MONTHLY MARKET UPDATE

February 2024

OPAL WEALTH ADVISORS

Markets in February absorbed a relatively constructive dose of economic data, more FOMC walk back of dovish policy market expectations, and the heart of the fourth quarter earnings season. Key economic drivers include a still healthy labor market which seems to be showing preliminary signs of slowing demand and another month of upside inflation surprises. While geopolitical threats (China, Iran) and conflicts (Israel, Ukraine) persist, financial markets and global trade have not capitulated to the volatility as of yet. Commercial real estate loans, and the banks that hold them, continue to be a source of concern for investors and policy makers, with the post Covid office sector in shambles across several markets globally.

The S&P 500 closed above 5,000 and set several new record highs, delivering a fourth straight monthly gain in what was the strongest February since 2015. Both stock performance and corporate earnings results continued to be concentrated among the mega-cap growth stocks with the 'Magnificent Seven' or 'Fabulous Four' dominating in both categories. Year to date returns of the S&P 500 of 7.1%, largely due to growth stocks (+10.75%) carrying the weight of value stocks (+1.5%) within the index. Fourth quarter S&P 500 earnings growth of 4.1% can be primarily attributed to the select mega cap names for if the Mag 7 names were excluded, earnings growth for the 'other' market would have been outright negative. Non-U.S. developed (+2.4%) and emerging (+4.8%) posted solid gains with Japan, Germany, and particularly China/Hong Kong leading the way, the former notching its first new record high since 1989. Chinese equity markets bounced on policy stimulus momentum, but foreign direct investment fell 80% YoY in 2023 to the lowest level in 30 years.

Bond markets were broadly lower in February. 10yr UST bond yields rose from 4.06% to 4.25%, up notably from year end level of 3.88% with the same said for 2yr UST yields which rose 0.28% to settle at 4.64%. High yield credit spreads tightened from 3.59%to 3.29% in February while investment grade bond credit spreads continued to hover around 1.00%. In terms of the slope of the yield curve, both the 3m/10yr and 2yr/10yr remained inverted with the former flattening and the latter steepening.

Resilient economic data in the U.S. including solid February payrolls (+275k) and strong personal consumption in addition to FOMC narratives served to push back market rate cut expectations and lend strength to the USD which appreciated 0.84% on the month. The commodity complex was mixed in February with WTI oil up 2.9%, gold and industrial metals down slightly, and natural gas (-10.8%) continuing its sharp downtrend, now down 50% YoY.

Market Anecdotes

- A strong start to 2024 with back-to-back monthly gains despite the hawkish repricing of Fed policy expectations has been notable with consistently favorable financial conditions, resilient growth, and solid earnings from big technology companies leading the way.
- Interestingly, the ETF which has seen the third largest year-to-date inflow is Blackrock's iShares Bitcoin Trust ETF (IBIT) at 7.15bn. This figure is only dwarfed by two S&P 500 index ETFs which have brought in roughly 15.5bn each.
- A quirky market almanac note: This last day of February marked the first time in 10 years that it posted a daily gain to end the month. It was also the first positive Leap Day market session since 2000!
- A research note from BofA noted the AUM in passive funds surpassed the amount in active funds for the first time ever in 2023. Active funds held as much as 80% of AUM in 2009 with that number now registering 47%.
- Markets have priced roughly half of the rate cuts projected at the beginning of the year and are now relatively in line with the FOMC dot plot with the first cut expected in June.
- The PBOC announced another surprise policy decision, delivering a record cut to a key mortgage reference lending rate. Markets again were largely unimpressed.

- A Bespoke look back at major technology releases in light of the AI momentum led to an analysis of eight 'AI' ETFs which contained 67 S&P 500 companies therein and several constructive performance illustrations going back to the ChatGPT release on 11/30/22.
- An article in Bloomberg highlighting an Attom report on the looming issues across commercial real estate showed January foreclosures up 17% MoM and twice as many as January 2023.

Economic Release Highlights

- February payrolls handily beat expectations (275k vs 190k) and the unemployment rate rose from 3.7% to 3.9%. Labor market participation stayed at 62.5% and average hourly earnings were broadly in line with consensus of 4.3% YoY (0.1% MoM).
- The pace of headline (core) PCE inflation declined slightly in January and was in line with forecasts, registering 2.4% (2.8%) YoY and 0.3% (0.4%) MoM. Personal Consumption of 0.2% was in line but Personal Income growth of 1.0% was well above the 0.4% forecast.
- Headline and core CPI YoY registered (3.1% vs 3.0%) and (3.9% v 3.7%) YoY respectively with MoM readings of (0.3% v 0.2%) and (0.4% v 0.3%).
- Headline and core PPI registered (0.9% v 0.7%) and (2.0% v 1.7%) YoY respectively with MoM readings of (0.3% v 0.1%) and (0.5% v 0.1%).
- Retail Sales fell well short of forecast (-0.8% v -0.1%). Ex-Vehicles (-0.6% v 0.2%) and Ex-Vehicles & Gas (-0.5% v 0.2%) also missed.
- The JOLT Survey reported a slight decline from 8.889M to 8.863M, relatively in line with the 8.9M consensus estimate.
- Fourth quarter U.S. GDP was revised down from 3.3% to 3.2% but Personal Consumption Expenditures were revised up from 2.8% to 3.0%.
- The JPM Global Manufacturing PMI improved from 50.0 to 50.3 in February while final non-U.S. PMI (C, S) readings were Eurozone (49.2, 50.2), China (52.5, 52.5), U.K. (53.0, 53.8).
- U.S. ISM Manufacturing Index slipped from 49.1 to 47.8 in February, missing the consensus forecast of 49.5. U.S. February ISM Services Index (52.6 vs 53.0) was generally in line with the consensus forecast.
- Consumer Confidence in February (106.7 v 115.0) missed and registered below the consensus range.
- UofM Consumer Sentiment reading for January registered 79.6, in line with the consensus forecast of 80.0. One year inflation expectation increased from 2.9% to 3.0%.
- NFIB Small Business Optimism Index declined and came in below consensus forecast (89.9 v 92.4).
- The Housing Market Index came in above forecast (48 v 46). The Case-Shiller Home Price Index declined 0.3% MoM and 6.1% YoY.
- Housing Starts (1.331M) and Permits (1.470M) both came in below the spot consensus and the forecast range.
- New Home Sales of 661k registered slightly below the consensus forecast of 685k. Pending Home Sales declined 4.9% versus consensus forecast of 0.8% and a range of -2.5% to 4.6%. Existing Home Sales of 4M were in line with expectations and translated to MoM 3.1% and YoY -1.7% rates of change.

Outlook

Our view continues to be to maintain a policy neutral stance with regard to risk assets in the short term but remain more cautious when looking out over our 12-24 month forecast horizon as we still see a likelihood for trend growth and economic conditions to deteriorate by the later half of 2024 due to higher interest rates and persistent inflation with the "last mile" proving itself difficult for policy makers.

Start-stop conditions should continue favoring periodic tactical (0-6 months) asset allocation shifts and rebalancing/profit taking, particularly when equity markets become extended (short term overbought). Market breadth may be in the early stages of improving on the extremely narrow drivers we've seen over the past several months, which should favor mid cap stocks and some more cyclical areas of the market. We are not anchored to a decided pro-growth or defensive investment posture and remain neutral on the growth/value style dimension. From a geography perspective, we continue to favor quality U.S. markets over non-U.S.

due to currency and relative growth dynamics but are becoming more interested in some developed market international areas. Recommended fixed income positioning is neutral from a duration perspective and underweight below investment grade fixed income and bank loan markets over our forecast horizon.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	38996	2.50	8.96	3.84	22.03	10.25
NASDAQ	16092	6.22	13.32	7.33	41.63	7.69
S&P 500	5096	5.34	11.98	7.11	30.45	11.91
Russell 1000 Growth		6.82	14.34	9.49	45.93	12.49
Russell 1000 Value		3.69	9.55	3.80	14.01	8.41
Russell 2000		5.65	13.95	1.54	10.05	(0.94)
Russell 3000		5.41	12.23	6.58	28.60	9.90
MSCI EAFE		1.84	7.90	2.44	15.01	4.97
MSCI Emg Mkts		4.77	3.86	(0.08)	9.18	(5.93)
Fixed Income		**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate		(1.41)	2.08	(1.68)	3.33	(3.16)
High Yield		0.30	4.01	0.31	10.97	1.86
Municipal		0.13	1.93	(0.38)	5.42	(0.21)

Commodities	2/29/24	12/31/23	9/30/23	6/30/23
Oil (WTI)	79.67	71.89	90.77	70.66
Gold	2048.10	2078.40	1870.50	1912.30

Currencies	2/29/24	12/31/23	9/30/23	6/30/23
USD/Euro ($/€)	1.08	1.11	1.06	1.09
USD/GBP ($/£)	1.26	1.27	1.22	1.27
Yen/USD (¥/$)	149.90	140.92	149.43	144.47

Treasury Rates	2/29/24	12/31/23	9/30/23	6/30/23
3 Month	5.45	5.40	5.55	5.43
2 Year	4.64	4.23	5.03	4.87
5 Year	4.26	3.84	4.60	4.13
10 Year	4.25	3.88	4.59	3.81
30 Year	4.38	4.03	4.73	3.85

Style Returns

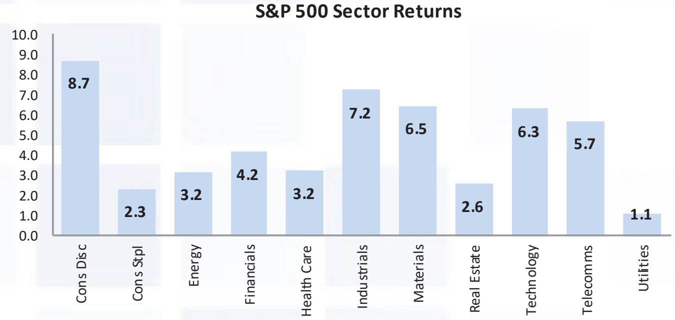
MTD

	V	B	G
L	3.69	5.40	6.82
M	4.78	5.59	7.52
S	3.27	5.65	8.12

YTD

	V	B	G
L	3.80	6.87	9.49
M	2.90	4.08	6.94
S	-1.42	1.54	4.66

S&P 500 Sector Returns



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