Capital Ideas

April 3, 2024

Capital Ideas Advisors
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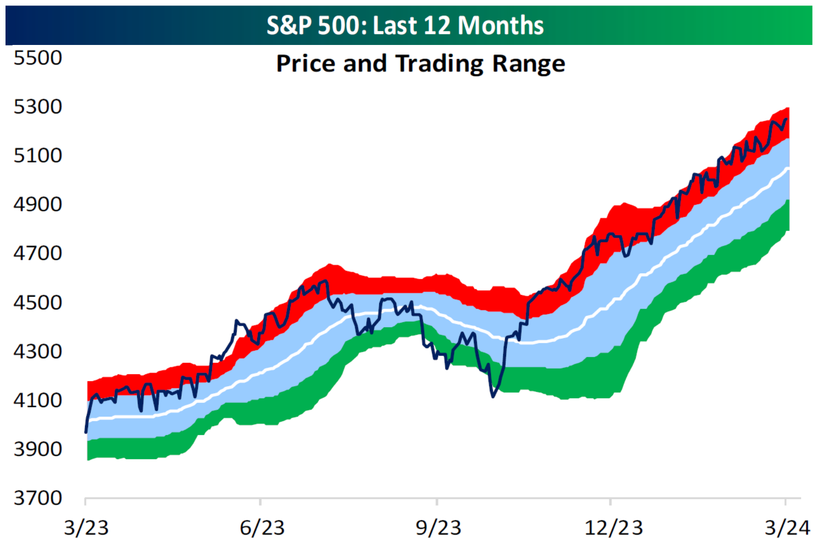
Dear Reader,

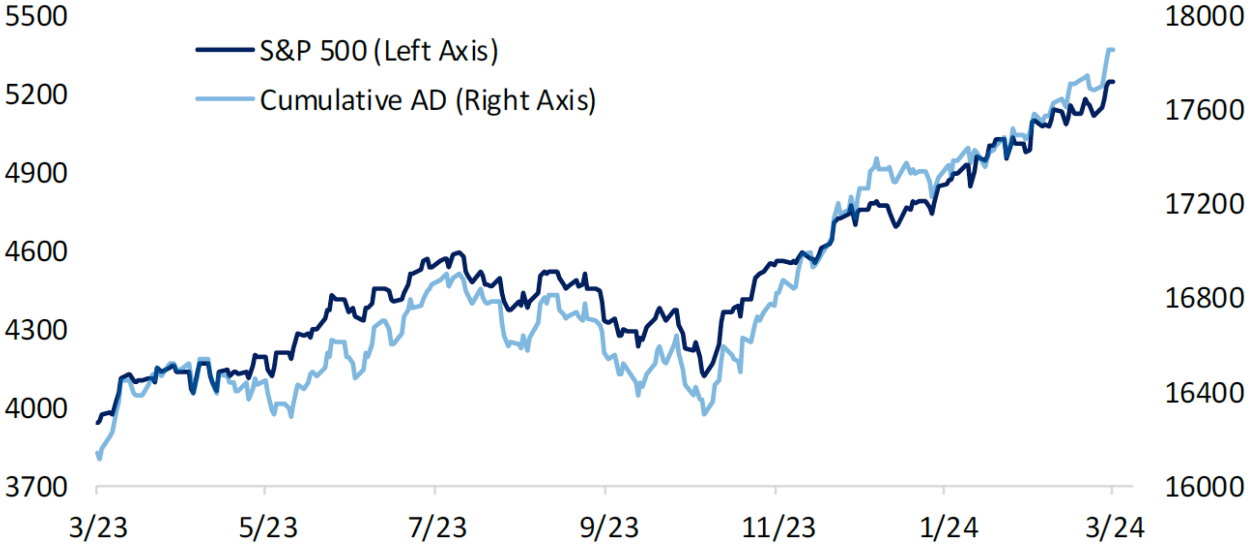


Source: Bespoke Investment Group

The bull market charged ahead to finish out the first quarter. The S&P 500 was up 3.1% during March, its fifth consecutive monthly gain, and has notched a return of 10.2% so far in 2024. Stocks are off to their best start since 2019 when the S&P was up 13.1% during the first quarter and eventually gained over 31% for the full year. We've recently seen a meaningful broadening of the rally across stocks outside of the largest technology companies. In fact, the S&P 500 so far in 2024 has now outpaced the return for the Nasdaq. This is a significant and welcome shift from much of 2023 when market gains were almost exclusively fueled by a handful of the largest technology stocks. This suggests in our view that the current bull market has more room to run as an expanding number of stocks are now surpassing new highs.

One of the things investors on both sides of the isle seem to discuss at length is the impact of political outcomes on market performance. Given that it's a presidential election year with November quickly approaching, pundits are incessantly making their case regarding the impact from one candidate/party or another claiming victory. However, while we don't deny that certain administrations can enact policies which impact specific sectors (i.e. energy, healthcare, etc.) positively or negatively (or sometimes a little of both), historical precedent strongly suggests it's unwise to time market exposure based on which party is expected to prevail. It has made little difference over the long run whether

S&P 500 Price vs. Cumulative Advance-Decline Lines - Past Year



Source: Bespoke Investment Group

you were invested in stocks during a Republican or Democrat administration. In fact, if an investor would have only held stocks during a GOP administration and refused to participate in the market under a Democratic White House or vice versa, they would have missed well over 95% of total market gains over the seven-plus decade span since Eisenhower's first term in the early 50s. This highlights the importance of sticking with a long term investment strategy, allowing returns to compound over time, and not being swayed by the political winds of the moment when determining whether to buy or sell stocks.

The current fundamental backdrop appears to support the increasingly bullish sentiment pushing stocks higher. While interest rate cuts won't likely happen as quickly as many had hoped coming into the year, it's clear the Federal Reserve is likely finished with its hiking cycle and is on track to modestly begin reducing short term rates later in 2024. Corporate earnings, the primary driver behind stock valuations, are expected to trend higher in the latter half of the year. While technology companies have been displaying impressive earnings growth in recent quarters, some of the laggards, such as healthcare and financial services businesses, are expected to normalize at higher levels, as some of the negative factors depressing their earnings throughout 2023 are likely to abate. The expectation regarding meaningful earnings growth outside of just the technology sector is consistent with recent price action reflecting a broadening out of the current market rally. In essence, robust, broad-based earnings growth and a more dovish Federal Reserve is generally a potent cocktail for a bull market's expansion.

We continue to invest your capital in parts of the market we believe are positioned to perform well under the current economic backdrop and over the longer term. This includes companies delivering high revenue growth with strong positioning in their respective markets and minimal need to rely on debt financing to fund their operations. We have also rotated into other areas that we believe offer attractive entry points for investment given more compelling valuation levels. As the rally continues to broaden out, we expect these companies with strong business models that have not yet participated in the current bull market run will benefit as well. Thank you for your patronage and please contact us directly with any of your questions or concerns.

Sincerely,

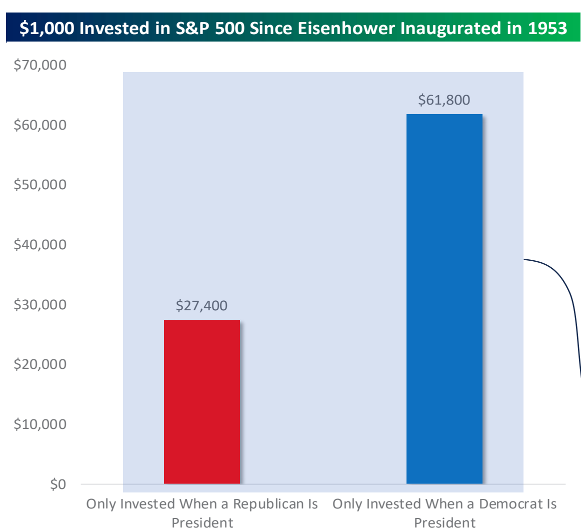
CJ Brott

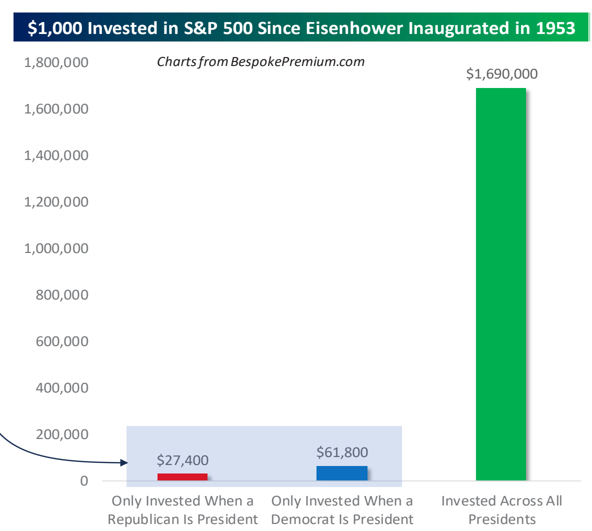
Karen Burns

Andrew Kerai

Don't Get Political

Letting political beliefs get in the way of "Buy and Hold" has been extremely costly to investors. Going back 70 years, $1,000 invested in the US stock market only when a Republican is President would be worth $27,400 today. $1,000 invested only when a Democrat is President would be worth double that at $61,800. But that $1,000 would be worth $1.69 million today for those who put politics aside and stayed invested regardless of who's in charge in Washington DC.





Past performance is no guarantee of future results.

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