STREET SMARTS

CARY STREET PARTNERS

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MONTHLY COMMENTARY

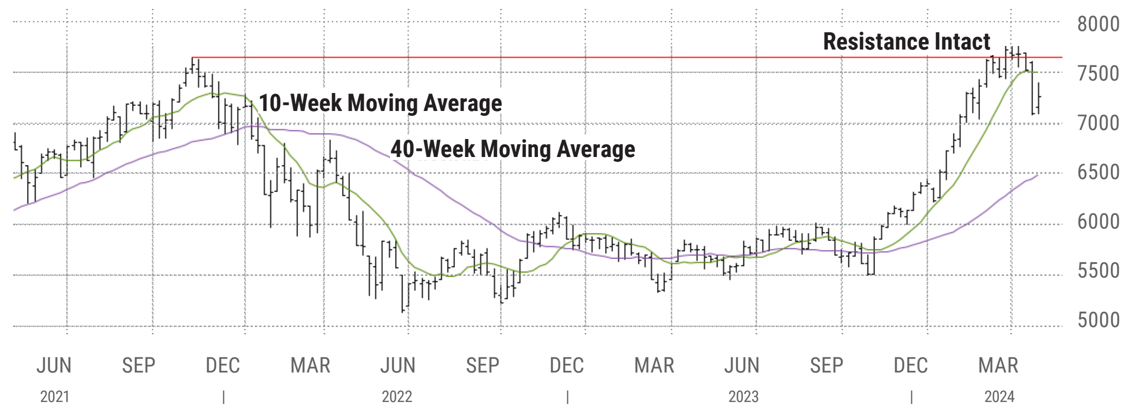
Following a hefty move higher since last October, equities pulled back over the course of April, with the S&P 500 Index down 4.08%.[1] The S&P 500 gained over 25% from that October low through the end of Q1. Small caps, as represented by the Russell 2000, experienced a similar move. We still see a long-term equity uptrend that is very much intact, supported by an increasing investor risk appetite and improved corporate earnings. 5 to 10% corrections happen all the time in uptrends, just as 5% pops occur all the time in downtrends. Neither by themselves turn markets. The vulnerability in equities during April was triggered by upward yield pressure emanating from sticky inflation data since the onset of 2024. Higher yields are problematic for stock prices as the equity risk premium, the expected return of equity versus the risk-free rate is very low at current yield levels.[2]

The yield dynamic elevates pressure on quarterly corporate earnings, which exited last year's earnings trough. Not only must companies exceed quarterly expectations on revenue and EPS, but strong forward guidance is also critical within the report. Companies heavily manage earnings expectations; consequently, most exceed forecasts. Forward guidance has received steadily heightened focus.

As we mentioned in last month's *Street SMARTS*, our viewpoint is that the momentum factor names are a key element to keep an eye on within the market. This group of about one hundred companies exhibits strong price momentum. The group was up far more than the S&P in Q1, to an extent not seen since 2008. From our viewpoint, there are two critical takeaways: 1. The strong Q1 performance supports a long uptrend viewpoint for these stocks either individually or as a group. 2. The steep Q1 increase also creates a dynamic where the same names are very vulnerable in the short term. They have a lot of room to the downside before they approach even a 200-day moving average. These market heavyweights incorporate much of the earnings growth expected in the first quarter. Earnings are expected to broaden to other portions of the market during the back half of 2024.

In summary, it's critical that momentum names hit earnings targets and even more vital that their forward guidance is positive or upgraded. We see an immediate reaction to either strong or light results, with Meta and Netflix as examples of the downside and Microsoft, GE, and Chipotle as examples of the upside. Although not a momentum name, market heavyweight Alphabet was also a positive contributor to major averages on the back of a stellar report. As of this writing, we are still in earnings season; consequently, this dynamic will not be fully resolved for another few weeks.

This is the group to watch



Source: Bloomberg Finance L.P.

[1] *Morningstar market data as of March 31, 2024*

[2] *Bureau of Economic Analysis ("BEA") and Bureau of Labor Statistics ("BLS")*

The S&P 500 Index is comprised of 500 U. S. stocks and is an indicator of the performance of the overall U.S. stock market. An index is not available for direct investment; therefore, its performance does not reflect the expenses, fees and taxes generally paid with the active management of an actual portfolio.

The Russell 2000® Index is a capitalization-weighted index designed to measure the performance of a market consisting of the 2,000 smallest publicly traded U.S. companies (in terms of market capitalization) that are included in the Russell 3000® Index. An index is not available for direct investment; therefore, its performance does not reflect the expenses, fees and taxes generally paid with the active management of an actual portfolio.

The MSCI USA Momentum SR Variant Index is designed to represent the performance of a strategy that seeks higher exposure to a momentum factor. The Index selects top 125 securities from the MSCI USA Index with a higher Momentum Score, while aiming to restrict the turnover to 30% at each Index Review. Additionally, the capping is applied on contituent weights to mitigate the concentration in the Index.