NewEdge WEALTH

March Chart Update: Wayne's World Markets

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"Party on, Wayne! Party on, Garth!": Post Fed Update

- The Fed was dovish and markets responded with…
  Party on, Jay!
- Fed's dovish indications:
  - Still indicating 3 rate cuts in 2024 despite revising both GDP and inflation forecasts higher for 2024
  - Comfort with/no push back against easy financial conditions
  - A much higher bar to keep/raise rates if data is stronger (indicating that strong growth/tight labor markets aren't enough to warrant tighter policy), BUT signaling a distinct willingness to cut if labor markets/data ease
    - Have your cake (rate cuts) and eat it too (strong growth)
  - Plan to slow Quantitative Tightening (QT) and keep liquidity ample (or abundant in practice)
- Other central banks did not want to be out-dove'ed, with the Swiss National Bank delivering a surprise rate cut and the Bank of England hawks dropping their call for more hikes

"Game On!": Markets Respond to Fed

- Strong growth *and* a supportive Fed drove a roaring rally in risk assets, with major equity indices surging to new highs and credit spreads tightening
  - Lower quality parts of the market outperformed, driven by robust risk appetite, better growth expectations, and expectations for lower interest rates
- How long can the party last?
  - **For inflation expectations**: gasoline, gold, and breakevens all rising suggest that inflation could work against the Fed in coming months
  - **For growth expectations**: growth estimates have been revised up materially YTD, supporting assets; watch incoming data/economic surprises that could challenge further revisions higher
  - **For credit**: with spreads near 2021's range, watch for complacency on credit risk and supply/demand dynamics
  - **For equities**: momentum remains strong as liquidity remains supportive for markets; valuations, sentiment, and positioning are all stretched but not catalysts alone; rotations into cyclical laggards occurring

“At first it’s constrictive, but after a while it becomes a part of you”: Easy Conditions Despite Fed Hikes and QT

Loosest Since 2021: Bloomberg United States Financial Conditions

Source: NewEdge Wealth, Macrobond, Bloomberg

Financial conditions are now back to their easiest levels since 2021, when the Fed was still stimulating the economy/markets aggressively with Quantitative Easing (QE) and Zero Interest-Rate Policy (ZIRP).

Source: NewEdge Wealth, Bloomberg, as of 3-22-24

"Keep lookin' up!": The Path Forward for the Fed

Number of 25 bps Cuts Expected by December 2024

Source: NewEdge Wealth, Macrobond, Bloomberg

Daily National Average Gasoline Prices Regular Unleaded

Source: NewEdge Wealth, Macrobond, Bloomberg

Source: NewEdge Wealth, Bloomberg, as of 3-22-24

The market has gone from expected nearly 7 cuts from the Fed in 2024 in January to 3.4 cuts today.

We still see the possibility that this pricing of Fed policy cuts is too aggressive *if* economic data is resilient or if inflation data is more persistent.

On inflation, we are watching gas prices closely, as falling gas prices since the summer were an important driver of the Fed's "immaculate disinflation". Gas prices have turned higher (+12% since January) and could be a wrinkle in expectations for continued headline CPI moderation.

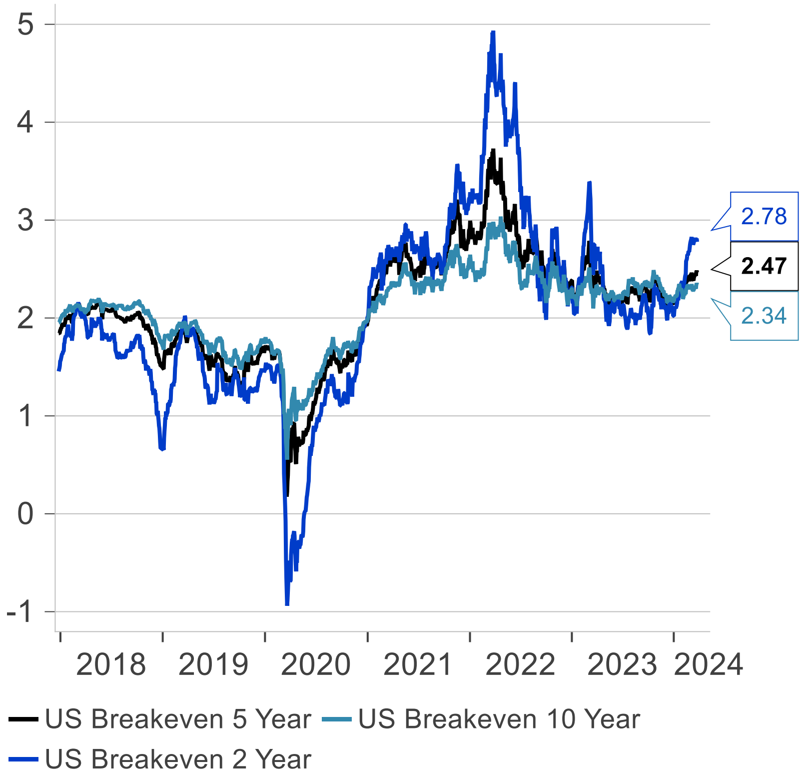
“Well, the world’s a twisted place.”: A Green Light for Inflation?

Gold Price

Source: NewEdge Wealth, Macrobond, Bloomberg

Inflation Breakevens

US 2, 5, and 10 Year Breakeven Inflation Rate



Source: NewEdge Wealth, Macrobond, Bloomberg

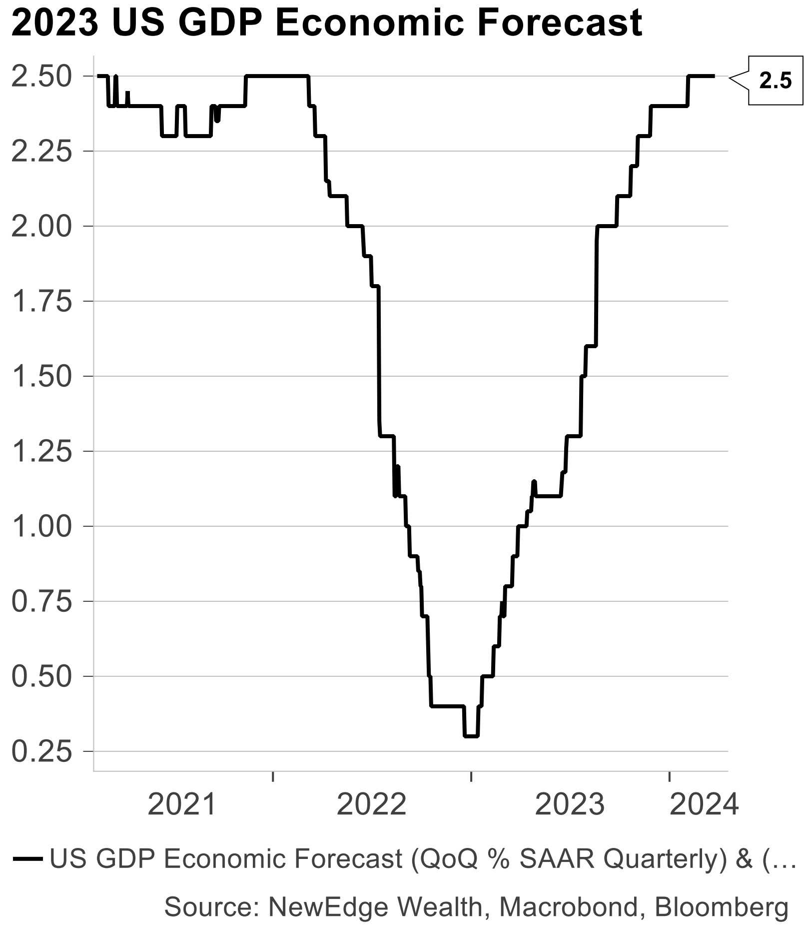
Gold and inflation breakevens (market implied inflation expectations) responded to the Fed’s dovish rhetoric by jumping higher.

The Fed signaled a willingness to tolerate inflation above its 2% target.

Gold is taking this bullishly as real yields fall (nominal yields fall and inflation expectations rise).

Source: NewEdge Wealth, Bloomberg, as of 3-22-24

"Stairway to Heaven?" Growth Forecasts Rising Have Been Key for Risk Asset Strength



The jump in GDP forecasts for 2023 and 2024 have been a key driver of strong risk asset performance (compared to the cutting of forecasts through 2022, which contributed to weak risk asset performance).

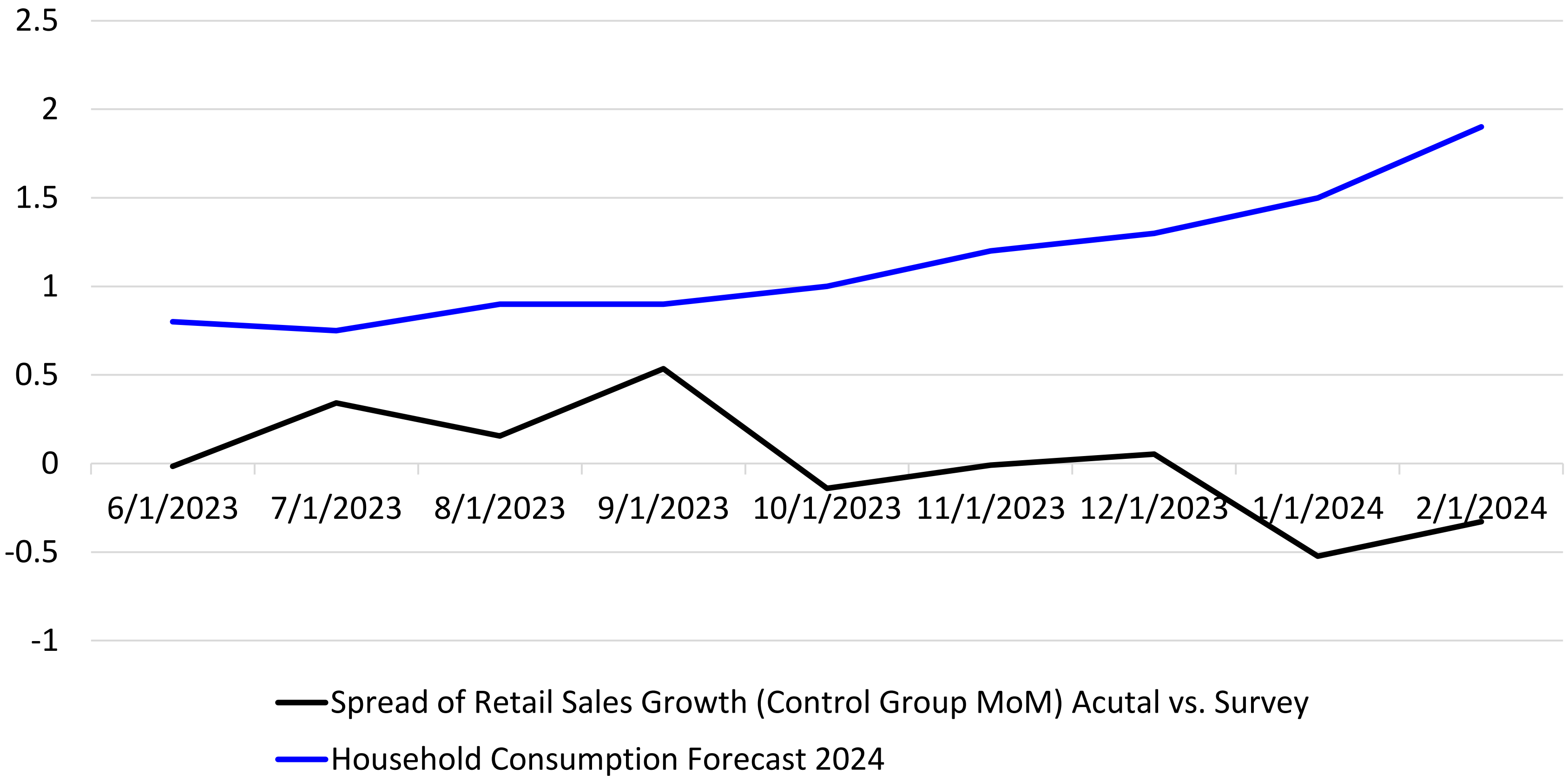
The Fed mirrored the Street's increase in GDP by significantly raising its GDP forecast from 1.4% to 2.1% (in line with consensus).

Growth forecasts are a key watch item, because if they turn lower, it would likely be a negative for risk assets. In the near term, growth looks supported by a strong labor market and stimulus.

Source: NewEdge Wealth, Bloomberg, as of 3-22-24

“No Stairway, denied!”: Watch Weak Retail Sales vs. Rising Consumption Forecasts

Retail Sales Actual vs. Forecast and Household Consumption Growth Forecast for 2024



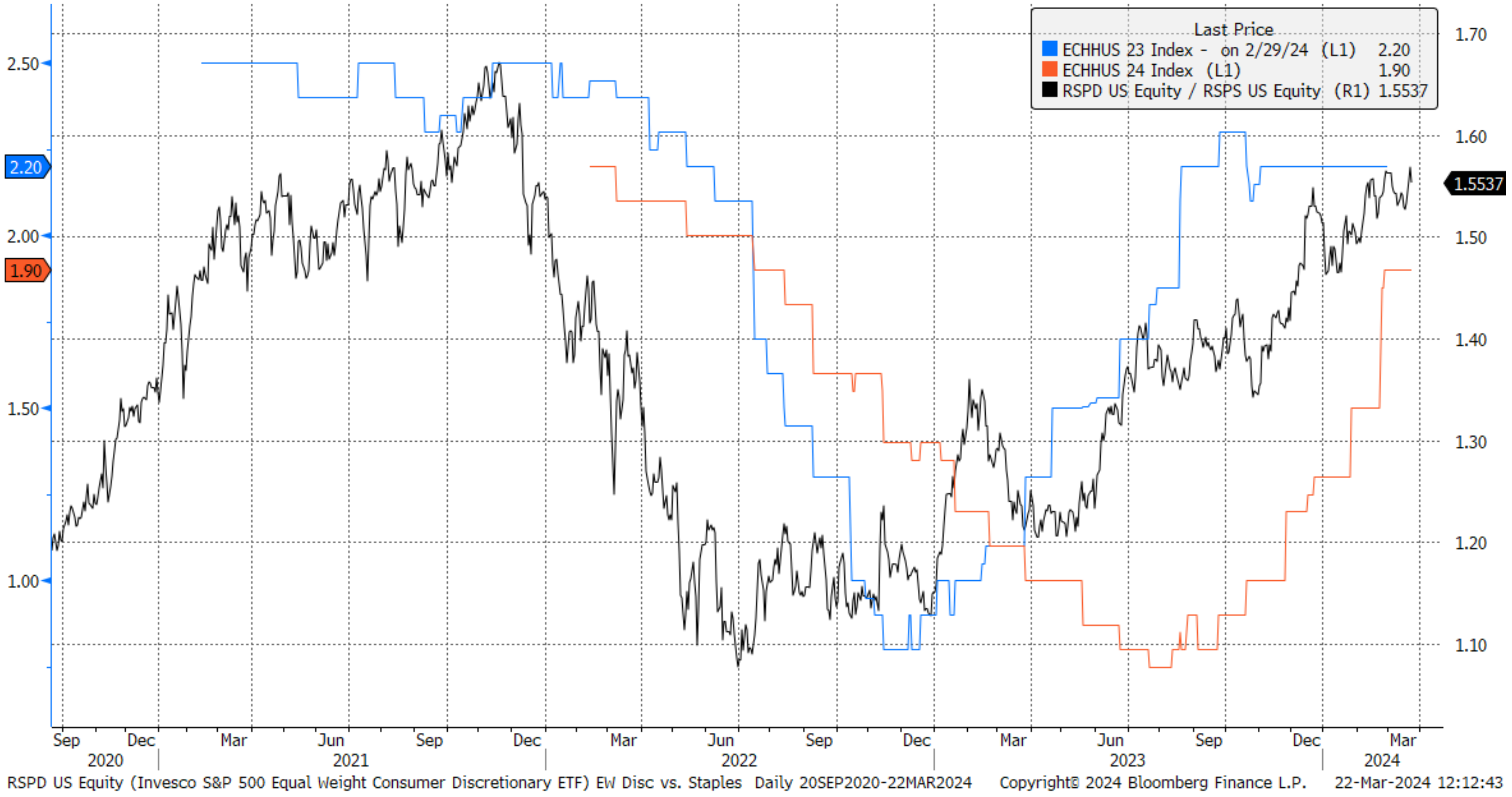
Source: NewEdge Wealth, Bloomberg, as of 3-20-24

Forecasts for Household Consumption growth in 2024 keep lifting higher, while retail sales have come in lower than expected in January and February.

Economic surprises have also been softer in the last month, which goes against the rising forecast trend. This is something to watch as a driver of risk assets.

"Ah, the mirthmobile": But the Equity Market Says the Consumer is Fine

Equal Weight Discretionary vs. Staples and GDP Household Consumption Forecasts for 2023 and 2024



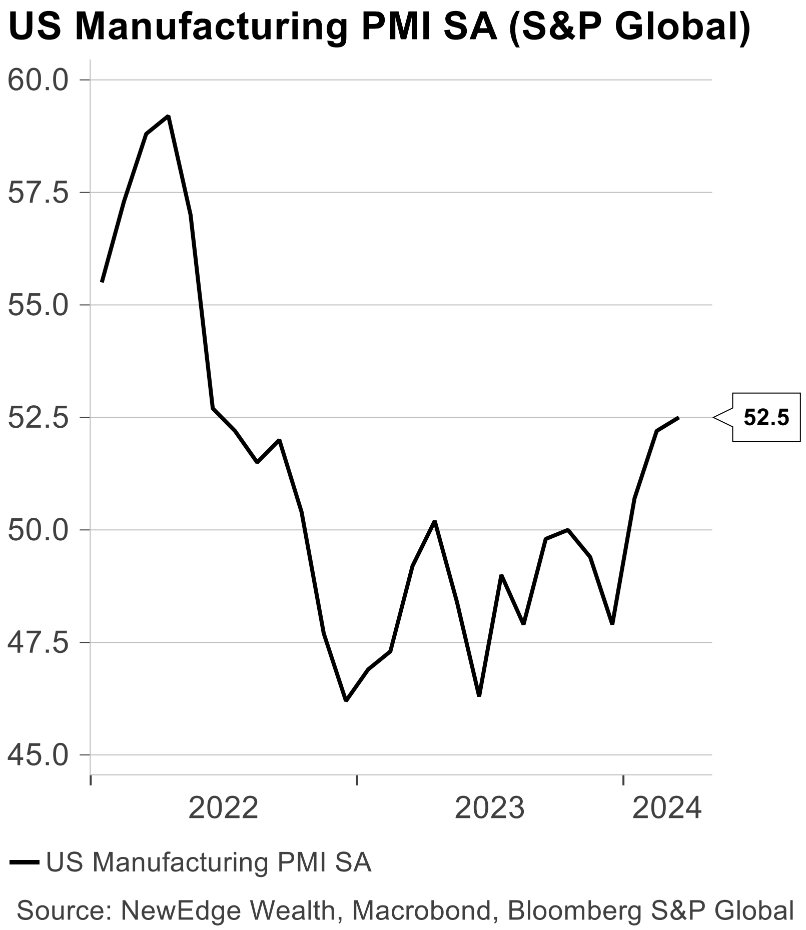
Source: NewEdge Wealth, Bloomberg, as of 3-22-24

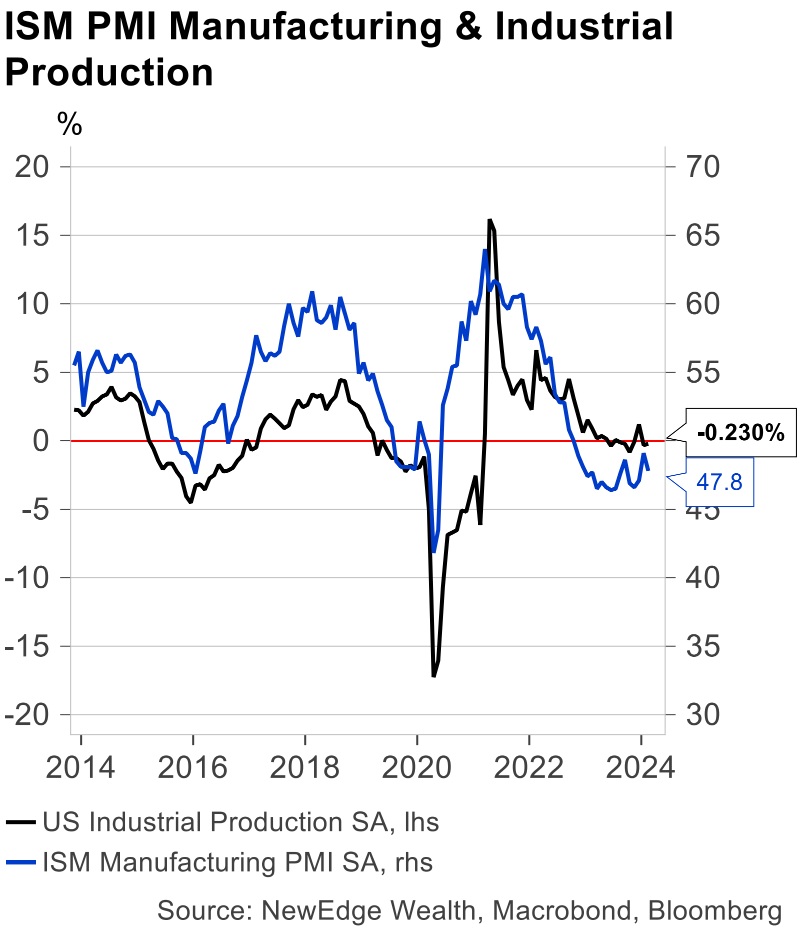
The equity market has been sending a signal that the consumer is healthy and able to spend, as seen by the outperformance of Discretionary stocks vs. Staples stocks.

Discretionary vs. Staples has been an leading indicator for changes to forecasts for Household Consumption Growth over the past few years.

For now, consumers are still riding in the "mirthmobile", but watch this ratio closely.

“It will be mine. Oh yes. It will be mine.”: Cyclical Recovery Underway?





Maybe the quote should be: “It will be mining. Oh yes. It will be mining.”

We are starting to see signs of a recovery in cyclical parts of the economy, with manufacturing PMIs (purchasing managers indices) turning higher after being in contraction, a sub 50 reading, for 12+ months.

If PMIs continue to recover, and the Fed begins cutting rates, it will be the first time in recent history that the Fed cuts rates in an accelerating PMI environment!

Source: NewEdge Wealth, Bloomberg, as of 3-22-24

“It’s Heather Locklear and she’s signaling to us!”: the Signal from Yields

U.S. 10 Year Treasury Yield

Source: NewEdge Wealth, Bloomberg, as of 3-22-24

10 Year Treasury yields broke through resistance on elevated inflation data last week.

~4.20% likely needs to hold on the 10 year, while 4.30% is resistance.

A break above that range likely is reflective of strong data, a higher for longer Fed, and possibly increased Treasury issuance.

A break below that range could be reflective of rising growth fears and increased expectations for Fed easing.

“It’s Heather Locklear and she’s signaling to us!”: the Signal from Yields

U.S. 2 Year Treasury Yield

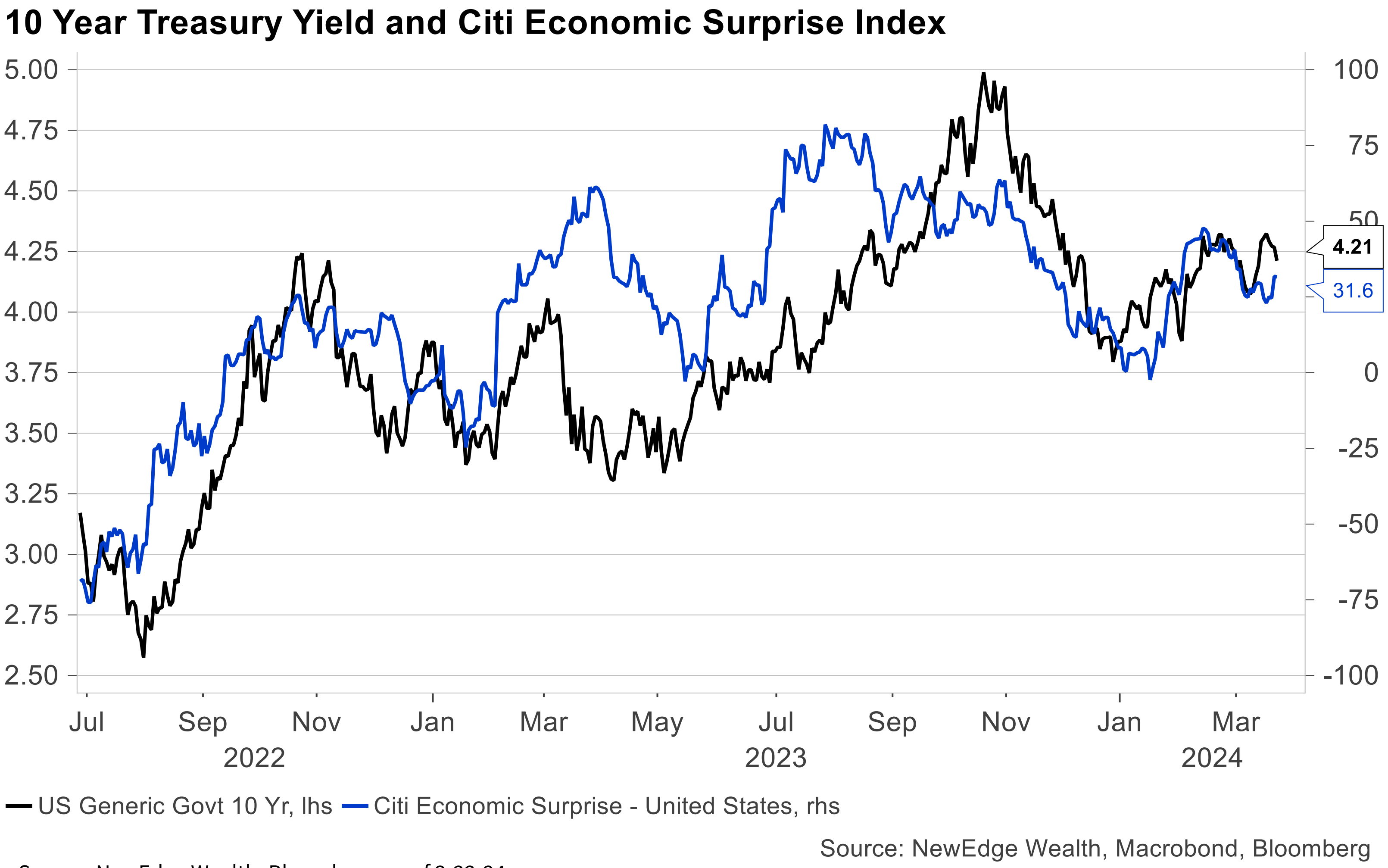
Source: NewEdge Wealth, Bloomberg, as of 3-22-24

2s are in a different spot, still below their 200 day and failing twice to break above this resistance.

It could take a few tries (like it did for the 10 year), but a break above ~4.75% would be a signal of higher-for-longer policy and hot growth/inflation data.

A break below 4.50% would reflect expectations of an easier/more dovish Fed, and possibly weaker growth.

“Uh oh, don’t look, Stacey”: Watch the Relationship of Eco Surprises and Yields



Source: NewEdge Wealth, Bloomberg, as of 3-22-24

Yields have been tied to economic surprises (an index that measures how economic data is coming in relative to forecasts).

Better data than expected has led to higher yields. Worse data than expected has led to lower yields (roughly).

“Contract or no, I will not bow to any sponsor”: HY Spreads Tightest Since Early 2022

USD HY All Sectors OAS

Source: NewEdge Wealth, Macrobond, Bloomberg

Strong growth, high base yields, and robust risk appetite have led to a sharp compression in high yield (HY) spreads, which are back down to early 2022/2021 levels.

Sub-350, HY spreads are considered to be very tight, reflecting rosy growth outlooks and not necessarily pricing in potential credit risks.

Source: NewEdge Wealth, Bloomberg, as of 3-22-24

"But what I'd really like to do is something extraordinary": Respect the Momentum

S&P 500 with Daily RSI

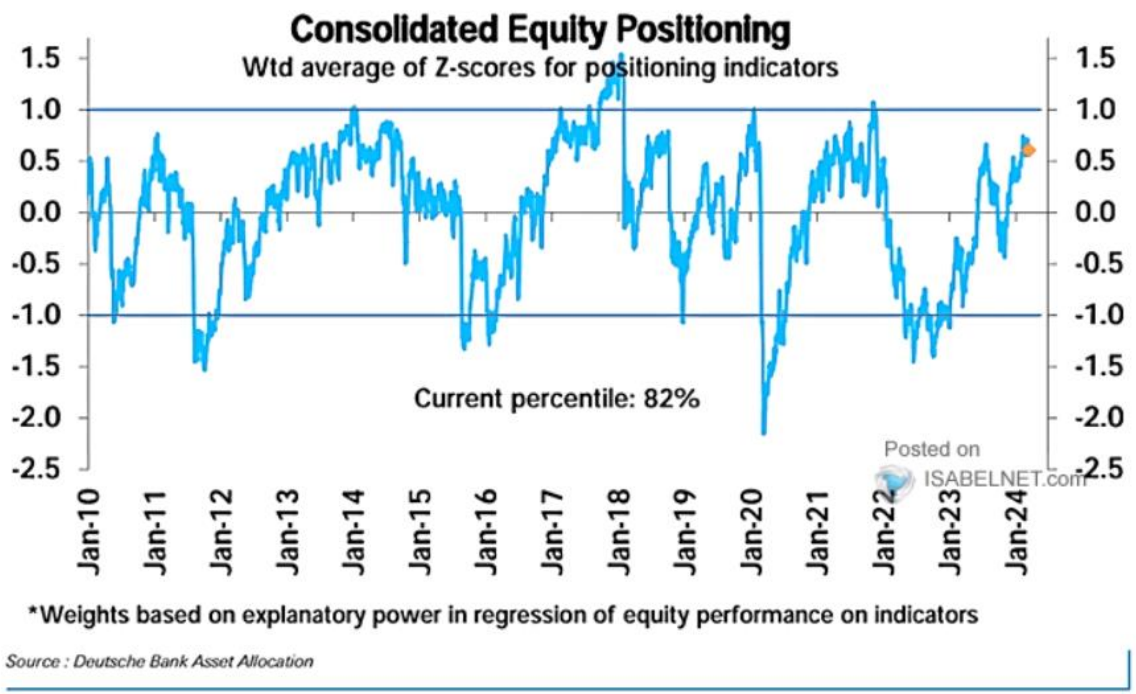
Source: NewEdge Wealth, Bloomberg, as of 3-22-24

S&P 500 momentum and trend have been strong.

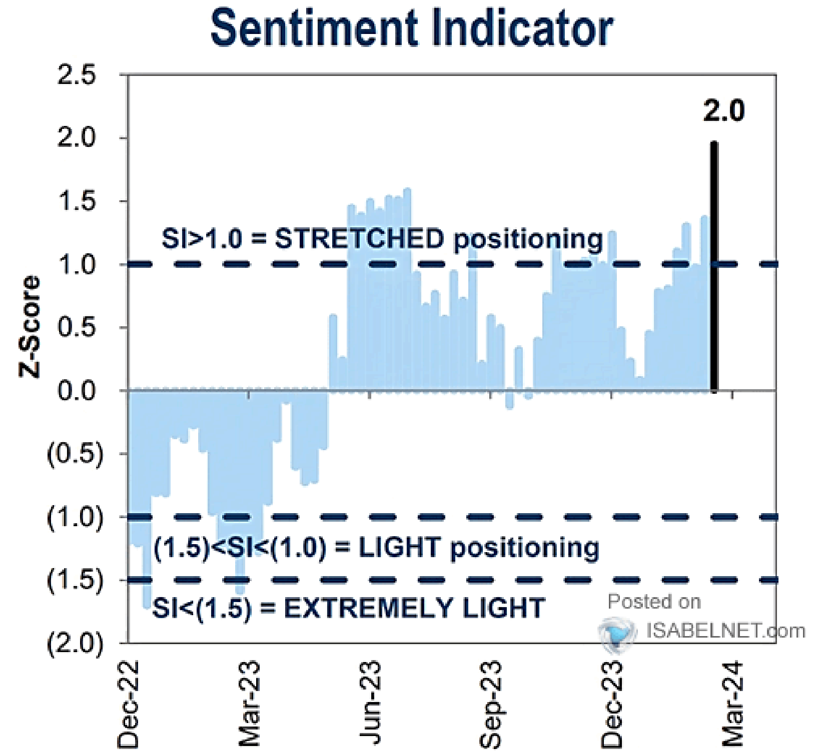
Notably, overbought conditions have done little to stall this rally or cause any "digestion" periods.

Currently the S&P 500 is 17% above its 200-day moving average and the NASDAQ 100 is 20% above its 200-day. It would not be surprising to see some digestion after such powerful moves, but for now, the momentum is dominant.

"We're not worthy! We're not worthy!": But Be Aware of Positioning and Sentiment



As of 3-14-24



Note: Sentiment Indicator measures stock positioning across retail, institutional, and foreign investors versus the past 12 months. Readings below -1.0 or above +1.0 indicate extreme positions that are significant in predicting future returns.

Source: Haver, EPFR, FactSet, CFTC, and Goldman Sachs Global Investment Research.

As of 3-12-24

"She's a robo-babe": Tech Keeps on Keeping On (on the surface)

Technology Sector Absolute (top) and Relative to the S&P 500 (bottom)

S5INFT Index (S&P 500 Information Technology Sector GICS Level 1 Index) RELATIVE Daily 21MAR2023-22MAR2024 Copyright© 2024 Bloomberg Finance L.P. 22-Mar-2024 12:36:26

Source: NewEdge Wealth, Bloomberg, as of 3-22-24

Tech remains in a powerful uptrend on and absolute and relative basis.

This is despite flows and valuations both being near extremes (aggressive inflows into Tech and return to peak 2021 valuations).

This is clearly a momentum driven market (the winners keep winning). We see Tech strength as a necessity for broader market strength because of the sector's large weight in the S&P 500.

“It’s like people only do things because they get paid”: But Not All Tech is Created Equal

Source: NewEdge Wealth, Bloomberg, as of 3-22-24

Incredible strength in Semiconductors is masking weakness in Tech Hardware.

This is effectively Nvidia (NVDA), the largest semi weight; vs. Apple (AAPL), the largest Tech hardware weight by a factor of 10x.

Trees don’t grow to the sky and parabolic moves higher eventually come to an end (and they typically don’t end just by going sideways…). Respect the short-term momentum in Semis, but look for a negative volatility “sea change” to monitor if the uptrend is stalling.

“And she’s ok. Game on!”: Banks Turning

Bank Industry Absolute (top) and Relative to the S&P 500 (bottom)

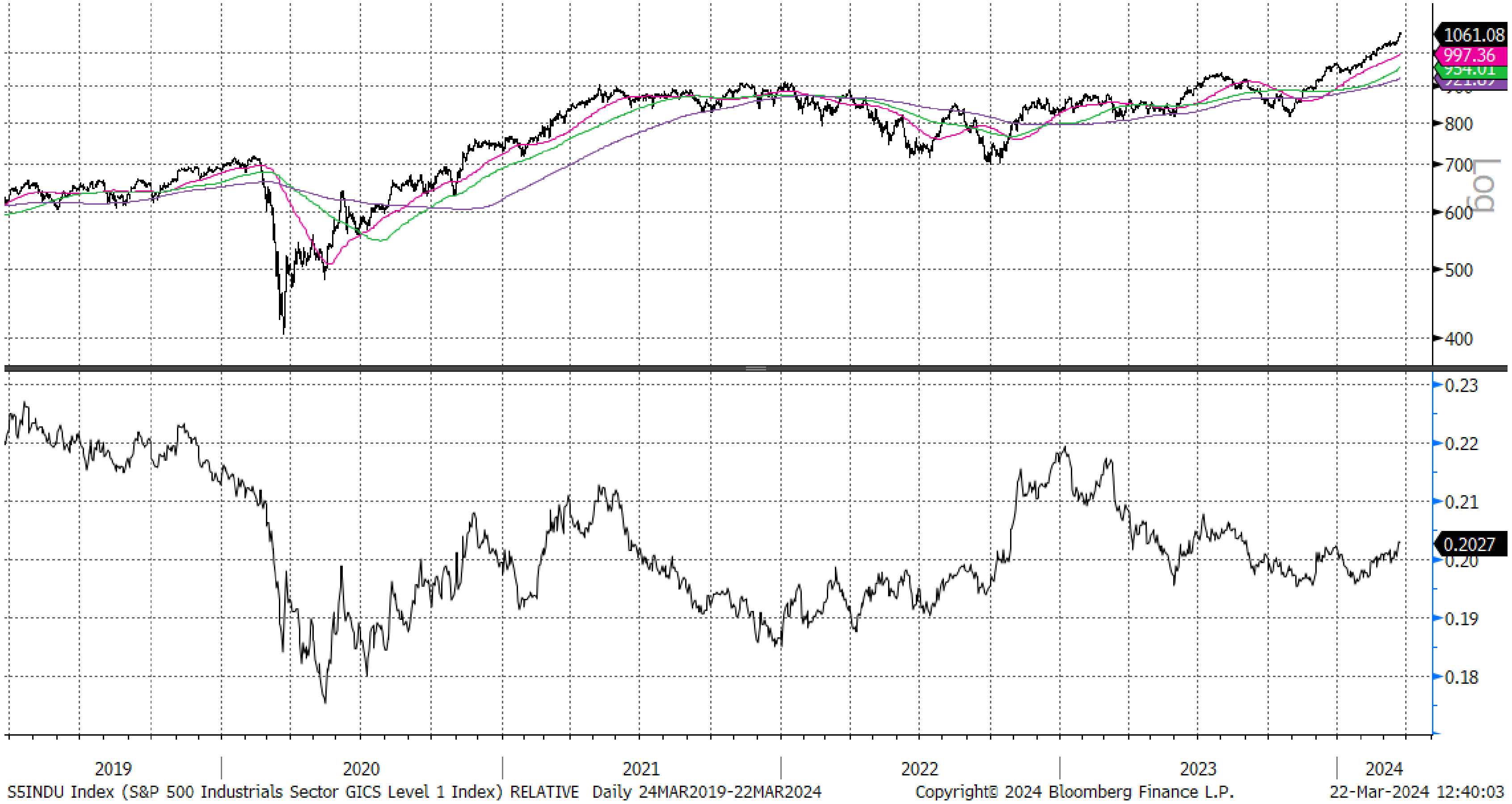
Source: NewEdge Wealth, Bloomberg, as of 3-22-24

Despite regional banking headlines (NYCB troubles and capital raise), banks are performing well on both an absolute and relative basis.

A less-inverted yield curve,

"And she's ok. Game on!": Industrials Turning

Industrials Sector Absolute (top) and Relative to the S&P 500 (bottom)



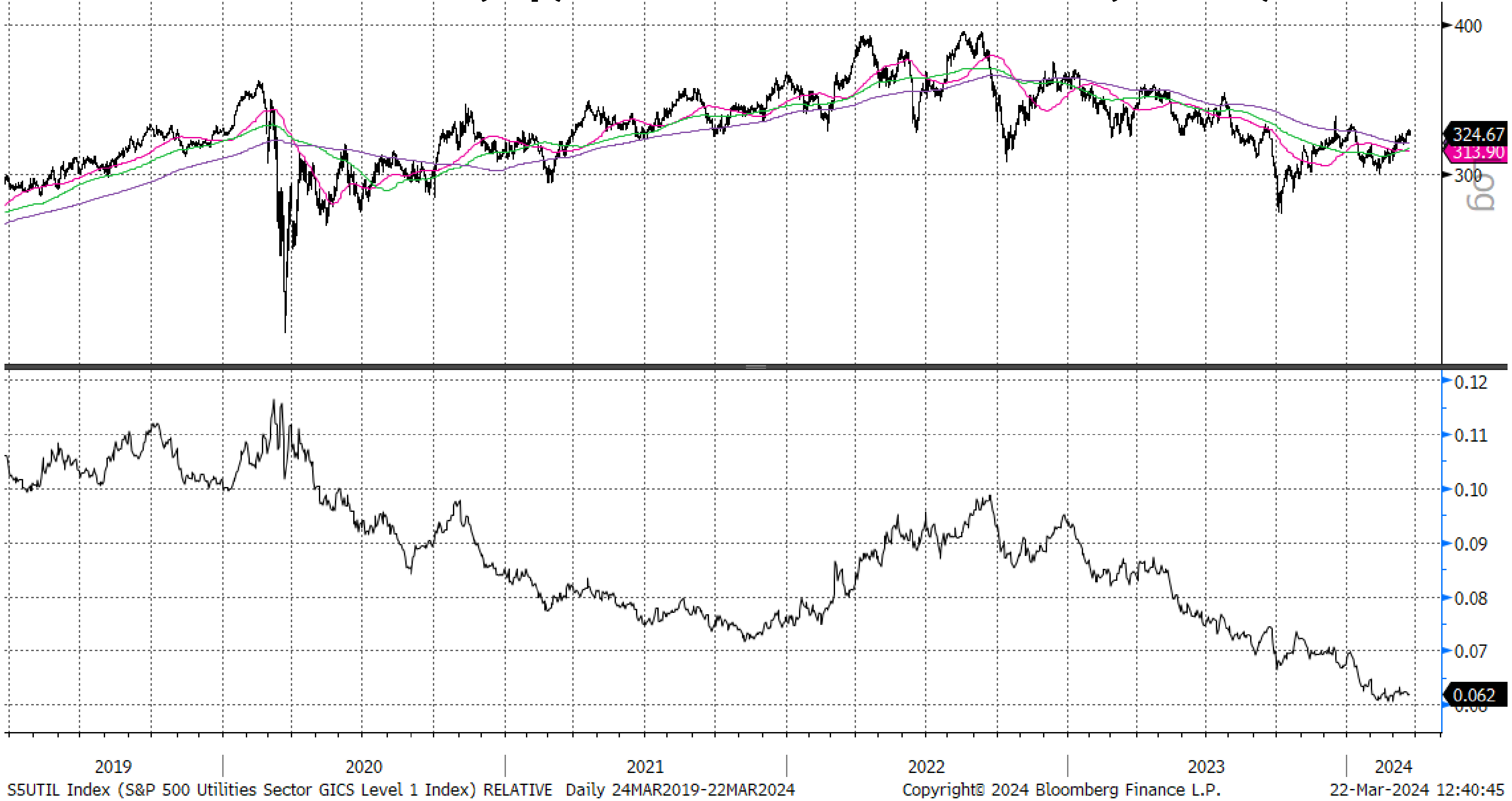
Source: NewEdge Wealth, Bloomberg, as of 3-22-24

Industrials performance has also been strong, likely reflecting the bottoming in Manufacturing PMIs *and* the large fiscal stimulus benefitting this cyclical sector.

The biggest watch item for Industrials is stretched valuations. At 21.5x forward the sector is very expensive, which may not be an issue immediately for the sector, but should not be ignored.

"I'm just a poor boy, nobody loves me": Defensives Relative Weakness

Utilities Sector Absolute (top) and Relative to the S&P 500 (bottom)



Source: NewEdge Wealth, Bloomberg, as of 3-22-24

Utilities absolute performance has been perking up, but on a relative it continues to lag, trounced by strength in cyclical sectors (Industrials, Materials, Banks, Semis).

“Easy come, easy go”: Small Caps Volatile Relative But Trend Improved

Russell 2000 Absolute (top) and Relative to the S&P 500 (bottom)

Source: NewEdge Wealth, Bloomberg, as of 3-22-24

All year, we have been impressed by how well small caps have interacted with their 50-day moving average, holding up on an absolute (but not relative) basis, despite the jump in yields.

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TIPS: Bloomberg Barclays Global Inflation-Linked: U.S. TIPS Total Return Index Unhedged
Municipals 5-Year: Bloomberg Barclays Municipal Bond 5 Year (4-6) Total Return Index Unhedged USD
Core Bond: Bloomberg Barclays US Agg Total Return Value Unhedged USD
U.S. MBS: Bloomberg Barclays US MBS Index
High Yield Municipals: Bloomberg Barclays Muni High Yield Total Return Index Value Unhedged USD
High Yield: Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged USD
Foreign Bond: Bloomberg Barclays Global Aggregate ex-USD Total Return Index Value USD (50/50 blend of hedged and unhedged)
EM Debt (unhedged): J.P. Morgan GBI-EM Global Diversified Composite Unhedged USD
U.S. Large Cap: S&P 500 Total Return Index
U.S. Small Cap : Russell 2000 Total Return Index
International Developed: MSCI EAFE Net Total Return USD Index
Emerging Markets: MSCI Emerging Markets Net Total Return USD Index
World: MSCI ACWI Net Total Return USD Index
U.S. Equity REITs: FTSE Nareit Equity REITs Total Return Index USD
Commodities: Bloomberg Commodity Total Return Index
Midstream Energy: Alerian MLP Total Return Index
Hedge Funds: Hedge Fund Research HFRI Fund of Funds Composite Index
U.S.: MSCI USA Net Total Return USD Index

Europe: Euro Stoxx 50
United Kingdom: UK FTSE 100
Japan: Tokyo TOPIX Stock Exchange Index
China: Hang Seng Index
Brazil: Ibovespa Brasil Sao Paulo Stock Exchange Index
India: NSE Nifty Index
South Korea: Korea Stock Exchange KOSPI Index
Taiwan: Taiwan Stock Exchange Index

REITS Diversified: FTSE Nareit Eqty Diversified Total Return Index
REITS Healthcare: FTSE Nareit Eqty Health Care Total Return Index
REITS Industrial: FTSE Nareit Eqty Industrial Total Return Index
REITS Lodging/Resorts: FTSE Nareit Eqty Lodging/Resorts Total Return Index
REITS Office: FTSE Nareit Eqty Office Total Return Index
REITS Residential: FTSE Nareit Eqty Residential Total Return Index
REITS Retail: FTSE Nareit Eqty Retail Total Return Index
REITS Self Storage: FTSE Nareit Eqty Self Storage Total Return Index
REITS Data Centers: FTSE Nareit Equity Data Centers Total Return Index
REITS Specialty: FTSE Nareit Equity Specialty Total Return Index
Real Assets Agriculture: Bloomberg Sub Agriculture Total Return Index
Real Assets Industrial Metals: Bloomberg Sub Industrial Metals Total Return Index
Real Assets Precious Metals: Bloomberg Sub Precious Metals Total Return Index
Real Assets Energy: Bloomberg Sub Energy Total Return Index

Any questions?

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