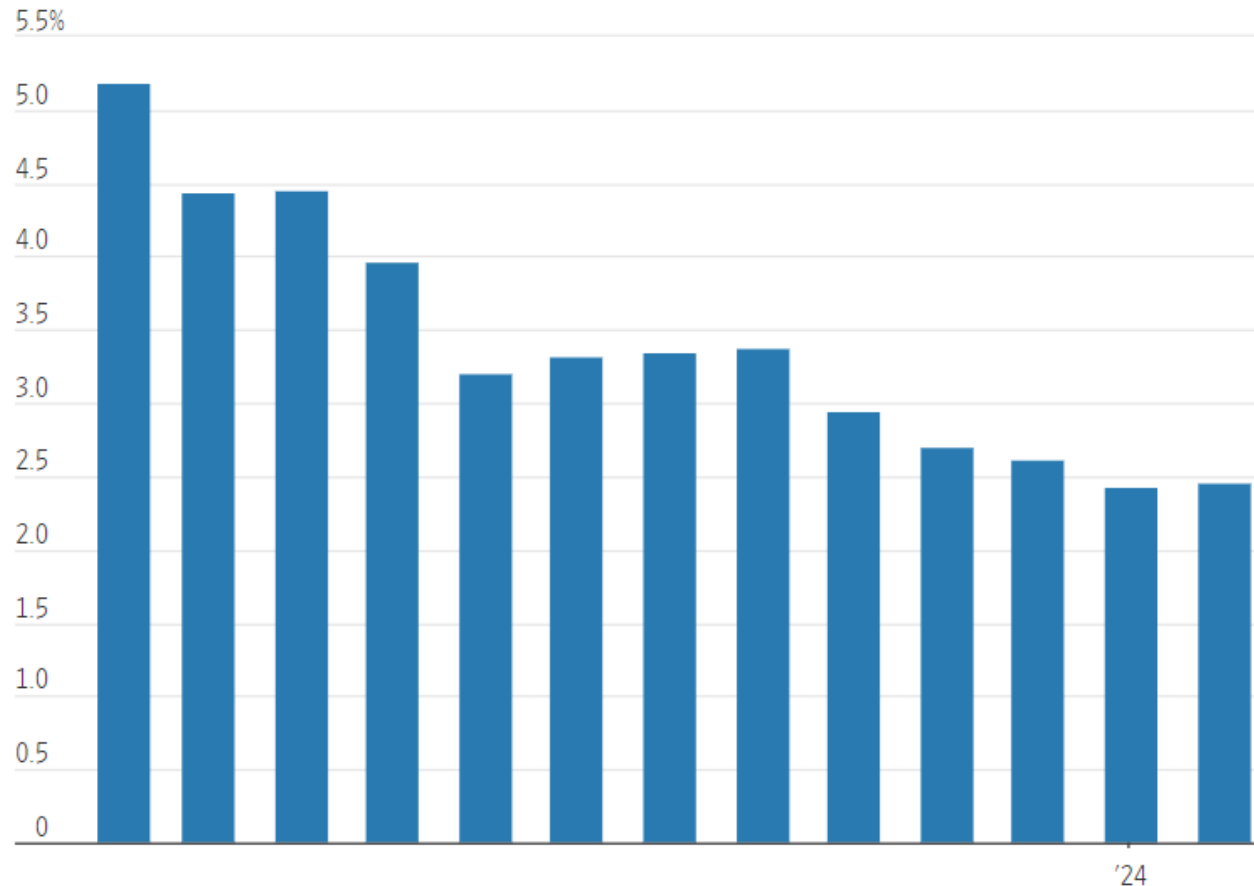
Asset Class - 2024			Change in Opinion
Asset Class	Concern	Neutral	
Equities		0	
Bonds		0	
<b>Equity</b>			
<b>Geographic Exposure</b>			
US		0	
Intl Developed		0	1
EM		0	
<b>Size</b>			
Large			1
Mid		0	
Small		0	
<b>Style</b>			
Growth		0	
Value		0	
<b>Fixed Income</b>			
<b>Geographic Exposure</b>			
US		0	
Intl Developed		0	1
EM	-1		
<b>Credit Exposure</b>			
Treasuries		0	
IG Corporates			1
High Yield		0	
<b>Interest Rate Exposure</b>			
Duration			1
<b>Alternatives</b>			
Liquid Alts (F)		0	
Commodities		0	
Real Estate		0	

## Actions Advisors Should Consider Taking

- Within US equity portfolios, decrease weighting to technology and cyclicals
- Increase equity weighting to international developed markets
- Increase fixed income weighting to international developed markets

# Fed's Preferred Inflation Measure Stalled Above 2% Target

Change in PCE price index from a year ago



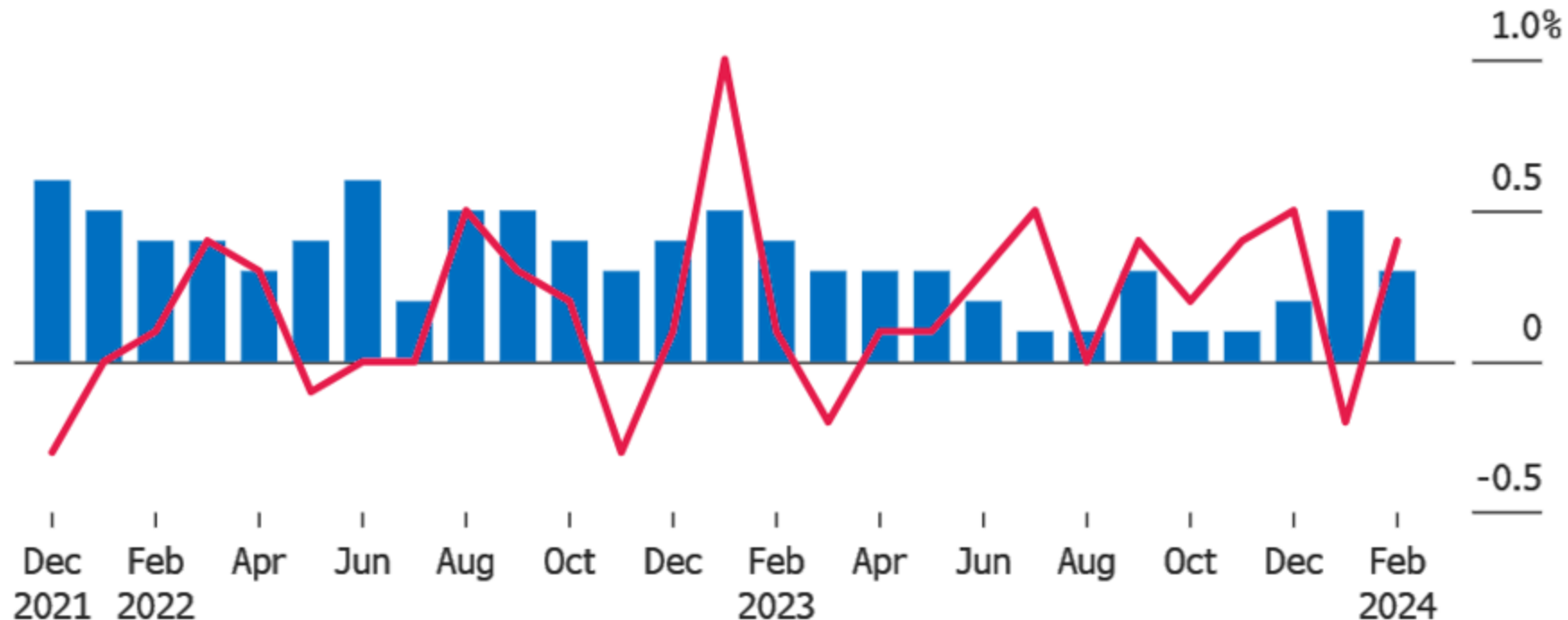
Note: Seasonally adjusted.

Source: Commerce Department via St. Louis Fed

## US Underlying Inflation Cools, While Spending Picks Up

Household outlays exceeded forecasts on gains in durable goods, services

- Change in PCE price index ex-food, energy (MoM)
- ▲ Change in inflation-adjusted spending (MoM)

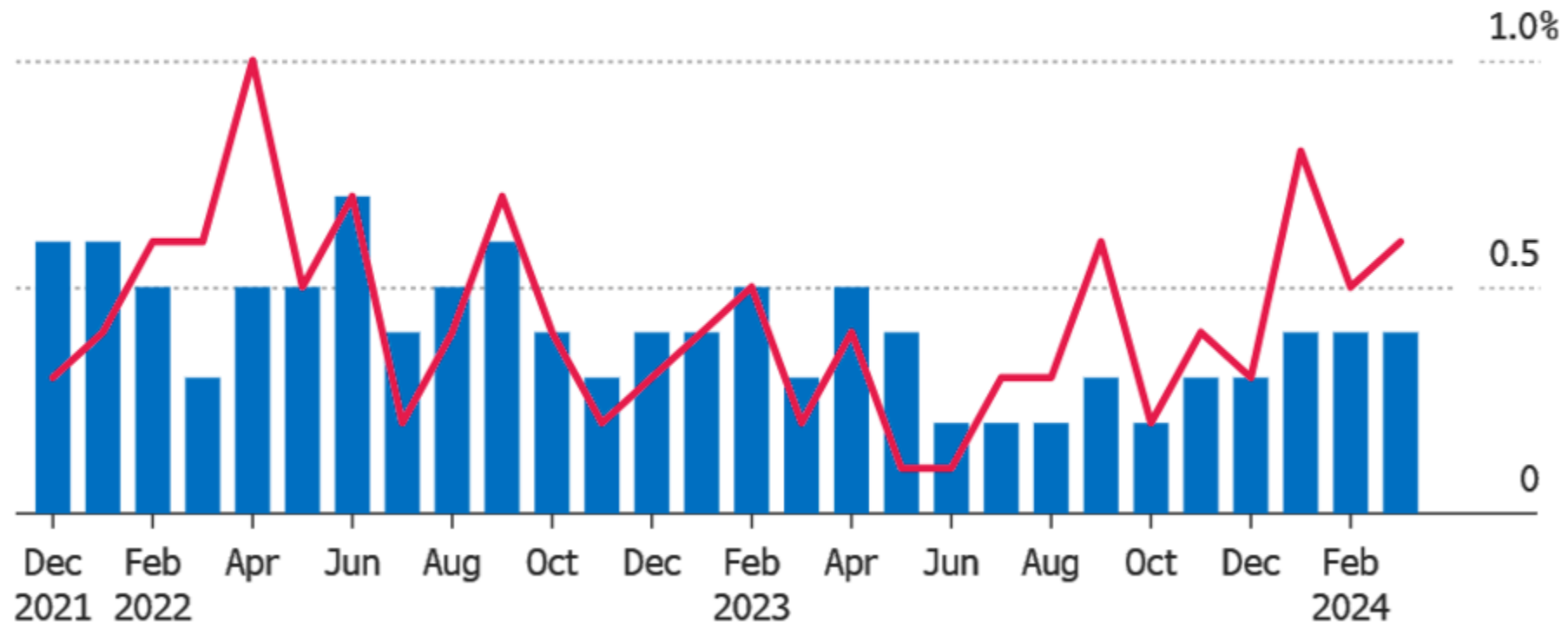


Source: Bureau of Economic Analysis

## Underlying Inflation in US Tops Forecasts for a Third Month

March CPI report indicates stubborn price pressures that will likely delay Fed

- Change in CPI ex-food, energy (MoM)
- ▲ Change in CPI services ex-housing, energy (MoM)

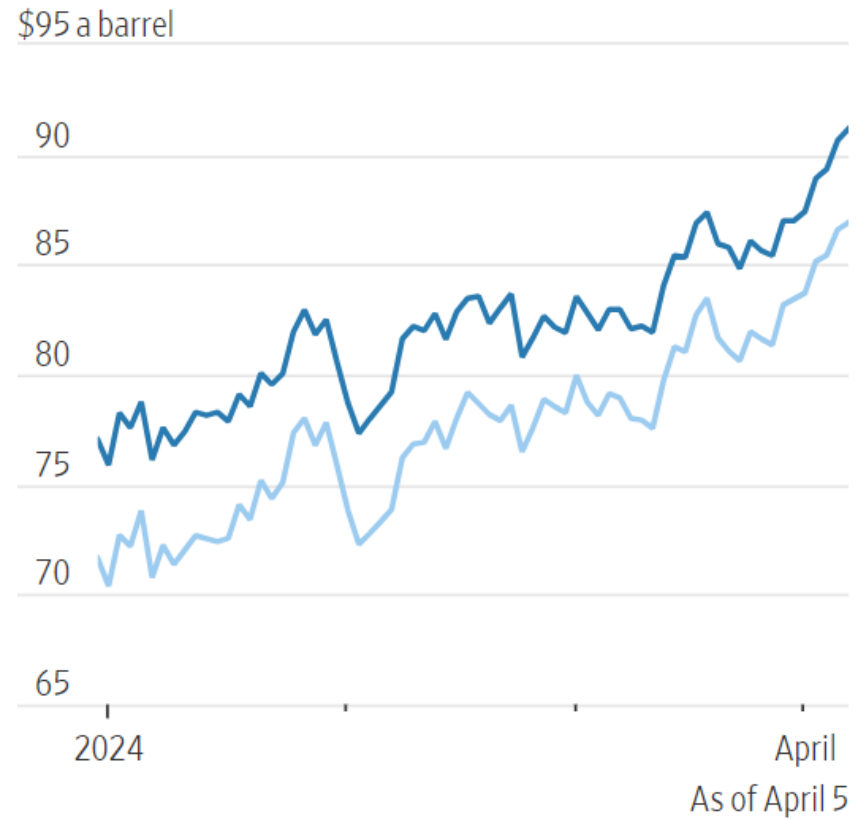


Source: Bureau of Labor Statistics, Bloomberg

# Oil Rebound May Prop up Inflation

## Crude futures prices this year

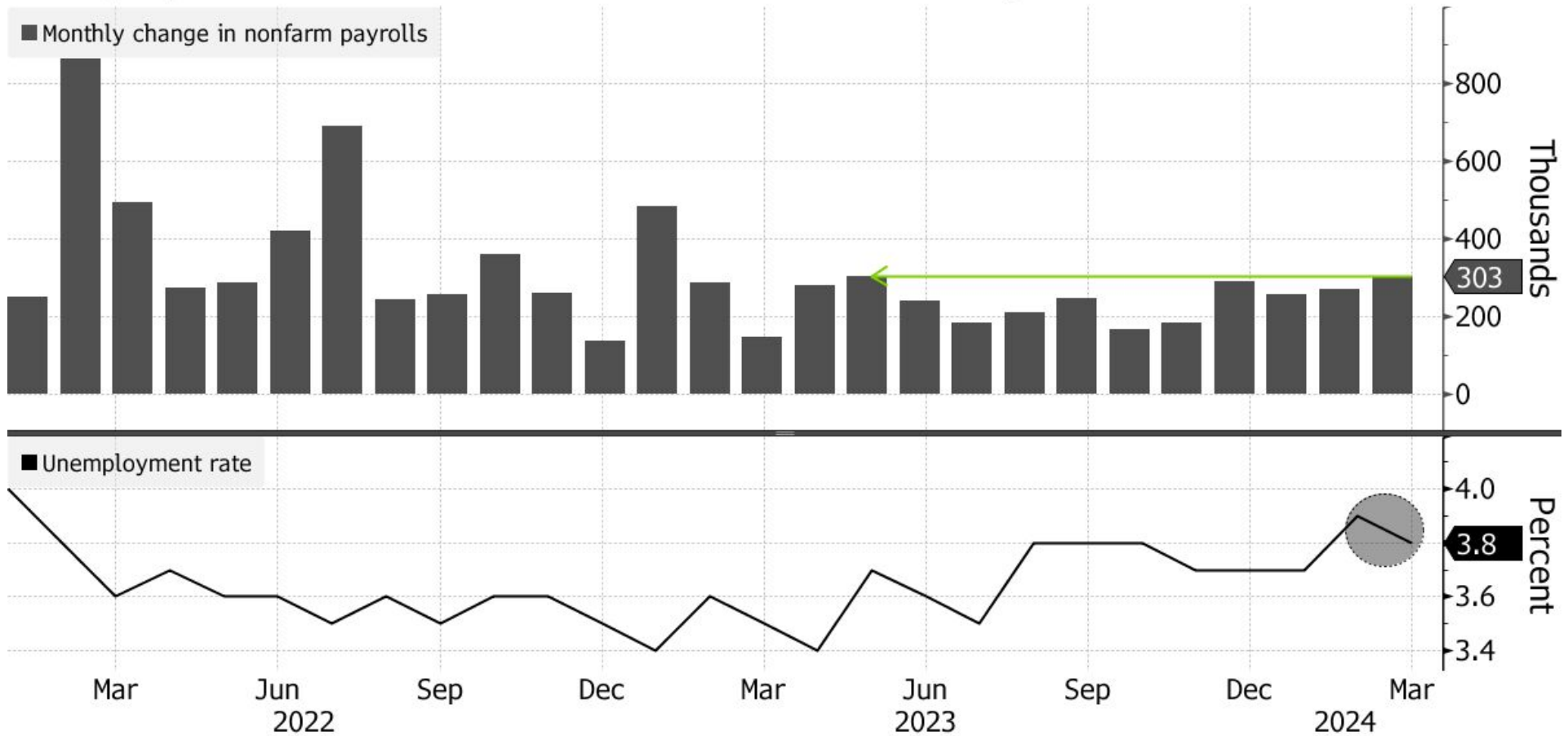
■ Brent ■ West Texas Intermediate



Source: FactSet

## US Payrolls Surge by Most Since May

Unemployment rate declined last month and annual wages cooled



Source: Bureau of Labor Statistics

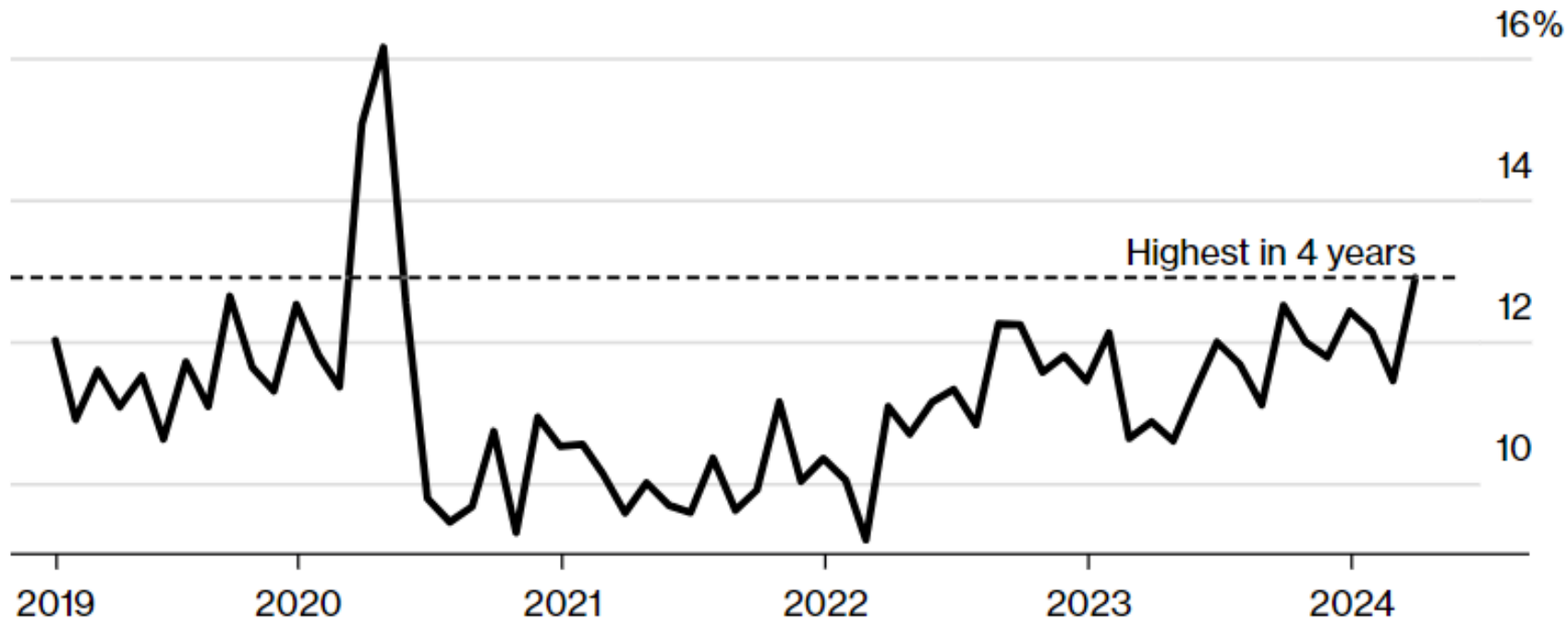
Bloomberg 

# Consumer Debt Delinquency Rising

## Debt Delinquency Expectations

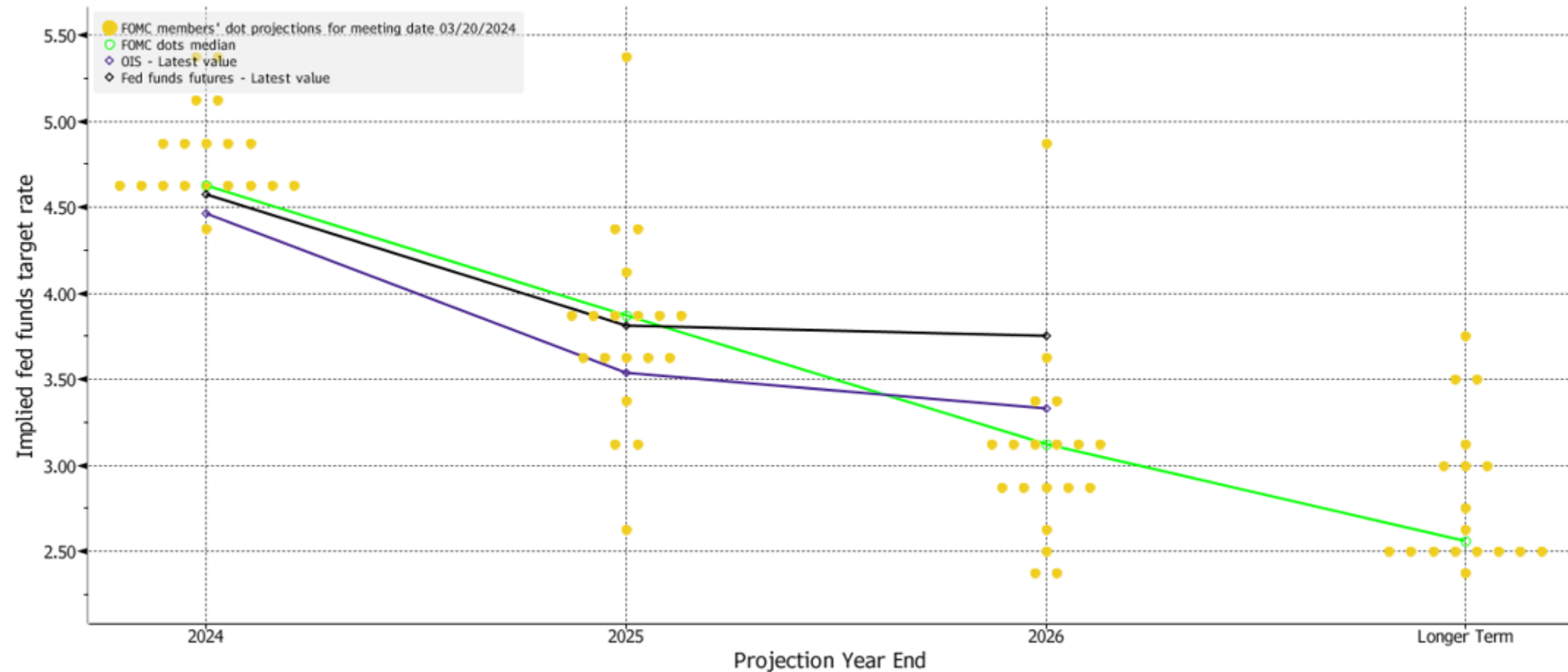
About 1 in 8 consumers expect to miss an upcoming minimum debt payment

✓ Mean probability of missing minimum debt payment over the next three months



Source: Survey of Consumer Expectations, Federal Reserve Bank of New York

## The Fed's March Dot Plot



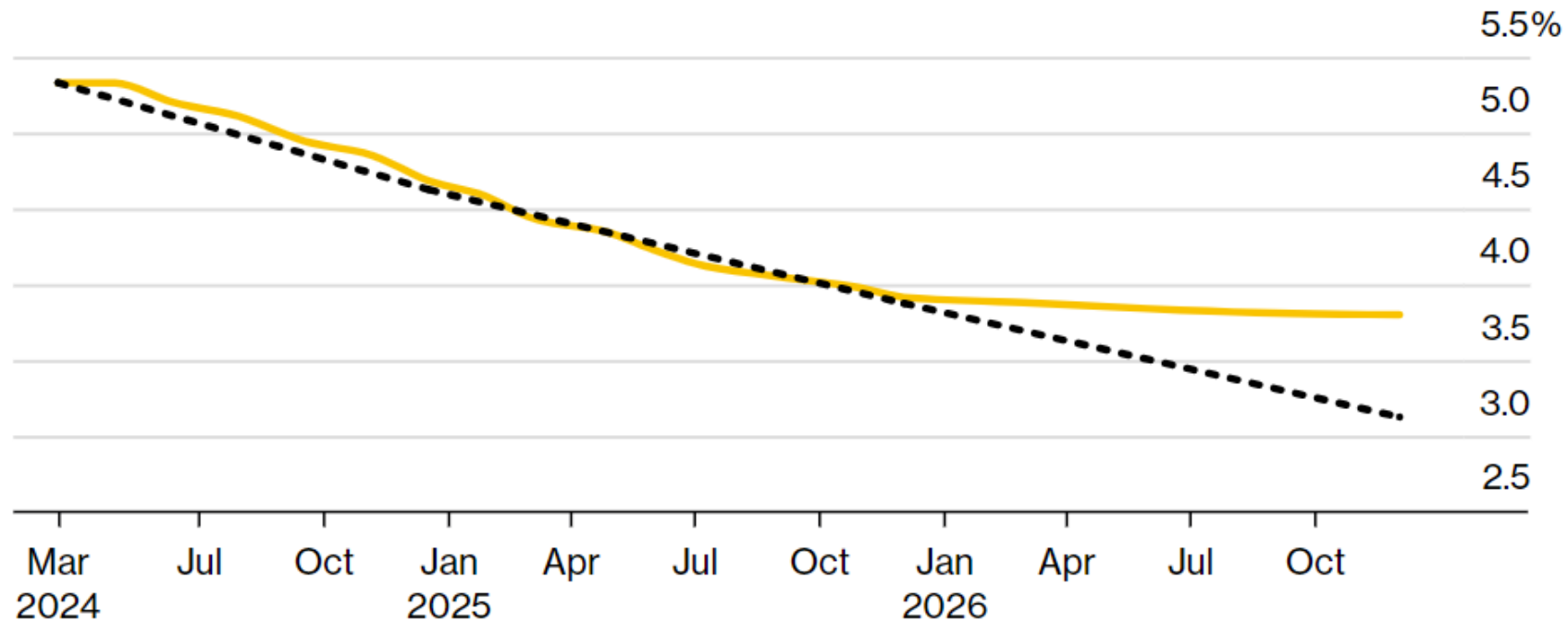
Source: Federal Reserve



## Less Fed Easing Priced After March Jobs

Swaps price in 23bp of rate cuts for July meeting and 50bp by November

▬ Fed f/cast    ▬ April 5



Source: Bloomberg

Change in Fed's interest-rate target implied by overnight index swaps and SOFR futures. Fed dots use interpolation.

# Market Now Pricing In Less Rate Cuts by Year End than Fed Forecast

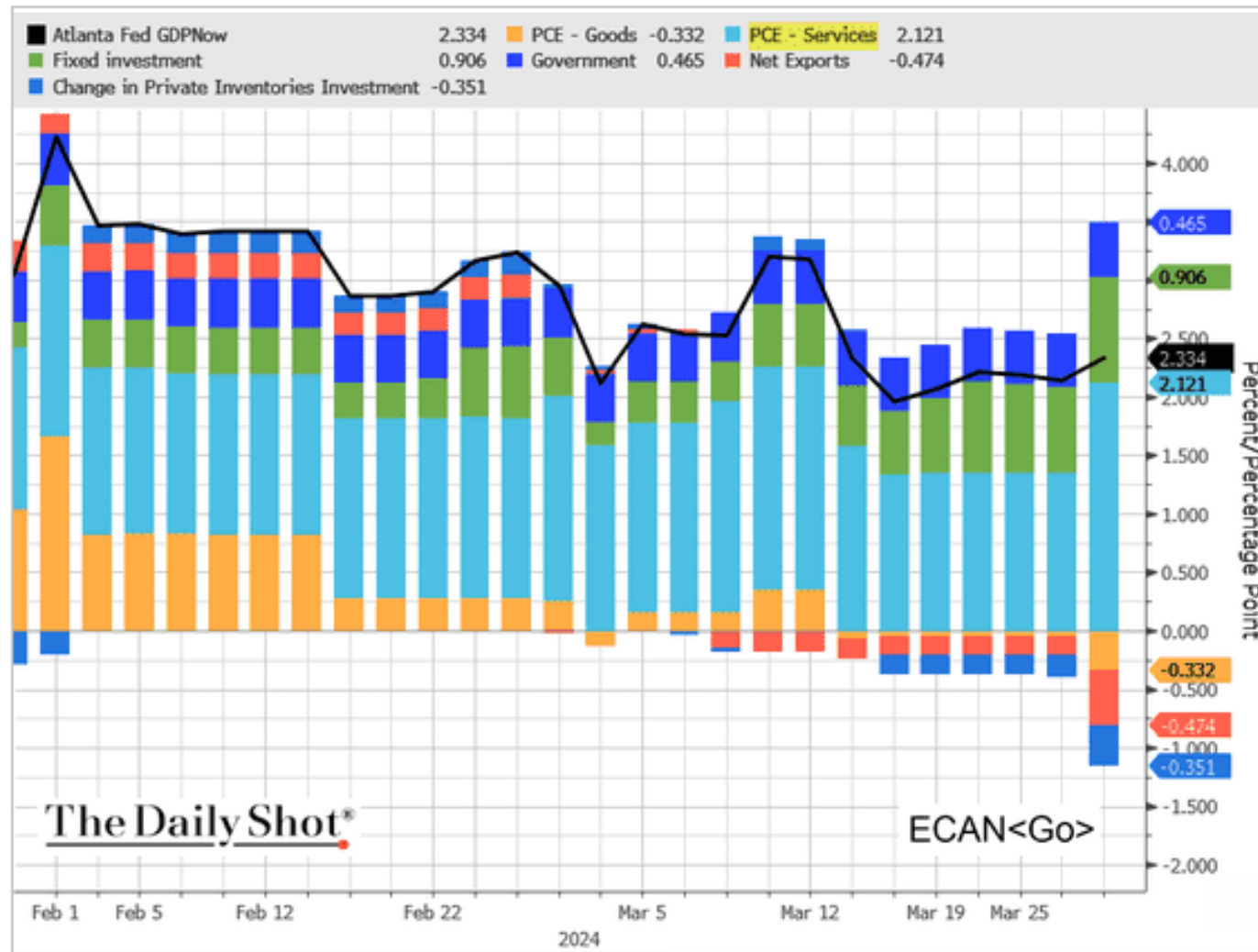
Federal-funds rate forecast for end of 2024



Note: Market forecast is based on fed-funds futures contracts. Fed forecast reflects officials' median at meetings with economic projections.

Sources: FactSet; Federal Reserve

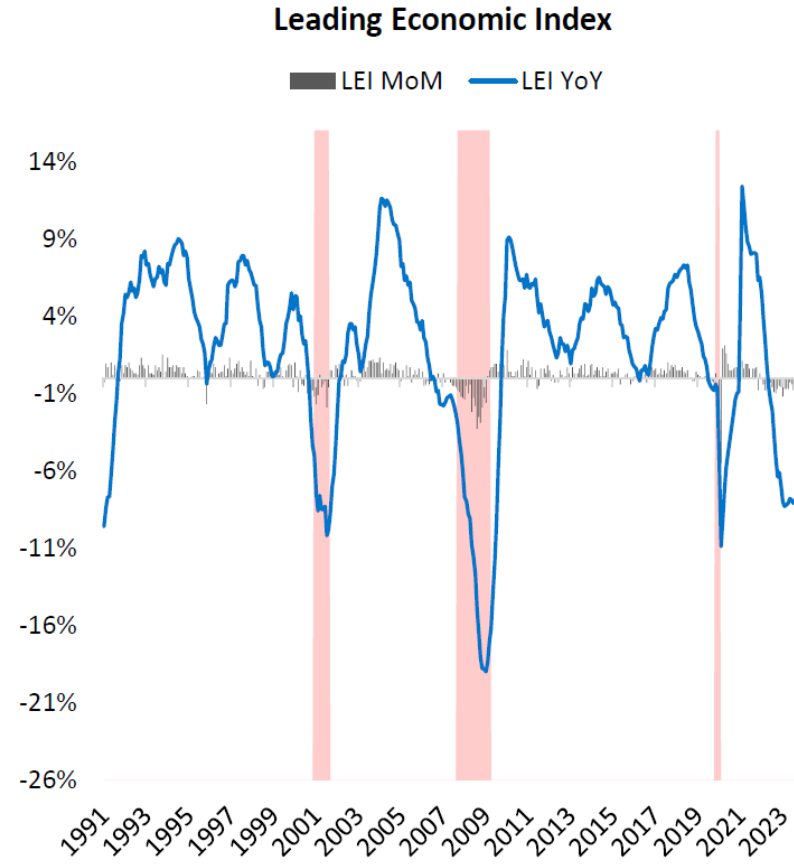
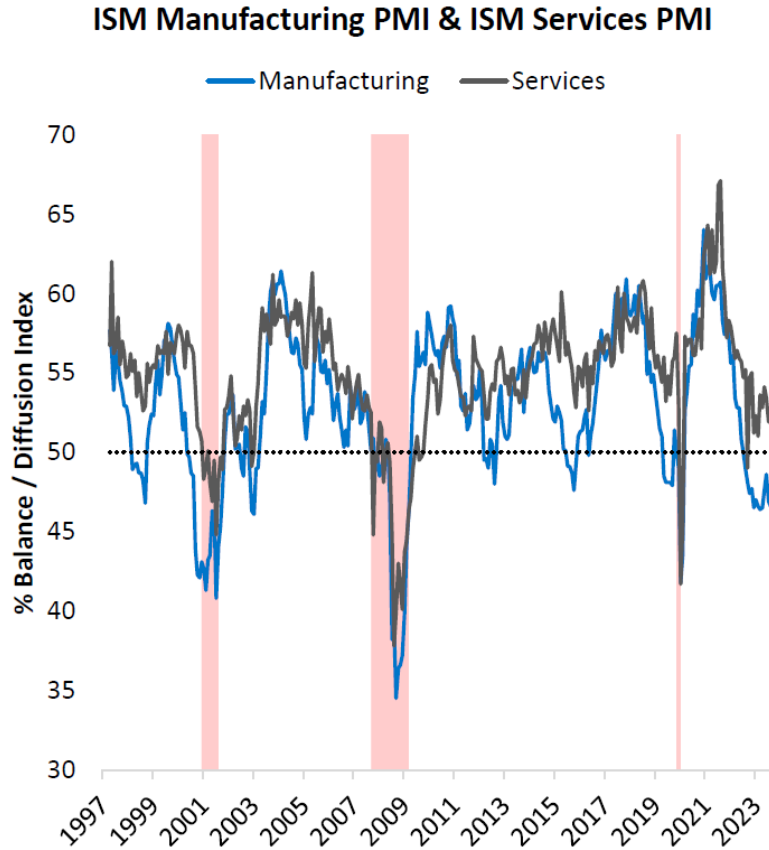
# UG GDP Growth Still Looks Robust



Source: [@TheTerminal](#), [Bloomberg Finance L.P.](#)

# US Manufacturing, LEI May Have Bottomed

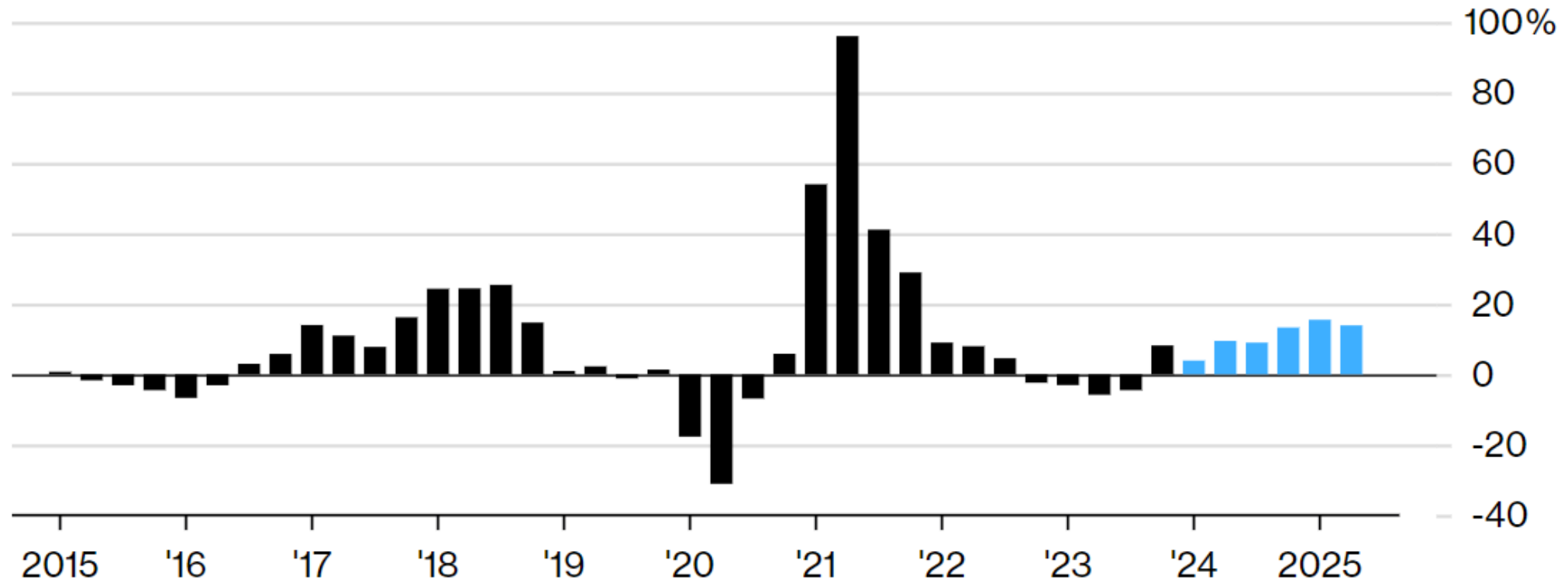
The manufacturing sector expanded in March after contracting for 16 consecutive months; the Conference Board Leading Economic Index (LEI) increased month-over-month in February for the first time in two years.



Source: DoubleLine, Bloomberg. LEI as of February 29, 2024.  
Red shaded areas indicate recession. You cannot invest directly in an index.

## Corporate America's Profit Outlook Improves

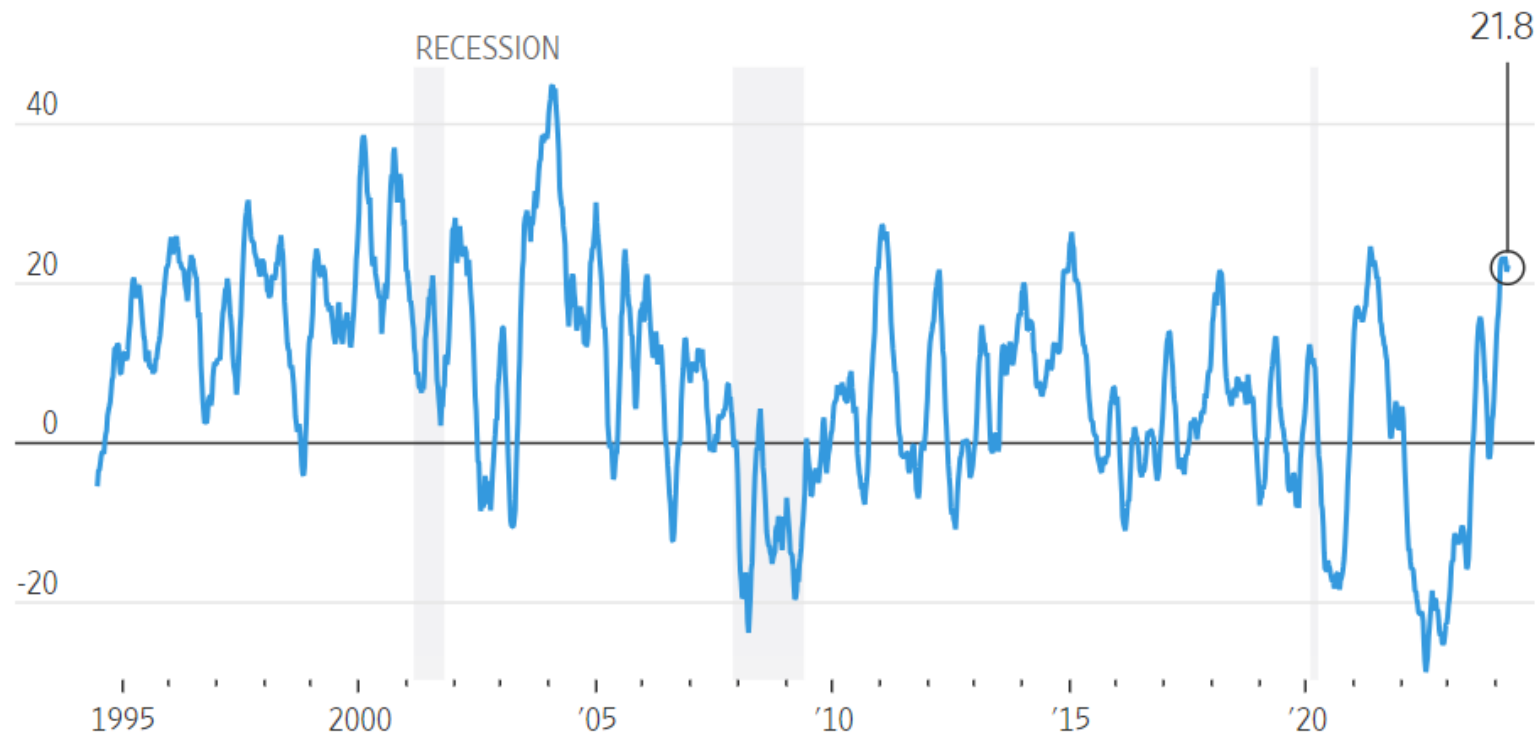
■ S&P 500 quarterly profit growth YoY ■ S&P 500 quarterly earnings estimates YoY



Source: Bloomberg Intelligence

# Retail Investors are Bullish

U.S. individual investor sentiment. Positive numbers indicate a net bullish view.



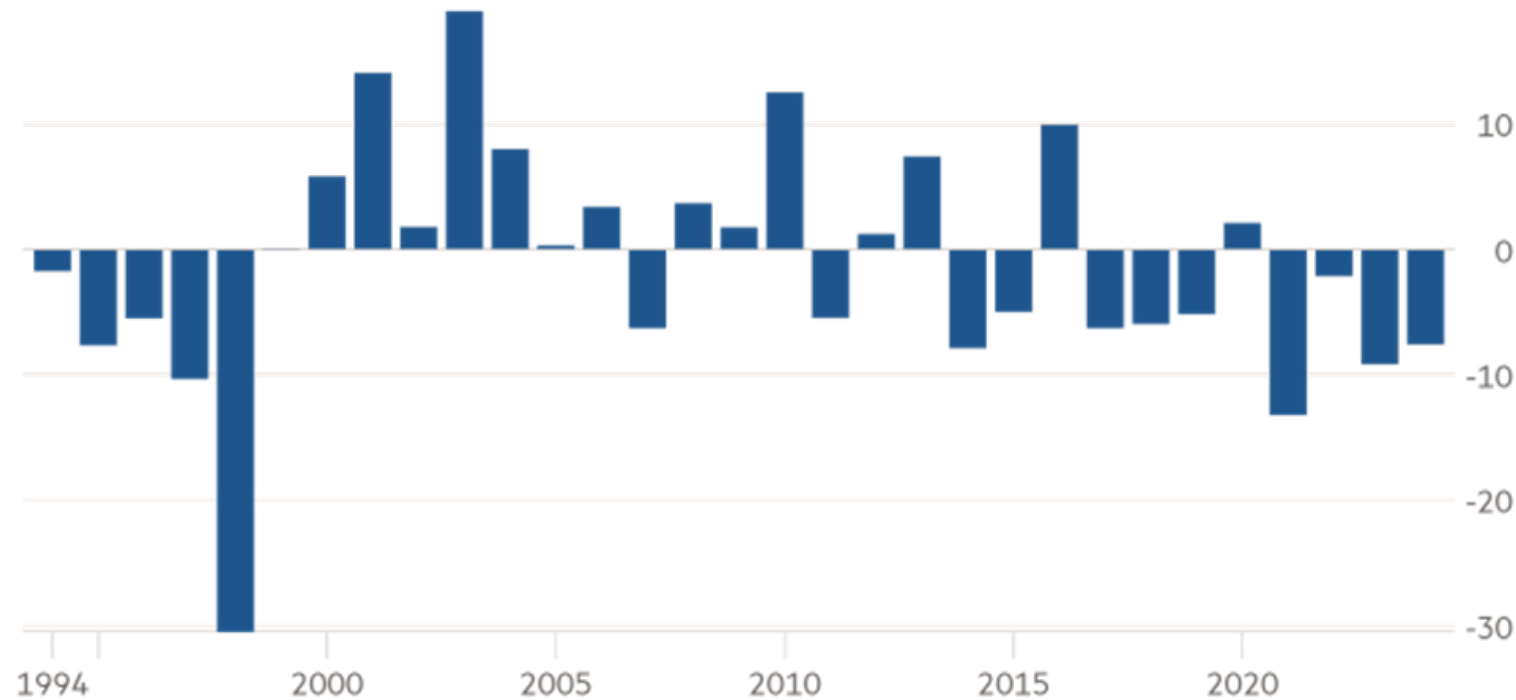
Notes: Spread between the percentage of investors who answer a poll saying they are market bullish and the percentage of those who say are bearish. Rolling three-month averages.

Source: American Association of Individual Investors via FactSet

# Small Caps Cheap, but Vulnerable to Rates

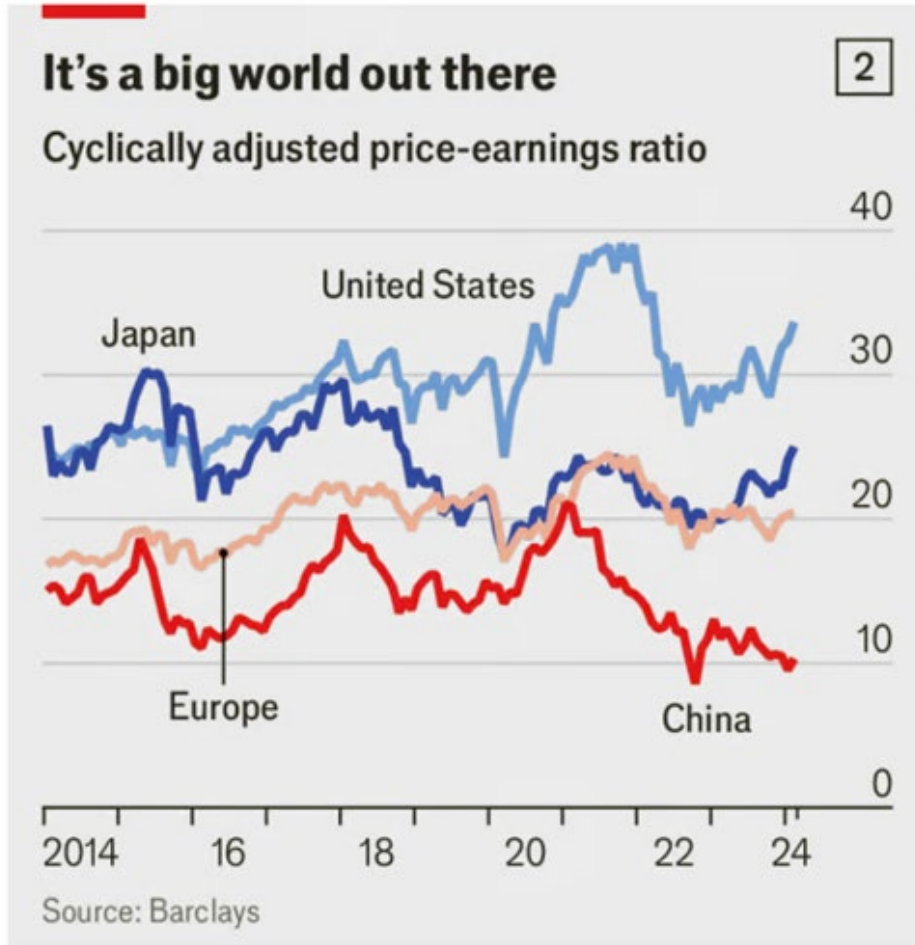
Small-caps endure worst run relative to large-caps since the late 1990s

Russel 2000 - S&P 500 (annual percentage change)



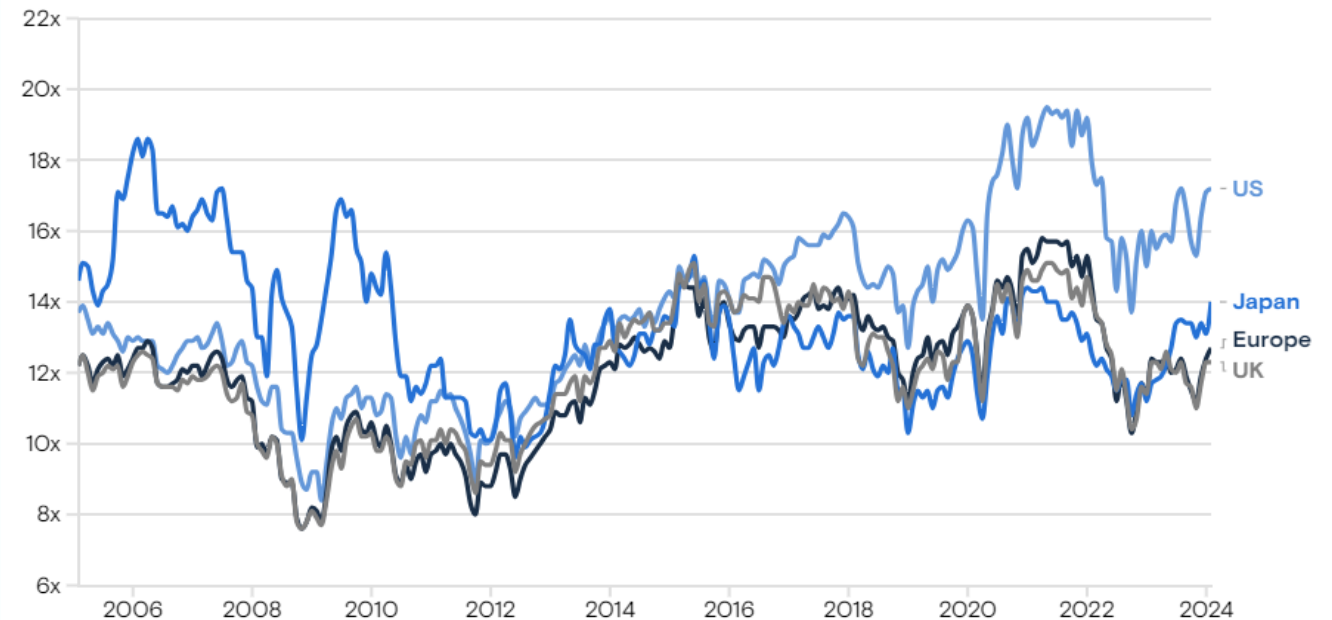
Source: Bloomberg  
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# US Stocks Expensive Relative To World



## US stocks are increasingly expensive relative to the rest of the world

24-month forward P/E with global equities weights

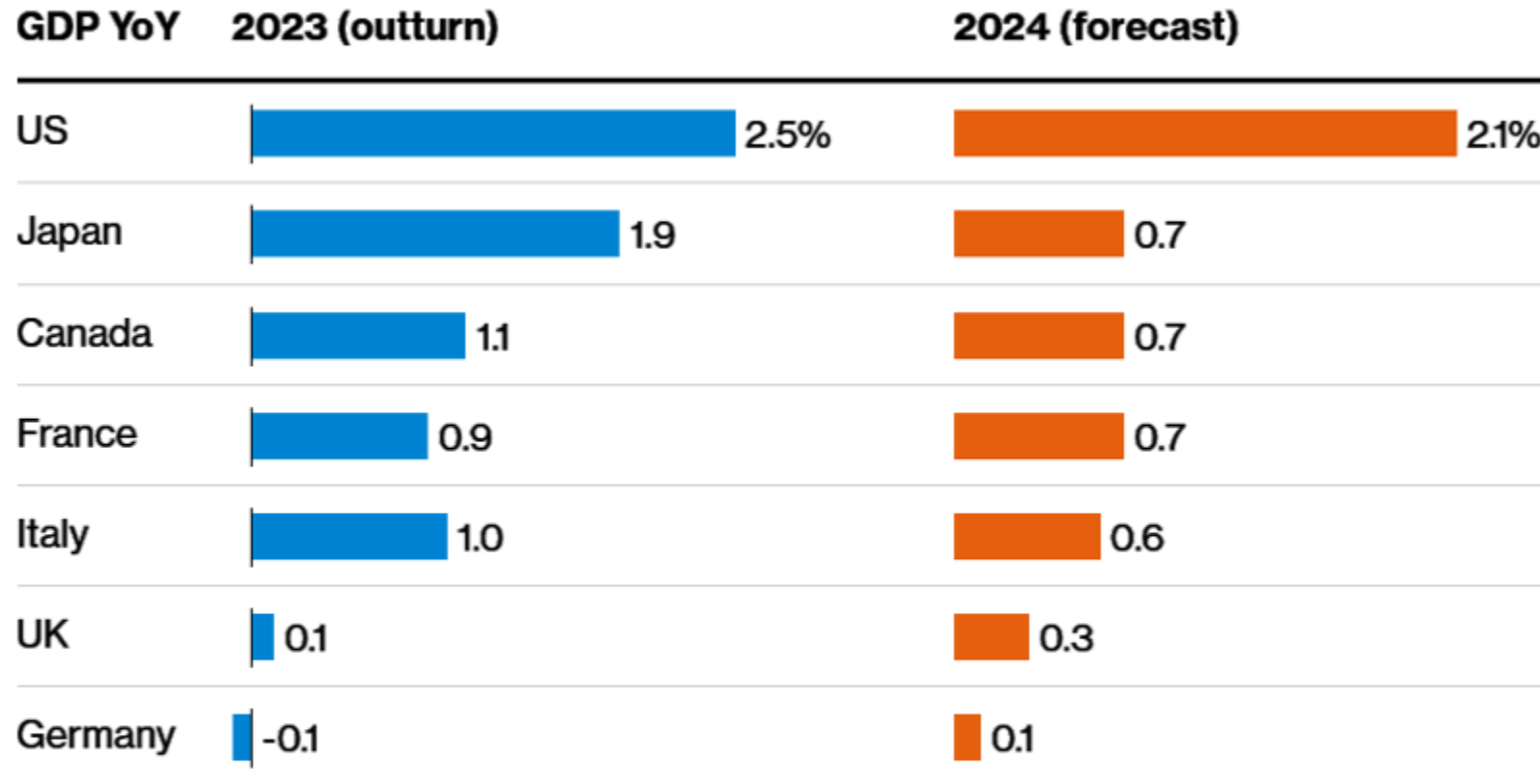


Source: FactSet, Goldman Sachs Research

Goldman Sachs

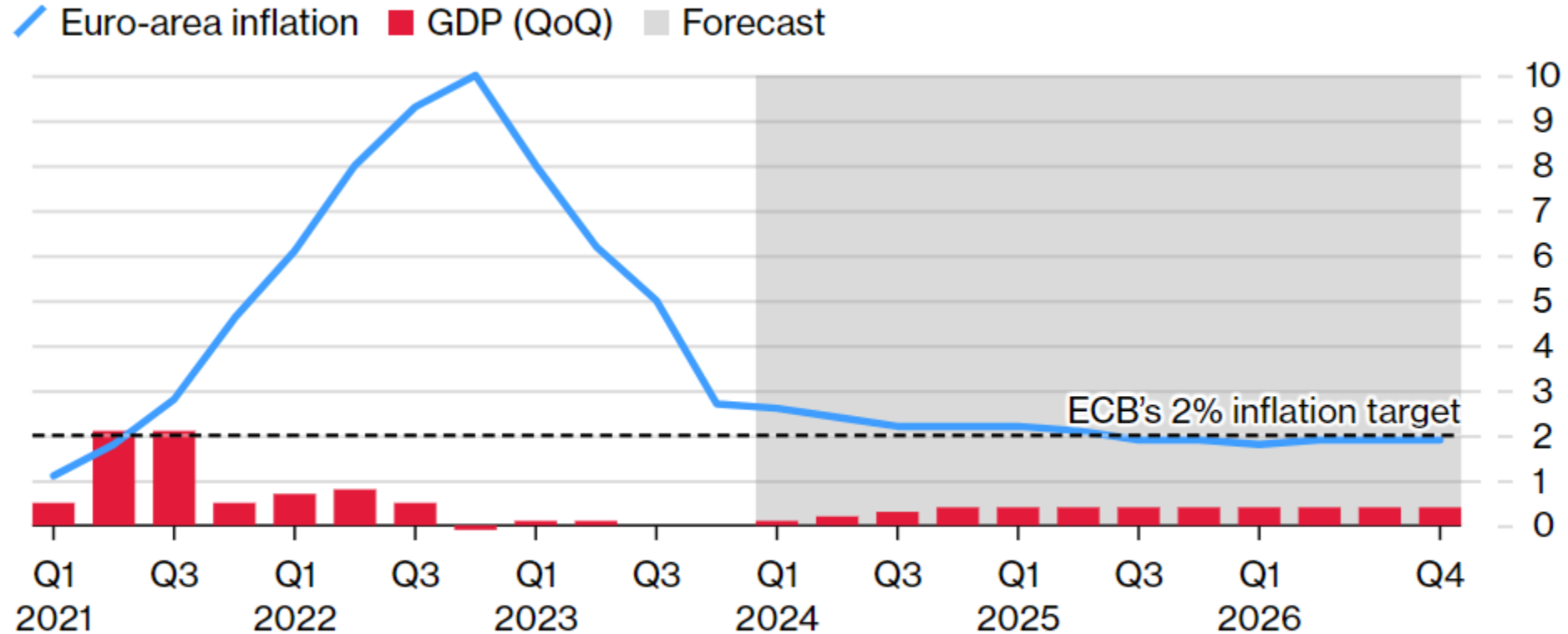
CHART: THE ECONOMIST

# US Growth Continues to Outpace World



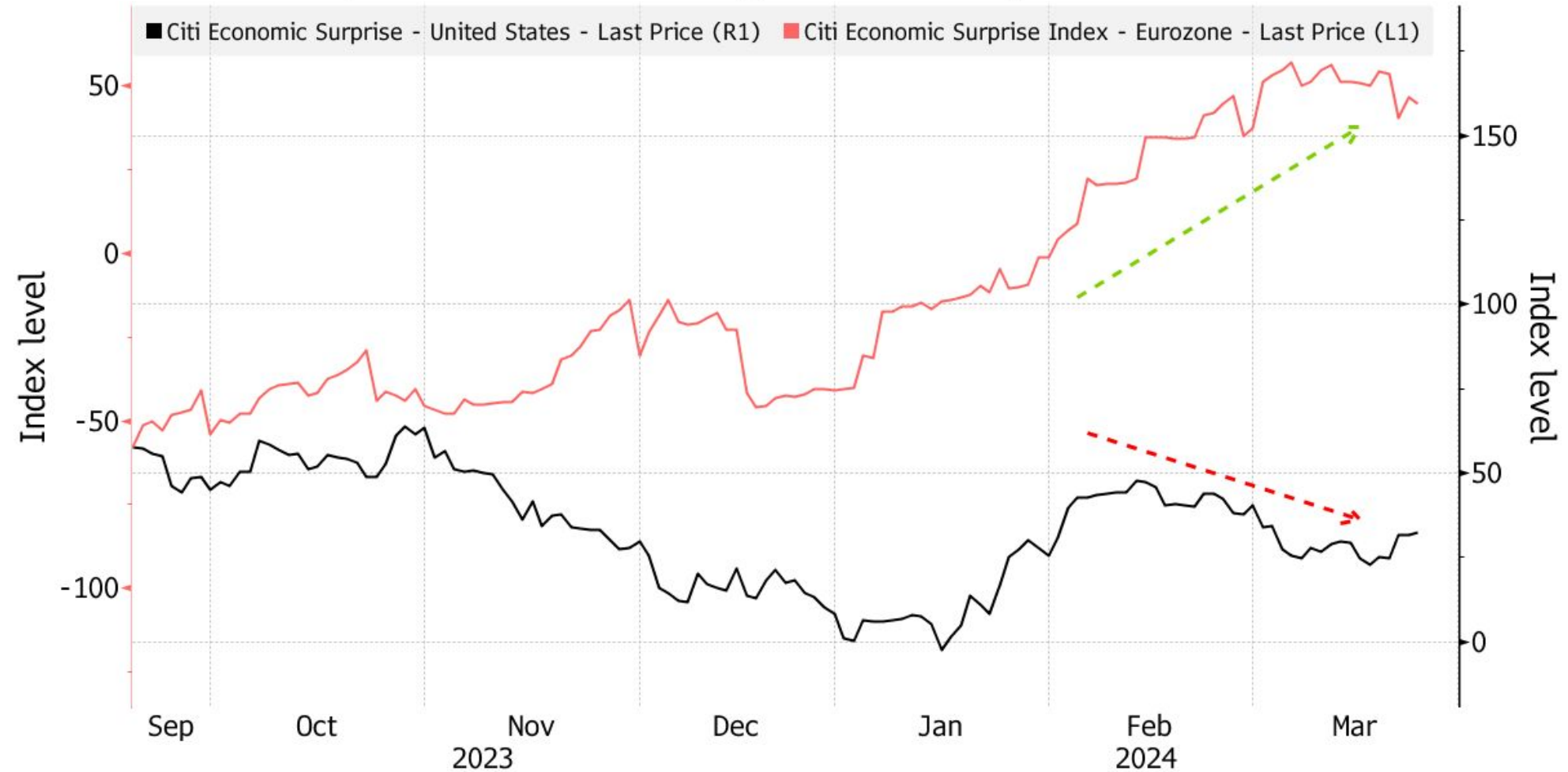
Source: Statistics agencies, Bloomberg Economic Surveys  
Note: Median forecasts

## ECB's New Inflation and GDP Predictions



Source: ECB

## Economic Surprises Are Stronger in Europe vs US



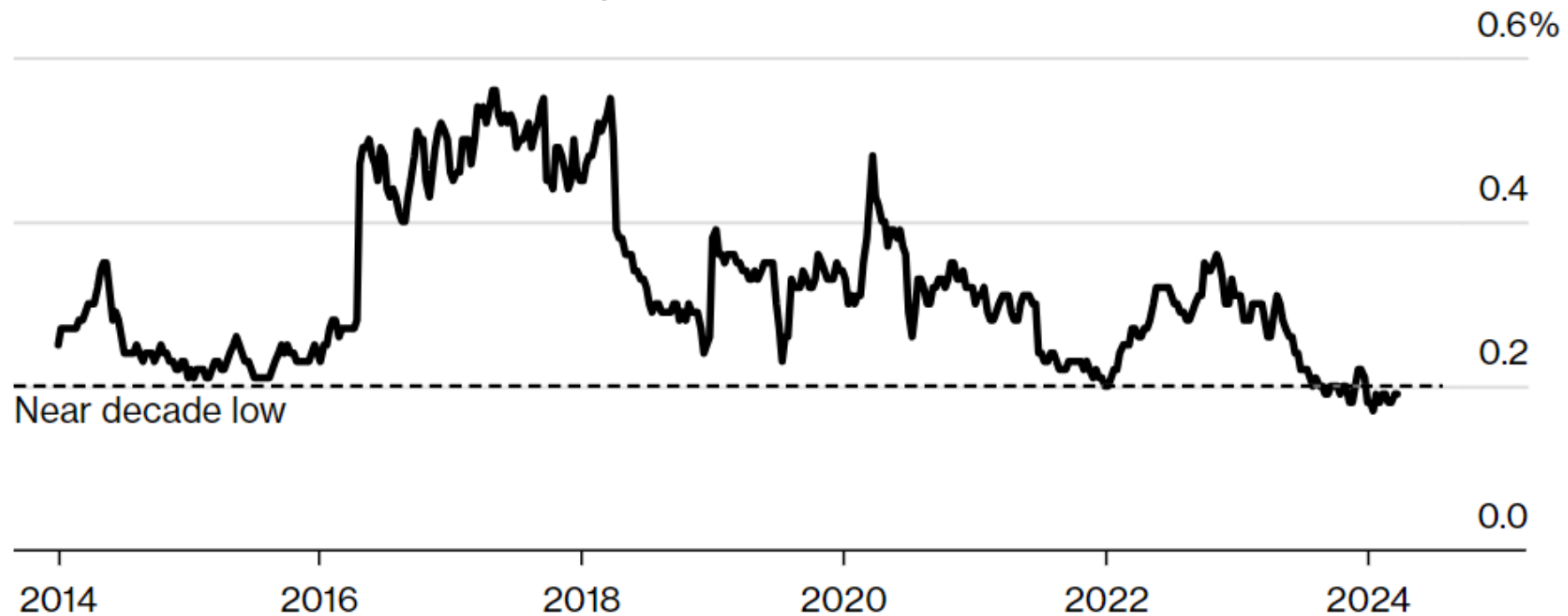
Source: Citigroup Inc., Bloomberg

Bloomberg 

## Investors Have Covered Shorts in Europe

Estimated short interest on European stocks is at low end of past decade

Short loan value as % Market Cap

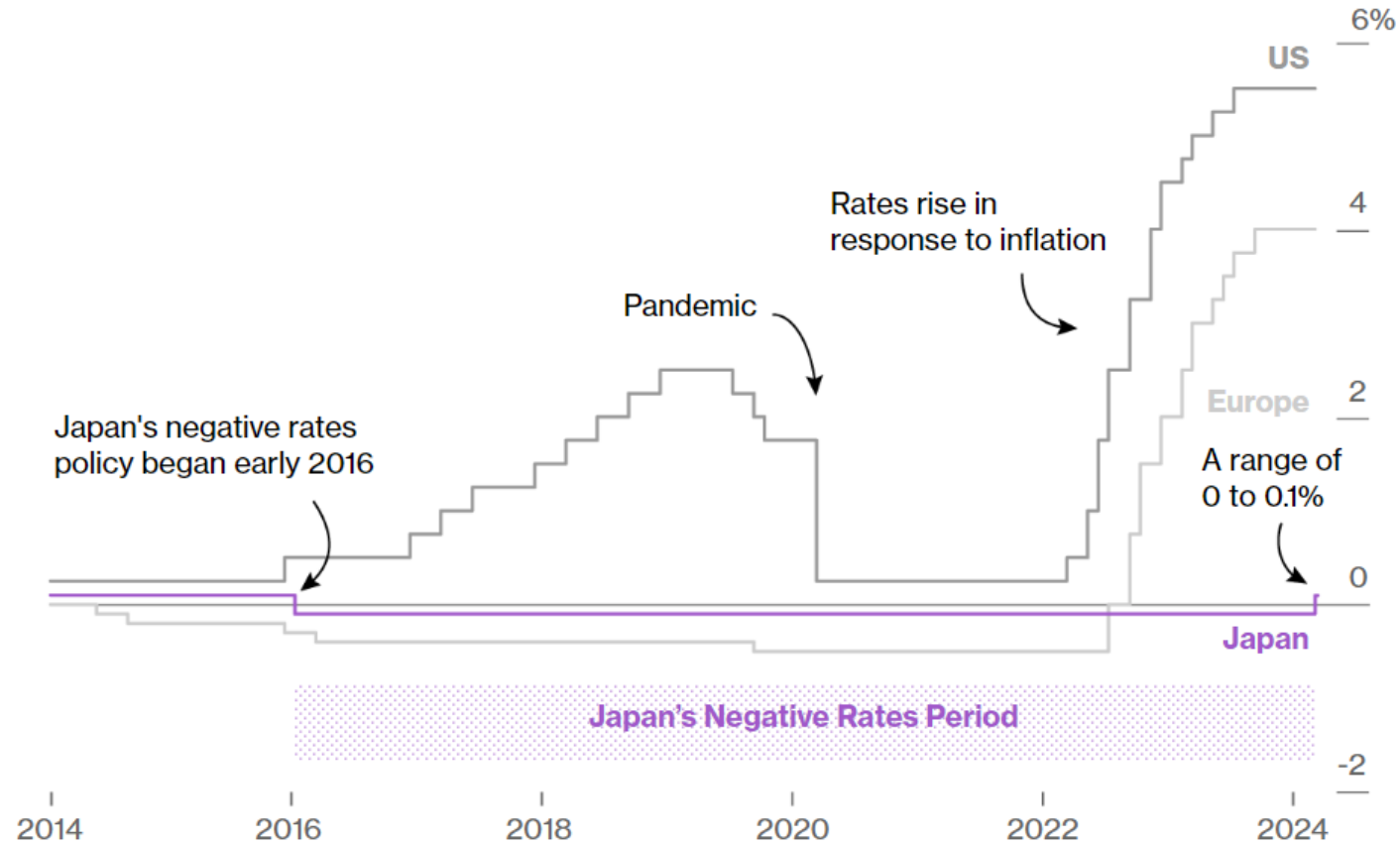


Source: S&P Global

Note: Estimated short loan value as a % of market cap, an indication of short interest

## BOJ Finally Ends Negative Rates

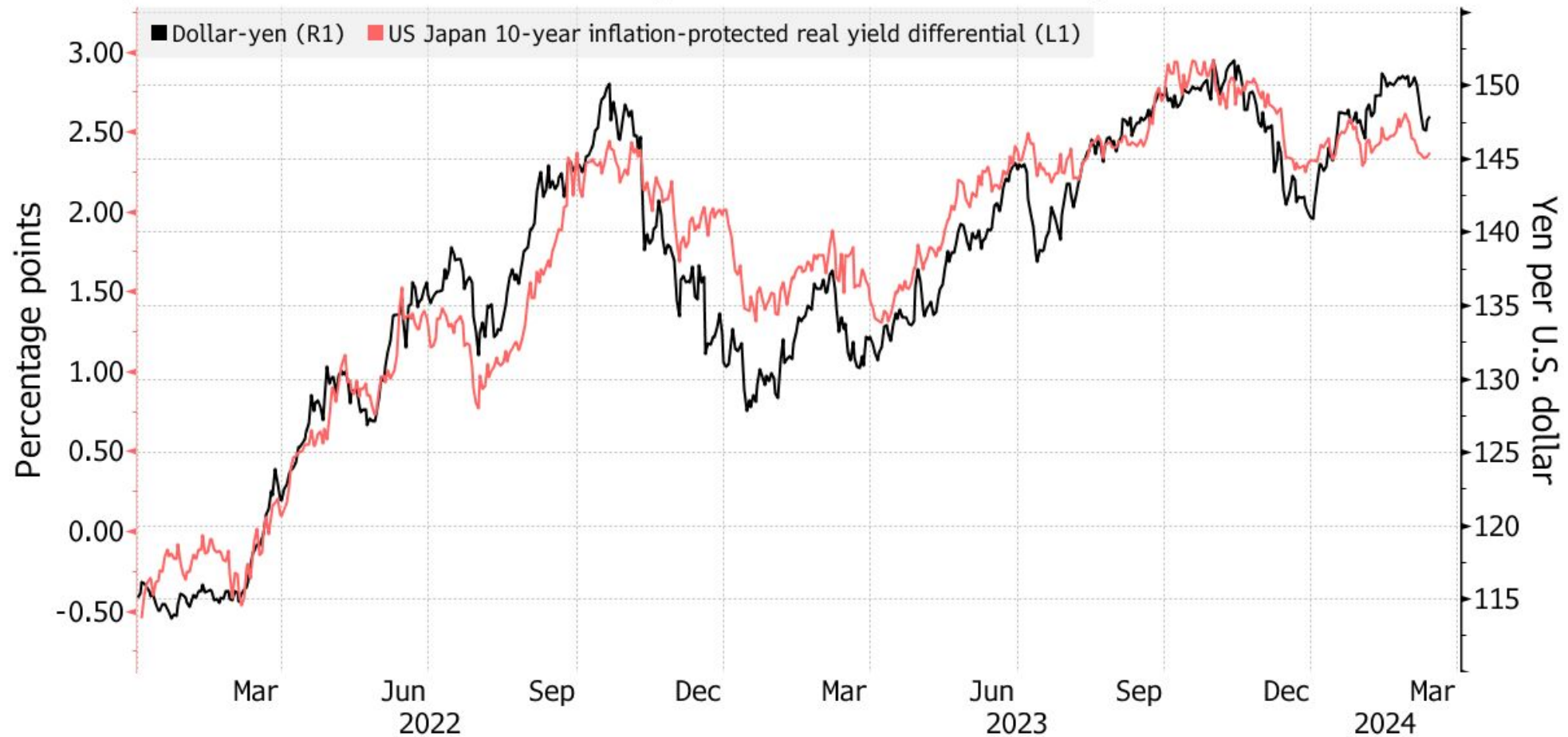
Japan's monetary policy has been an outlier



Source: Bloomberg

## Yen Still Languishing

US-Japan rate differences have helped weaken the currency



Source: Bloomberg

Bloomberg 

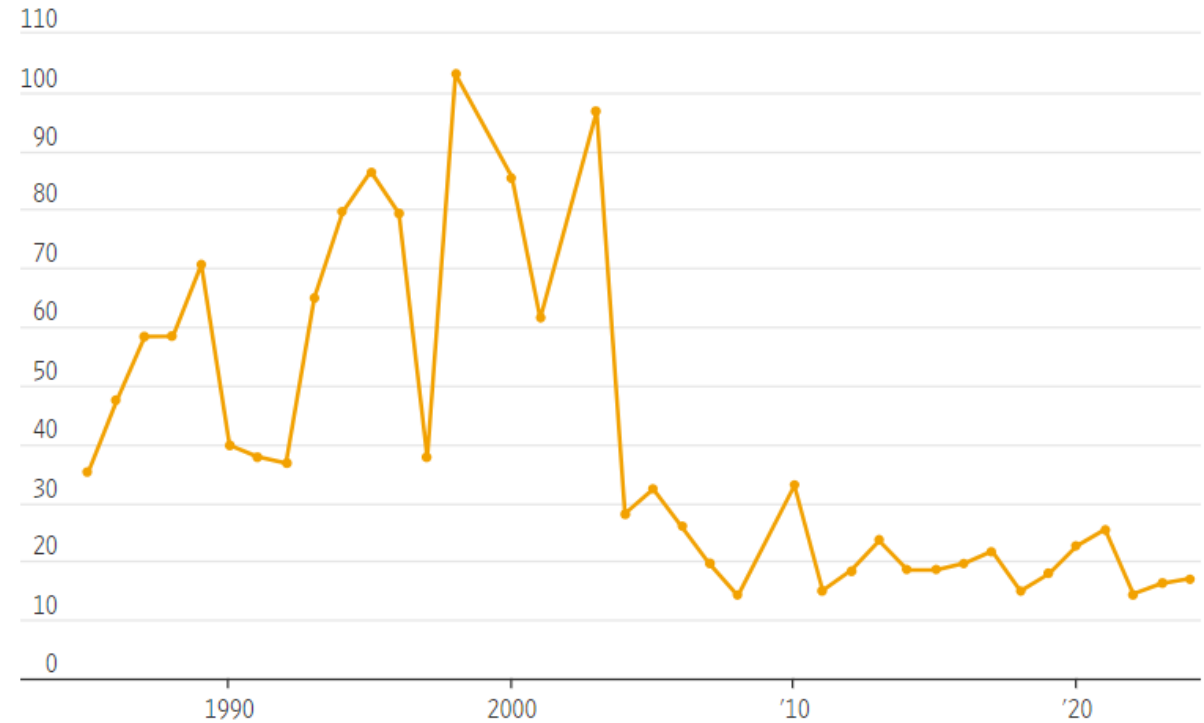
# Japanese Stocks Remain Cheap After Rally

Nikkei stock average, monthly



Source: FactSet

Price-to-earnings ratio, Tokyo-listed stocks



Note: Year-end average of companies listed on Tokyo Stock Exchange's First or Prime section. Figure for 2024 is as of the end of January.

Source: Japan Exchange Group

# China Unlikely to Meet 5% Growth Target



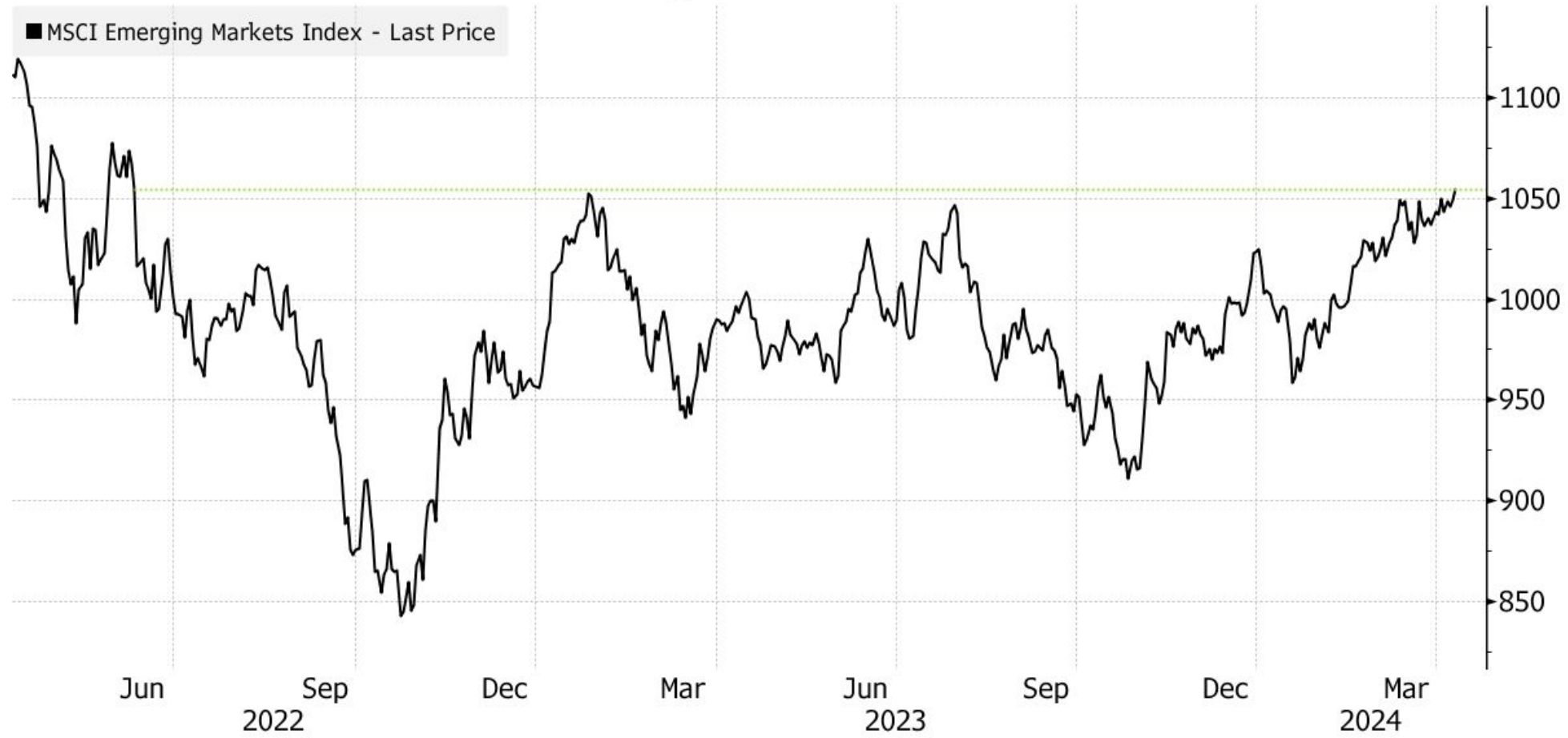
CHART: THE ECONOMIST



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## Emerging Market Stocks Climb

Index close at this level would be highest since June 2022



Source: Bloomberg, MSCI

Bloomberg 

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