D|A|DAVIDSON
WEALTH MANAGEMENT

Market & Economic Outlook 2024 – April Update: Risk and Reward

1Q24 Returns (12/31/23 - 3/31/24)	Value	Price Return	Total Return*	All-Time High	Date of All-Time High
S&P 500	5,254.35	10.2%	10.6%	5,254.35	3/28/2024
Dow Jones Industrial Average	39,807.37	5.6%	6.1%	39,807.37	3/28/2024
NASDAQ Composite	16,379.46	9.1%	9.3%	16,428.82	3/22/2024
Russell 2000	2,124.55	4.8%	5.2%	2,442.74	11/08/2021
MSCI EAFE (USD)	2,346.84	4.9%	5.8%	2,398.71	9/06/2021
MSCI Emerging Markets (USD)	1,040.39	1.6%	2.2%	1,444.93	2/17/2021

**Total Return includes dividends and assumes reinvestment* — *Data Source: FactSet; Closing prices as of 3/31/2024*

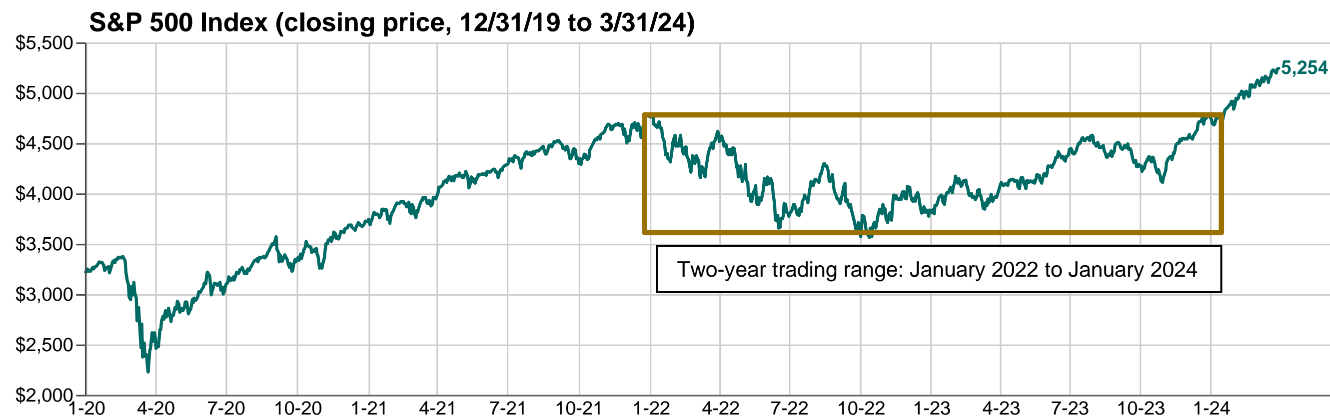
Outlook Summary:

After U.S. equity markets largely exceeded expectations in the first quarter of 2024 (1Q24), we have increased our S&P 500 fair value estimate. However, our outlook remains tempered as we believe that investors should moderate equity market return expectations. Our S&P 500 fair value estimate moves to 5,000, within a potential range of 4,600 to 5,400. Largely due to resilient consumer spending, major equity indices moved higher in 1Q24, building on 2023 gains. Strong U.S. economic data (mostly jobs gains and consumer spending) in January and February followed robust 2023 U.S. gross domestic product (GDP) and investor sentiment appropriately surged higher. We believe that recent equity market gains reflect a view that the U.S. economy will continue to exceed expectations, corporate earnings (S&P 500) will achieve double-digit percentage growth in 2024 and 2025, and consumer inflation will trend toward the Federal Reserve Bank's (Fed) 2.0% target, supporting lower interest rates. This has led to an elevated market valuation (comparing long-term average multiples of earnings estimates) that assumes continued strong data. Factors that could weigh on investor sentiment and limit equity market upside in the quarters ahead include higher inflation data, U.S. Treasury yields that also trend higher, slowing consumer spending, and concern regarding increasing federal budget deficits fueled by government spending. As we look ahead, the risk versus reward appears balanced.

Given market volatility and unpredictable timing of tops and bottoms, we advocate that investors maintain equity exposure, monitor portfolios to upgrade quality (defendable market positions, resilient profitability, and strong balance sheets), and maintain desired diversification. Use market volatility as an opportunity to rebalance portfolios by trimming overweight positions and adding to underweight (relative to objectives) positions. Below are five bullet points summarizing our expectations for the year, as of April 2024.

1. Our S&P 500 fair value estimate is 5,000, which is also at the midpoint of our potential 2024 fair value range of 4,600 to 5,400.
2. Elevated valuations could limit additional equity market gains, but we expect improved relative performance for the "average stock."
3. Early 2024 economic data was boosted by strong jobs data and growth in real wages. A 2024 recession is unlikely.
4. We see the Federal Reserve Bank (Fed) lowering short-term interest rates in 2024, but at a slower pace than expected in January.
5. Over the near-term, stronger economic data can be good for equities in cyclical sectors.

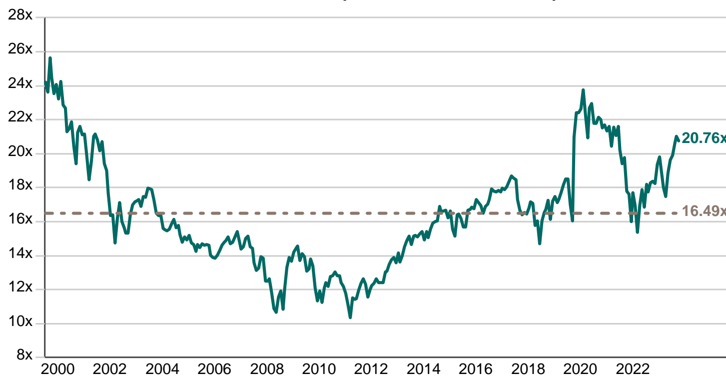
First quarter review. The S&P 500 gained +10.6% (total return, including dividends) in 1Q24, leading the way as most major U.S. equity indices also moved higher. Following a 4Q23 total return of +11.7%, the S&P 500 posted back-to-back quarters of double-digit percentage gains for the first time in 12 years (since 1Q 2012). The U.S. economic outlook firmed to begin the year (consensus estimates for 2024 GDP growth moved higher), so perhaps continued equity gains were to be expected. More surprising was continued equity market gains despite U.S. interest rates moving meaningfully higher as month-to-month (M/M) inflation improvement stalled, and investors softened expectations for the timing (later) and magnitude (fewer) of expected reductions in the Fed's overnight bank lending fed funds interest rate target. The rally extended, in our view, because investors believe stronger-than-expected GDP growth can drive upside to earnings estimates, an outlook boosted by elevated technology investment (Generative AI). Sector participation broadened in the quarter, although the Equal Weight S&P 500 (gives each S&P 500 constituent an equal weight compared to the broad index, which assigns weights based on market value) total return of +7.9% lagged the broad index. During 1Q24, when the S&P 500 moved above 4,800 on 1/19/24, the index closed at its first new all-time high in two years. This contributed to hope that a new positive market cycle is underway. From 1/19/24 to 3/31/24 (closing level 5,254), the S&P 500 made 21 new closing highs and gained an additional +8.6%. Equity gains saw only minimal resistance during the quarter, with the S&P 500 having just three individual trading days that declined more than -1.0%, and the largest multi-day pullback was just -1.7%.



Data Source: FactSet as of 3/31/24. S&P 500 daily closing prices, 12/31/19 to 3/31/24

Our S&P 500 fair value estimate is 5,000, which is also at the midpoint of our potential 2024 fair value range of 4,600 to 5,400. We increased our fair value (last updated in January) given stronger-than-expected economic data both in 4Q23 and from 2024 data released for January and February. This provides improving visibility for S&P 500 earnings growth in 2024, although the ultimate level of growth remains in question. Our fair value is 4.6% below the S&P 500 index level of 5,240 at the end of March; the high end of our range is 3% above the end of March level, while the low end is 12% lower. Our fair value estimate of 5,000 is 20.0x the next four quarters (2Q24 to 1Q25) FactSet consensus earnings estimate (as of 4/8/24) of $250 and 18.2x the 2025 consensus estimate of $275 (this is the price-to-earnings, or P/E, ratio). That P/E level is a 26% premium to the 16.5x forward P/E average over the past 24+ years (2000 to March 2024). The P/E average over the past 10 years (a period characterized by low interest rates and solid earnings growth) was a bit higher at 18.0x, but the 4/8/24 forward P/E of 20.8X is still 16% above that average. Just three months ago, we attributed an accelerating P/E ratio in late 2023 to lower long-term interest rates in the fourth quarter (as measured by the U.S. 10-year Treasury yield) as yields declined rapidly in November and December from 15-year-high levels in October 2023. While interest rate trends are difficult to predict across economic environments, in stable conditions, lower interest rates, in theory, increase the present value of future cash flows and support higher equity valuations. In the first quarter, to our surprise, equities rallied while interest rates surged higher. We attribute higher 1Q24 interest rates to rising 2024 GDP expectations as economic data through February remained robust. A strong economy should support improving corporate performance even in a higher interest rate environment, and that appears to be the market's interpretation in the first quarter. We view elevated interest rates as a risk, however, as we believe this could weigh on economic growth by raising interest expense and restricting credit.

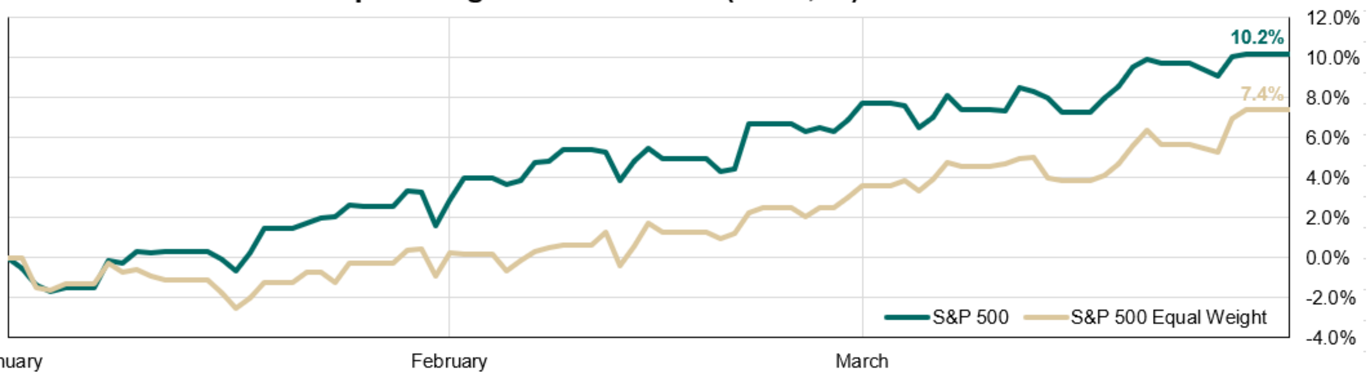
The 5,400 high end of our fair value range reflects 21.6x the next four quarters consensus EPS estimate and 19.6x the 2025 estimate. Upside to that value, in our opinion, would require either earnings results to exceed the current estimates of +11% and +13% growth (2024 and 2025, respectively) for the next two years, or for long-term interest rates to move lower again, along with economic growth. At this point, we assign a low probability to those outcomes. The 4,600 low end of our valuation range reflects 18.4x the S&P 500 next four quarters EPS estimate and 16.7x the 2025 estimate. Since 1980 (44 years), the average annual peak-to-trough decline for the S&P 500 was -14.3%. A pullback to 4,600 (a drop of -12% from 3/31/24 levels) would be modestly less than the average expected pullback in a calendar year. Market weakness could be caused by lower-than-expected earnings results, a reversal of improving inflation trends, or other factors such as worsening geopolitical tensions, uncertainty related to the 2024 U.S. presidential election, or increased risk related to ongoing federal budget deficits. In the current environment, with economic growth trending above expectations, we expect market pullbacks to be met with support (buying interest).



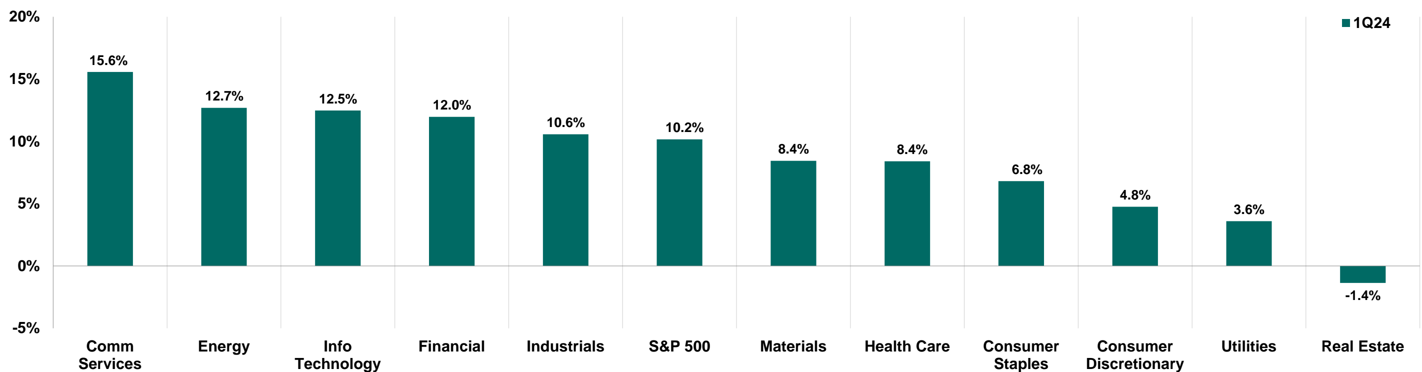
Data source: FactSet, using exchange data, as of 4/8/24. See Other Disclosures on page 8 for further discussion of P/Es and Treasury yields.

Elevated valuations could limit additional equity market gains, but we expect improved relative performance for the "average stock." While 2023 equity market gains saw major indices recover much of the 2022 decline, ultimately, returns were concentrated in favor of large-company, technology-centric growth stocks. This coined a new term for the seven largest (ranked by equity market value) companies: the "Magnificent 7." From a sector standpoint, all S&P 500 companies are categorized into one of eleven Global Industry Classification Standards (GICS) sectors (as developed by MSCI and S&P Global). In 2023, while the S&P 500 index gained +24.2% on a price basis, three sectors were negative for the full year, and just three sectors (Technology, Communications Services, and Consumer Discretionary) posted gains that exceeded the index return. Another analysis revealing narrow participation in favor of large companies is to evaluate the Equal Weight S&P 500 index (EW S&P) as it allows us to measure the performance of the "average stock." In 2023, the EW S&P gained +11.6%, which was significantly below the market capitalization-weighted S&P 500. Entering 2024, there was some optimism that equity gains would broaden to include more companies, as was the case in December 2023 when the EW S&P performed better than the S&P 500.

In 1Q24, 10 of the 11 GICS sectors were positive, and 5 of the sectors increased more than the S&P 500's +10.2% price gain. While Technology and Communications Services remained on the leader board, also beating the index were Energy, Financials, and Industrials. Among the Magnificent 7, two of those companies traded lower in the quarter. This suggested improved participation from the average stock, however, the S&P EW still lagged, with an increase of +7.4%. Concentrated gains (although to a lesser degree) have continued as investors recognize that large, technology-centric companies have increased investment to support initiatives in generative artificial intelligence (GenAI), leading to gains both for suppliers (semiconductors and software) and for the users of the technology. Ultimately, the GenAI suppliers will need to show sustained growth in their revenue streams (with a risk being that strong spending to support GenAI's initial phase will slow), and the GenAI users must show either a profitable revenue segment from the investment or a meaningful increase in business productivity. Meanwhile, if economic growth exceeds expectations and more companies look to deploy GenAI solutions as an efficiency tool, we could see improved relative performance from the EW S&P. If we are correct in our outlook that the relative performance of the average stock will improve, we want to be diversified across sectors and include exposure to value stocks, in addition to growth stocks.



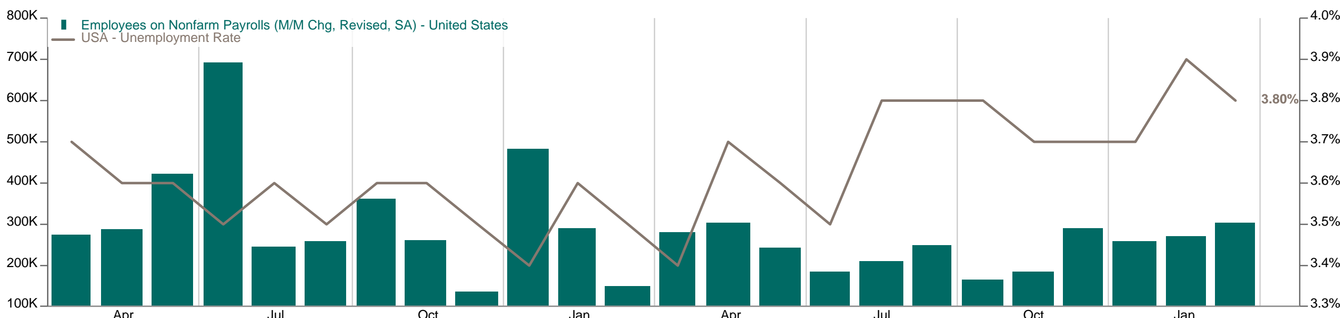
Data Source: FactSet as of 3/31/24. S&P 500 daily closing prices, 12/31/23 to 3/31/24. Price return does not include dividends. See Important Disclosures on page 8 for a description of the S&P 500 vs. the Equal Weight S&P 500.



Data Source: FactSet and S&P Global as of 3/31/24. Price return does not include dividends. See Other Disclosures on page 8 for a description of GICS sectors.

Early 2024 economic data was boosted by strong jobs data and growth in real wages. A 2024 recession seems unlikely. Despite solid economic growth to close out 2023, growth was expected to moderate in 2024. Full-year 2023 GDP growth (as reported by the Bureau of Economic Analysis, BEA) was +2.5%, but annualized growth in 4Q23 was +3.4% as output accelerated in the second half of the year. Despite the positive trends to end the year, the FactSet consensus estimates (as of 12/31/23) for 2024 (full year) and 1Q24 GDP growth were modest at +1.2% and 0.6%, respectively. While softer economic growth expectations could be partially attributed to slower business investment in the second half of 2023 versus the first half, as well as a view that government expenditures growth would slow, the primary caution stemmed from expectations that jobs growth would slow, creating a headwind to consumer spending. In December 2023, the U.S. unemployment rate was 3.8%, up from a low of 3.4% in April 2023, and the average monthly gain in new jobs (nonfarm payrolls as reported by the Bureau of Labor Statistics, BLS) averaged +212 thousand (K) in 4Q23, down from +301K in 1Q23, indicating a decelerating labor market to end the year. In 2024, however, monthly jobs gains reaccelerated (January +256K, February +270K, and March +303K) with the 1Q24 average monthly jobs gain at +276K.

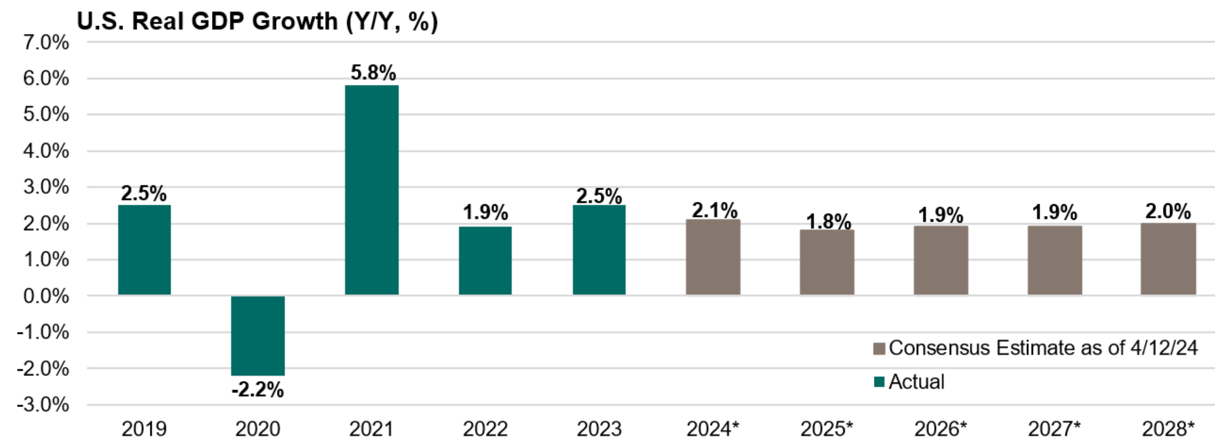
A significant contributor to sustained jobs growth above expectations over the past several months, in our opinion, was immigration at the U.S. southern border. The BLS' monthly employment surveys do not ask for immigration status, but the BLS acknowledges that its jobs survey likely counts many undocumented workers. The survey does measure foreign-born versus native-born workers, although country of birth does not confirm immigration status. On that front, over the past 12 months, jobs for foreign-born workers increased by +1.3 million, while native-born jobs decreased -651K. While the large increase in southern border immigration creates potential long-term economic and policy challenges, we believe it has added to GDP data in recent quarters.



Data Source: FactSet and Bureau of Labor Statistics (BLS) through 3/31/24, reported monthly. SA is seasonally adjusted. Nonfarm payrolls (jobs) are the net change reported in the BLS/Establishment Survey. Unemployment rate is from the BLS Household Survey. 2Q2022 to 1Q2024.

Along with jobs gains, consumer spending (from the BEA) increased +0.2% in January (month-to-month) and +0.8% in February, exceeding expectations. In addition, while consumer inflation (consumer price index, CPI, reported monthly by the BLS) hasn't improved much in 2024, the year-over-year percentage increase in wage gains (from the BLS) exceeded the inflation rate, so real wages (wage growth less the inflation rate) were positive in 1Q24, and for 11 consecutive months (since May 2023), driving a near-term increase in purchasing power. This contributed to an increase in GDP estimates; as of 4/10/24, the FactSet consensus estimates for 2024 (full year) and 1Q24 real GDP growth were +2.0% and +2.1%, respectively.

Not too long ago (mid- and late 2023), as the Fed was raising short-term interest rates to battle inflation, we debated the potential for a hard landing (potential recession, reflecting negative GDP growth) versus a soft landing (positive, but low, GDP growth of +1.0% or less). Given the 4Q23 and 1Q24 trends discussed above, Wall Street consensus expectations for a hard landing have evaporated and focus shifted to a soft landing versus no landing scenario. We view a no landing economy as U.S. economic growth remaining at +2.0% or higher. Should economic growth continue to beat estimates, perhaps driving GDP above +2.0% this year, we see it as a catalyst for earnings growth and further gains in equities. In addition, government spending trends have not abated, which at least in the near-term (2024) provides additional economic stimulus. 2024 state and local entities comprised 29% of all U.S. net jobs growth in 1Q24, and the federal budget deficit through the first half of fiscal 2024 (October 2023 to March 2024) was -$1.06 trillion (data from Congressional Budget Office and U.S. Treasury) as spending increased +3.3%. While a 2024 recession appears increasingly unlikely, we continue to see risks (led by high interest rates) and potential vulnerability in 2025, so we would not be surprised to see a new hard landing versus soft landing debate emerge later this year.

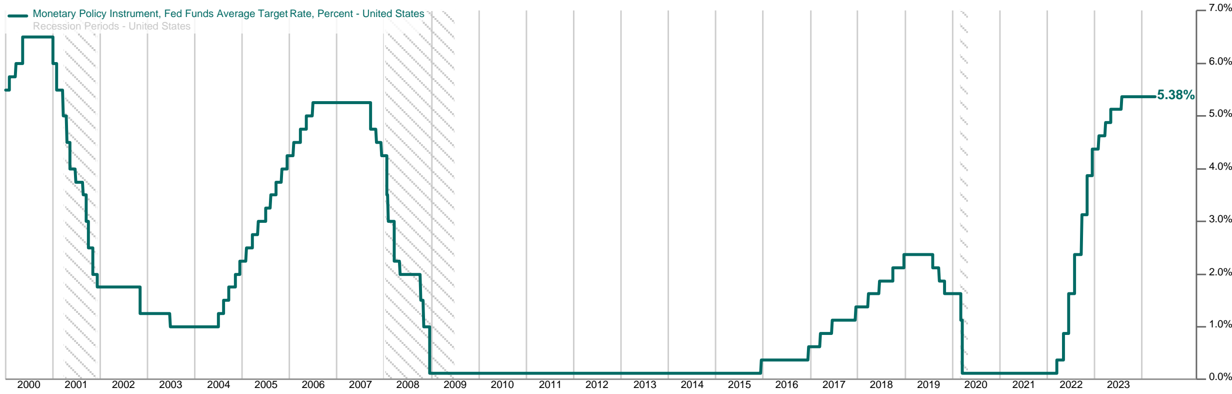


Data Source: FactSet consensus estimates and Bureau of Economic Analysis, as of 3/31/24. Chart shows annual real GDP reported by the BEA, 2019-2023 (green bars), and FactSet consensus estimates, 2024-2028 (gray bars).

We see the Federal Reserve Bank (Fed) lowering short term interest rates in 2024, but at a slower pace than expected in January. Among the most widely followed economic stories of the past three years was a sustained increase in consumer inflation that began in April 2021, followed by the Fed raising its overnight fed funds interest rate targets (to combat inflation) beginning in March 2022. Although the Fed waited nearly one year to begin raising its 0% to 0.25% target range (essentially zero), by July 2023 (18 months), the fed funds target was 5.25% to 5.50%, where it remains today. We believe the Fed's tightening policy (higher interest rates) contributed to the deceleration in inflation. The CPI, which peaked at +9.1% Y/Y in June 2022, was +3.5% in March 2024. And core CPI, which excludes food & energy prices (less sensitive to interest rate policy), peaked at +6.6% in September 2022, and was +3.8% in March 2024. Higher interest rates have weighed on some segments of the economy, like housing and manufacturing, but the U.S. economy has avoided recession (to the surprise of many) and has accelerated in recent quarters. In December 2023, after the Fed's eighth and final Open Market Committee (FOMC) meeting of the year, Fed Chairman Jerome Powell, while acknowledging that inflation still remained above the Fed's 2.0% target, said that the fed funds target (5.25% to 5.50%) was overly restrictive and, at some point, it would be appropriate to lower the range to a more "neutral" level. We believe that a neutral level would support a fed funds rate closer to the core inflation rate (March core CPI of +3.5%), which would suggest substantial cuts in the fed funds target over time. In fact, a move in the fed funds target to 3.75% to 4.00% would require six 0.25% cuts, and in early January, bond investors were pricing in that possibility (the fed funds futures market can shed light on market expectations for a given point in time). However, inflation gains stalled in 1Q24. Headline CPI was higher in March than December and the M/M trends in core CPI have increased for the past four months. As of now, with economic growth exceeding expectations and inflation stable above +3.0%, or going higher, the Fed is likely to wait before starting the process of gradually lowering the fed funds target.

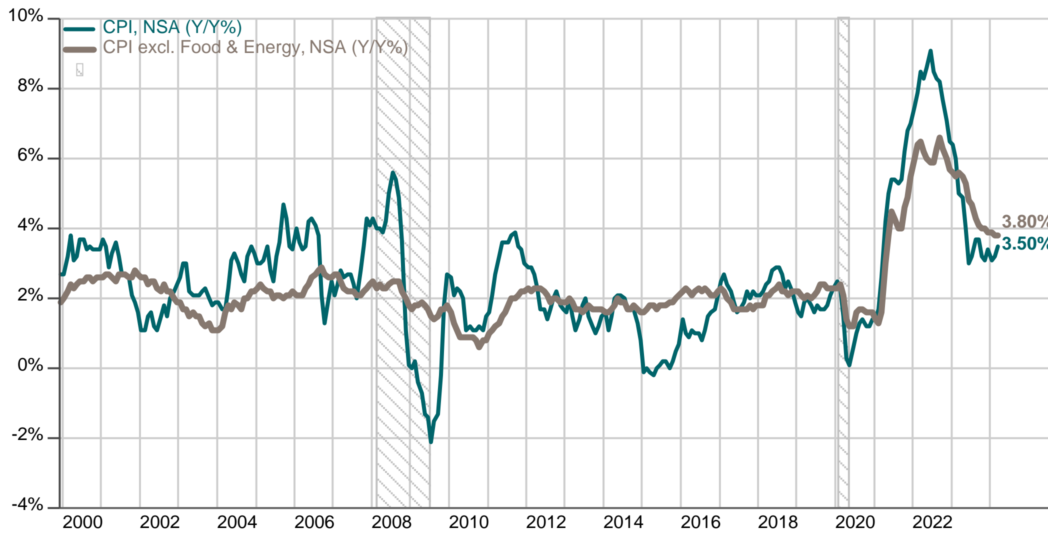
We now expect just two or three 0.25% cuts this year. The next four FOMC meetings in 2024 are 5/1, 6/12, 7/31, and 9/18. Assuming no change at the May meeting, we could see the first cut in June, but more likely July. September is the final meeting prior to the 2024 presidential election (election date 11/5/24), and we expect some activity before then. By waiting, the Fed risks an interest rate-driven shock to the economy (perhaps caused by a corporate bond default, commercial real estate losses, or rising interest expense on the federal debt). If the economy were to slow dramatically, the Fed would be less likely to orchestrate an orderly decrease in the fed funds rate target and could be forced to make an emergency large cut. On the other hand, by cutting too soon, the Fed risks a return to surging inflation (reminiscent of the 1970s) and ultimate economic hardship caused by even higher interest rates. We will take Chairman Powell at his word that the Fed is more concerned about renewed inflation than economic weakness at this point; even if inflation data begins to move lower again, the Fed will wait a few months to confirm the trends. This means that fed funds rates, as well as other market-traded yields such as the U.S. 2-year and 10-year Treasury notes, are likely to remain higher for longer. Ultimately, we expect the Fed to bring interest rates lower, although history tells us that is often associated with a weakening economy.

U.S. Federal Reserve Bank Fed Funds Target, 2000 to 2024



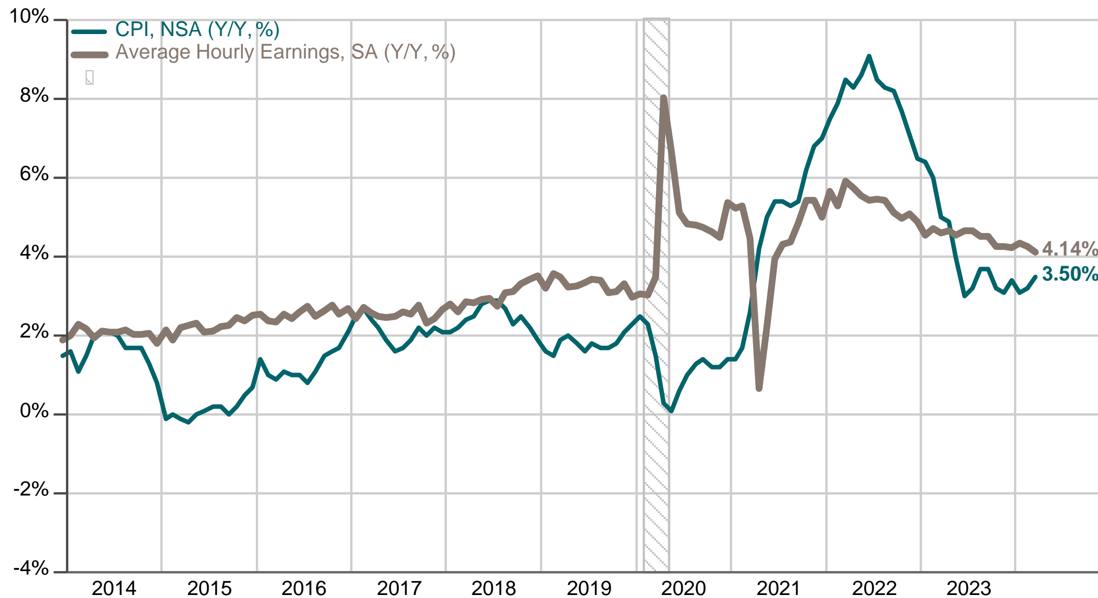
Data source: FactSet and Board of Governors of the Federal Reserve System, as of 3/31/24. Prior to December 2008, the Fed provided a single point fed funds target (shown on the chart). Since December 2008, the fed funds target is given in a 25 basis point range (chart shows the average).

Consumer Inflation (2000 to 2024, Monthly)



Data Source: FactSet, Bureau of Labor Statistics, 2020 to 2024. Monthly year-over-year (Y/Y) change in the consumer price index (CPI).

Real Wages: Average Hourly Earnings Less CPI



Data Source: FactSet, Bureau of Labor Statistics for average hourly earnings (AHE) and CPI, 2014 to 2024. Monthly year-over-year (Y/Y) change.

Over the near-term, stronger economic data can be good for equities in cyclical sectors. From the S&P 500's bear market low in October 2022 through 3/31/24 (17 months), the index gained +46.9% (at the 10/12/22 market closing low, the S&P 500 declined -25.4% from the high, and ultimately finished 2022 down -19.4% for the year). Also, from the low, all 11 S&P 500 GICS sectors were higher but were led by +87.1% for the Technology sector and +76.6% for Communication Services. At the same time, since 10/12/22, Utilities increased just +6.8% and Energy grew +17.1%. In general, growth stocks (defined as higher-than-average expected earnings) outperformed value stocks (generally stocks that trade at a low valuation, often P/E, relative to estimated intrinsic value). The Technology and Communication Services (as of 3/31/24) sectors comprised 55% of the total weight of the Russell 1000 Growth index, and 39% of the market capitalization of the S&P 500. These two growth sectors have clearly driven overall index gains, with sector performance aligning with earnings growth expectations. Using FactSet consensus estimates, as of 4/8/24, S&P 500 earnings (weighted average of estimates for all constituents) are estimated to increase +11.2% Y/Y versus 2023. Communications Services (2024 estimate +18.0%) and Technology (2024 estimate +17.6%) lead all sectors in 2024 expected growth and for 1Q24, against an overall S&P 500 expected growth rate of +3.5%, Communication Services and Technology estimates are +25.7% and +20.0%, respectively. Intuitively, market gains in these sectors make sense as investors will pay higher valuation multiples for sustained, above-average growth. Strong gains could continue if high expectations are met and exceeded, but this also creates both earnings (if results disappoint) and valuation (if investors decide to pay lower multiples) risk. Given the economic strength to begin 2024, we could see positive earnings surprises, driving opportunity in sectors and companies where expectations are low.

A byproduct of the firming 2024 economic outlook is a potential boost to earnings of companies that are more directly impacted, or sensitive, to the business cycle. These often are called "cyclical" sectors as their revenue and earnings results tend to perform better than average in a strong economy and decline more than average in a downturn. While the Technology and Consumer Discretionary sectors exhibit cyclical characteristics, typically the more exposed cyclical sectors are Financials, Industrials, Materials, and Energy. Collectively, these four sectors comprised 28% of the market capitalization (as of 3/31/24) of the S&P 500 and should be included in most diversified equity portfolios, in our view. 2024 earnings growth estimates for most of these cyclical sectors are uninspiring. Against the expected 2024 Y/Y S&P 500 earnings growth estimate of +11.2%, the Financials sector earnings growth estimate is +11.5% (slightly better than the index), but Industrials earnings are estimated to grow +7.6%, and both Materials (-2.1%) and Energy (-5.0%) are estimated to see Y/Y earnings declines. These relatively low, or conservative, estimates create an opportunity for earnings growth upside surprises (helped by strong GDP data) and rising estimates.

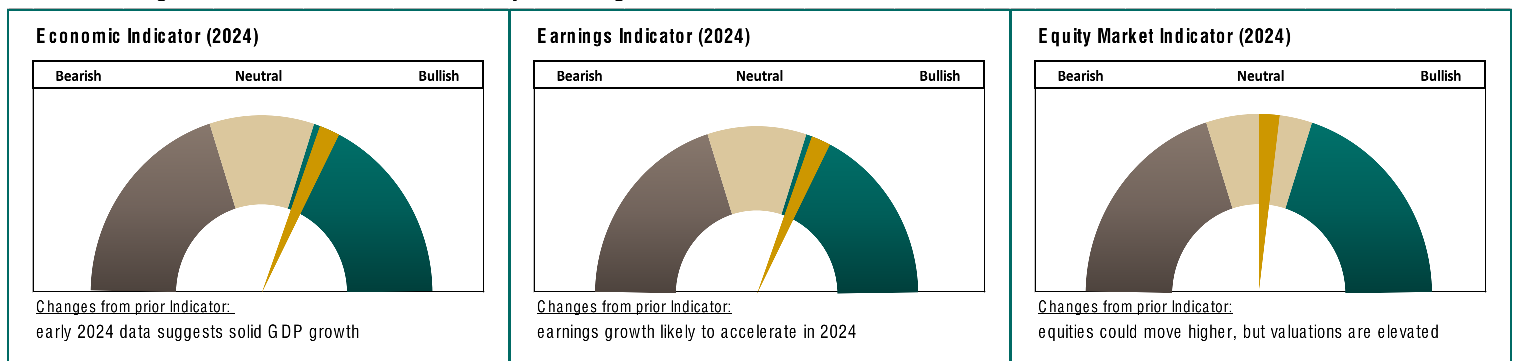
Sector weightings. Given our view that cyclical sectors could be positioned to exceed expectations in future quarters, we have a more constructive view of Industrials, Materials, and Financials. At the same time, the early 2024 increase in interest rates creates some headwinds for interest rate-sensitive (compared to dividend yields) sectors including Utilities and Real Estate. In addition, we continue to see value in having exposure to Consumer Staples if economic data softens; we have moved the sector to market-weight from overweight. As always, we advocate for diversified portfolios of high-quality companies across major sectors, and when building sector holdings, diversify within the subindustry group. The sector weights in the table below show the composition of the S&P 500 index, as of 4/10/24.

S&P 500 Sector Recommendations - April 2024

GICS Sector	S&P 500 Weight by Market Cap	WM Research 2024 Outlook	Notes (reflect current expectations and are subject to change)	Change
Technology	29.5%	marketweight	high relative valuations, strong results powered by Gen AI and software investment	
Financials	13.0%	marketweight	higher short-term rates could pressure cost of deposits, better economy drives loans	was underweight
Health Care	12.1%	marketweight	mixed performance in 2023, expect some caution in an election year	
Consumer Discretionary	10.3%	marketweight	be selective, stick with leaders, still expect moderating consumer spending	
Communications Services	9.3%	marketweight	look beyond the large-cap leaders, digital ad spending to accelerate (election year)	
Industrials	8.8%	overweight	will benefit from upside GDP growth in the U.S. and Europe	was marketweight
Consumer Staples	5.9%	marketweight	valuations now elevated, dividends attractive, defensive	was overweight
Energy	4.2%	marketweight	tough Y/Y earnings comparisons, but oil prices rising and balance sheets are solid	
Materials	2.4%	overweight	can benefit from GDP upside, gold and copper at recent highs, look for value add	was marketweight
Real Estate (REITs)	2.2%	underweight	valuations are stretched after big year-end (2023) rally, debt costs are rising	
Utilities	2.2%	marketweight	benefits from energy infrastructure demand, but higher interest rates a headwind	was overweight

Data source: D.A. Davidson Wealth Management Research, as of 4/10/24.

Wealth Management Research Investment Cycle Gauge



Data Source: D.A. Davidson & Co., as of 4/10/24

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

Important Disclosure: Information contained herein has been obtained by sources we consider reliable but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of the data available to us at the time of the original publication of the report. These opinions are subject to change at any time without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return, and yield. Investors should also remember that past performance is not necessarily an indicator of future performance and D.A. Davidson & Co makes no guarantee, expressed or implied, to future performance. Investors should consult their Financial and/or Tax Advisor before implementing any investment plan.

Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Russell 1000® Growth Index is a market cap weighted index that measures the performance of the large-cap growth segment of the U.S. equity market. It includes those Russell 1000 companies with relatively higher price-to-book ratios and higher expected earnings growth rates. The Russell 1000® Value Index includes those Russell 1000 companies with relatively lower price-to-book ratios and lower expected earnings growth rates. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

Other Disclosures: The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

The annual price returns of the S&P 500 index are calculated using index closing value on 12/31 of one year to 12/31 of the next year. 2024 returns are calculated as of 3/31/2024. Intra-year, peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The Federal Reserve Summary of Economic Projections (SEP) is sourced from federalreserve.gov, as of 3/31/24. Year-over-year projections of changes in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the first quarter of the previous year to the first quarter of the year indicated. Projections for the unemployment rate are for the average civilian unemployment rate in the first quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The Summary of Economic Projections is compiled from Federal Reserve Board members and Federal Reserve Bank presidents.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE).

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle, and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months" and also looks at the depth, diffusion, and duration of the downturn.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The BLS also publishes the Job Openings and Labor Turnover Survey (JOLTS) which measures job openings, hires, and separations from a monthly survey of U.S. business establishments.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

Volatility looks at to what degree and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices, is often a sign of rising uncertainty.

The U.S. Census reports annualized monthly data on housing starts, permits, and completions. It is a widely followed measure to track construction activity in the residential housing market. New home sales measures sales of new single-family homes and is a measure of the demand for housing. Home price data is monitored by the S&P CoreLogic Case-Shiller Home Price Index.

We define a "bear market" as a peak-to-trough decline (using closing prices) of -20% or more. We generally use the S&P 500 index as a proxy for the broad market for large, leading U.S. companies.

Daily prices for West Texas Intermediate (WTI) crude oil from Cushing, Oklahoma are quoted daily on a price per barrel basis and are available from the U.S. Energy Information Administration.

We track a measure of wages, average hourly earnings of all private employees, which is calculated and reported on a monthly basis by the U.S. Bureau of Labor Statistics. The data measures average hourly earnings of all private employees on a "gross" basis (includes overtime and late shift work, but excludes benefits).

U.S. monthly receipts, outlay, deficit, or surplus are reported by the U.S. Treasury at fiscal.treasury.gov. Supporting data is also available from the Congressional Budget Office (CBO).

Generative Artificial Intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem solving and decision making. Early versions were often called "machine learning" and could sift through large data sets and accurately predict single outcomes. Now, generative AI goes further to utilize all forms of inputs. While still predictive models, generative AI can give detailed responses, much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities.