Monday February 26, 2024

SUMMARY-

I. Markets stay calm and climb to new record highs.

II. Rising earnings projections suggest strong fundamentals to rally.

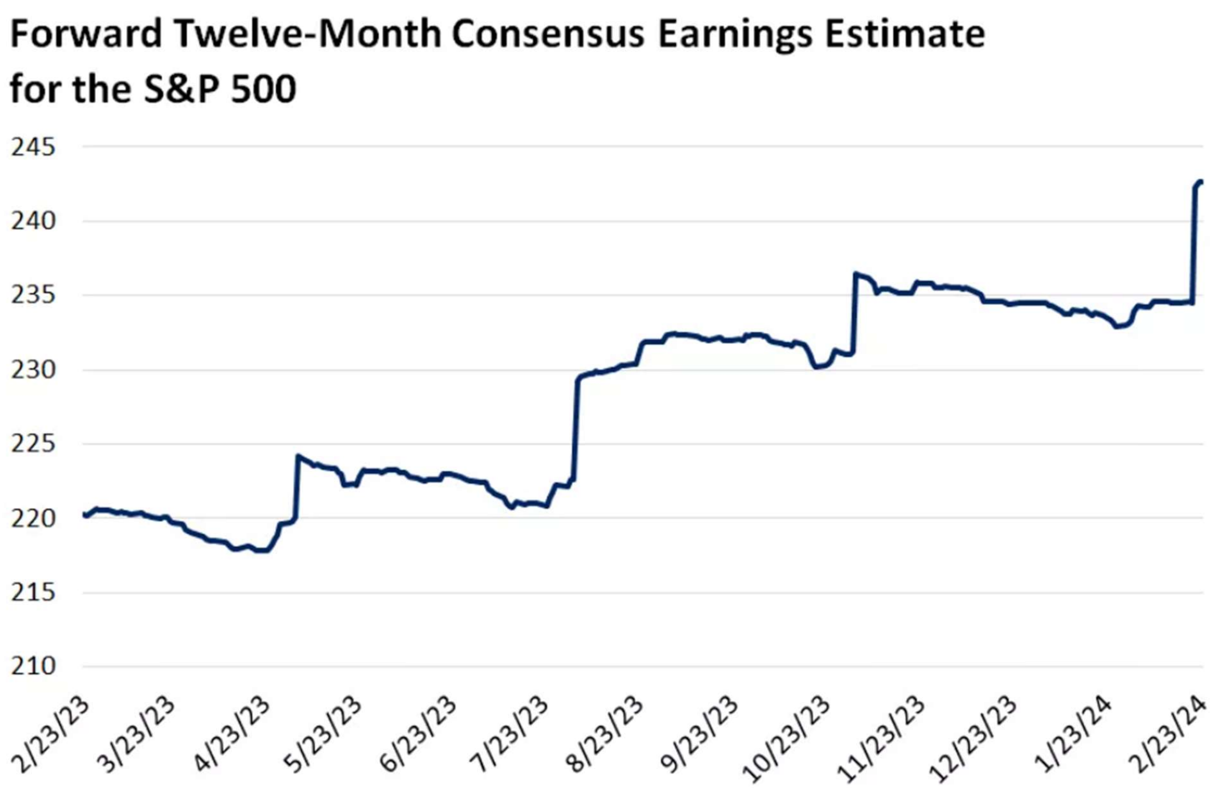
III. Rising bond yields have yet to spook equities this time.

IV. Noticeable sector broadening recorded for past month.

Good morning:

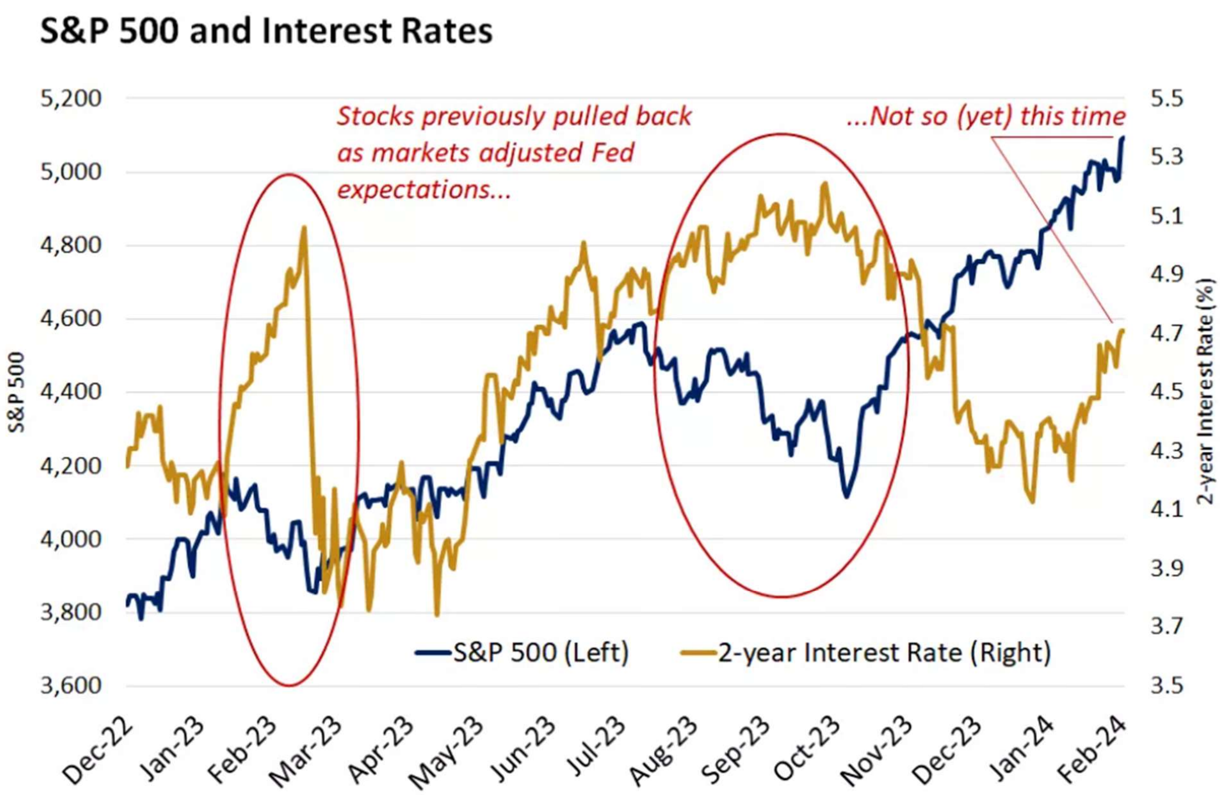
After receiving some hotter than anticipated inflation data the week prior, suggesting the Fed may wait longer to begin cutting rates, investors were remarkably accepting during last week's holiday-shortened trading week. Instead of selling stocks in the face of the likely new "higher for longer" monetary policy reality, attention quickly shifted to some key corporate earnings announcements. The results largely beat expectations and enabled major equity averages to continue their march higher into record territory. Major large-cap averages added 1.3 – 1.7% by Friday's close. Of course, this rally's leadership that began last October has been fairly concentrated in some mega-cap tech companies fueled by artificial intelligence (AI) mania. Any company that can show growth of its earnings should expect its stock price to ultimately follow suit. With many sectors showing increasing profits, it is reasonable to anticipate the eventual reflection of that growth in their share prices, even among the many lagging areas that currently exist throughout the market.

Over the last 30 years, the price of the S&P 500 index has risen by well over 900%. Not surprisingly, earnings per share for the S&P 500 also rose more than 900% over that time. This further illustrates the long-term relationship between stock prices and corporate earnings. They don't, however, always move in perfect lockstep with each other. Instead, market movements reflect expectations, emotions, and investor sentiment, occasionally overshooting to the upside and the downside, as investors become overly optimistic or pessimistic. It is important to realize that projected 12-month earnings estimates for the entire S&P 500 have ratcheted higher over the past year. This suggests to us that equity investors should currently feel relatively safe remaining invested with improving underlying fundamentals.



Source: Bloomberg, consensus estimates.

A further impressive sign of the market's recent resiliency is how it has largely ignored the recent uptick in bond yields. On two occasions last year when the market had to adjust to new Fed expectations, equities pulled back. However, equity traders have apparently shrugged off the recent rise in short and intermediate Treasury yields, opting instead to be patient for the eventual Fed cuts they likely feel are inevitable.



Source: FactSet. S&P 500 Index and 2-year U.S. Treasury Yield.

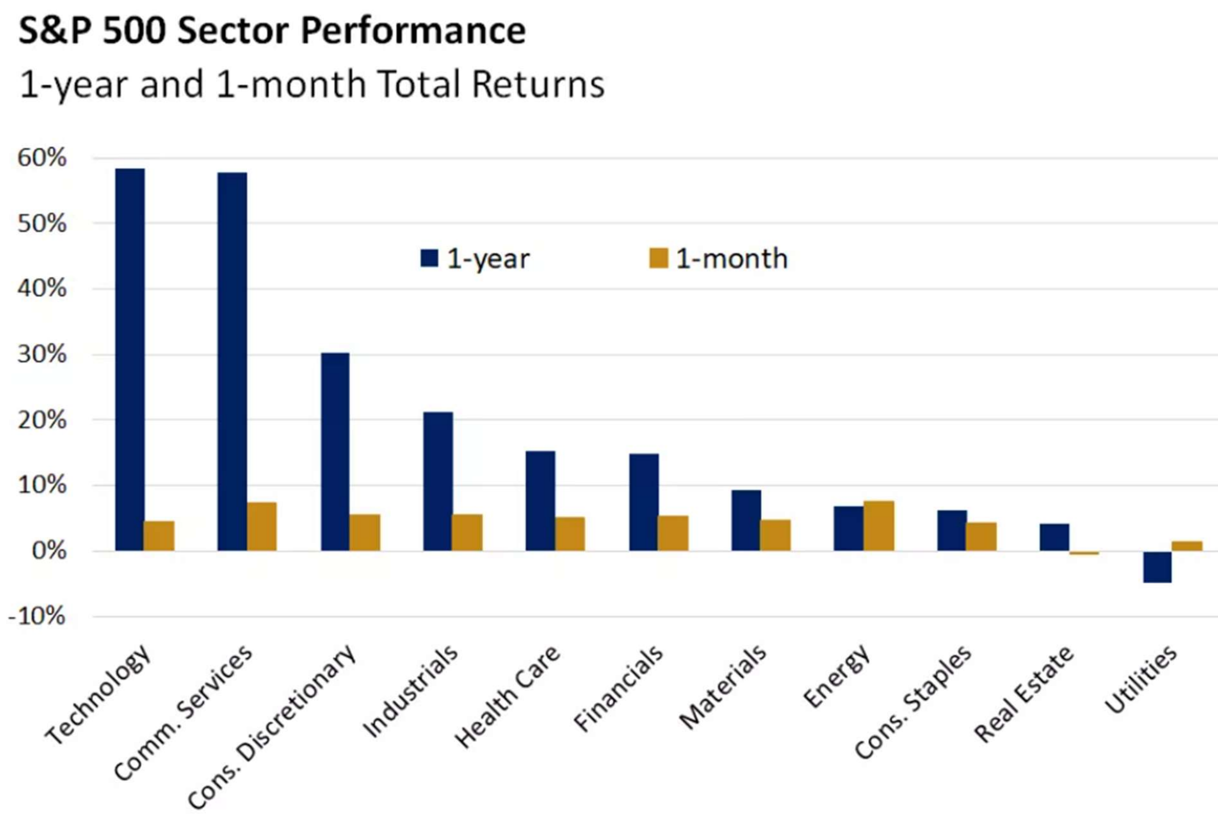
Beyond the concentrated weighting in a small number of companies accounting for much of the S&P 500's recent gains, some have expressed concern about the market topping out now that it has achieved new highs. Fortunately, bull markets do NOT tend to run out of gas right after making a new record high. In several cases, equities continued their ascent for years as this data for the S&P 500 price index in the table below reflects.

Equities have typically logged strong and extended gains after new highs were reached.

New All-time High	Additional Gain Beyond New High	Time From New High to Eventual Peak (# of Trading Days)
Aug. 2020	42%	347
Mar. 2013	116%	1735
May 2007	2%	92
Jul 1989	352%	2709
Nov 1982	137%	1215

Source: Bloomberg

After a year of only two sectors garnering most of the gains, the past month has finally started to see some broadening out. As this chart illustrates, the one-month gains in gold are far more consistent across most industry sectors than seen in the past year. Investors with traditionally well-balanced diversified portfolios should continue to be rewarded if this trend continues which we believe it will.



Source: FactSet. S&P 500 GICS level 1 sectors.

By the end of this week, Raymond James will be issuing its second of three tax document releases. These will either be mailed to you or be available to download from our website when available. The final third batch is scheduled to be issued by March 15th. It is important to make sure you have all the necessary documents for each account before completing your returns or even sending things off to your tax preparer. Please let us know if you have any questions pertaining to your tax reporting documents and we will be happy to assist.

Have a great week!

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The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.
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