

Market Summary & Outlook



Recap

The global business cycle remains in expansion, with increasing signs of improvement

Global economic indicators continue to show expansionary trends across major economies, including positive GDP growth rates and increasing industrial production. Supportive factors include accommodative monetary policies, fiscal stimulus measures, and rebounding consumer and business confidence levels. Despite some headwinds such as geopolitical tensions and supply chain disruptions, the overall trajectory remains positive with sustained growth momentum.



Solid consumer backdrop supports the U.S. late-cycle expansion phase

Consumer spending remains robust, fueled by healthy employment levels, rising wages, and strong consumer sentiment. Key indicators like retail sales, housing market activity, and consumer credit expansion indicate sustained consumer demand and confidence. Evidence of mid-cycle dynamics, such as hawkish momentary policy shifting more neutral and inventories growing, suggests the economy may have leap-frogged the worst of 2023/2024 recession fears.



“Last mile” of disinflation toward the Fed’s 2% target may be difficult

The Federal Reserve's target of 2% inflation may be challenging to achieve in the near term, as inflationary forces remain resilient with three “hot” prints in a row despite the Fed’s efforts to cool the economy through their monetary policy tools.



Big gains by the largest stocks continue to push equity markets higher

The top 7 stocks in the S&P 500 saw price appreciation of 143% since the start of 2023 through Q1, 2024. Representing a +120% delta from the remaining S&P components, which managed just a 23% gain during the same period. However, the concentration driven gains among the top 7 has begun to widen, as increased breadth in stock returns have narrowed YTD, with the top 7 stocks achieving a 17% return vs. 9% for the rest of the field in the first quarter of 2024.

ABOUT THE FIRM

Virtus Capital is an independent investment advisory firm serving high net-worth individuals, families, and business owners.

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Performance

| Equity Benchmarks | Returns as of 3/31/24 | | Bond/Commodity Benchmarks | Returns as of 3/31/24 | |
|-----------------------------------|-----------------------|--------|----------------------------------|-----------------------|--------|
| | 3 Month | YTD | | 3 Month | YTD |
| S&P 500 PR | 10.16% | 10.16% | Bloomberg US 1-5 Year Treasury | -0.04% | -0.04% |
| DJ Industrial Average PR | 5.62% | 5.62% | Bloomberg US 5-10 Yr Treasury | -0.74% | -0.74% |
| Nasdaq Composite PR | 9.11% | 9.11% | Bloomberg US Inflation Protected | -0.08% | -0.08% |
| Vanguard Balanced Composite | 5.62% | 5.62% | Bloomberg US Aggregate Bond | -0.78% | -0.78% |
| MSCI AC World Index | 8.88% | 8.88% | Bloomberg 10 Yr Municipal Bond | -0.54% | -0.54% |
| Spliced Total International Index | 4.34% | 4.34% | Bloomberg Commodity Index TR | 2.19% | 2.19% |

*Data Source: Morningstar and Vanguard Funds

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Stock Talk

Our high-conviction thoughts for the upcoming market-cycle and where we see potential areas of competitive advantage or business challenges.

Virtus Capital’s tactical approach to portfolio design begins with a high-level qualitative analysis of market trends to uncover misunderstood areas of opportunity and underrecognized value. After identifying broad segments of interest, a sector specific, multi-factor fundamental analysis drives the portfolio’s selections and strategic asset allocation. Our disciplined and thoughtful investing style produces a repeatable, rules-based process that helps better identify and capture medium to long-term underappreciated market trends.



Additions

BMI
PRU

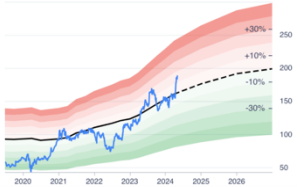


Subtractions

Ben

Badger Meter, Inc. (BMI) – Technology – Buy (Argus Research)

GuruFocus Value



Price Target - \$204, Manufacturer and marketer of products incorporating flow measurement, quality control, and other system solutions serving oil, chemical, and other fluids markets. **BMI** possesses strong growth metrics, with future EPS growth projected at

15.57% over the next 12-month period. Badger’s stock price may be slightly over valued in the short term, however, it’s long-term profitability in operating margin and zero-debt position on the balance sheet make BMI an attractive long-term hold as an infrastructure spending play.

Prudential Financial (PRU) – Financial – Hold (Consensus Rating)

GuruFocus Value



Price Target - \$111.38, A large, diversified insurance company offering an array of insurance products and investment solutions, Prudential’s current dividend yield and payout history make this stock an attractive security for the yield-

seeking investor. Given its historical price stability relative to its sector, the company has strategically repositioned its business units and focused on its core insurance products and institutional retirement strategies segments to produce attractive investor yields and an overall diversified revenue stream. Analysts estimates of 12-month forward EPS and revenue growth rates of 10.10% and 5.63% suggest stable financial growth for Prudential, relative to its historical 5-year financial data.

Franklin Resources (BEN) – Financial – Sell (Consensus Rating)

GuruFocus Value



Price Target – \$25.54, climbing debt and decreasing revenues are creating financial headwinds for one of the largest U.S. based asset managers, with over 1.3T in assets under management at the end of 2023. Margin compressions has been a

headline profitability risk for global asset managers in the late 2010s, and firms like Franklin Resources have struggled to either cut costs or grow assets fast enough to offset this increasingly competitive service sector. In the short run, returns for investor appear challenged, as analysts estimates project negative EPS growth in the coming 12 months and negative cashflow available for dividends.

Market Commentary

Global Markets

“Our initial skepticism regarding the necessity of six rate cuts at the onset of 2024 has been reaffirmed...”

Stocks maintained their upward trajectory in the first quarter, delivering strong returns across major indices. The S&P 500 surged by over 10%, achieving multiple new record highs. This period witnessed a significant shift in investor sentiment, with expectations for interest rate cuts in 2024 reduced from six to three, reflecting a slowdown in inflation progress and the resilience of the expanding U.S. economy. Our initial skepticism regarding the necessity of six rate cuts at the onset of 2024 has been reaffirmed, emphasizing the need for investors to recalibrate their expectations for rate cuts this year.

The equity market demonstrated robust performance, notably with the S&P 500 Index posting a remarkable 10.16% gain in the first quarter. Despite concerns stemming from the Federal Reserve's aggressive interest rate hikes in January 2022, which triggered a market selloff in 2022, the S&P 500 Index has consistently surpassed previous all-time highs in 2024, underscoring the market's resilience and bullish sentiment.

Inflation's downward trajectory slowed during the first quarter, contrary to market expectations. While inflation continued to decrease, the pace of decline was not as rapid as initially anticipated. Rising oil prices contributed to a notable increase of over 20% in gasoline prices, signaling potential headwinds to the disinflation process and introducing uncertainties about future inflation trends.

“Bond markets experienced declines in the first quarter, reflecting investors' reassessment of the.” need for interest rate cuts...”

Investor expectations regarding interest rate cuts in 2024 have undergone adjustments, aligning more closely with the Federal Reserve's forecast of three cuts. Factors such as the deceleration in inflation progress and the robust performance of the U.S. economy have influenced this recalibration of expectations.

Bond markets experienced declines in the first quarter, reflecting investors' reassessment of the need for interest rate cuts amid the U.S. economy's resilience. Rising Treasury yields resulted in losses in bond prices as investors adjusted their expectations. The Bloomberg U.S. Bond Aggregate Index declined by 0.78% during the quarter, marking a reversal from the previous quarter's gains.

Outlook

The equity market's outlook remains optimistic, buoyed by the strong performance witnessed in the first quarter. The S&P 500's impressive gain of 10.16% underscores the market's resilience and bullish sentiment. While small-cap stocks underperformed, most sectors of the S&P 500 posted gains, with cyclical sectors leading the way. However, international stocks continued to

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lag behind U.S. equities, possibly due to their limited exposure to leading AI companies and varying economic conditions across different regions.

Key investment themes observed in the first quarter are expected to persist, with stocks maintaining their upward trajectory and the U.S. economy continuing to expand. The reduction in expectations for interest rate cuts reflects growing confidence in the economy's ability to withstand higher rates. Unique factors such as unprecedented stimulus measures, tight labor market conditions, and evolving inflation dynamics are shaping this economic cycle, with potential long-lasting impacts on monetary policy and market trends. Earnings season for the first quarter is anticipated to show growth, albeit with vigilance needed to ensure corporate earnings meet expectations amid elevated stock market valuations and ongoing geopolitical risks. As we navigate through these dynamics, close monitoring of market developments and prudent portfolio adjustments remain imperative. Virtus Capital helps investors achieve their unique financial objectives through customized, research-driven portfolios.

Q1, 2024 Quote:

“How many millionaires do you know have become wealthy by investing in a savings accounts? I rest my case.”

-Robert G. Allen

Author and Investment Advisor

About the Author



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Managing Executive of Virtus Capital, Jon is a Certified Plan Fiduciary Advisor, CPFA[®] and holds a master's degree in finance from Georgetown University. He is passionate about helping individuals and organizations reach their vision of success. Jon leads a team of experienced financial professionals, delivering premier investment advisory and retirement plan consulting services across the nation. Virtus Capital is an independent investment fiduciary firm that provides organizational decision makers and high-net-worth investors objective, expert financial advice to accomplish their goals and objectives.

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Quarterly Market Update – 1Q, 2024

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Sources

- (1) Guru Focus Graph and data BMI: <https://www.gurufocus.com/stock/BMI/summary>
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