Market Outlook

Q2 2024

What we Got Right and Wrong in Q1

What we Got Right:

"Valuations Remain Attractive for US Equities
Valuations remained attractive for small caps and stocks outside the "Magnificent 7" heading into 2024. While certain Big Tech stocks stumbled in Q1, (i.e. Tesla, Apple), the S&P 500 index rallied 10.6%. Small Caps were also positive (+5.2%) on the hopes for a "soft landing."

"Upside Risk to Yields"
After a dramatic fall in yields late last year, we expected yields to rebound as inflation remained sticker and the Fed pushed out rate cuts. The 10-year treasury yield rebounded from 3.9% to 4.2%.

"Presidential Election Years Bullish for Equities"
Non-election years are historically the strongest for equities, but Presidential elections years have averaged roughly 10% returns for the S&P 500 (dating back to 1948).

"Large Caps Outperform During a Fed Pause"
A Fed pause has historically led to outperformance of Large Caps. This trend continued in Q1.

What we Got Wrong:

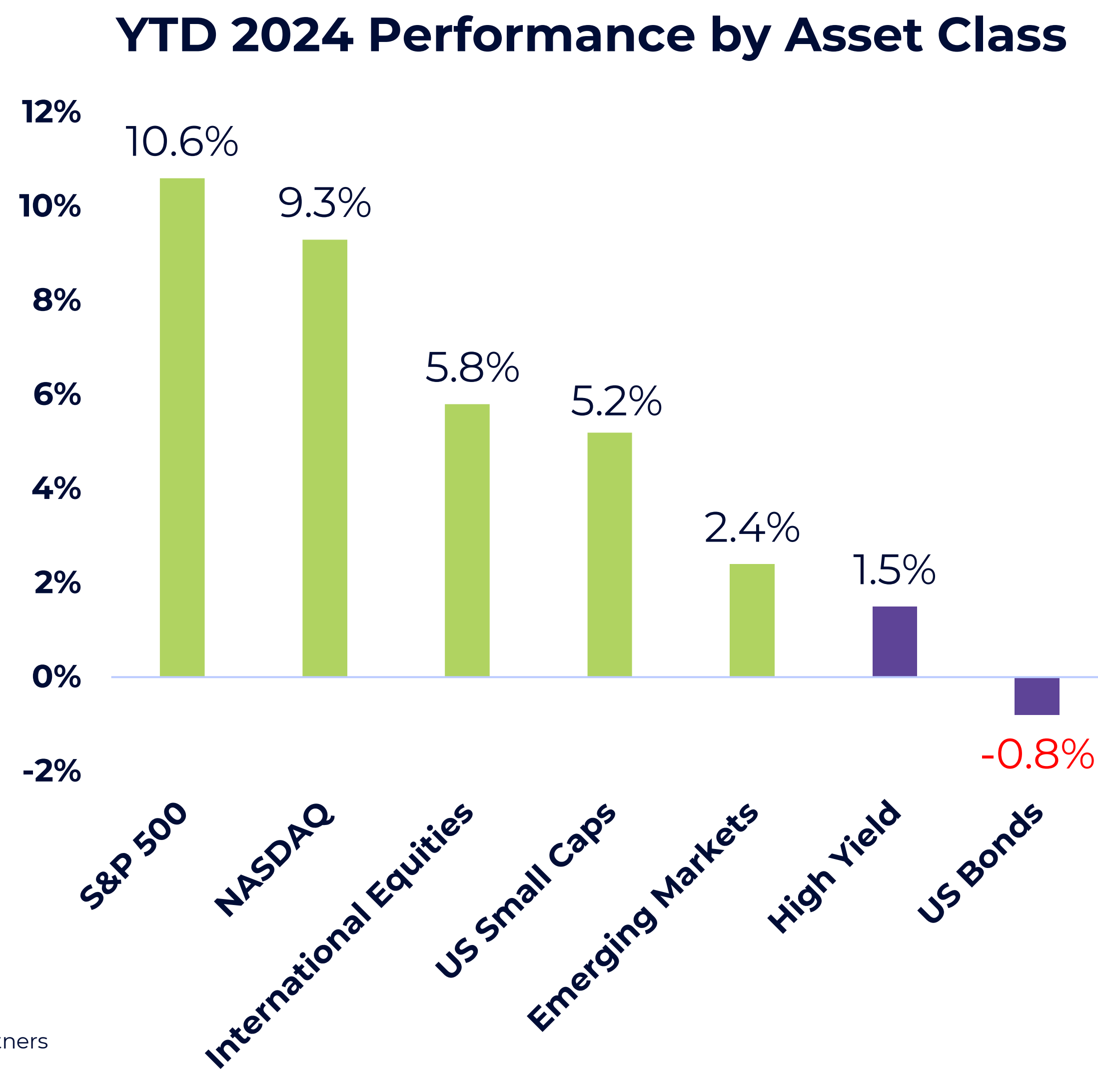
"Expect Volatility to Return Early in 2024"
Equity volatility remained very low in 2023, with only **two** trading days that saw +/- 2% moves for the S&P 500. This trend surprisingly continued in the first quarter of 2024, with only **one** +/- 2% trading day (the S&P 500 was up +2.1% on February 22nd). The S&P 500 has not had a one-day decline of 2% or worse since February 2023.

"Core Bonds Outperform During a Fed Pause"
We still expect core bonds to rally as the Fed gets closer to cutting rates, but stickier inflation and rising yields led to underperformance versus High Yield and shorter-duration bonds in Q1. The Bloomberg US Aggregate Bond index finished down -0.8% in Q1.

Source: Bloomberg, Morningstar Direct and Dynasty Financial Partners
As of 3/31/2024

S&P 500 at All-Time Highs

- Three themes continue to dominate markets in 2024:
  - Artificial Intelligence
  - Federal Reserve
  - Inflation
- The S&P 500 had its best start to a year since the first quarter of 2019 (+13.6%).
- The S&P 500 is on a 5-month winning streak and has rallied 26.1% since November 1st, 2023

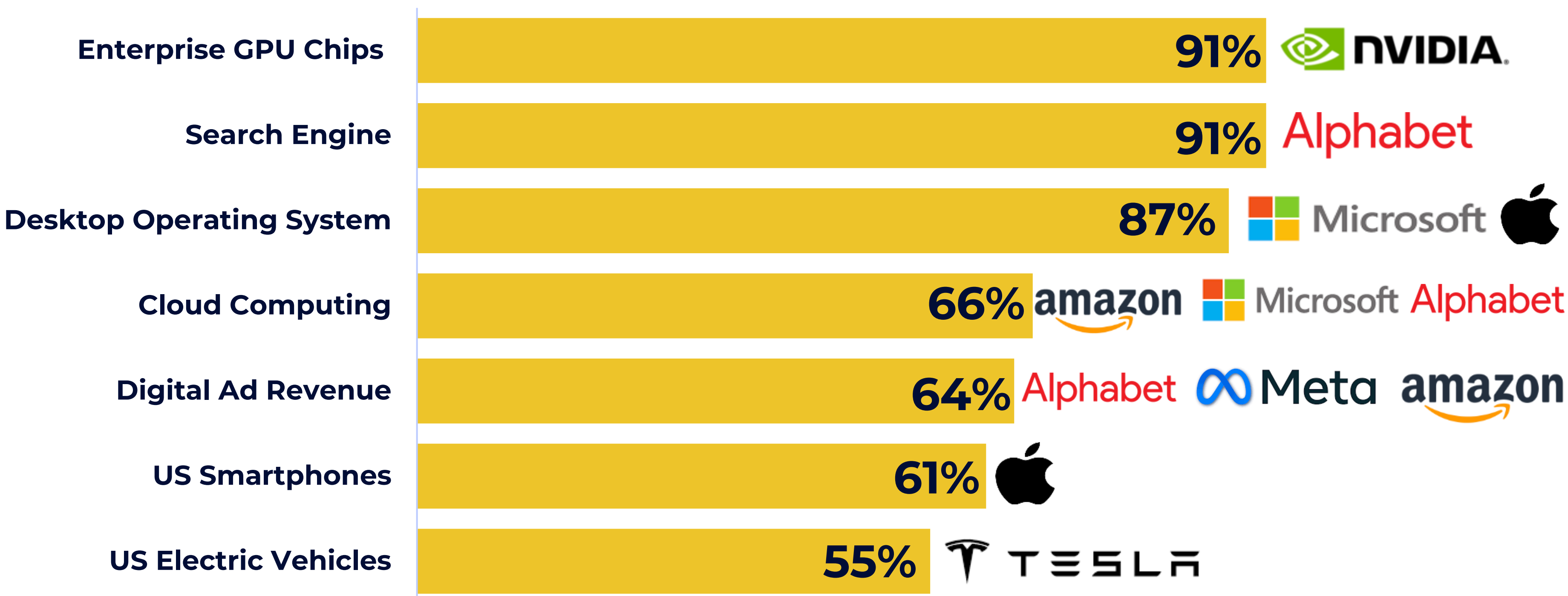


Source: Bloomberg, Morningstar Direct and Dynasty Financial Partners
As of 3/31/2024
International Equities: MSCI EAFE, US Small Caps: Russell 2000, High Yield: Bloomberg US High Yield 2% Issuer Cap, Emerging Markets: MSCI EM, US Bonds: Bloomberg US Agg Bond

Big Tech Dominating Respective Industries

Big Tech's dominance in industries with high growth and/or margins has fueled its recent outperformance. For example, Nvidia has over a 90% market share in GPU chips that help power applications for Artificial Intelligence. The strength of these top companies have also raised concerns of regulators (both home and abroad). For example, Apple was recently hit with a US antitrust lawsuit from the US Department of Justice.

Estimated Market Share of Respective Industries/Products



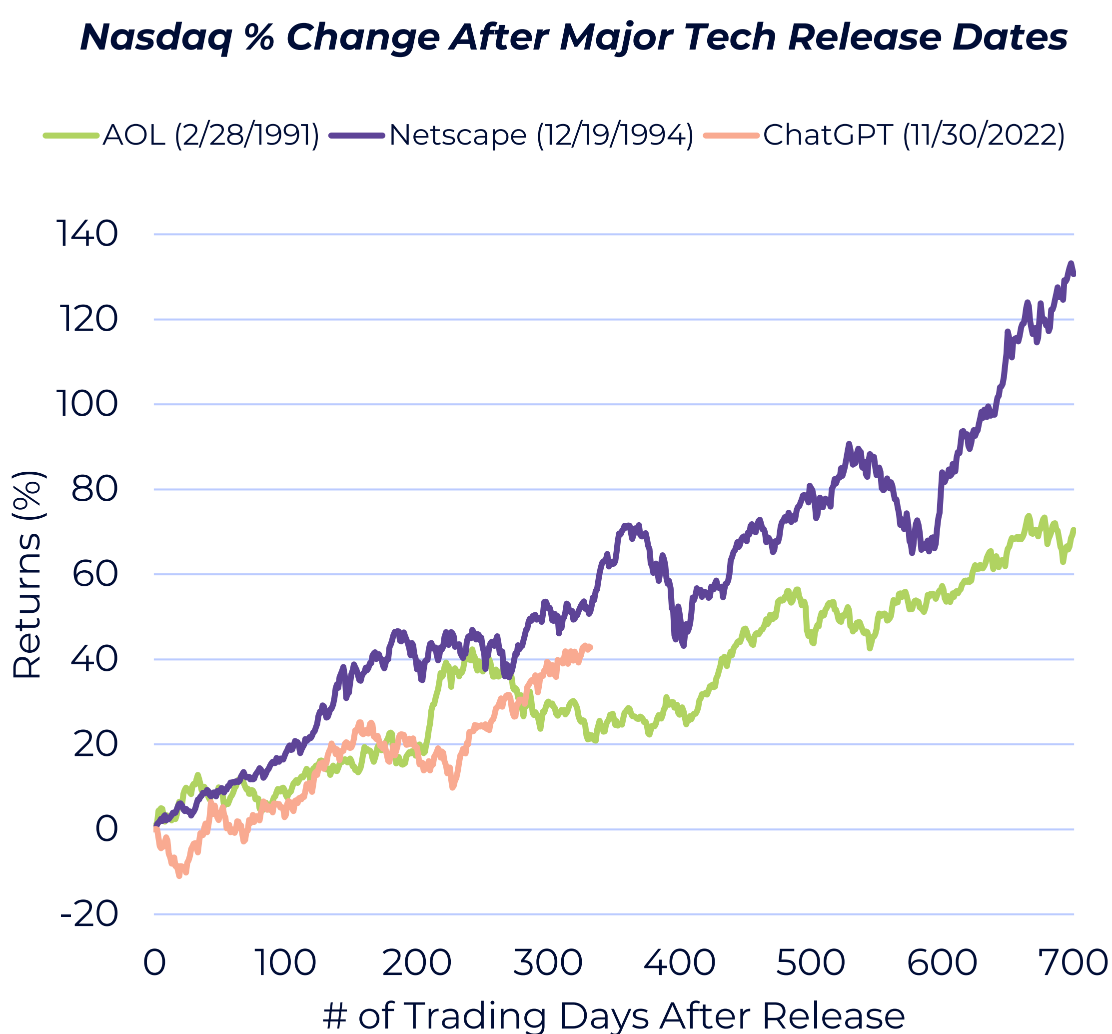
Source: Mizuho Securities, Statista, StatCounter, Counterpoint and Cox Automotive
Data is global market share unless explicitly stated otherwise
As of 3/31/2024

Still Early Innings of the AI Revolution?

It has been over 330 trading days since the release of ChatGPT, which officially started the boom in Artificial Intelligence. Since its release, the Nasdaq has rallied over 40%.

Many have compared the current AI revolution to the 1990s and the beginning of the Internet. Below we highlight ChatGPT against two major product releases in the 1990s: 1) "Netscape" Web Browser in 1994 and 2) America Online (AOL) in 1991.

As shown to the right, performance of the Nasdaq after the release of all three products has been remarkably similar (so far).



Source: Bespoke Investment Group and Dynasty Financial Partners
As of 3/31/2024
Performance of the Nasdaq Composite after specific release dates of major products

Key Indicators Signal a "Soft Landing"

Key Indicator	Signaling Recession?
Nonfarm Payrolls	NO
Consumer Price Index	NO
Oil Prices	NO
Citi Economic Surprise Index	NO
Credit Spreads	NO
US Retail Sales	NO
Home Sales	NO
Inverted Yield Curve	YES
Financial or Geopolitical Shock	YES

Source: Bloomberg and Dynasty Financial Partners
As of 3/31/2024

The market continues to price in a "soft landing" for the economy, in part due to:

- Strong Labor Market
- Narrow Credit Spreads
- Resilient Consumer & Housing Market

- The biggest Recession risk continues to be a re-acceleration in inflation which could result in no rate cuts in 2024 or even additional rate hikes. This remains a lower probability event but our main tail risk for the markets. Financial or geopolitical shocks (i.e. War in Middle East) also could tip the US into a Recession.

History Points to Bull Market Continuing

US Stocks remain in a bull market that started on October 12th, 2022. As shown on the right, Bull Markets can last many years and typically are much longer than Bear Markets. Excluding the current Bull Market, the US has seen 11 different Bull Markets dating back to the early 1960s – with a median return of 96%. The current Bull market has returned roughly 50%.

If the current Bull Market were to end, it would be one of the shortest bull markets. Since the early 1960s there have only been two shorter bull markets (2001-2002 and 2008-2009).

History of S&P 500 Bull Markets (Post 1960)

Start Date	End Date	Return	# of Trading Days
6/26/1962	2/9/1966	79.8%	1,324
10/7/1966	11/29/1968	48.0%	784
5/26/1970	1/11/1973	73.5%	961
10/3/1974	11/28/1980	125.6%	2,248
8/12/1982	8/25/1987	228.8%	1,839
12/4/1987	3/24/2000	582.1%	4,494
9/21/2001	1/4/2002	21.4%	105
7/23/2002	10/9/2007	96.2%	1,904
11/20/2008	1/6/2009	24.2%	47
3/9/2009	2/19/2020	400.5%	3,999
3/23/2020	1/3/2022	114.4%	651
10/12/2022	???	50.0%	529
Median		**96.2%**	**1,324**

Source: Bespoke Investment Group and Dynasty Financial Partners
As of 3/31/2024

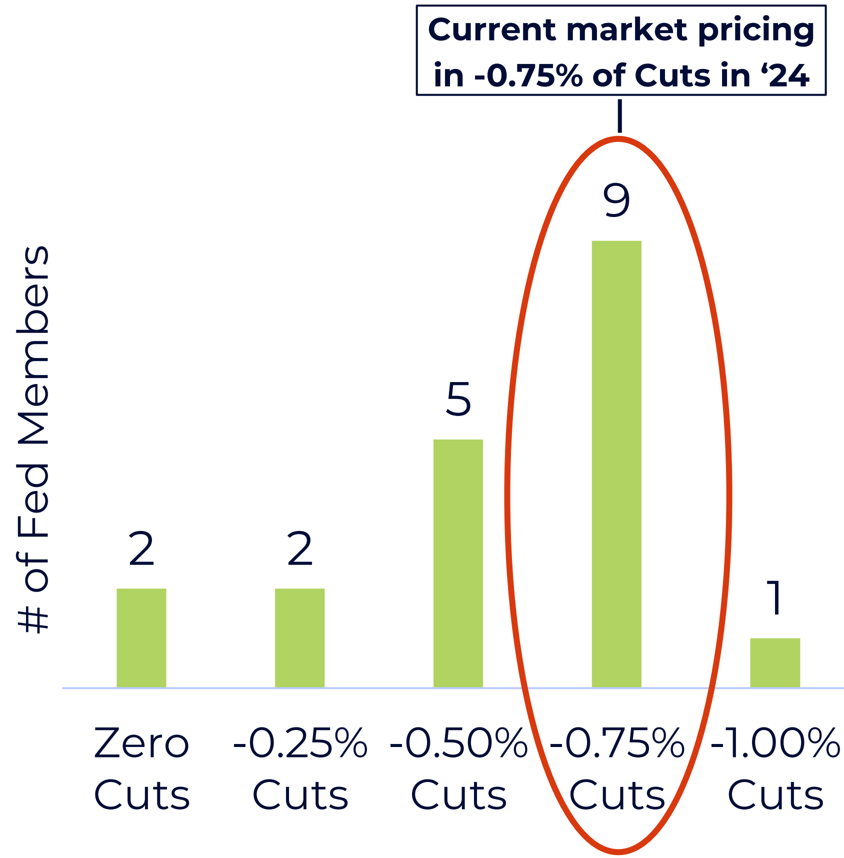
The Fed Still Expects Rate Cuts in 2024

Despite stickier inflation and a resilient economy, the Fed reinforced they still expect rate cuts in 2024. At the March FOMC meeting, the Fed provided its updated "Dot Plot" – which summarizes where FOMC members expect the Fed Funds Rate to finish in 2024.

As shown to the right, a majority (9) of FOMC members expect 75 basis points of cuts in 2024 (matching current market expectations). The Fed also provided a rosier forecast for the economy in 2024. GDP forecasts were raised to 2.1% from 1.4%, while forecasts for the Unemployment Rate were slightly lowered to 4.0% from 4.1%.

This was a bullish Fed meeting for risk assets as it reinforced the notion of a "soft landing" for the economy.

Fed "Dot Plot": Rate Cuts in 2024 (basis points)



Source: US Federal Reserve, CME FedWatch Tool and Dynasty Financial Partners
As of 3/31/2024
Fed Projections are from the March 20th, 2024 meeting

Historically How Long Until the Fed Cuts?

The market remains focused on when the Fed will begin cutting interest rates. In looking back over the past 30 years, **the Fed has averaged roughly 10 months between the last hike and first cut.** It's important to note the Fed has historically cut as early as 5 months after the last hike, and as late as 18 months (dating back to 1995). Given stickier inflation and a resilient labor market, **it's more likely the Fed waits until the second half of 2024 to begin cutting rates**.

Last Fed Hike	First Fed Cut	Time Between Last Hike & First Cut	Reason for Cut
Feb 1995	Jul 1995	5 Months	Soft Landing
Mar 1997	Sep 1998	18 Months	Asian Financial Crisis
May 2000	Jan 2001	7.5 Months	Tech Bubble
Jun 2006	Sep 2007	14.5 Months	Housing Bubble
Dec 2018	Jul 2019	7 Months	Slowing Global Economy
Jul 2023	?	8 Months (currently)	?
Average		10.5 Months	

Source: US Federal Reserve, Bloomberg and Dynasty Financial Partners
As of 3/31/2024

Investment Implications

1. **Recent Divergence in "Magnificent 7" will Continue :**
   The release of ChatGPT in late-2022 led to outperformance of all "Magnificent 7" stocks in 2023. Entering 2024 we believe investor focus will turn from "hype" to "results." Specifically which company will be able to best monetize AI (or least show a clear path to monetization)? Early winners in 2024 include Nvidia and Meta, while the early losers include Apple and Tesla. We expect divergence in Big Tech performance to continue. As a result, investors should have some level of active management when gaining exposure to these names.

2. **Still Upside Risk to Yields :**
   We continue to believe longer-term yields could rise higher after rebounding from 3.9% to 4.3% in the first quarter. Higher yields could be caused by stickier inflation, stronger economic data and rate cuts being pushed out later in 2024. The US also continues to contend with large budget risks and higher treasury issuance. Higher Treasury yields could negatively impact small cap equities and longer duration bonds.

YTD Performance (as of 3/31/2024)

+82.5%	+37.3%	+18.7%	+12.1%
NVIDIA	Meta	amazon	Microsoft

+8.0%	(10.8%)	(29.3%)
Alphabet		TESLA

10-Year Treasury Yield (%)

Source: Bloomberg, YCharts and Dynasty Financial Partners
"Magnificent 7": Apple, Microsoft, Amazon, Nvidia, Alphabet, Meta and Tesla
As of 3/31/2024

Investment Implications (continued)

3. **Strong Q1 Returns Historically Bullish for Rest of Year :**
   This is just the 10th time since 1970 the S&P 500 had 10+% returns in the first quarter to start a year. In the previous nine occurrences, the S&P 500 had a median return in the second quarter of 3.3%. While returns were mild in the second quarter, there were only two occurrences where the S&P 500 had negative returns in the second quarter (1991 & 2012). In looking at rest of year performance (April – December), the S&P 500 had median performance of 11.6%. Only one year (1987) saw negative returns for the rest of year, and this coincided with "Black Monday" in October 1987.

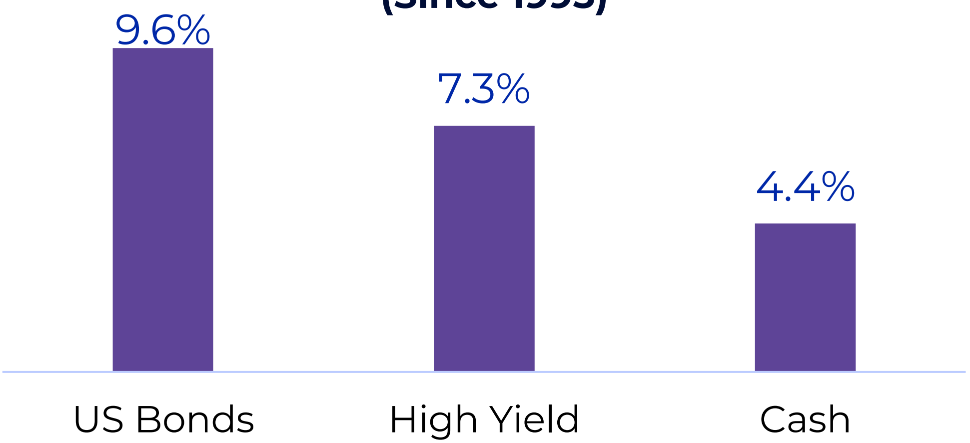
Previous 10+% Returns in Q1 (Since 1970)			
Year	First Quarter	Second Quarter	Rest of Year Returns (Apr – Dec)
1975	22.9%	15.4%	11.6%
1976	15.0%	2.5%	7.8%
1986	14.1%	5.9%	4.0%
1987	21.3%	5.0%	(13.3%)
1991	14.5%	(0.2%)	13.9%
1998	13.9%	3.3%	12.8%
2012	12.6%	(2.7%)	3.0%
2013	10.6%	2.9%	19.7%
2019	13.6%	4.3%	15.7%
2024	10.6%	?	?
Median		**3.3%**	**11.6%**

Source: Morningstar Direct and Dynasty Financial Partners
As of 3/31/2024

Investment Implications (continued)

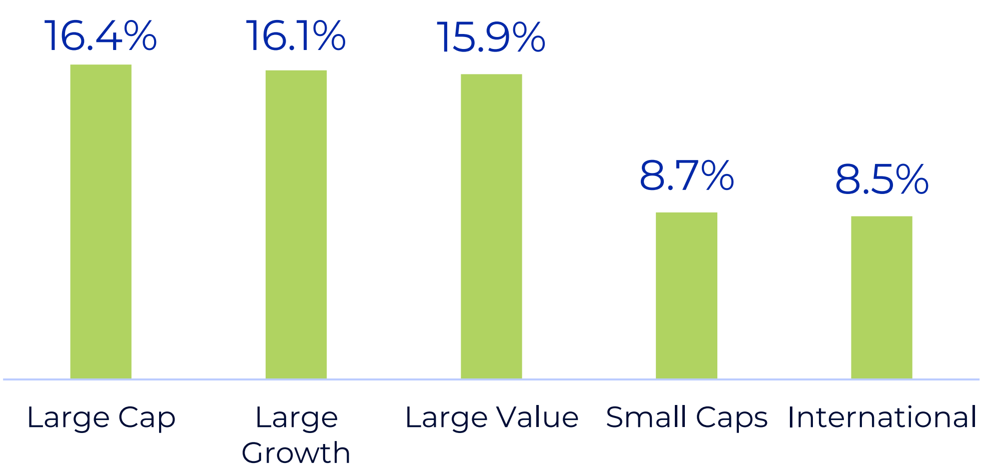
4. **Core Bonds Outperform During a Fed Pause:**
   A Fed "pause" is historically a positive environment for fixed income, with Core Bonds (as measured by the Bloomberg US Agg Bond) outperforming High Yield and Cash. In fact, core bonds were positive during every "Fed Pause," including the Dot-Com Bubble (dating back to 1995). Given the surge of assets in Money Market Funds, it's important to note Cash underperformed Core Bonds in every previous "Fed pause" dating back to 1995.

Bond Returns Between Last Fed Hike & First Cut (Since 1995)



5. **US Large Caps Outperform During a Fed Pause:**
   A Fed Pause is also historically a positive environment for equities, with Large Caps outperforming Small Caps and International equities. Growth outperformed Value in every previous "Fed Pause" except the Dot-Com Bubble (dating back to 1995).

Equity Returns Between Last Fed Hike & First Cut (Since 1995)



Source: Morningstar Direct and Dynasty Financial Partners
As of 3/31/2024

Historical Performance During a Fed “Pause”

Asset Class Performance Between the Last Fed Hike & First Cut (1995-2024)

Asset Class	Feb 2, 1995 – July 5, 1995	Mar 26, 1997 – Sep 28, 1998	May 17, 2000 – Jan 2, 2001	Jun 30, 2006 – Sep 17, 2007	Dec 20, 2018 – Jul 30, 2019	July 27, 2023 – Mar 31, 2024	Average
Large Cap	17.7%	36.2%	(11.8%)	18.7%	21.6%	16.3%	16.4%
Large Growth	18.3%	40.4%	(27.6%)	18.8%	26.0%	20.6%	16.1%
Large Value	16.3%	28.4%	3.3%	18.0%	18.2%	11.5%	15.9%
US Bonds	9.7%	18.0%	11.7%	9.4%	6.4%	2.3%	9.6%
Small Caps	16.0%	6.9%	(7.8%)	10.2%	18.5%	8.5%	8.7%
International	6.7%	6.5%	(8.9%)	25.8%	11.5%	9.4%	8.5%
US High Yield	10.9%	9.1%	(3.7%)	10.3%	9.1%	8.0%	7.3%
Cash	2.5%	8.6%	3.9%	6.2%	1.5%	3.7%	4.4%
Time Between Last Hike & First Cut	**5 Months**	**18 Months**	**7.5 Months**	**14.5 Months**	**7 Months**	**8 Months (currently)**	**-**

Source: US Federal Reserve, Bloomberg and Dynasty Financial Partners
As of 3/31/2024
Large Cap: S&P 500, Large Growth: Russell 1000 Growth, Large Value: Russell 1000 Value, US Bonds: Bloomberg US Agg, Small Cap: Russell 2000, International: MSCI EAFE, US High Yield: Bloomberg US High Yield 2% Issuer Cap, Cash: Bloomberg US Treasury Bill 1-3 Month

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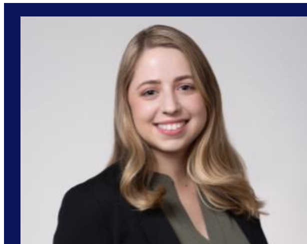
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