Raymond Capital Advisors, LLC

April 21, 2024

Stock & Bond Benchmark Total Returns (%) For Periods Ending March 28, 2024					
	QTR	**1-Year**	**3-Years**	**5-Years**	**10-Years**
Standard & Poor's 500	10.56	29.88	11.49	15.05	12.96
Bloomberg Barclays U.S. Aggregate Bond	-0.77	1.70	-2.46	0.36	1.55
60% Stocks / 40% Bonds TAA Composite Index	5.94	17.97	5.94	9.30	8.52
3-month Treasury Bills	1.16	4.79	2.59	1.90	1.33
Inflation (CPI)	1.48	3.48	5.65	4.20	2.90

Returns (%) include capital gains, dividends and interest. All data **annualized** for periods greater than one year.

60% Stocks / 40% Bonds TAA Composite Index is rebalanced monthly. Sources: S&P Dow Jones Indices, Morningstar, Federal Reserve.

Review: Stocks Win Again

The stock market continued its upward trajectory in Q1 2024, boosted by optimistic expectations for stronger economic growth, decreasing inflation, and as many as six interest rate cuts by the Federal Reserve. The Standard & Poor's 500 Stock Index Total Return rose by an impressive 10.56%, marking the best start to a year since 2019. The index hit record highs 22 times during the quarter.

Ultra-mega-cap stocks continued to lead the charge, as Fear Of Missing Out (FOMO) on the artificial intelligence (AI) theme helped propel the Standard & Poor's 500 Stock Index. Four of the so-called "Magnificent Seven" group of stocks, which have strong ties to the AI theme, continued to make outsized contributions, with Nvidia, Microsoft, Amazon, and Meta accounting for 45% of the S&P 500's return. However, amidst the market euphoria, stock returns were also becoming more varied, signaling that investors were becoming more selective in their choices. Among the 1300 institutional stocks in our universe, the return differential between the top and bottom ten stocks widened out to 130%, compared to 92% in the prior quarter. Even among the Mag-7, not all stocks fared well. Tesla, for instance, saw a significant drop of 29.3%, while Apple faced a decline of 10.9%. This increased dispersion has been helpful to our stock selection efforts and adds opportunity for active management who can differentiate between the winners and losers.

The bond market, however, which has been marred by federal funding needs and more cautious inflation expectations, was not as exuberant as the stock market, with the Bloomberg Barclays U.S. Aggregate Bond Total Return declining 0.77% on the quarter. Yields across all but the very shortest of maturities rose. Three-Month Treasury Bills now yield 5.45%, 10-Year Treasuries yield 4.59%, while 30-year Fixed Rate Mortgages rose above 7%. The higher yields pose increased headwinds for stocks.

During the quarter, RCA made adjustments to core equity portfolios by continuing to shift towards Value over Growth. Exposure to the Mag-7 stocks was further reduced, and collectively was underweighted by 256 basis points relative to their benchmark weight by the quarter's end. Our sector adjustments also tended to get more defensive, with reductions in relative weightings for both Materials and Consumer Discretionary, and increases to Healthcare, Real Estate, and Consumer Staples. Broader market exposures to mid-cap, small-cap Value, as well as international stocks, were also maintained through Exchange Traded Funds. For balanced portfolios, we allowed equity exposure to drift upwards beyond their benchmark targets before rebalancing back to neutral positions in late February.

Outlook: In Need of a Breather

Soon after the close of the first quarter, the stock market began to encounter headwinds. Recent inflation reports showed price pressures continue to persist, prompting a recalibration of the Federal Reserve's interest rate projections. Investor expectations have now shifted from multiple rate cuts to possibly only one or two this year. Geopolitical tensions, notably increasing conflicts in the Middle East, sputtering growth from China, and the continuing Russia/Ukraine war add complexity to the inflation picture and market dynamics. Seasonal headwinds also tend to occur near this time of year, including tax-related withdrawals and slowing IRA inflows.

After an extended run in stock prices, such as what has recently been experienced, it's common for the stock market's uptrend to pause and test the assumptions of its most recent rally -- higher interest rates to be maintained for a longer period, and increased geopolitical tensions. Fortunately, if history is a guide (and we should add that it isn't always the case), such pauses have not lasted too long when preceded by several months of strong momentum. In this context, the 25.3% percentage point return by the Standard & Poor's 500 Stock Index that has occurred over the past five months qualifies. **The study's conclusion is that stock prices have been mixed in the month following such surges. However, three, six, and twelve months later, the market has been higher in most cases, and typically with above-average returns.**

S&P 500 Index Returns Around Five-Month Gains of at Least 25%

Month Ending	5 Month Change (%)	Previous Year Max Drawdown (%)	One Month Later (%)	3 Months Later (%)	6 Months Later (%)	12 Months Later (%)
2/28/75	28.4	-37.6	2.2	11.7	6.5	22.2
11/30/82	26.4	-18.9	1.5	6.9	17.2	20.1
3/31/86	25.9	-7.7	-1.4	5.0	-3.2	22.1
1/31/99	33.7	-19.3	-3.2	4.3	3.8	9.0
7/31/09	34.3	-48.2	3.4	4.9	8.8	11.6
8/31/20	35.4	-33.9	-3.9	3.5	8.9	29.2
3/31/24	25.3	-10.3	??	??	??	??
Mean	**30.7**	**-27.6**	**-0.3**	**6.1**	**7.0**	**19.0**
Median	**31.0**	**-26.6**	**0.1**	**5.0**	**7.6**	**21.1**
% Positive	**100.0**	**0.0**	**50.0**	**100.0**	**83.3**	**100.0**
All Periods Mean	**3.5**	**8.8**	**0.7**	**2.1**	**4.3**	**8.8**

Date range: 1/1/1946 - present. Repeat signals screened out for 12 months. Max drawdown based on previous 252 trading days. All other data monthly. Source: S&P Dow Jonex Indices.

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In conclusion, economic growth remains favorable, even better than expected, while analyst earnings expectations continue to be robust (2024 = +12.8%, 2025 = +13.7%). But inflation is also showing some stickiness, keeping the Fed cautious in their approach to cutting interest rates. This is likely to increase the volatility of both stock and bond prices in the months ahead, although barring an unforeseen exogenous shock, declines in the stock market are unlikely to derail their longer-term uptrend. **Accordingly, we believe clients should maintain their long-term strategic allocations.**

Thank you for your continuing support,

Geoff & Lance

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