2024 First Quarter Commentary

MARKET RECAP

Over the first quarter of 2024, the U.S. stock market's meteoric rise has consistently dominated the headlines in addition to top-line portfolio results. The S&P 500 launched out of the gate with an impressive 10.6% gain during the first quarter.

Asset Class	Name	Total Return, Q1 2024
US Equities	S&P 500	10.56
US Equities	Russell 2000	5.18
International Equities	MSCI ACWI Ex USA	4.69
Medium Term Investment Grade Bonds	Bloomberg US Agg Bond	-0.78
Liquid Alternatives	Wilshire Liquid Alternative	3.16
Short-Term US Treasury	FTSE Treasury Bill 3 Month (Cash)	1.37
Russell 1000 Growth	Russell 1000 Growth	11.35
Russell 1000 Value	Russell 1000 Value	8.8

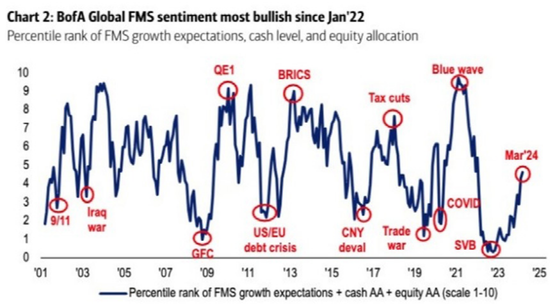
Source: Morningstar. Data as of April 3, 2024.

This was the index's strongest start to the year since 2019, and many believe it bodes well for the remainder of 2024.[1] Under these types of market conditions, it may be tempting to consider abandoning more diversifying investments such as bonds and alternatives in favor of an all-stock portfolio.

It can be helpful in these moments to remember the lessons of a simple fable: Aesop's "The Tortoise and the Hare," a story in which consistency eventually wins out over speed. This can also hold true when it comes to investing; the act of chasing short-lived bursts of outperformance can lead to suboptimal allocation decisions in the long run. At AlphaCore, we believe that consistent diversification across non-correlated asset classes – the slow and steady approach – eventually wins the race.

STOCKS WERE STRONG: WHAT DROVE THE HARE?

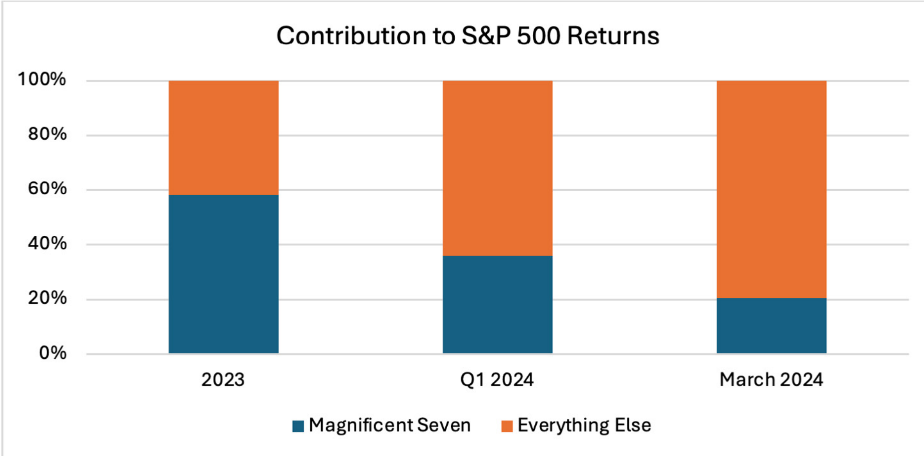
Heightened optimism for corporate earnings among investors has manifested in a voracious appetite for risk. The Bank of America Fund Manager Survey found bullish sentiment among fund managers to be at multi-year highs, with many reporting they're meaningfully overweight equities.



Source: Bank of America. "Global Fund Manager Survey." Data as of March 20, 2024.

Managers have good reason to be upbeat. Continued excitement around artificial intelligence has propelled the Magnificent Seven, which includes companies like Microsoft (MSFT) and Nvidia (NVDA), to all-time highs. Encouragingly, we've also begun to see performance broadening beyond mega-cap tech. To date, all but one of the eleven sectors in the S&P 500 have posted gains and over half of the companies in the index have achieved 52-week highs.

[1] Source: Miao, H. (2024, March 28). "The S&P 500 clinches best start to year since 2019." *The Wall Street Journal*. https://www.wsj.com/finance/stocks/the-s-p-500-is-poised-for-best-start-to-year-since-2019-0ffbf02a



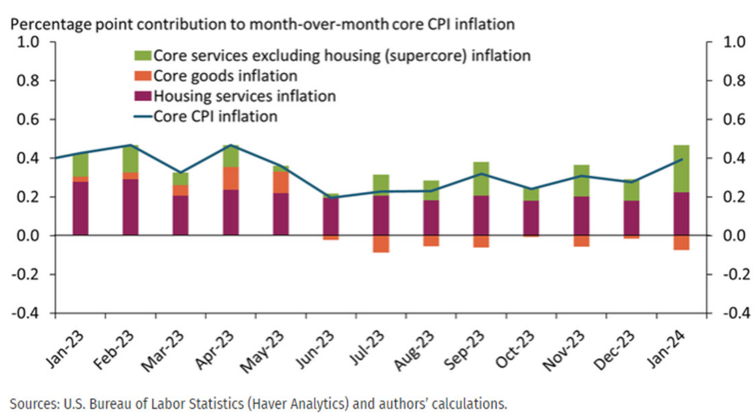
Source: Morningstar. "Magnificent Seven" includes Alphabet GOOGL, Amazon AMZN, Apple APPL, Meta META, Microsoft MSFT, Nvidia NVDA, and Tesla TSLA. Data as of April 3, 2024.

We believe that an improved outlook for earnings growth is the reason for this broadening market. The Wall Street consensus is that corporate earnings could rise by roughly 11% this year, driven by a broader group of S&P sectors than we witnessed in 2023.[2] Should this forecast transpire, the discrepancy between the Magnificent Seven's performance and other companies in the U.S. market should diminish.

What's behind the shift? We believe the current macroeconomic environment is supportive of continued earnings growth. According to the Atlanta Fed's GDP tracker, GDP growth in the first quarter is currently expected to be 2.8% as of April 1, 2024. Employment data remains in firmly positive territory, with 303,000 jobs added in March, higher than forecasted. Unemployment fell slightly in March to 3.8%.[3]

INFLATION PERSISTS, CAUSING TRADITIONAL FIXED INCOME TO LAG

These healthier economic conditions have lifted consumer sentiment, spurring hotter-than-expected inflation reports over the past few months. Both January and February CPI numbers surpassed expectations, triggering projections for the coming months to be revised higher. Services, excluding energy and housing, appear to be the biggest culprit, as evidenced in the chart below.

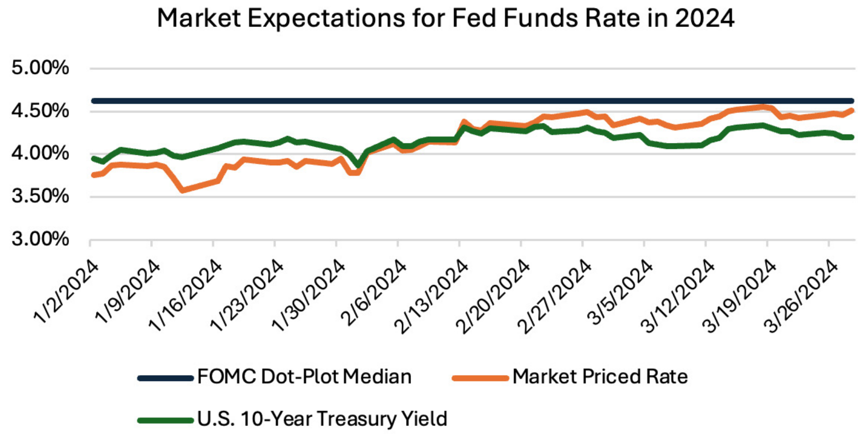


Source: Federal Reserve Bank of Kansas City. Data as of Mar. 22, 2024.

Spending on services, including travel and experiences, remains stubbornly elevated, ticking up 5.2% YoY in February.[4]

[2] Source: Miao, H. (2024, March 28) "The S&P 500 Clinches Best Start to Year Since 2019." *The Wall Street Journal.* https://www.wsj.com/finance/stocks/the-s-p-500-is-poised-for-best-start-to-year-since-2019-0ffbf02a?mod=hp_lead_pos1
[3] Source: Bureau of Labor Statistics. (2024, April 5) "Employment Situation Summary." https://www.bls.gov/news.release/empsit.nr0.htm
[4] Source: Bureau of Labor Statistics. (2024, March 12) "Consumer Price Index Summary." https://www.bls.gov/news.release/pdf/cpi.pdf

Markets entered the year confident that rate cuts would begin in March, pricing in up to seven rate cuts in the calendar year. Inflation's continued resilience has punctured these expectations. As you can see in this chart, Wall Street forecasts have gradually capitulated to the Fed's consistently stated 4.6% terminal rate for 2024.[5]



Source: CME FedWatch, FRED. Data as of April 3, 2024.

Yields on the ten-year U.S. Treasury bond followed suit. When yields rise, prices fall, so bonds lagged throughout the quarter. The Bloomberg Aggregate Bond index fell -0.78% during this stretch. Going forward, consensus has now shifted to fewer than three rate cuts for the year beginning in June, cementing us in a higher-for-longer regime – at least for now.[6]

THE TORTOISE - AMID HEIGHTENED UNCERTAINTY, ALTERNATIVES DELIVERED STABILITY

Many of our multi-strategy hedge funds split the distance between equities and fixed income, generating consistent first quarter returns and helping to curtail overall portfolio volatility. Among liquid alternative funds, the standout category was systematic trend. The Morningstar category average delivered an 8.4% return over the quarter, benefiting from persistent trends that emerged in stocks and commodities such as cocoa.

Cocoa Futures Soar to Highest Price in Contract History

Source: Koyfin. "Cocoa New York Continuous Contract." Data from Mar. 31, 2019, to Mar. 31, 2024.

[5] The terminal Fed Funds rate is the final interest rate the Fed hopes to achieve at the end of a monetary policy loosening or tightening cycle. For more information, click here.
[6] Source: Duguid, K. (2024, April 2) "US investors turn more cautious than Fed on 2024 rate cuts." *The Financial Times.* https://www.ft.com/content/9499ab2e-e562-4c46-9cb1-c8a1d990035b

Deficit hawks, who fear the future collapse of the US Dollar, also had reason to celebrate this quarter. Gold rose past the $2,000 threshold to finish the quarter at approximately $2,232 per ounce. Bitcoin soared 62.7% following the approval of the first Exchange Traded Fund vehicles in January.

WHAT'S NEXT?

With the equity market on an extended tear, certain pockets of the market have become expensive. (Equity alternative strategies with a stronger value bias certainly had a tougher quarter.) We are fairly confident that as long as the economy continues its hot streak, rates should remain higher for longer. In this context, we are closely watching for signs of stress in equities. Disappointing earnings, election volatility, or economic weakness could all lead to a market correction.

That said, it's important to underscore that we do not believe we're in bubble territory just yet. We've leaned more into equities on the margin, and we remain upbeat on the trajectory of the economy overall.

Ultimately, though, we're sticking to the formula that carried us through some of the more challenging times in recent years. Within equities, we prioritize cash flow growth and long-term stability. We also continue to emphasize diversification and differentiated solutions. This manifests through heightened optimism for the following areas in particular:

- Real estate lending (credit) is interesting due to the disappearance of most regional banks from the market, creating a void private lenders have stepped up to fill.
- Structured credit (credit backed by some asset or specific structure) is compelling because the yields are higher than the underlying risk in many of the credits.
- Private credit remains an area of high income with continued low default rates as the underlying private equity-backed companies benefit from strength in the economy.

Still, we want to be prepared if cracks begin to appear in the broader macro backdrop. As such, we're staying vigilant for subtler signs of weakness across the investable universe.

BACK TO AESOP...

Similar to how the Tortoise manages to overtake the Hare, once the Hare stops running, a portfolio that includes both fixed income and alternatives can keep chugging along when equities start to struggle. Although some strategies within both asset classes have recently delivered more underwhelming performance in relation to stocks, they remain a crucial aspect of a well-rounded portfolio.

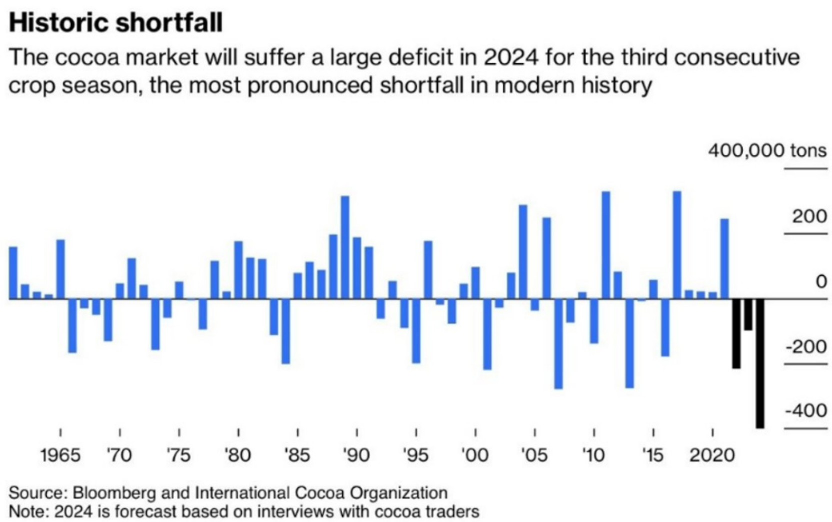
In fact, we believe investors actually *should* be underwhelmed by at least one aspect of their portfolio at any given point in time – this is proof that diversification is working. Like all things in life, it's best not to swing too far in one direction. As we navigate the year ahead, we will continue to emphasize agility, humility and careful deliberation throughout our investment process, always striving to do right by our clients.

If you have questions, please do not hesitate to reach out.

Appendix: A few charts we found during the quarter you may find interesting...

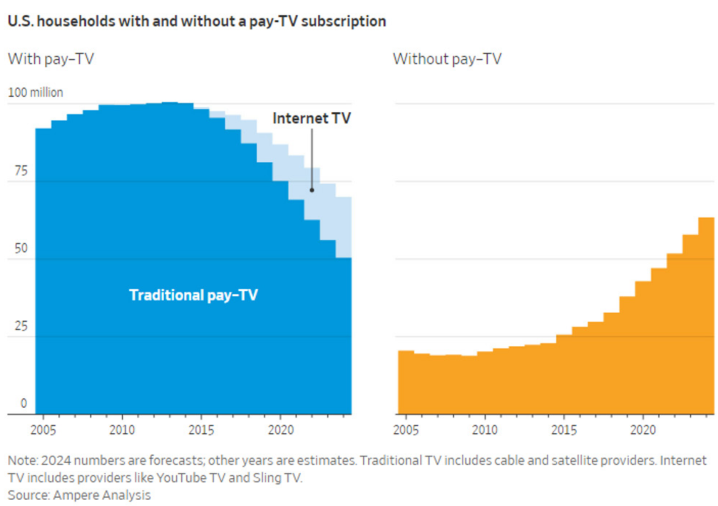
For those of you wondering why your daily dark chocolate fix seems to be taking a bigger bite of your grocery budget these days...

Source: Koyfin. "Cocoa New York Continuous Contract." Data from Mar. 31, 2019, to Mar. 31, 2024.



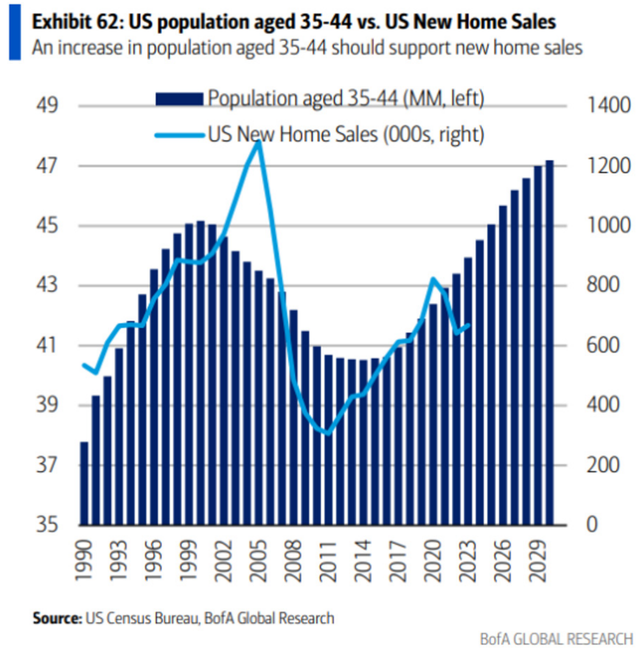
Source: Bloomberg. Data from 1960 to Feb. 2024.

More and more families have decided it's time to cut the cord on cable, citing cost savings as the primary reason.



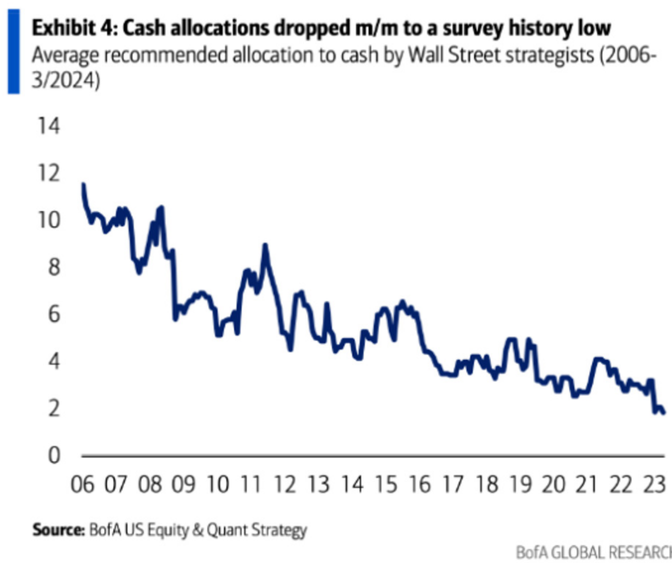
Source: The Wall Street Journal. Data from 2005 to Mar. 14, 2024.

Despite somewhat depressed new home sales in recent months, residential real estate still remains a compelling asset class. Demographic trends point to demand strengthening in the coming years, both for rentals and homes to purchase.



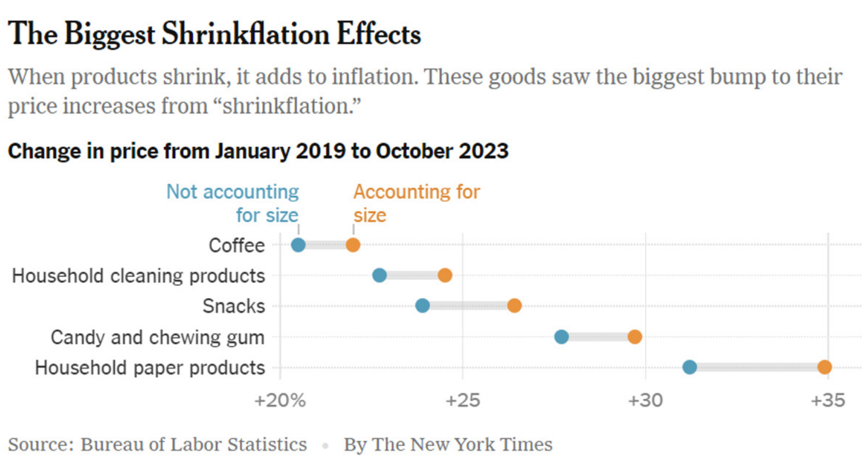
Source: BofA Global Research. Data from 1990 to Mar. 2024.

The average recommended allocation to cash by Wall Street strategist has dropped to a multiyear low. This may be an indicator equities are close to peaking in the near term.



Source: BofA Global Research. Data from 2006 to Mar. 2024.

And finally, no, you're not imagining it. That bag of chips you bought really is filled with more air…



Source: The New York Times. Data as of Mar. 1st, 2024.

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- **BLOOMBERG BARCLAYS CAPITAL U.S. AGGREGATE BOND INDEX:** The index consists of approximately 17,000 bonds. The index represents a wide range of securities, from investment grade and public to fixed income.

- **ICE BOAML HY INDEX:** The index is a commonly used benchmark index for high-yield corporate bonds. It tracks the performance of U.S. dollar denominated below investment grade rated corporate debt publically issued in the U.S. domestic market.

- **RUSSELL 3000 INDEX:** The Russell 3000 Index is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities.

- **RUSSELL 2000 INDEX:** The Russell 2000 Index is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index. It was started by the Frank Russell Company in 1984. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.

- **MSCI ACWI (ALL COUNTRY WORLD) INDEX:** The MSCI ACWI is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI Index is comprised of stocks from both developed and emerging markets.

- **MSCI EMERGING MARKETS INDEX:** The MSCI Emerging Markets Index is used to measure the financial performance of companies in fast-growing economies around the world. The index tracks mid-cap and large-cap stocks in 27 countries, dominated by Chinese, Taiwanese and South Korean companies.

- **S&P 500 INDEX:** S&P 500 index is a float-adjusted market-cap weighted index, largely reflecting the large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

- **NASDAQ 100 INDEX:** The Nasdaq 100 Index is a basket of the 100 largest, most actively traded U.S companies listed on the Nasdaq stock exchange. The index includes companies from various industries except for the financial industry, like commercial and investment banks.

- **PURCHASING MANAGERS' INDEX (PMI):** PMI Index is an indicator of economic health for manufacturing and service sectors. The purpose of the PMI is to provide information about current business conditions to company decision makers, analysts and purchasing managers.

- **ISM MANUFACTURING INDEX:** The ISM Manufacturing Index is a widely-watched indicator of recent U.S. economic activity. The index is often referred to as the Purchasing Manager's Index (PMI).

- **THE BLOOMBERG COMMODITY TOTAL RETURN INDEX:** The BCOM TR Index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13-week (3 Month) U.S. Treasury Bills.

- **CBOE VOLATILITY INDEX (VIX INDEX):** The VIX Index is a real-time market index used to measure the market's expectation of future volatility. Being a forward-looking index, it is constructed using the implied volatilities on S&P 500 index options (SPX) and represents the market's expectation of 30-day future volatility of the S&P 500 index which is considered the leading indicator of the broad U.S. stock market.

MORNINGSTAR CATEGORIES

MORNINGSTAR MULTI-STRATEGY: This is a Morningstar alternative strategy category. For a multi-asset strategy to qualify in an alternative category, greater than 30% of a strategy's gross exposure must be allocated to alternative substrategies. Alternative substrategies should provide an 'alternative' exposure to the dominant risk factors found in traditional indices, and as standalone strategies, would generally fall into one of the other Morningstar alternative categories: Equity Market Neutral, Event Driven, Macro Trading, Options Trading, Relative Value Arbitrage and Systematic Trend.

MORNINGSTAR SYSTEMATIC TREND: This is a Morningstar alternative strategy category. Systematic trend funds mainly implement trend-following, price-momentum strategies by trading long and short liquid global futures, options, swaps and foreign-exchange contracts. Strategies invest across geographies and assets, including equities, fixed income, commodities, currencies and more.

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Upcoming Events

April 18, 2024
10:00 A.M. PST

MEET THE MANAGER WEBINAR | O'SHAUGHNESSY ASSET MANAGEMENT, LLC

Join AlphaCore Wealth Advisory as we host our upcoming Meet the Manager webinar.

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