

Market Comments

March 11, 2024



Passed Out at 31 Flavors

Um, he's sick. My best friend's sister's boyfriend's brother's girlfriend heard from this guy who knows this kid who's going with the girl who saw Ferris pass out at 31 Flavors last night. I guess it's pretty serious.

-Ferris Bueller's Day Off (1986)

Executive Summary

- While the stock market, as represented by the S&P 500 is near all time highs, there are broad segments of that index that are at much more attractive valuation levels and that have not participated in the returns seen in the Magnificent 7

For those of you who have not seen or forgotten parts of Ferris Bueller's Day Off, Ferris Bueller faked being sick so he could cut school with his best friend and girlfriend. Many people were worried about his sickness and as the quote above indicates, people knew what was going on based on what others were saying. In investing, we often hear many conflicting pieces of information that at times, may actually have some degree of correlation with the underlying economic situation and valuation framework. The stock market, as represented by the S&P 500, closed at an all-time high on March 7 and the S&P 500 has hit a new high 1,376 times since the end of 1927. Over that time period, the S&P 500 increased from 17.66 on 12/30/1927 to 5,123.69 on 3/8/2024. Well, I was sitting at 31 Flavors last night and my best friend told me her sister's boyfriend's brother's girlfriend heard from this guy who knows this kid who's going with the girl who said the stock market is at all time highs and is way too expensive to invest in right now. In other, equally relevant investing news, my best friend also told me that Taylor Swift had a date night with Travis Kelce in Singapore where she wrapped up her Asia tour.

"In other, equally relevant investing news, my best friend also told me that Taylor Swift had a date night with Travis Kelce in Singapore..."

Market Performance Barometer Through 3/8/2024

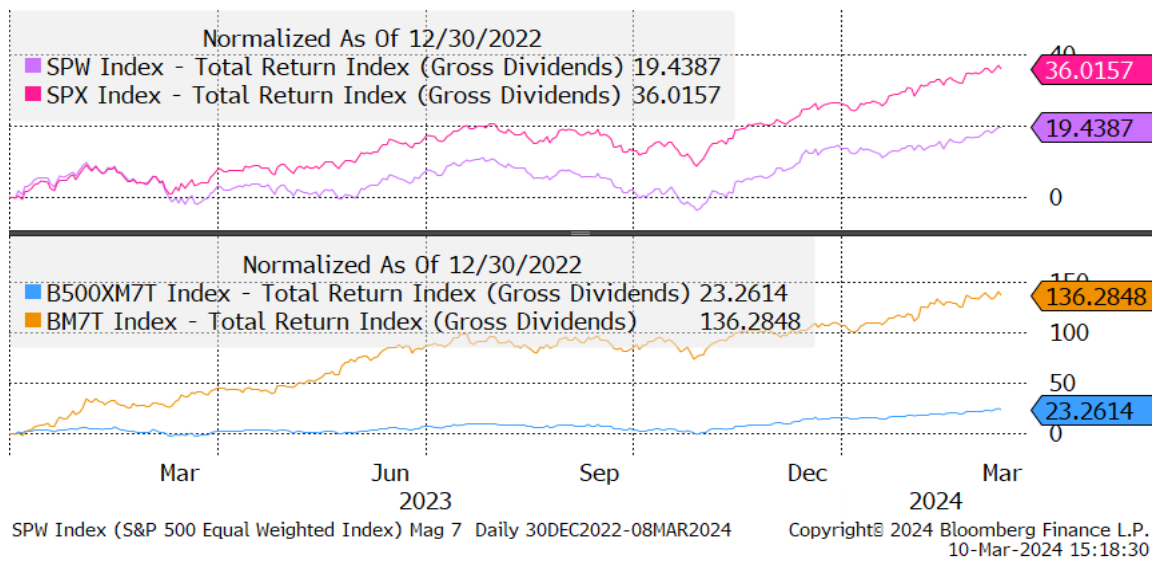
	Performance				Performance				
	1 Mo	QTD	YTD	1-Year	1 Mo	QTD	YTD	1-Year	
Equities (Sorted by 1-Year Return)					Fixed Income (Sorted by 1-Year Return)				
Russell 1000 Growth Indx	1.44%	9.23%	9.23%	48.95%	Corporate	0.89%	-0.42%	-0.42%	6.27%
S&P 500 Index	2.69%	7.73%	7.73%	34.78%	Municipal Bond Index	0.67%	0.03%	0.03%	5.05%
Russell 1000 Value Index	4.33%	5.40%	5.40%	20.25%	Bloomberg TIPS 1-5 Year	0.66%	0.38%	0.38%	3.93%
MSCI EAFE	6.45%	5.86%	5.86%	18.74%	U.S. Aggregate	0.90%	-0.50%	-0.50%	3.50%
MSCI EM	4.14%	1.54%	1.54%	11.85%	U.S. Treasury	0.79%	-0.60%	-0.60%	1.84%
Top Sector Indexes (YTD)					Bottom Sector Indexes (YTD)				
S&P 500 COMM SVC	-0.33%	10.86%	10.86%	60.83%	S&P 500 CONS STAPLES IDX	1.96%	4.84%	4.84%	10.37%
S&P 500 INFO TECH INDEX	2.47%	11.27%	11.27%	60.80%	S&P 500 ENERGY INDEX	4.21%	5.34%	5.34%	10.16%
S&P 500 CONS DISCRET IDX	1.30%	2.63%	2.63%	36.61%	S&P 500 UTILITIES INDEX	6.22%	0.63%	0.63%	2.36%

Source: Bloomberg

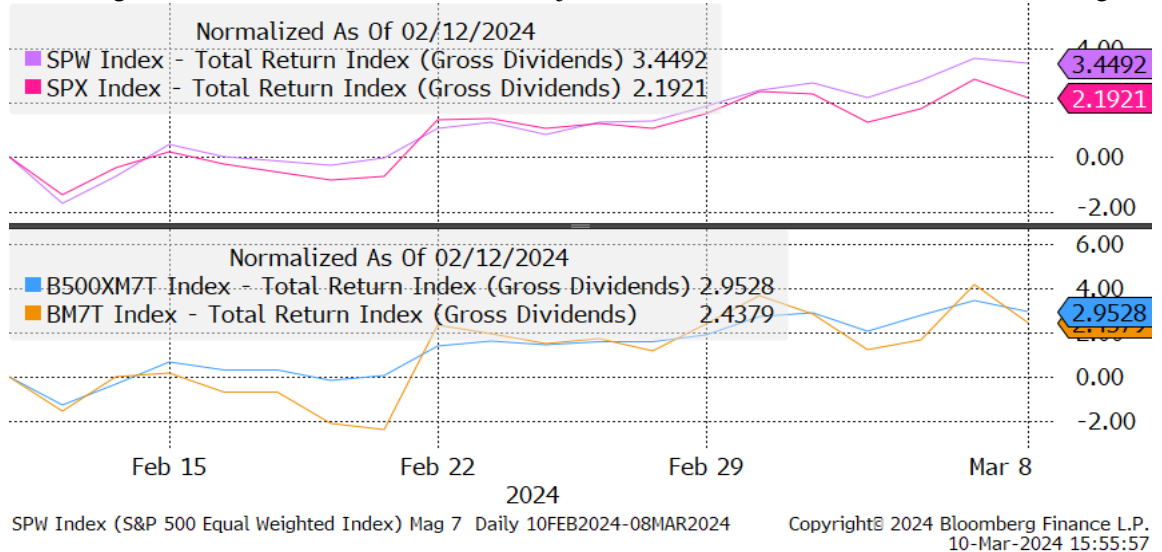
In all seriousness, the S&P 500 is at record high levels. As we have written about in the recent past, the majority of these returns have come from a small concentration of stocks. As you can see in the chart below, there has been a wide difference in return between the S&P 500 (SPX Index)

and S&P 500 Equal Weight Index (SPW Index) which is the same 500 stocks that are all held at the same weight as opposed to the market cap weighting of the S&P 500. The great majority of this difference is from the 7 stocks that compose the “Magnificent 7” (AAPL, MSFT, GOOGL, AMZN, NVDA, TSLA and META). The bottom pane of the chart compares the Bloomberg Magnificent 7 Index to the Bloomberg US Large Cap Ex Magnificent 7 Index, which highlights the disparity in returns between those 7 stocks and the other 493 stocks in the index. Said another way, we have seen solid returns for most of the S&P 500 index but really only 7 have driven it to “record highs”. Those 7 stocks are also trading at approximately a 42.1% premium on a forward 24-month price to earnings ratio basis. My best friend's sister's boyfriend's brother's girlfriend heard from this guy who knows this kid who's going with the girl *should* have said 7 stocks in a 500-stock index are skewing the entire index to be at all time highs.

“Those 7 stocks are also trading at approximately a 42.1% premium ...”



It is extremely interesting to point out that we are starting to see a broader participation in the S&P 500 though. When we take the same chart and just look at the last month, as seen below, we get a



very different picture than what we have seen since the beginning of 2023. Does this mean that the Magnificent 7 is dead? Probably not but based on valuation differentials and the size of the relative outperformance of that segment of the market, it is very possible that we see a continuation of broader based market participation relative to the Mag 7. We remain of the opinion that well diversified equity exposure across style and capitalization ranges will be the path forward rather than absolute concentration such that we have seen over the past year.

We remain focused on the overall US and Global economy, jobs market, political musings and inflation and will have a more economic focused note coming out in the next few weeks that will address our view on these themes in more detail.

Zachary Zimcosky; Vice President
Mark H. Tucker, CFA; Portfolio Manager
David Crook; Macro Economist

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