



MARCH 2024

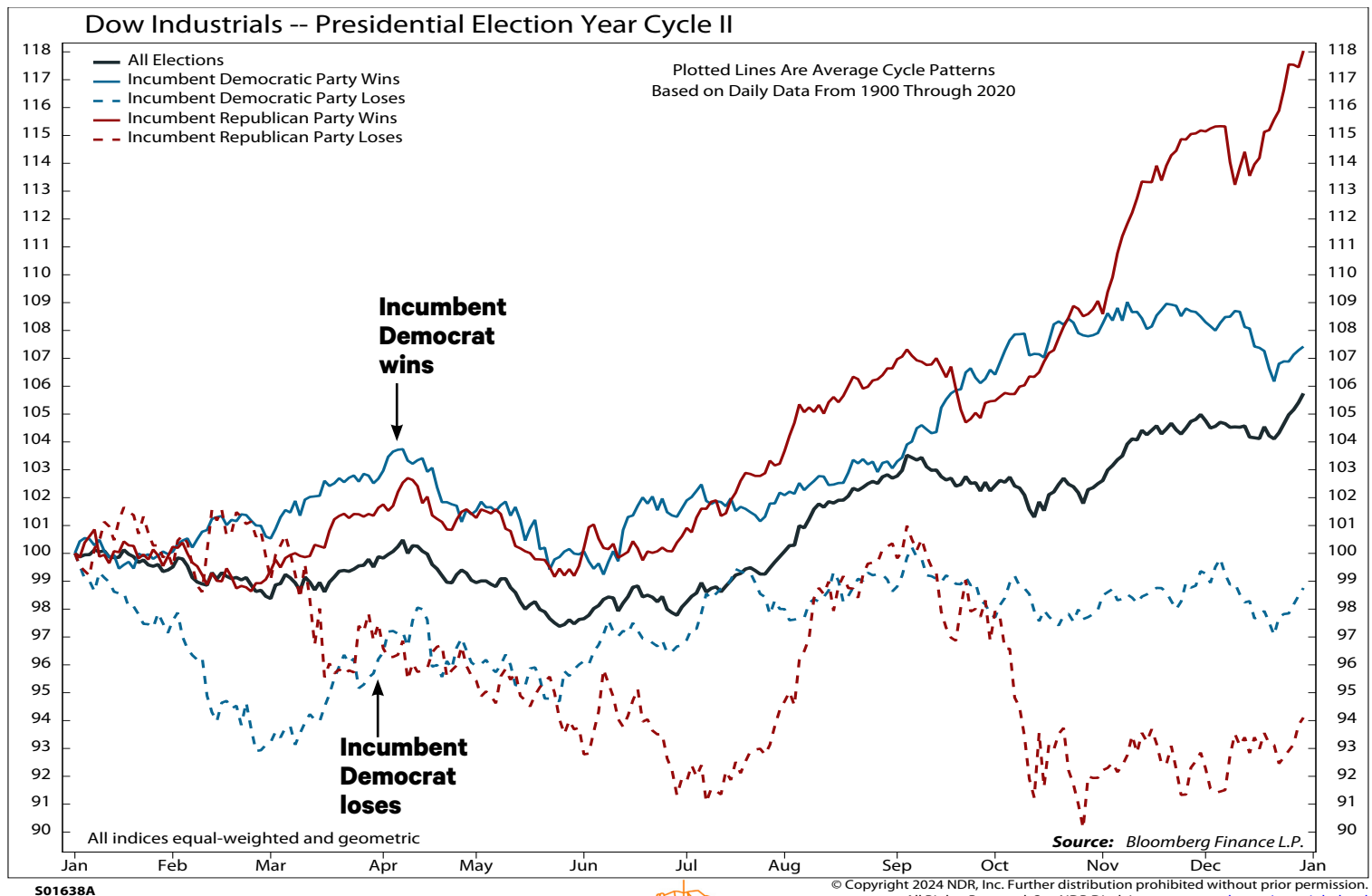
U.S. Market Update

The S&P 500 Total Return Index continued its positive momentum into February with a gain of about 5.3%. Breadth improved significantly—all 11 S&P 500 sectors posting positive price gains for the month. Several of the “Magnificent Seven” (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms, and Tesla) continued their strong gains, which led to Consumer Discretionary, Communication Services, and Information Technology outperforming the broad market during the month. Other cyclical sectors like Industrials and Materials also outperformed.

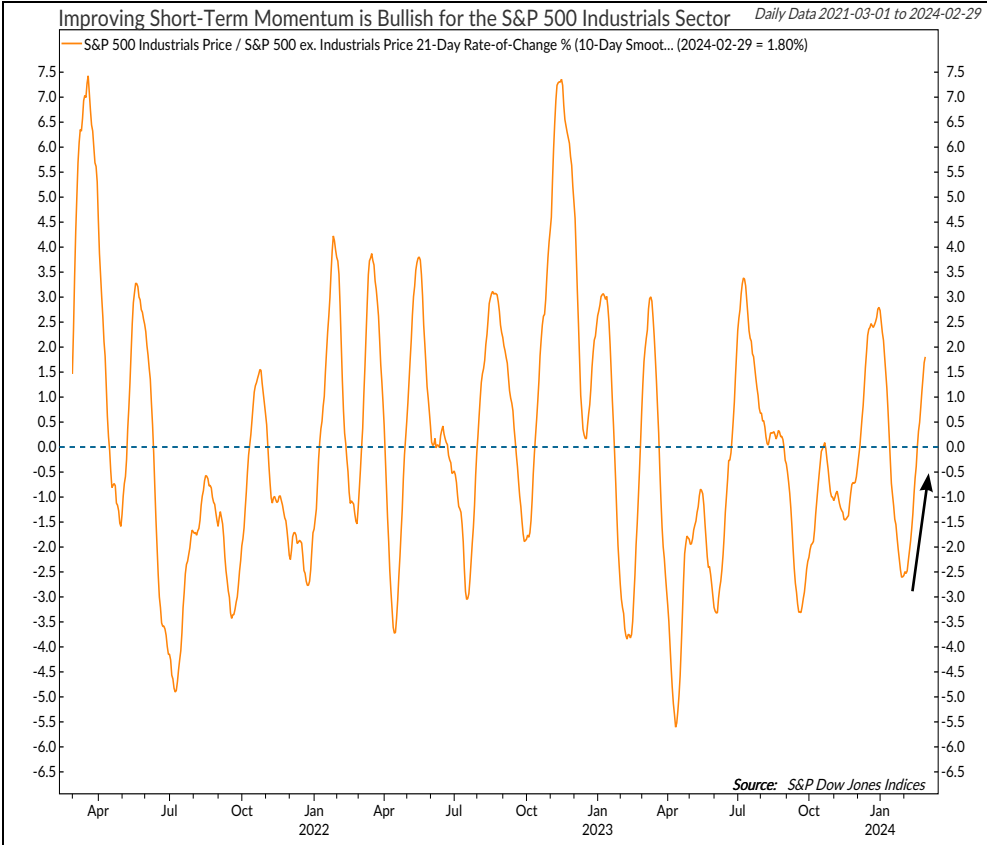
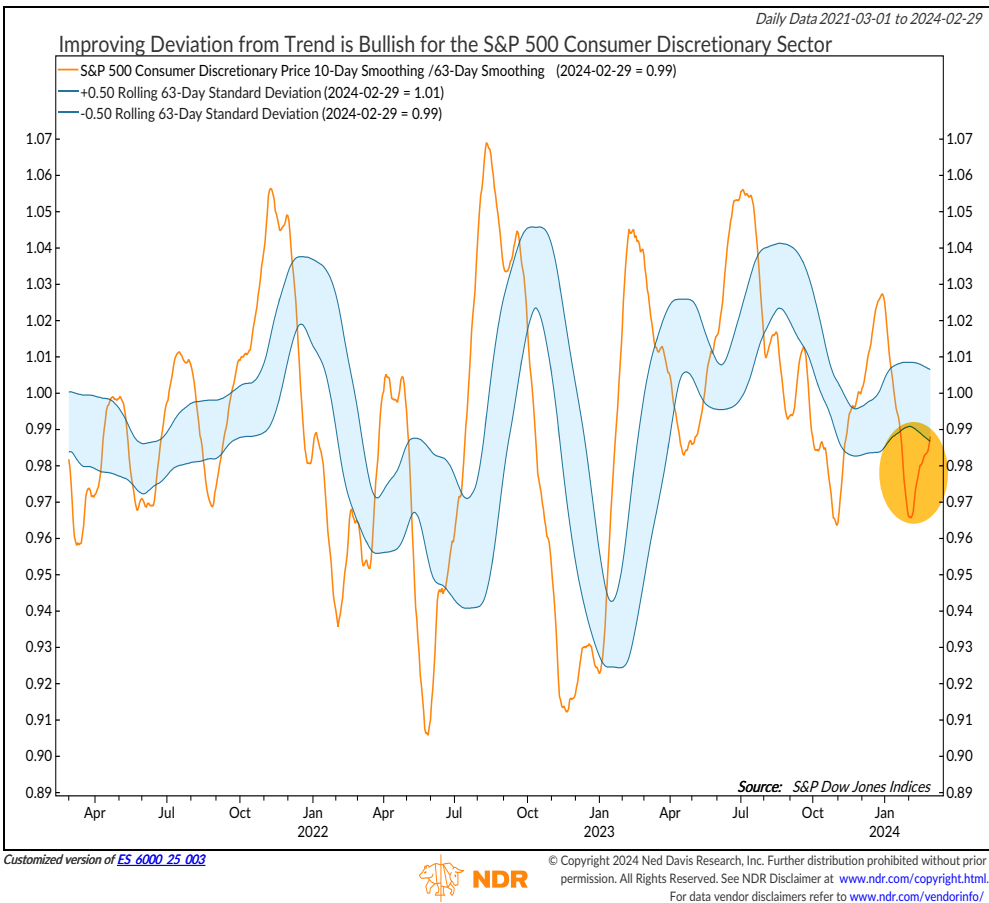
A strong start to the year for stocks has tended to foreshadow an incumbent victory in U.S. presidential elections, especially for Democrats. Many factors determine an incumbent’s reelection bid, including perceived policy effectiveness and international events.

When an incumbent Democrat has gone on to win, the DJIA has risen a median of 2.6% in the first two months of the year versus a 6.2% decline when an incumbent Democrat has lost (chart below).

Leadership has been more defensive in the run-up to presidential elections. However, for now the sector model remained with a cyclical bias during the month and there were several changes. Entering March, Consumer Discretionary, Industrials, and Health Care joined Financials and Technology at overweight. Utilities improved to marketweight. Energy and Communication Services deteriorated and joined Materials, Real Estate, and Consumer Staples at underweight.



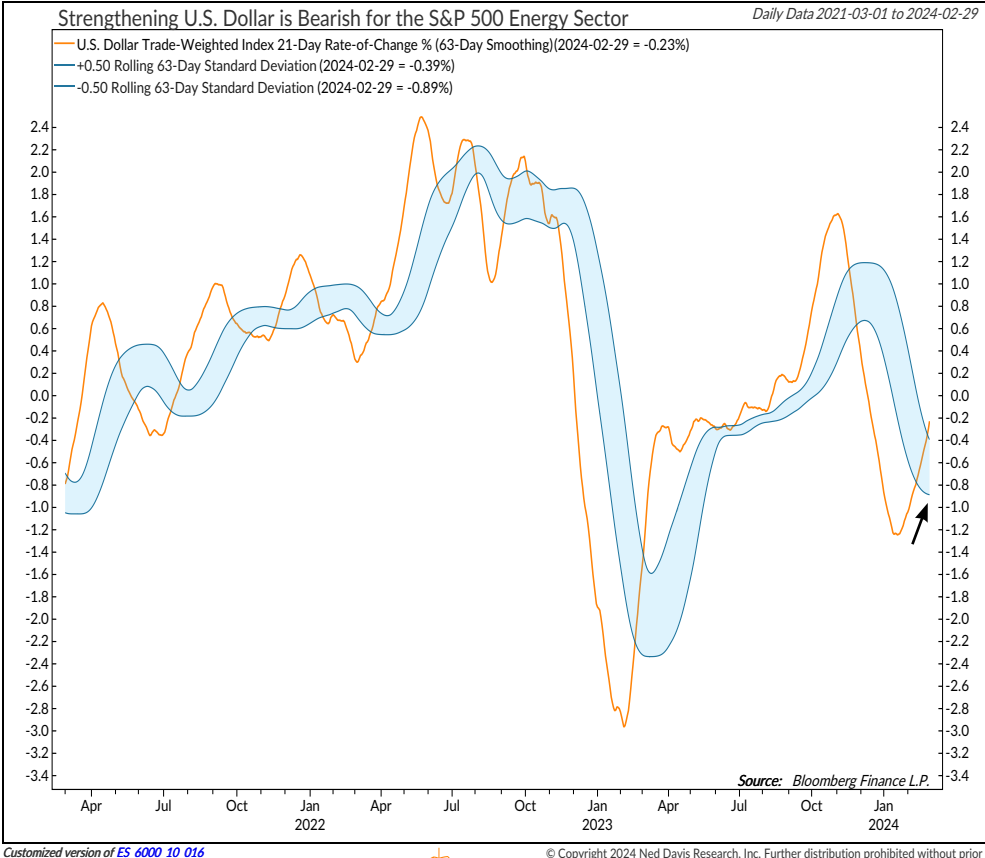
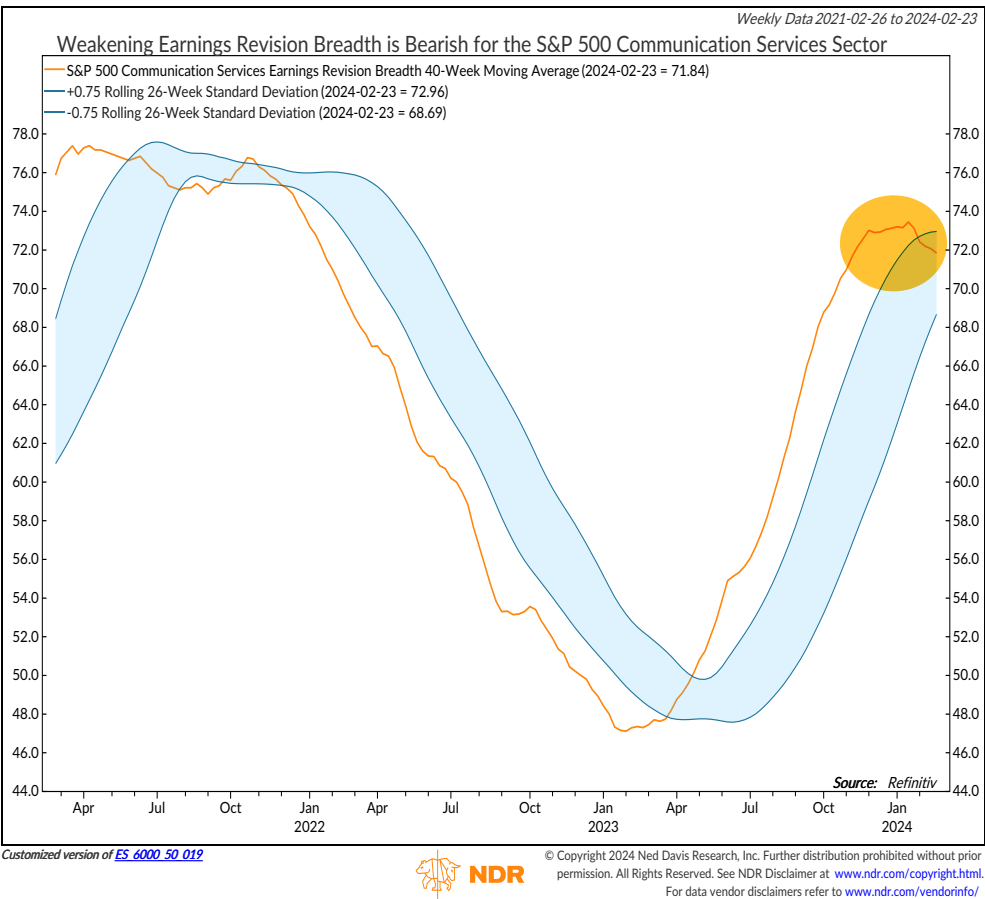
Consumer Discretionary's allocation improved and the sector was upgraded to overweight from underweight. Strong February gains from Amazon (+13.9%) and Tesla (7.8%) helped drive a bullish signal from one of the price-based indicators—deviation from trend (chart right). However, internals are still mixed with only three of the six on bullish signals. On a fundamental basis, the weight-of-the evidence remains positive with four of the six measures on bullish signals.



The Industrials sector's allocation improved sharply, upgrading it to overweight from a significant underweight. On a fundamental basis, indicators remain mixed including valuation measures. While the U.S. dollar remains a tailwind, commodities and industrial production are neutral, and crude oil futures prices and consumer confidence are bearish. However, internals improved—three more price-based measures flashed bullish signals during the month, including 3-month volatility and two short-term momentum indicators (chart left).

Communication Services' allocation deteriorated sharply, dropping to a significant underweight from overweight. On a fundamental basis, the 10-2 yield curve and sales growth trends remained bullish. However, earnings revision breadth flashed a bearish signal (chart right), joining other negative readings from relative valuation, option-adjusted spreads, and internet vs. retail sales trends. This was confirmed by weakening technicals—both an overbought/oversold indicator and deviation from trend measure moved bearish during the month.

The Energy sector's allocation dropped during the month, moving it to underweight from overweight. On a fundamental basis, a strengthening U.S. Dollar Index flashed a bearish signal during the month (chart below), joining negative signals from crude futures sentiment, valuation, and oil supply measures. Technicals confirmed with three of five



measures now negative for the sector—a 6-month volatility indicator moved bearish during the month.

Summary

The sector model remained with a cyclical bias during the month, but there were several changes. Entering March, Consumer Discretionary, Industrials, Health Care, Financials, and Technology are overweight. Utilities is marketweight. Energy, Communication Services, Materials, Real Estate, and Consumer Staples are underweight. The sector model uses sector-specific indicators to determine opportunities and identify risks in an objective, weight-of-the-evidence approach.

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