

# MARKET MINUTE

## WITH MCGAREL



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### Past performance is no guarantee of future results.

The **S&P 500 Index** is an index of 500 companies used to measure large-cap U.S. stock market performance. Indices are unmanaged and investors cannot invest directly in an index. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

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There can be no assurance past trends will continue or projections realized.

One of our favorite Yogi Berra sayings is “Nobody goes there anymore. It’s too crowded.” Momentum was the most dominant equity factor in February (see chart below). In fact, it has been the main factor behind the massive equity rally that started in late October that has added almost 1,000 points to the S&P 500 Index in four months. The momentum factor is also extremely crowded... but everyone is still going there. For now. While we employ the momentum factor in our research, we prefer a multifactor approach and also like to see tangible evidence why the momentum factor is working and can continue to outperform. That is where our concern lies.

Lower interest rates don’t explain it. The 10 year treasury started the year with a 3.88% yield and closed February at 4.25%. The forecast for potential interest rate cuts by the Federal Reserve continues to get pushed out and fewer rate cuts are expected than predicted at the start of this year.

While the S&P 500 Index 4th quarter earnings were strong and ahead of forecasts, that has not translated into higher forecasts for this year thus far. 2024 earnings projections for the S&P 500 Index were for \$236 dollars of profits at the start of the year and now sit slightly lower at \$235 at the end of February. So it appears to us that neither interest rates nor earnings are driving the gains so far this year.

The S&P 500 Index total return was 7.1% the first two months of the year. The index closed at 5,096 on February 29, 2024. The highest forecast of the 19 strategists we tracked to start the year was a year end target of 5,200. We are just 2% away from that level and it’s only been two months!

There is plenty of speculation in the market as well. Consider the massive move in Bitcoin (up 45% year-to-date) and the proliferation of ODTE (Zero days to expiration) options that have exploded and, in our mind, are daily lottery tickets where the long term return for most participants is easily forecast to be losses.

Our concern is investors are chasing momentum, speculation, and crowded trades and turning their back on risk. We know this much... when momentum and speculation ends, the crowd collectively looks for an exit and only those assets with some fundamental strength will find buyers. Prices can control the narrative on the way down just as easily as on the way up. Beware the risks when the momentum stops and the crowds all head for the door at the same time.

### Factor Returns vs. S&P 500 Index

	Mar '23	Apr '23	May '23	Jun '23	Jul '23	Aug '23	Sep '23	Oct '23	Nov '23	Dec '23	Jan '24	Feb '24	12 Month
Top	S&P 500 3.67%	S&P 500 1.56%	S&P 500 0.43%	Quality 9.84%	Value 6.76%	S&P 500 -1.59%	Low Vol -4.01%	Low Vol -1.59%	Mom 11.55%	Size 10.26%	S&P 500 1.68%	Mom 9.18%	S&P 500 30.45%
	Quality -0.27%	Low Vol 1.16%	Size -1.63%	Size 9.49%	Dividend Yield 5.68%	Quality -1.84%	Quality -4.51%	S&P 500 -2.10%	Size 10.69%	Value 9.52%	Low Vol 0.40%	Quality 7.01%	Quality 24.02%
3	Low Vol -0.54%	Dividend Yield 0.55%	Mom -1.78%	Value 8.23%	Size 5.02%	Low Vol -2.27%	Dividend Yield -4.52%	Dividend Yield -3.54%	S&P 500 9.13%	Mom 8.06%	Quality 0.18%	S&P 500 5.34%	Mom 21.83%
4	Mom -0.62%	Quality -0.02%	Quality -2.99%	Mom 8.12%	Quality 3.92%	Mom -3.00%	Value -4.63%	Quality -4.44%	Quality 8.74%	Dividend Yield 7.89%	Mom -0.65%	Size 4.51%	Size 12.81%
5	Size -3.37%	Value -0.27%	Low Vol -4.44%	S&P 500 6.61%	S&P 500 3.21%	Dividend Yield -4.03%	S&P 500 -4.77%	Value -4.76%	Value 8.69%	Quality 7.57%	Dividend Yield -2.05%	Low Vol 3.57%	Low Vol 10.06%
6	Dividend Yield -3.54%	Mom -0.31%	Value -4.97%	Dividend Yield 6.51%	Mom 2.44%	Size -4.30%	Mom -5.43%	Mom -5.75%	Dividend Yield 8.40%	S&P 500 4.54%	Value -2.48%	Value 1.87%	Dividend Yield 5.83%
Bottom	Value -6.60%	Size -1.39%	Dividend Yield -5.78%	Low Vol 5.62%	Low Vol 1.72%	Value -4.59%	Size -5.85%	Size -6.12%	Low Vol 6.47%	Low Vol 4.23%	Size -2.99%	Dividend Yield 1.60%	Value 4.82%

**Value:** Lowest price-to-book

**Momentum (Mom):** Highest 12 month price change

**Quality:** Highest return-on-equity

**Size:** Lowest market capitalization

**Low Volatility (Low Vol):** Lowest 1 year price variability

**Dividend Yield:** Highest dividend yield

Source: Capital IQ. As of 2/29/24. Returns are total returns. Universe: largest 1,000 U.S. firms with \$1 million in average daily volume over the last 3 months and 12 months of trading history. Top 30% of stocks by factor are selected. Stocks are then equally weighted. Chart is for illustrative purposes only and does not represent any actual investment.