Alexis Investment Partners, LLC

Practical ✧ Tactical



2024 is off to a strong start. The S&P500 ETF (SPY) gained +5.2% in February. Globally, the All-Country World ETF (ACWI) was up +4.5%. **Yields rose as inflation and economic growth exceeded expectations.** Cash (SWVXX) gained +0.4% while **the aggregate bond ETF (AGG) fell -1.5%. Our portfolios have benefited from strong stock returns and favoring cash over bonds so far this year.**

The most popular stock market benchmark for US investors is the S&P500 index. One reason this index is so popular is that **it is comprised of the 500 largest US listed companies** giving the illusion of broad diversification. You may be surprised to know that **the top 10 holdings currently make up 33% of the standard version of this index.**

According to S&P Global, 96% of S&P500 companies have reported earnings, with 74% beating expectations. Continued strength has helped investors overcome some of their concerns about slowing economic growth.

We expect attention to shift back to inflation and the Fed this month. Trend strength points to continued gains, but **stocks may be rising a little too quickly. We believe the CPI report mid-month and any reaction from markets and/or the Fed when they meet later in the month will be telling with respect to the near-term sustainability of the rally.**

Your portfolio is designed to meet your long-term goals based on your resources and preferences. It's easy to be complacent after a good year, but **please schedule time to review your portfolio and performance and update us with regards to any concerns and/or change in circumstances.**

Our models, indicators, and analysis continue to confirm a Bull market. Earnings continue to come in better than forecast, and supply chains are improving. Inflation is slowing as productivity slowly improves. Although the pandemic stimulus has been revoked, the Fed is likely to be less restrictive in the months ahead. Election years can be choppy but have generally been positive for stocks.

Tax forms are available online. If you need help retrieving your documents or if we can assist you with tax planning or anything else, we're here to help.

What to Expect in Portfolios

Last month we wrote: "**Stocks are overbought but remain resilient.** We are prepared to buy pullbacks or trim exposure into strength. We remain long-term optimistic, but also respect potential near-term risks."

February built on January's gains. We continue to use strength to incrementally rebalance tactical portfolios.

Stocks have come a long way since the Oct 2023 correction low. **Broad trend strength is encouraging, but stocks may be vulnerable to a growth scare** if inflation numbers remain elevated and/or the Fed remains too tight for too long.

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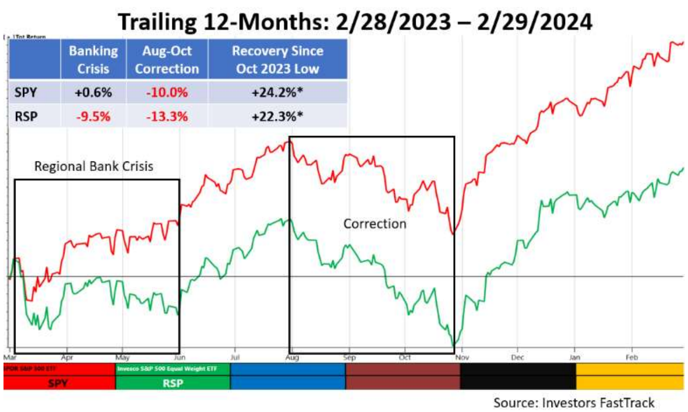
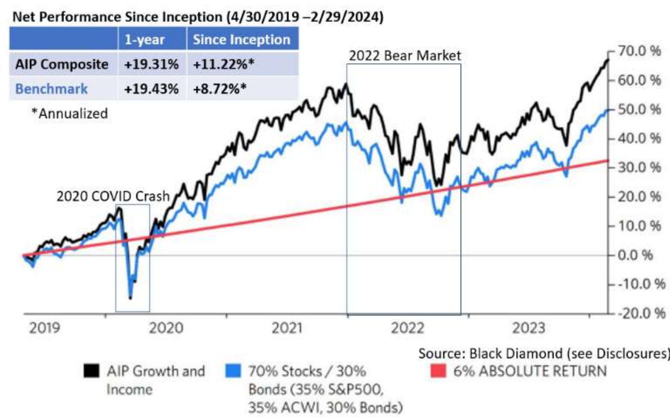
One year ago, the collapse of Silicon Valley Bank sparked a sharp divergence in performance between the tech-led S&P500 index (red) and average stock in the index (RSP – green).
Leadership broadened since the correction low (Oct 2023) as the Fed signaled the potential to ease restrictive policy in 2024.

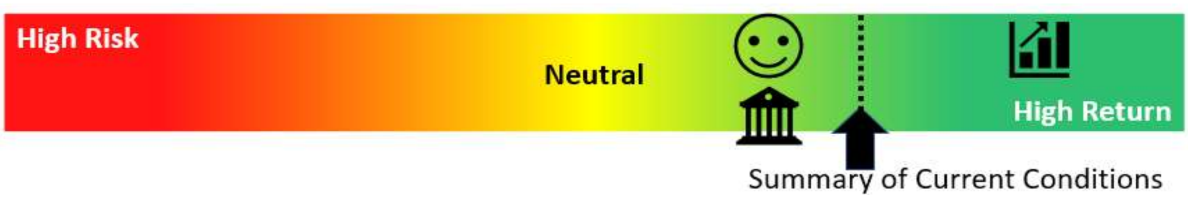


The chart below shows the net performance of our most popular composite since inception (120 accounts – see disclosures on page 4).
The last four+ years have included the COVID crash and 2022 bear market. Our strategy and discipline led to greater participation in gains than declines, allowing us to add value through this volatile time.

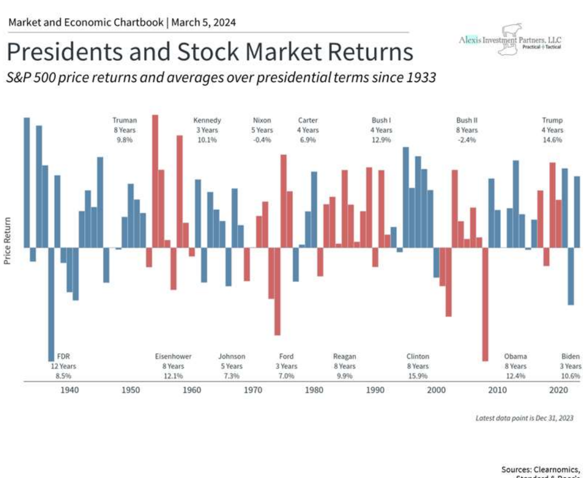


Insights and Commentary

Investing can be an emotional roller coaster leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants, (Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) summarized in the chart below:

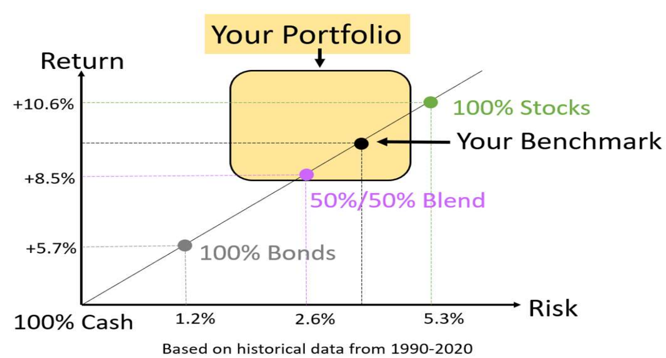


As the election year heats up, there are fundamental issues we should all focus on including our preferred role of government, various social services/issues, foreign policy, fiscal policy, economic policy…



Policy impacts economic growth and prosperity, but it is difficult to credit either party with an advantage in terms of stock market performance during their tenure.

Risk/Return Expectations



This graphic serves as an important reminder that our goal is to add value (generate higher risk-adjusted returns) through full market cycles by allowing our portfolios to deviate from benchmarks. We base allocation decisions on an assessment of both risk and return potential.

Portfolios are based on client needs, goals, and preferences.

Update, Observations, Indicators and Outlook:

In terms of our Market Pulse (right), the Bull Market case remains intact. In bull markets, we anticipate and manage pullbacks and corrections, but our focus is to participate in the growth potential of various investments that trend higher.

Economic growth has exceeded most expectations and inflation is above the Fed's 2% target. Some question if the Fed should ease or hold. We believe the picture below is a good analogy to current monetary conditions. Restrictive interest rate policy is like a weight on the back of the economy.

Although the weight is tough to carry, businesses and consumers are resilient, but both are getting weary, and progress is certainly below potential. Failure to normalize policy in a timely way is dangerous.

If the Fed waits too long, fatigue may be extreme, and it takes time to recover from potential injury. We believe the Fed understands this and expect relief later this year.

2 signs that the bull market is sustainable will be normalization of the yield curve (long-term rates yielding more than short-term rates) and markets shifting to favor good news (earnings and GDP growth…) over bad news (layoffs, other signs of stress). This also tends support broadening leadership. This will take time.

Strong performance from Nvidia and other tech leaders has sparked a focus on AI. We embrace the hope that AI will help promote productivity and expect significant continued investment in related technology. That said, our experience in the internet cycle of the late 1990s cautions against narrowing our investment focus. If AI meets its potential, the rewards will be felt across a range of industries – offering a broad spectrum of investment opportunities.

We appreciate your continued confidence and look forward to your questions and comments.

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). We can expect periodic pullbacks and corrections, but these should be relatively short and shallow – followed by resumption of the up-trend.

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3-6 months. The 2023 Sept/Oct correction is over.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18-24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from. The October lows marked the trough of the 2022 Bear Market.

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also have relationships and resources to help with life and LTC insurance and annuities.

Jason acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.

Disclosures

This material is for informational purposes only. Statements of future expectations, estimates, projections, and other forward-looking statements are based on available information and Jason Browne's view as of the time of these statements. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties.

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Mutual funds and other securities may distribute taxable dividends and capital gains to investors. Taxes on such items can affect the returns realized from such investment income received from certain investments may be subject to the Alternative Minimum Tax (AMT). Please consult with your tax advisor before making any investment and consider the effect that taxes may have on returns.

Rebalancing assets in a portfolio can have tax consequences. Selling assets in a taxable account may result in a taxable gain. Alexis Investment Partners, LLC. is neither a law firm nor a certified public accounting firm and no portion of this newsletter should be construed as legal or accounting advice.

AIP Composite Performance is calculated by Black Diamond based on the performance of all discretionary managed accounts with a Growth and Income objective that are assigned a 70/30 benchmark. Performance is net of all fees and expenses. From April 30, 2019, until Alexis Investment Partners, LLC registered with the SEC as an investment advisory firm in May 2021, Jason Browne offered advisory services using Alexis Investment Partners, LLC as a trade name through Sowell Management, LLC an SEC Registered Investment Adviser. Alexis Investment Partners, LLC and Sowell Management, LLC are independently owned and operated.

Alexis Investment Partners, LLC. does not guarantee performance for any investment recommendation. Investors should consider investment objectives, risks, charges, and expenses before investing. Funds are selected for clients based on their individual goals and preferences and therefore some of the funds discussed in this newsletter may not be held in your portfolio.

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