ACKERMAN
CAPITAL MANAGEMENT

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ACM QUARTERLY MARKET COMMENTARY – FIRST QUARTER 2024

Capital Markets

Global stocks extended their 2023 year-end rally with a first quarter gain of 8.2%. This advance represents the third-best start to the year since 2000 and bodes well for the next three quarters. Over the past twenty-five years, there have been five previous years when the first quarter gain was more than 5% (2006, 2012, 2017, 2019, 2023) - four of those years ended with gains in the 20%-25% range with one outlier still delivering a 16% return. Admittedly, this is a small dataset, but, generally speaking, stock market strength early in the year has historically tended to persist. Large U.S. growth stocks maintained their market leadership with nearly a 12% gain in the first quarter, but the market advance also exhibited healthy breadth. In fact, all eleven S&P 500 sectors were up in the first quarter and large U.S. value stocks finished the quarter up a very respectable 9%. Meanwhile, international stocks lagged, but were still up more than 5%.

Unlike the stock market, bonds could not build on the strength they exhibited towards the end of last year. U.S. aggregate bonds declined 0.7%, while municipal bonds dipped 0.3%. The culprit was the resilient U.S. economy that continues to exceed growth expectations, as well as an uptick in inflation gauges and commodity prices. The ten-year U.S. treasury note yield finished the quarter at 4.2% after starting the year at 3.9%. Of concern is that the yield continued to rise in April to a recent high of 4.7%. These levels are still off the highs seen in October of 2023, but the stock market certainly took notice, as the S&P was down in the first few weeks of April. Not surprisingly, given the move up in interest rates and the stronger-than-expected economy, shorter maturities held up better than longer maturities, and corporate bonds outpaced treasuries.

The Economy

The U.S. economy continues to exceed expectations as fourth-quarter real GDP rose at a 3.4% annual rate, driven by upward revisions in consumer spending, business investment, and government spending. Meanwhile, nonfarm payrolls expanded by 303,000 in March, its best reading since last May and well above the consensus estimate of 200,000. However, the advance estimate for first quarter real GDP came in at only 1.6%, which was below the 2.4% estimate. Unfortunately, it was paired with a higher-than-expected Core PCE Price Index, a key inflation variable for the Federal Reserve, which came in at 3.4%, its largest gain in a year. Meanwhile, the global economy has also been solid, as the global PMI for March showed its best reading in nine months. With no imminent recession and inflation and commodity prices perking up, the Fed is being appropriately patient and cautious with regard to interest rate cuts. Prospects for a March

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rate cut were first pushed out to June, which also now seems doubtful. We believe these mixed signals from the economy only bolster the case for a soft economic landing.

Portfolio Management

We have made several portfolio adjustments over the past couple of months. At the asset allocation level, we took advantage of the market weakness in April to add equity exposure back to respective targets after heading into the year with a marginally defensive posture. We have also gradually reduced our inflation-sensitive exposure, such that gold is now our sole holding in that hybrid asset class. Within equities, we further increased our tilt towards top-performing large U.S. growth funds and reduced exposure to international growth and value funds. Finally, within taxable fixed income, the movement has been to increase credit exposure while reducing interest rate sensitivity.

Looking Forward

The U.S. stock market's advance has broadened in recent months, an important development given the narrow advance in the first half of 2023. The November/December rally triggered several different "bread thrust" indicators, which signal widespread pent-up demand from buyers. Breadth thrusts have an excellent track record of predicting additional market gains over the next twelve months. In fact, according to Ned Davis Research, six of the twelve different breadth thrust indicators they follow were triggered in that year-end rally. Going back to 1980, there have been 26 instances in which five or more breadth thrusts clustered together, and the market was higher a year later 100% of the time with a median gain of over 17%. Digging deeper into one of these particular breadth thrusts, on December 19th, 90% of the stocks in the S&P 1500, which covers most stocks traded in the U.S., saw their price above its 50-day moving average. Such a reading has only occurred 17 times since 1970, and the S&P 500 was higher one year later in every case, with an average gain of almost 20%. More recently, we have seen other indications of broad market strength. At the end of February, 80% of the stocks in the S&P 500 exhibited 50-day moving averages above the 150-day moving average, which was a considerable improvement from October of 2022, when that percentage was below 20%. Since 1950, there have been 15 times when this indicator cycled from 20% to 80%, and the S&P 500 was higher a year later every time with an average gain of 17.5%. From a global perspective, this bull market also looks healthy as both international growth and value funds have risen to new highs this year. Only emerging market funds have failed to break their all-time highs, but they are in a solid uptrend and have at least established a new 52-week high. Exogenous events can always derail a healthy market advance, but from a technical perspective, this looks like a stock market that could continue to trend higher in the coming quarters.

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The key to maintaining the market momentum will be inflation expectations. Inflation concerns rose in April, leading to a 5% stock market correction. However, the most recent jobs report was weak, and the markets again seem placated. Remember that during soft-economic landings, not every economic indicator comes in just where the capital markets want. There is typically a back-and-forth between hot and cold readings. We have had a solid run of mostly strong readings in recent months, but we would not be surprised if we started seeing a streak of colder readings soon. That would bode well for both the stock and bond markets. Time will tell if our general optimism is on point, but at the margin, we find it helpful to have an outlook for the economy and the markets. Nevertheless, we follow a disciplined portfolio management process that pays particular attention to absolute and relative price trends. Therefore, our portfolios will stay aligned with the broad market movements regardless of the accuracy of our forecasts.