THE SERIOUS INVESTOR: SPRING 2024

Welcome to the spring edition of LVW's *The Serious Investor*.

As the year began, inflation had come down markedly while economic growth remained solid, raising hopes for a soft landing. The picture became a bit more complicated in the first quarter. Progress reining in inflation seemed to stall, while the Consumer Price Index grew at an annual rate of 3.2% in February, up from 3.1% in January. One reason was a rise in oil prices: Brent crude futures rose from $77 to $87 per barrel for the three months through March amid fears that conflict in the Middle East could escalate. Persistent inflation drove concerns that interest rates might stay elevated for longer than expected, increasing the possibility of recession.

On the other hand, the job market continued to surprise on the upside. The Bureau of Labor Statistics estimates that employers added 829,000 jobs in the first quarter, a significant increase from the roughly half-million jobs added in the previous three months. The unemployment rate ended the period at 3.8%. The combination of sticky inflation and a stronger-than-expected job market led the Federal Reserve to leave the target federal funds rate unchanged at a range between 5.00% and 5.25%, though Chair Jerome Powell reiterated that the Fed expected to make three rate cuts in 2024.

The U.S. equity market continued to rally in the first quarter. Large caps outperformed small caps, with the S&P 500 gaining 10.1% compared to a 4.8% return for the Russell 2000. Smaller stocks' weaker balance sheets make them more sensitive to interest-rate moves, so they were more affected by delayed expectations for rate cuts. The Magnificent Seven—seven of the market's largest high-tech stocks—drove 40% of the S&P 500's return in the first quarter. Nevertheless, the market broadened, with energy and financials outperforming tech and the S&P 500 beating the Nasdaq. Cyclical sectors were the market's top performers.

Major economies outside the United States were relatively weak, but international stock markets generally advanced. In one bright spot, signs of long-sought inflation allowed Japan to move interest rates into positive territory, helping push the Nikkei 225 Index past highs set in 1989. Another bright spot was India, where social and economic transformation and a growing working-age population helped push equities higher.
Better-than-expected economic growth, persistent inflation and the Fed's decision not to lower rates led to recalibration in the bond markets. Bond yields rose—the yield on the 2-year Treasury increased from 4.25% to 4.63%, while the yield on the 10-year Treasury rose from 3.88% to 4.21%—aligning with LVW's "higher for longer" view on interest rates and inflation. Spreads tightened on both investment-grade and high-yield corporate bonds.

Our investment discipline considers markets through the lens of valuation, growth, liquidity and positioning (sentiment). Our analysis leads us to the following conclusions as we head into the second quarter of 2024:

Valuation: U.S. stocks are justifiably expensive
The U.S. equity market remains on the expensive side compared to both its own history and international markets. Emerging developments in technology and health care help justify this valuation premium.

Growth: The U.S. economy keeps growing
Earnings reported during the first quarter were generally positive and better than expected. Consumer spending remained strong, and GDP continues to run above historical trends in the United States. These developments are consistent with our view that the U.S. economy remains in expansion mode.

Liquidity: Conditions ease despite central bank policies
Financial conditions eased during the quarter even though central banks continued with quantitative tightening and most did not lower interest rates. Margin debt remains below average, and money markets hold large volumes of cash.

Positioning: Individual investors are bullish, but institutions are cautious
Individual investor sentiment has shifted from bearish in the fall of 2023 to decidedly bullish at the close of the first quarter of 2024. On the other hand, institutional positioning remains underweight equities compared to previous periods. Technical measures suggest the S&P 500 has been in "overbought territory" for 95 straight days. Absent an exogenous shock, we likely would view any meaningful correction as an opportunity to add to equities.

We appreciate your continued trust and confidence in LVW Advisors.

LVW ADVISORS

