Capital Ideas

January 5, 2024

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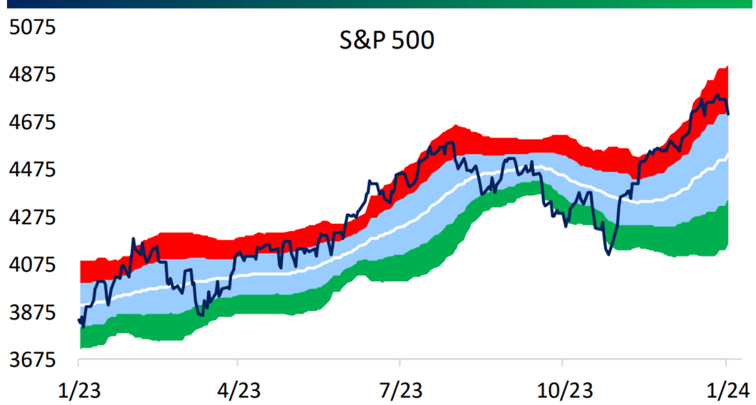
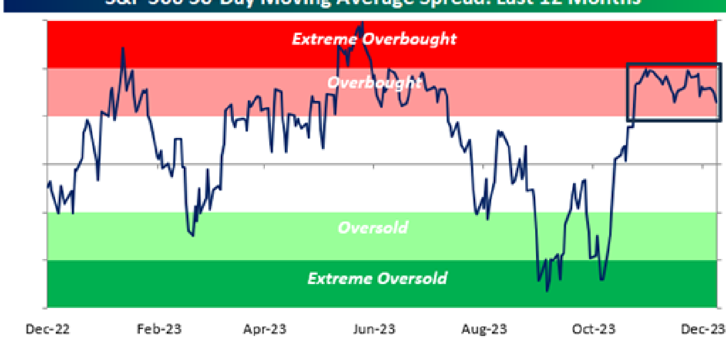
Dear Reader,

First, we want to wish you and your family a prosperous and very Happy New Year! 2023 closed out with a bang as the S&P 500 advanced 26.3% for the full year. After a disappointing summer investor optimism rallied and the market surged, rising 4.6% in December alone. The improvement in investor confidence was reflected in the weekly survey published by the American Association of Individual Investors. It recorded a bullish sentiment reading of 53% on December 21, the highest level since April 2021. The recent price action, which has seen stocks soar more than 16% off the late-October lows, has driven the market well into overbought territory causing many pundits to question whether we are due for a near-term pullback. Although early in the year profit taking is causing an early 2024 market decline, we do not expect a repeat of the 2022's January 3rd high for the year.

S&P 500: Last 12 Months



S&P 500 50-Day Moving Average Spread: Last 12 Months



Extreme Overbought (Oversold) = 2+ Standard Deviations Above (Below) 50-DMA
Overbought (Oversold) = 1+ Standard Deviation Above (Below) 50-DMA

Source: Bespoke Investment Group

In short, we think this bull market still has plenty of room to run. Market breadth is finally broadening out with the cumulative Advance/Decline indicator continuing to record new highs well ahead of market highs. This is a welcome sign. Most of the gains in the first part of the year were concentrated in only the seven largest technology stocks. While the market cap weighted S&P 500 was up 13.1% through the first three quarters of 2023,

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the equal-weighted S&P 500 advanced only 3.1% for the same period. However, during the fourth quarter the equal-weighted S&P 500 index caught up advancing 12.2%. We view this recent spreading of gains across a greater number of stocks as a very bullish indicator. Furthermore, strong market gains into year-end haven't historically triggered periods of subsequent weakness following the turn of the calendar. Median first quarter market returns for the S&P 500 following an "overbought" period at the end of the previous year is +5.5%. While we believe there may be some choppiness to start 2024, as recent gains consolidate and a new trading range is established, we do not expect an extended pullback to significantly interrupt the current bull market which began in October 2022.

Streaks of Four or More Weeks Overbought to Close Out Year: 1952 - 2023

	Days Overbought	S&P 500 Performance (%)					
Year	to Close Out Year	December	Next Week	Next Month	Q1	First Half	Entire Year
1952	30	3.55	-0.75	-0.72	-4.82	-9.15	-6.62
1954	40	5.08	-1.81	1.81	1.67	14.04	26.40
1959	24	2.76	-0.33	-7.15	-7.60	-4.96	-2.97
1962	35	1.35	1.62	4.91	5.50	9.94	18.89
1970	24	5.68	0.25	4.05	8.86	8.19	10.79
1985	44	4.51	1.19	0.24	13.07	18.72	14.62
1990	21	2.48	-4.48	4.15	13.63	12.40	26.31
2010	22	6.53	1.10	2.26	5.42	5.01	0.00
2017	28	0.98	2.60	5.62	-1.22	1.67	-6.24
2020	39	3.71	1.27	-1.11	5.77	14.41	26.89
2023	32	4.20					
Median		**3.63**	**0.68**	**2.04**	**5.46**	**9.06**	**12.70**
% Positive		**100**	**60**	**70**	**70**	**80**	**60**
All Years Since 1952							
Median		**1.01**	**0.60**	**1.02**	**1.30**	**3.28**	**11.39**
% Positive		**69**	**61**	**56**	**61**	**66**	**74**

Overbought is defined as closing one or more standard deviations above 50-day moving average.

Source: Bespoke Investment Group

Our outlook is based on a number of fundamental factors. While most economists forecast a recession sometime during 2023 it never materialized. Although growth is likely to slow somewhat in 2024, absent an unforeseen economic shock, we don't foresee a meaningful recession occurring this year either. As a result, we expect positive earnings growth to lift the market higher as stocks are valued on these higher projected earnings. And because the market indices are heavily weighted towards higher growth technology companies such as Microsoft and Nvidia, we would expect earnings growth for publicly traded companies to outpace overall economic growth as measured by GDP. In addition to expected higher earnings growth we expect this year's economy to provide other reasons for higher stock prices.

The rate of inflation continues to decline, and the market is pricing in multiple interest rate cuts by the Federal Reserve later in 2024. This should support a more bullish environment for stocks compared to the aggressive rate hiking cycle which occurred during most of 2022 and 2023. This is the "goldilocks" scenario we see as most likely this year. We expect a period of economic growth which is positive but not so high as to reignite inflation fears, leading to a Federal Reserve which feels comfortable lowering rates to a more neutral level. This is the ideal environment for stocks especially during a highly contested election year. Stocks have historically performed well during presidential election cycles where the incumbent is vying for a second term. This has been particularly true because the sitting administration is incentivized to avoid an economic decline ahead of November. 2024 should be no different.

We are evaluating investment opportunities across neglected parts of the market. We hope to identify bargains in those areas such as small-cap stocks and select high-dividend value stocks. We believe these stocks, which are currently valued at significantly lower levels, will benefit as market breath continues to expand, fueling the next leg of this bull market. As always thank you for the opportunity to assist you with your investment needs. Please contact us directly with any of your questions or concerns.

Sincerely,

CJ Brott

Karen Burns

Andrew Kerai