SAGE VIEW

Capital Market Overview

Period Ending 3/31/2024

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VIRGINIA BANKERS ASSOCIATION
Benefits Corporation

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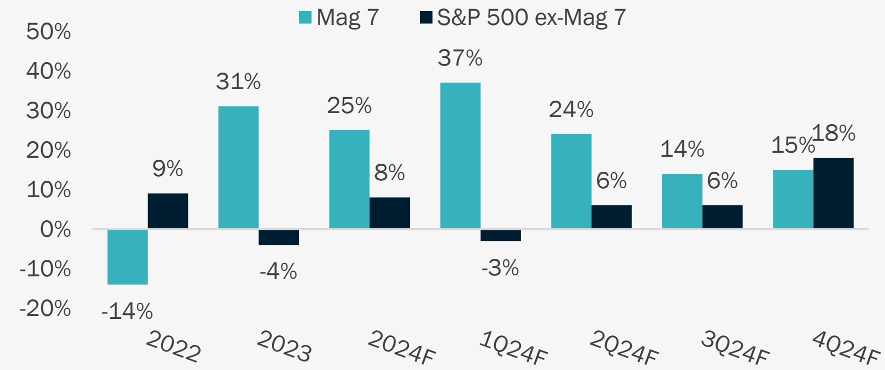
A CHANGING OF THE GUARD?

Episodes where market leadership is concentrated among a few stocks are common, but the list of market leaders tends to change over time. The 1960s featured the “Nifty Fifty.” The 1990s featured “WinTel” (Microsoft and Intel). The FAANG stocks (Facebook, Amazon, Apple, Netflix, and Google) drove performance in the 2010s and have now morphed into the “Magnificent 7,” with Microsoft, Nvidia, and Tesla joining the group, and Netflix dropping out. Notably, of the top ten most valuable US stocks in 2000, only Microsoft remains in the top ten today.

Year to date, only 4 of the Magnificent 7 (Microsoft, Meta, NVIDIA, and Amazon) have outperformed the broader index, hinting at a possible change in market leadership. Analysts forecast improved earnings growth for the “Forgotten 493” companies, such that their average earnings growth matches that of the Magnificent 7 by year end.

Earnings Growth
Pro-forma EPS, y/y

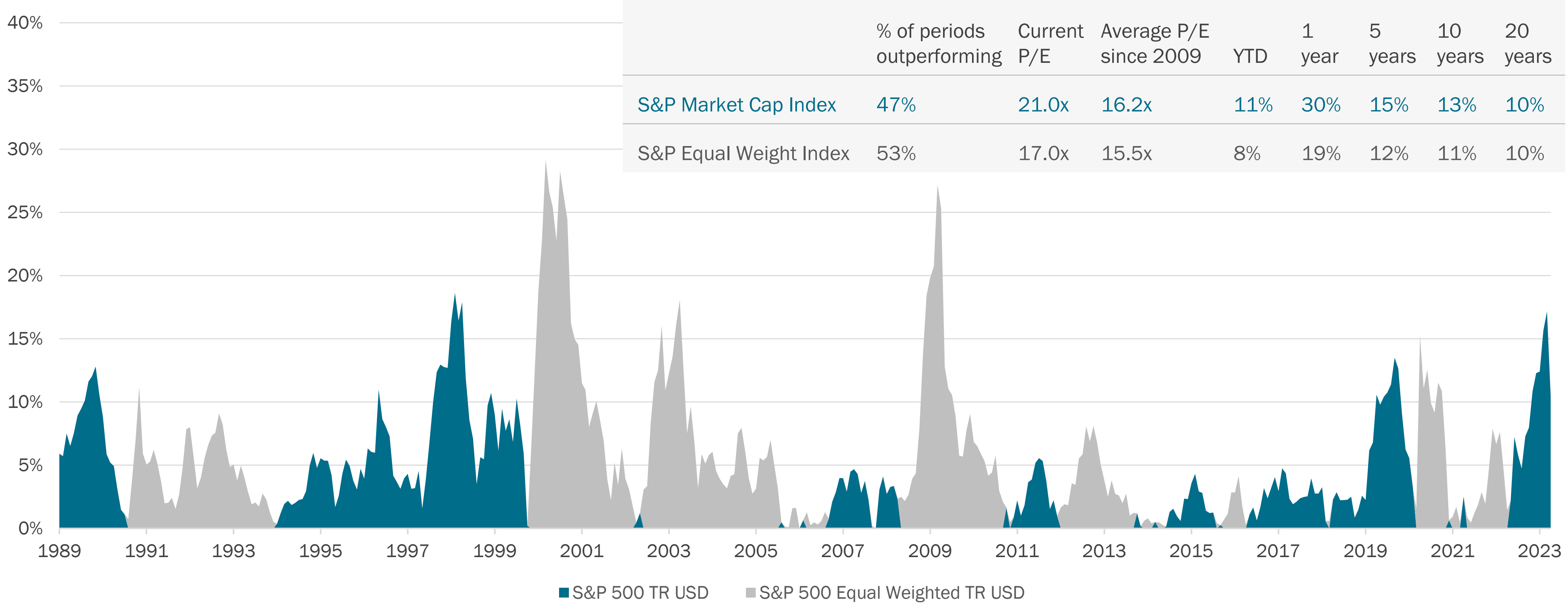


*Source: JPMorgan, FactSet

S&P 500 Market Weight and Equal Weight Relative Performance

Rolling monthly y/y total returns

	% of periods outperforming	Current P/E	Average P/E since 2009	YTD	Returns 1 year	Returns 5 years	Returns 10 years	Returns 20 years
S&P Market Cap Index	47%	21.0x	16.2x	11%	30%	15%	13%	10%
S&P Equal Weight Index	53%	17.0x	15.5x	8%	19%	12%	11%	10%



Q1 2024 BY THE NUMBERS

A Broadening Rally

In 2024, the market rally has broadened compared to 2023, encompassing not just the "Magnificent 7" but also many previously overlooked stocks dubbed the "Forgotten 493". By quarter-end, 86% of S&P 500 companies were trading above their 200-day moving averages, a three-year high. The S&P 500 outperformed the NASDAQ Composite in Q1. Beyond equities, both gold and Bitcoin reached all-time highs, driven by geopolitical tensions and central bank purchases for gold, and retail demand following spot ETF approvals in January for Bitcoin.

$2,251
Gold price per ounce at quarter end (vs. $2,041 BOY 2024)

9.3%
NASDAQ Q1 Return

10.6%
S&P 500 Q1 Return

Stubborn Inflation Calling Rate Cuts Into Question

Treasury yields rose during the quarter as markets realized the expected rate cuts may not come until later in the year. Complicating Fed officials' decision-making ability is persistent inflation, increased consumer confidence, and low unemployment. Core PCE, the Fed's preferred metric, eased to 2.8% YoY in February, down from the 4.8% reading last year, but still well above the Fed's 2% target. The Treasury yield curve set a record in March for the longest continuous inversion (20 months, based on the 2-10 spread).

4.2%
10-Year U.S. Treas (3.5% March '23)

3.5%
March CPI (3.2% in February)

1:1
Assets invested in Money Market funds relative to Bond funds

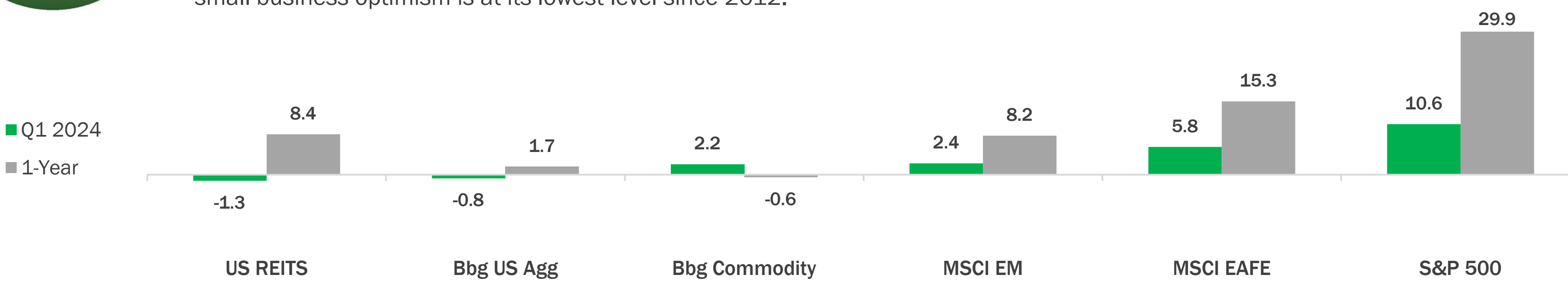
Soft Landing Odds Increasing

The Leading Economic Index, which signals peaks and troughs in the business cycle, posted its first increase in 24 months in February. The University of Michigan's consumer sentiment index posted its highest reading since mid-2021. March's 3.8% unemployment rate marked its 27th consecutive month at or below 4%, the longest stretch since the 1960s. The ISM Manufacturing PMI, a broad gauge of manufacturing activity, registered an expansionary reading in March. Still, small business optimism is at its lowest level since 2012.

310,000
Avg of Jan, Feb, March Non-Farm Payroll Jobs Added

4.1%
Wage Growth YOY March

88.5
NFIB Small Business Optimism Index (lowest since Dec 12)



Source: Morningstar. Returns represent cumulative total return, including dividends US REITS – FTSE NAREIT All REITs

ECONOMIC SCOREBOARD

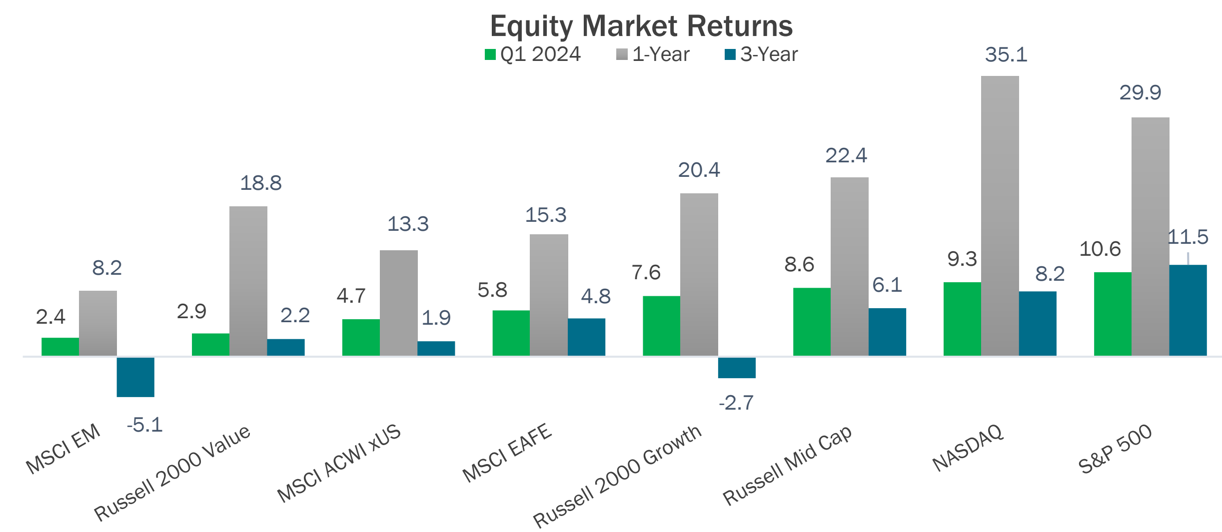
Positive	Neutral	Negative
EMPLOYMENT Roughly 310,000 jobs were added each month in Q1. The unemployment rate increased slightly to 3.8%. At 27 months, the U.S. economy is now at the longest stretch of unemployment being at or below 4% since the 1960s. Notably, many of the jobs added are part-time in nature.	**HOUSING** Fannie Mae estimated the average 30-year conventional fixed rate to be 6.7% in Q1. Existing home sales rose 9.5% in February as additional housing supply helped to satisfy demand. New home sales in February fell slightly from January yet remained 5.9% above February 2023 levels.	**INFLATION** March's CPI reading of 3.5% YoY surprised many as stubborn inflation remains a thorn in the side of both policymakers and consumers. The shelter and energy components drove the month–over-month increase from the 3.2% YoY reading in February.
CONSUMER SPENDING Despite high interest rates, consumer spending remains strong. The aggregate of credit card spending from JPMorgan Chase, Wells Fargo, and Citigroup is up 8% YoY. U.S. retail sales rose in March for the second consecutive month.	**MANUFACTURING** The ISM Manufacturing Index increased to 50.3 in March, its first expansion (> 50) after 26 consecutive months of contraction. The ISM New Orders Index also reverted into expansion territory at 51.4.	**GLOBAL TRADE** After a disappointing 2023, economists are projecting global trade to rebound from the lackluster results last year. Despite this, notable geopolitical conflicts in both the Ukraine and Middle East could undermine any projected recovery.
GDP GROWTH The U.S. economy grew at an unexpected 3.3% annualized rate in Q4. For Q1. estimates range from 2.8% to 3.1%. U.S. economic growth has now topped 2% for six consecutive quarters.		**FISCAL SPENDING** In its forecast, the IMF noted that the U.S. federal deficit grew to \$1.7 trillion last fiscal year, up from \$1.4 trillion the previous year. The cost of servicing the national debt is set to rise to 3.1% of GDP in 2024 compared to 1.8% prior to the pandemic.
CORPORATE EARNINGS Q4 earnings growth rate for the S&P 500 was 4.2%, well ahead of the 1.5% estimate. Per FactSet, the actual earnings growth rate has exceeded the estimated earnings growth rate in 37 of the last 40 quarters.		**INTEREST RATES** Stubborn inflationary readings, notably March's CPI increase, sent yields higher across the yield curve. Though there has been no alteration to the Fed's comments regarding potential rate cuts in the second half of the year, futures markets are no longer expecting a rate cut in June.

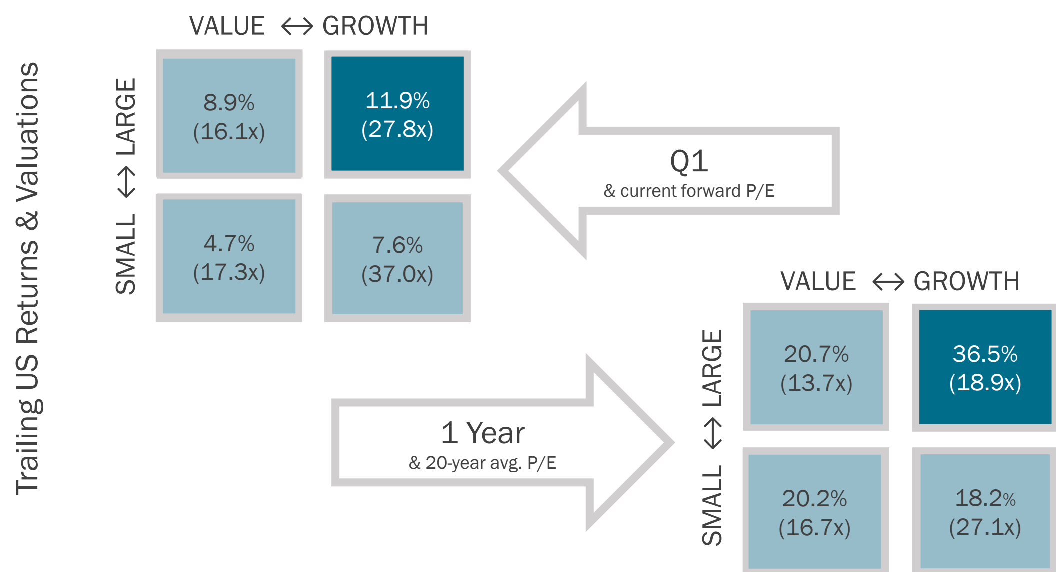
Calendar of Economic Data Releases

April		May		June	
Consumer Price Index (March)	April 10	FOMC Rate Decision	May 1	Nonfarm Payrolls (May)	June 7
Q1 Gross Domestic Product	April 24	Nonfarm Payrolls (April)	May 3	Consumer Price Index (May)	June 12
		Consumer Price Index (April)	May 15	FOMC Rate Decision	June 12

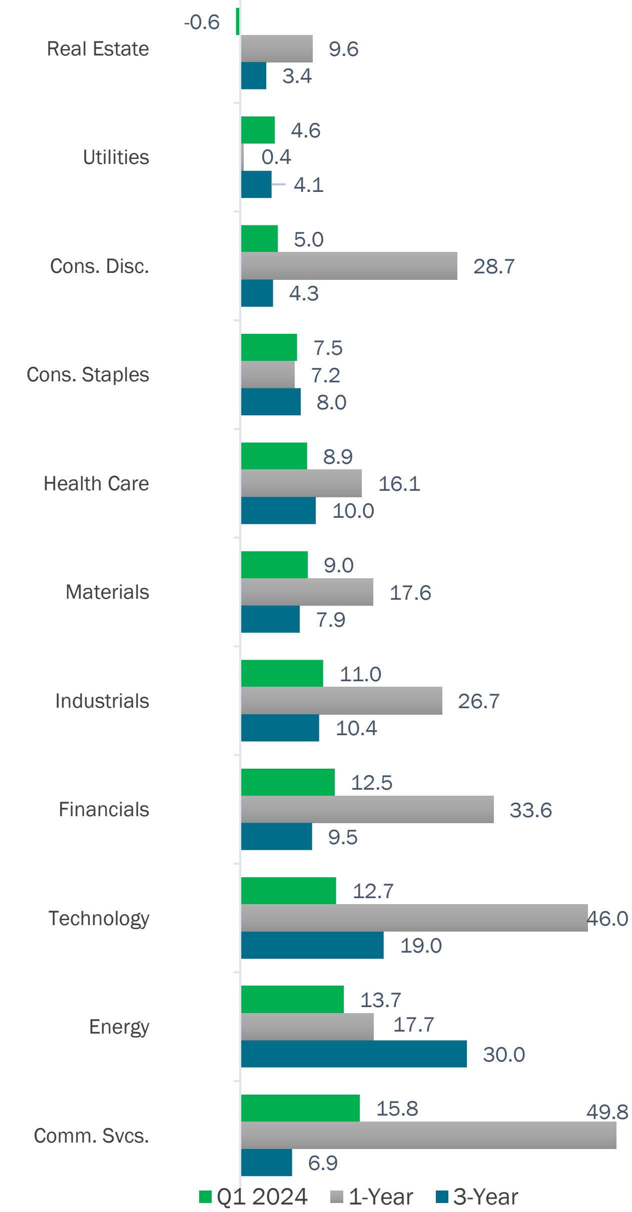
EQUITIES

Large caps significantly outpaced both mid and small cap equities in the first quarter. Strong gains in big pharma and energy stocks helped the S&P 500 to outperform the NASDAQ. Ten of eleven sectors finished positive, indicative of a broader rally wherein both growth and value sectors contributed. Domestic equities outpaced international, yet improving manufacturing activity in China and promising growth in Japan has received investor attention due to international valuations being at historic discounts relative to the U.S. markets.





Returns pertain to Morningstar categories. Valuations pertain to the Russell style indices.

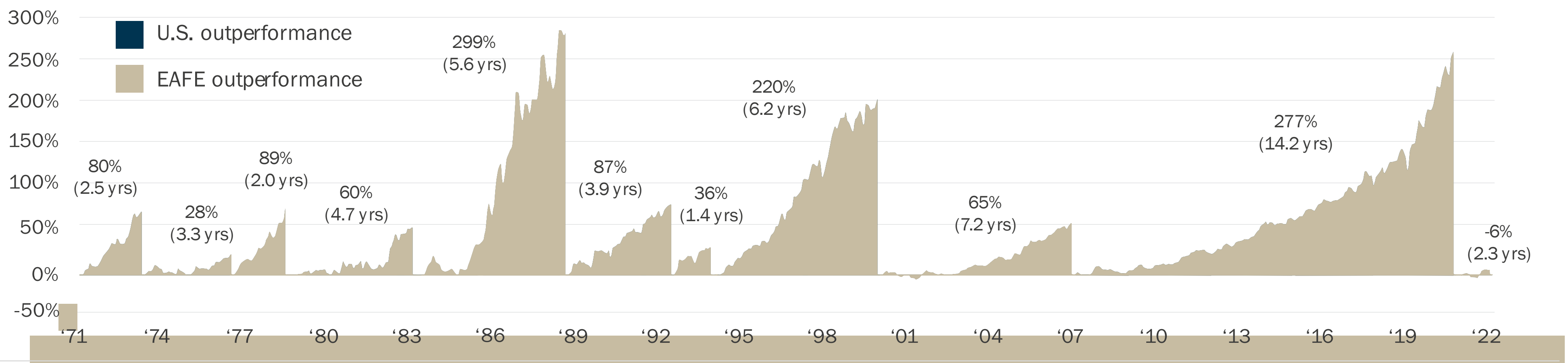


DOMESTIC VS INTERNATIONAL STOCKS

Global diversification remains a cornerstone of sound portfolio construction. Over the long run, international equities have boosted returns while also reducing portfolio risk, thanks to foreign stocks' lower correlation with US stocks. However, recent market dynamics have favored US equities, leaving international counterparts trailing. Whether this pattern will persist remains uncertain—we've recently seen some very slight outperformance from foreign stocks. What is evident, though, are the significant changes to global equities over the past several decades. In the late 1980s, US stocks represented just over 30% of global market capitalization and Japan dominated with over 40%.Today, the US dominates with over 60% of world capitalization, with Japan representing just 6%.

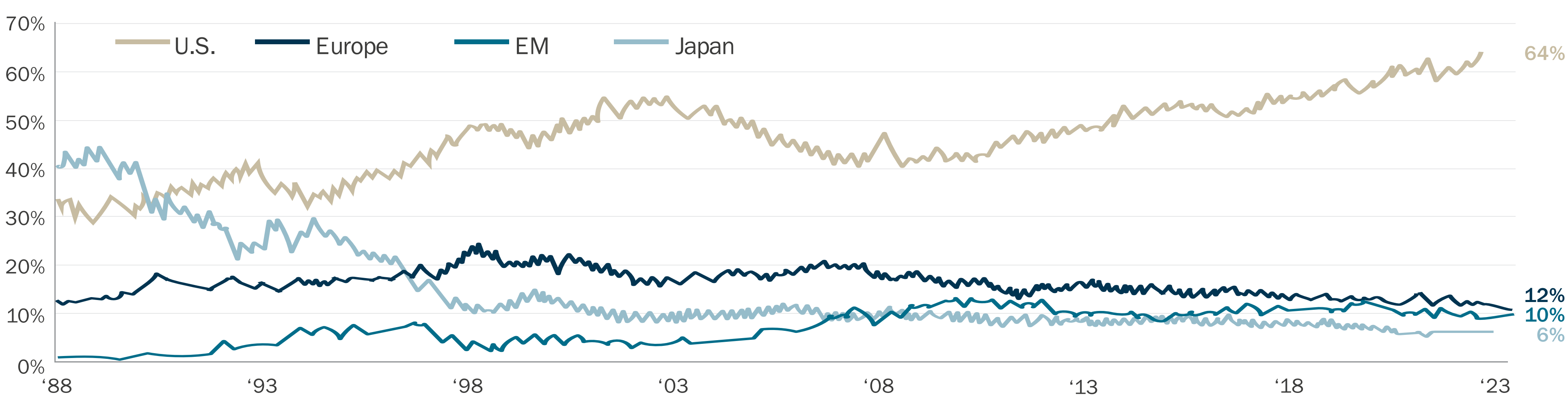
MSCI EAFE and MSCI USA relative performance

U.S. dollar, total return, cumulative outperformance



Share of global market capitalization

% weight in the MSCI All Country World Index, USD, monthly



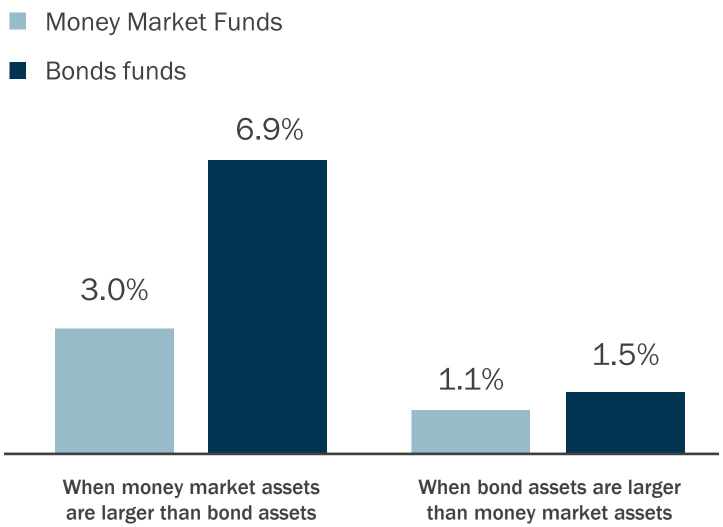
*Source: JPMorgan Guide to the Markets, April 2024. Regimes change determined when cumulative outperformance peaks and is not reached again in the subsequent 12-month period.

FIXED INCOME

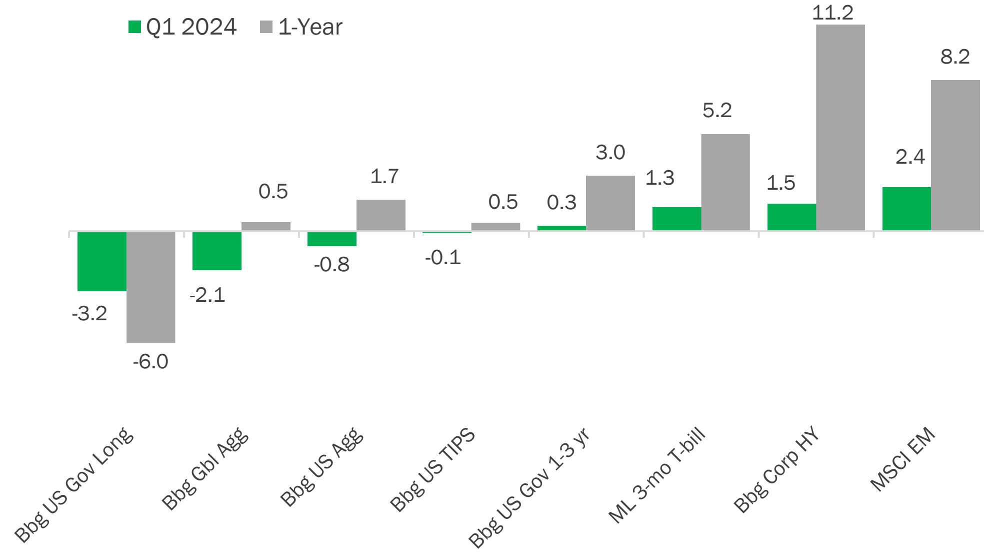
Expectations for Fed rate cuts waned during the quarter as both core CPI and PCE readings remained elevated. Treasury yields rose during the quarter as expectations for rate cuts receded. By February, following ongoing growth, total money market funds assets equaled total bond fund assets. In the past, when money market assets have equaled or exceeded bond fund assets, subsequent rate cuts have led to materially higher returns from bonds than from money markets.

Performance following periods when money market or bond fund asset are greater

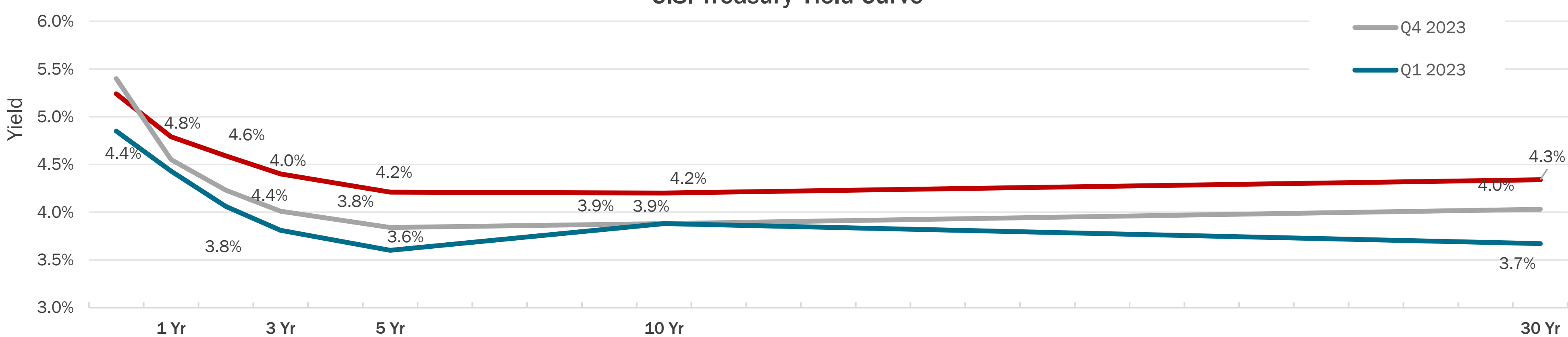
Following 12-month performance for each scenario (1/1/93 – 2/29/24)
Source: BlackRock – Student of the Market (April 24)



Fixed Income Market Returns



U.S. Treasury Yield Curve

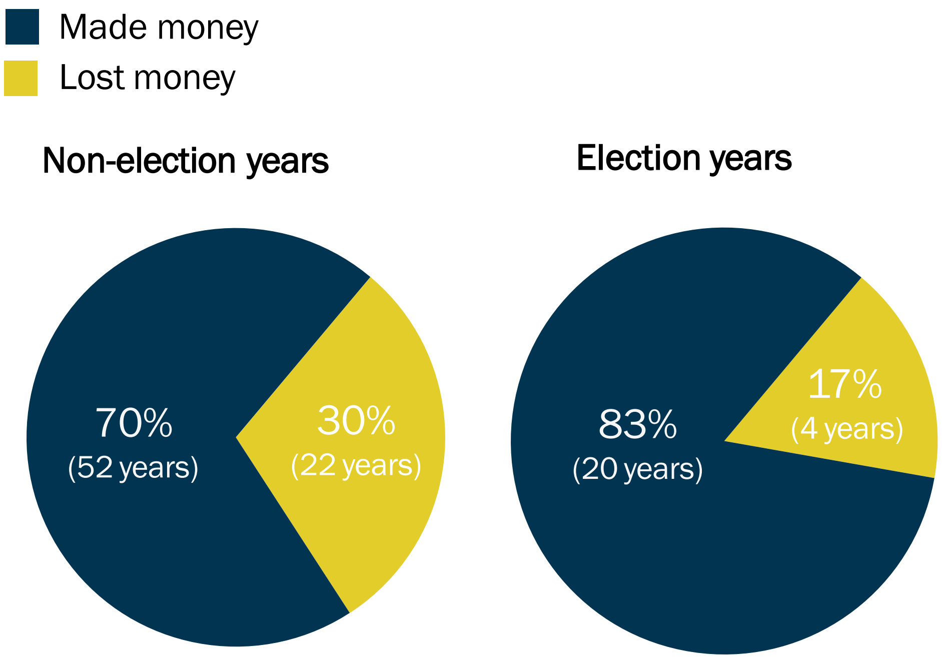


EQUITIES – ELECTION YEARS

Historical election years have benefited U.S. stocks. Election years historically have seen negative returns for U.S. stocks at nearly half the rate as non-election years.

Percent of calendar years that lost money

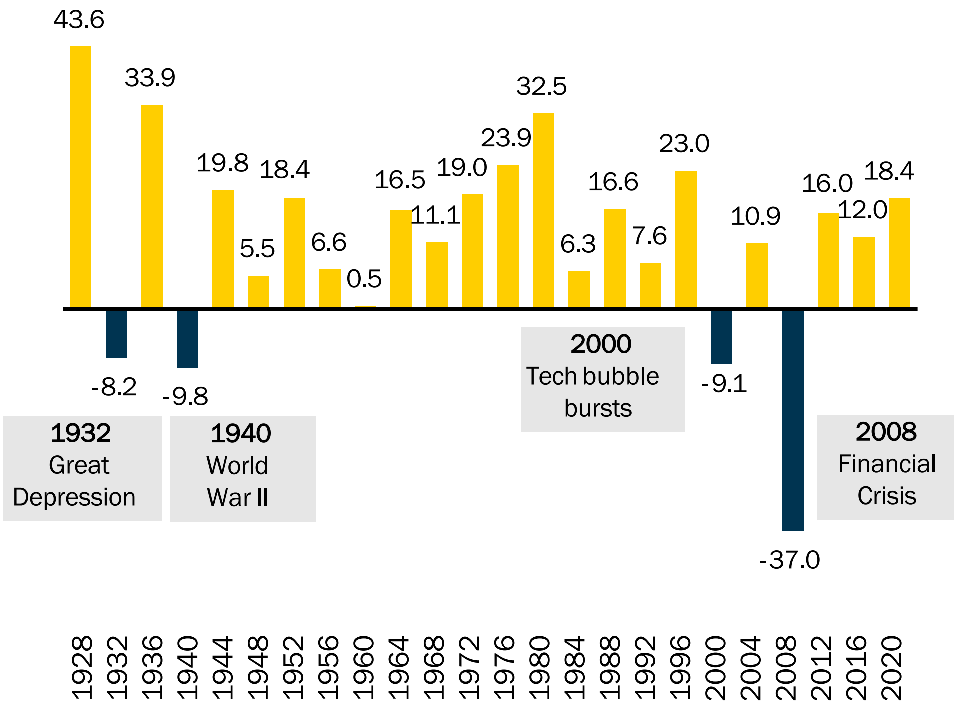
U.S. stocks by calendar year returns (1926 - 2023)



Negative years have tended to be driven by historic economic events, not elections.

U.S. stock performance in election years

U.S. stocks by calendar year returns (1926 - 2023)

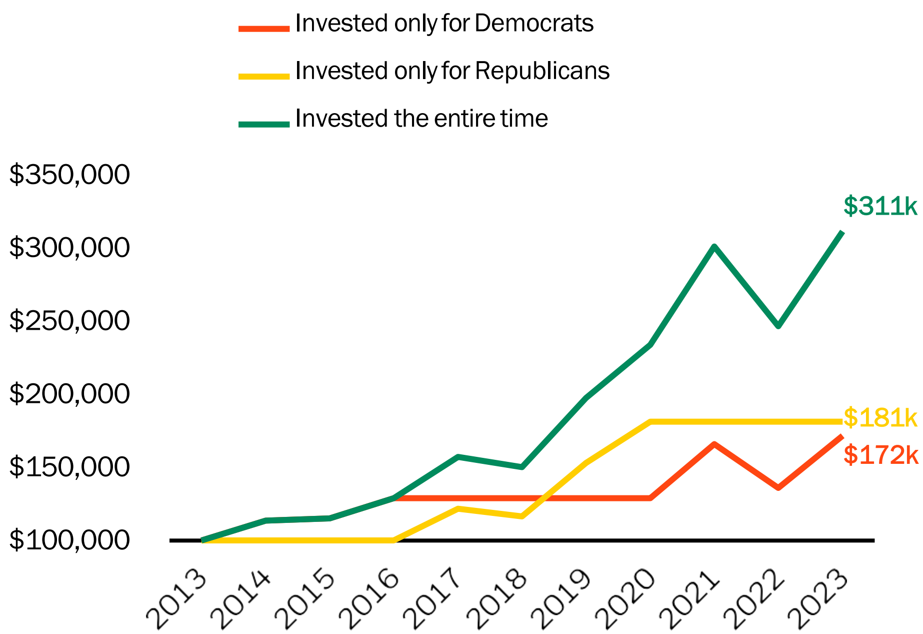


Source: Morningstar as of 4/30/2024. U.S. stocks are represented by the S&P 500 TR Index from 3/4/57 to 4/30/24 and the IA SBBI U.S. Lrg Stock TR USD Index from 1/1/26 to 3/4/57. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index

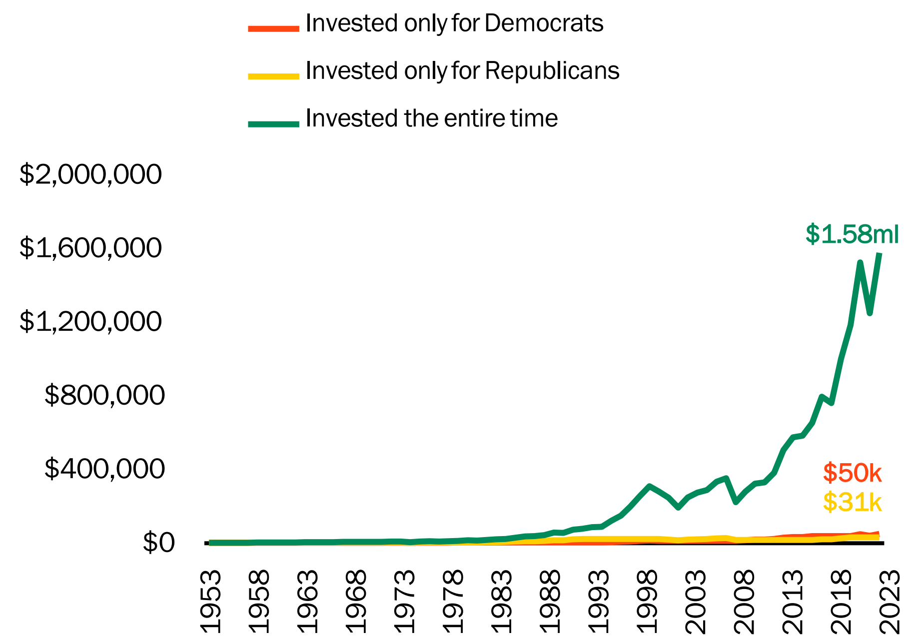
EQUITIES – ELECTION YEARS

The first half of presidential election years tend to be sluggish, followed by a big second half. It's time in the market that matters... not the president's political party.

Last 10 years, $100,000 invested 12/31/2013, depending on which party held the presidency



Last 70 years, $1,000 invested 12/31/1953, depending on which party held the presidency



Source: Morningstar as of 12/31/23. Stock market represented by the S&P 500 Index from 1/1/70 to 12/31/23 and IA SBBI U.S. large ca p s tocks index from 1/1/54 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance s for illustrative purposes only. You cannot invest directly in the index.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