Market Perspectives
January 2024

TURTLE CREEK WEALTH ADVISORS

KEY HIGHLIGHTS

- Performance Update
- Earnings Progress
- Economic Updates
- Happy Consumers
- Rate Cuts—Will They or Won't They

Markets rallied to finish the month on strong earnings and positive economic data.

PERFORMANCE UPDATE

With the strong performance in the market to finish off 2023 on both sides of portfolios (stocks and bonds) some weakness surely wasn't out of the question to start the new year. Case in point, the first half of January was choppy as interest rates crept higher, setting off a mild pullback in stocks between 1.7% to 3.0% as represented by the S&P 500 and the NASDAQ. Smaller company stocks fared even worse as nagging concerns about interest rates and economic growth pressured prices as these stocks are closely tied to economic activity, However, as January progressed and earnings season kicked-off, the market was provided with much needed fundamental data to trade on. Ultimately stocks rebounded and finished the month with respectable gains in the S&P 500 and Nasdaq of 1.7% and 1.0%, respectively, while the small cap index clawed back some losses and finished the month down 3.9%.

Bonds, as represented by the Bloomberg Aggregate Bond Index lost ground during the month, falling 0.3% Continued interest rate volatility created a difficult environment for investment grade bonds as the year began. However, given the strong performance experienced in 2023 and resulting extended valuations, it was a decent start to the year for investors in balanced portfolios.

EARNINGS PROGRESS

As mentioned above, earnings reports for the 4th quarter of 2023, which started in earnest January 15th have been helping lift stocks over the reporting season. As the season has progressed the reports have generally gotten better, specifically among Mega Cap stocks. Mega Caps include companies with market capitalizations above $1T. Collectively as of last Friday 46% of the S&P 500 Index has reported. The blended earnings growth rate for Q4 currently stands at 1.6%, which is where it was expected to be as of the beginning of the year. Of the companies reporting 72% are beating EPS estimates by an average of 2.6%. We'll take the positive

Index	MTD	QTD	YTD	1 Year	2023
S&P 500	1.68	1.68	1.68	20.82	26.29
Dow Jones Industrial Average	1.31	1.31	1.31	14.36	16.18
Russell 2000	3.89	3.89	3.89	2.40	16.93
NASDAQ Composite	1.04	1.04	1.04	31.99	44.64
Europe, Australia, & Far East (EAFE)	0.58	0.58	0.58	10.58	18.85
MSCI Emerging Markets	-4.63	-4.63	-4.63	-2.55	10.27
Bloomberg Barclays U.S. Aggregate Bond	-0.27	-0.27	-0.27	2.10	5.53

As of 1.31.2024; Returns in percent

earnings surprise vs. expectations even if it is less robust than the average beat of 8.5% over the last 5 years. Revenue growth has also been better, up 3.5% on a blended basis for Q4.

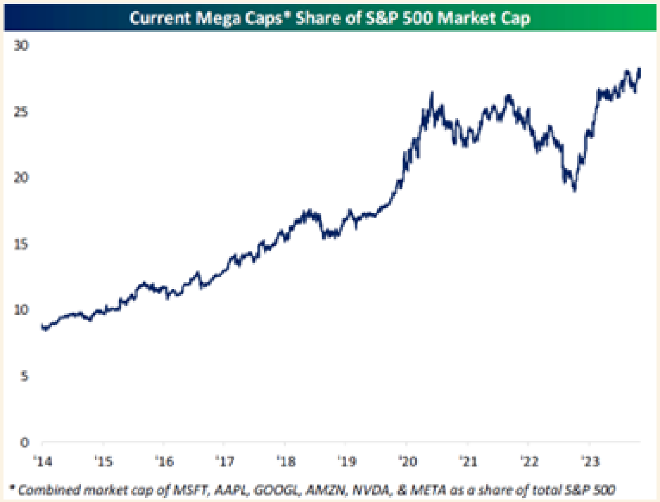
As mentioned above, Mega Cap tech reports over the last 10 days have been a big reason why earnings season has gained momentum. Mega Caps are those companies in the U.S. with market capitalizations above the $1T mark. There are currently 6 such companies (Apple, Amazon, Alphabet, Microsoft, Meta, and NVIDIA).

Six Largest S&P 500 Stocks: Most Recent Earnings

Stock	Company	EPS	Revenues	2024 Est. Revenues ($, Bln)	2025 Est. Revenues ($, Bln)
AAPL	Apple	Beat	Beat	$394	$416
AMZN	Amazon	Beat	Beat	$640	$717
GOOGL	Alphabet	Missed	Beat	$286	$328
MSFT	Microsoft	Beat	Beat	$244	$278
META	Meta	Beat	Beat	$156	$175
NVDA	NVIDIA	Beat	Beat	$59	$94
			Sum	$1,779	$2,008

Source: Bespoke; As of 2.2.24

Of those having reported, only Alphabet has missed expected earnings per share while collectively the group of six is expected to generate revenues of $1.8T in 2024 and $2T in 2025, a 12% growth rate. With such strong fundamental performance, the concentration at the top of the market is



Source: Bespoke; As of 2.2.24

showing no signs of abating, with the 10 largest stocks accounting for 64% of S&P 500 gains year-to-date as of February 2nd.

While the core of the top ten largest companies in the S&P 500 hasn't changed, there has been some turnover toward the bottom of the top-10 list. Tesla which was once amongst the top 5 most valuable companies has fallen back to the 10th spot making way for other well-loved companies such as Berkshire Hathaway, Broadcom, and Eli Lily. Looking at the full list, these companies represent 33.3% of the total market cap of the index and 25.2% of the net income contribution.

Ticker	Company	NTM Net Income Contribution	Current Market Cap Weight	Difference
MSFT	Microsoft	4.6%	7.3%	2.7%
AAPL	Apple	5.1%	6.5%	1.4%
NVDA	Nvidia	2.3%	3.9%	1.6%
AMZN	Amazon	2.2%	3.8%	1.5%
GOOGL	Alphabet	4.2%	3.7%	-0.5%
META	Meta Platforms	2.5%	2.5%	0.0%
BRK.B	Berkshire Hathaway	1.9%	1.7%	-0.2%
AVGO	Broadcom	1.2%	1.3%	0.1%
LLY	Eli Lilly	0.6%	1.3%	0.7%
TSLA	Tesla	0.5%	1.2%	0.7%
TOP 10		**25.2%**	**33.3%**	**2.4%**

Source: Strategas; As of 2.5.24

ECONOMIC UPDATES

The month of January had several key economic reports come in better than expected. For example, we've seen manufacturing data improve more than expected as indicated by the January ISM Manufacturing index. Though it remained in contractionary territory, it's on the cusp of breaking the 15-month streak of contractionary readings. The ISM Services index for January also showed a strong improvement and outperformed expectations. In both reports there was encouraging data on new orders, which points to improving growth, but the price components of each report also came in higher-than-expected, reaching levels last seen in early 2022 as supply chain disruptions spiked inflation expectations. This bears watching as it could lead to a rebound in inflation.

The January jobs report was also quite impressive, showing

353k new jobs were added to the economy in January. The unemployment rate remained at 3.7% and the participation rate held steady at 62.5% while wages grew at a 4.5% annualized rate. The job market has clearly started 2024 off on a strong note.

With this said there has been an uptick in layoffs and workforce reduction plans announced or discussed on earnings calls. Roughly 80% of earnings calls thus far have had some form of workforce reduction mentioned, the highest since the pandemic. Notably, there has been a healthy cooling of the labor market whereby job openings, as reported by the JOLTS report, have been coming down but we haven't seen a commensurate increase of layoffs. However, there remains 3 million more jobs available today than workers seeking jobs. This phenomenon has led to continued strong wage growth. A healthy jobs market is a lynchpin of economic activity in the U.S., as consumer spending accounts for almost 70% of US GDP, so we remain watchful of this balance.

HAPPY CONSUMERS

With the jobs market humming along and wages growing 4.5% vs. last year, consumers have remained resilient. This is an important data point for our economy. Over the last two months consumer-related indicators like Consumer Confidence, Michigan Confidence, and Personal Income/ Spending, Retail Sales, etc. have uniformly shown strong momentum vs expectations. January marked the second month in a row of this strength. This is only the second time this has happened; the previous time was in May/June of 2013 during a very bullish time for the market.

So long as employment trends stay steady, the consumer may continue to punch above expectation which will help propel the U.S. Economy but could also lead to sustained inflationary pressures.

FED FUND RATE CUTS – WILL THEY OR WON'T THEY?

We think the answer to the question above is "yes", but like everything in life it is all about timing. Current indications are that the first rate cut may not happen as soon as the market was hoping. In just the first six days of February the timing of rate cut expectations has withered. The odds for the first rate cut on March 20th have fallen from 56% to 18%. This change in the timing expectation was spurred by comments made by Fed Chairman Jay Powell at the early February FOMC meeting.

In conjunction with March rate cut odds falling, intermediate and long-term yields have shot higher again with the U.S. 10-year Treasury yield increasing ~0.25% since Feb 1st. The primary culprit for this rash of weakness in treasuries has been stronger economic data (January Jobs report and ISMs) and to a lesser extent the messaging from the Fed, i.e. Powell comments, about needing more evidence that inflation is holding at current levels. For now, we'd expect to see the Fed satisfied enough to begin the rate cutting cycle at the May 1st meeting, however recent data may push the initial rate cut into June.

For a while now we have noted the difference in Fed expectations and market expectations when it comes to rate

Consumer Related Economic Indicators from Bespoke's Economic Indicator Matrix

	Year/Year Change (Unless Otherwise Noted)											
	12/31/23	11/30/23	10/31/23	9/30/23	8/31/23	7/31/23	6/30/23	5/31/23	4/30/23	3/31/23	2/28/23	1/31/23
Consumer												
Consumer Confidence	1.56	-0.39	-3.03	-3.25	4.92	19.62	11.89	-0.68	-4.51	-3.35	-2.18	-4.59
Michigan Confidence	16.56	8.11	6.51	15.87	19.24	38.83	28.40	1.03	-2.30	4.38	6.53	-3.42
Personal Income	4.69	4.63	4.35	4.64	4.76	4.85	5.43	5.63	5.68	5.80	5.70	5.78
Personal Spending	5.90	5.45	4.91	5.55	5.42	5.92	5.33	5.88	6.08	6.27	7.63	7.94
Retail Sales	5.59	3.97	2.20	4.00	2.84	2.75	1.47	2.11	1.29	2.19	5.26	7.41
Retail Sales ex Autos	4.52	3.42	1.97	3.42	2.43	1.73	0.46	1.37	1.62	2.55	6.41	8.43
Auto Sales	18.93	8.35	4.03	16.16	14.11	17.90	20.62	18.69	11.34	11.18	5.83	4.65

Stronger than prior month. Weaker than prior month.

Source: Bespoke; As of 2.2.24

S&P 500 Total Return (Over Cycle)

Start Date	End Date	Length (Calendar Days)	Start Value	End Value	% Change	GPA %
1970-11-13	1971-02-19	98	83.37	96.74	16.04	74.02
1971-11-19	1971-12-17	28	91.61	100.26	9.44	224.19
1974-12-09	1976-11-22	714	65.60	102.59	56.39	25.68
1980-05-30	1980-07-28	59	111.24	121.43	9.16	71.98
1981-11-02	1982-12-15	408	124.20	135.24	8.89	7.92
1984-11-21	1986-08-21	638	164.52	249.67	51.76	26.95
1989-06-06	1992-09-04	1,186	324.24	417.08	28.63	8.06
1995-07-06	1996-01-31	209	553.99	636.02	14.81	27.27
1998-09-29	1998-11-17	49	1,049.02	1,139.32	8.61	84.98
2001-01-03	2003-06-25	903	1,347.56	975.32	-27.62	-12.25
2007-09-18	2014-10-31	2,600	1,519.78	2,018.05	32.79	4.06
2019-07-31	2022-03-15	958	2,980.38	4,262.45	43.02	14.60
Mean					20.99	46.46
Median					15.42	26.32

Source: S&P Dow Jones Indices — Extracted from BMS_598.RPT

Source: Ned Davis Research and S&P Dow Jones Indices; As of 1.26.24

cuts from a magnitude and timing perspective. As of now the fed funds futures market is still pricing in a little over 4 rate cuts of 0.25% each in 2024 with a year-end Fed Funds target in the low 4%-range. In our view, whether the market is right or rate cuts track closer to the Fed's expectations of 3 cuts is not as important as the fact that rate cuts will happen this year To this point, when looking at the months leading up to the first rate cut in an easing cycle, bond markets have performed well as 10-year rates have fallen 0.90% on average. The implications of this means it is likely a favorable time to be adding to high quality bond positions of intermediate duration. Bonds are not the only benefactors when it comes to lower interest rates. In 12 of the last 13 easing cycles, the market has performed well and over all periods has averaged a 21% annualized gain over each rate cutting cycle.

We may not know exactly when the Fed will act to cut rates and begin what is likely to be a steady easing campaign, but we do believe that their actions will likely provide tailwinds to balanced portfolios on a near-term basis at the very least.

Sources: Ned Davis Research, Bespoke Investment Group, CME Group, St. Louis Fed, FRED, Strategas, JP Morgan Asset Management.