

# 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.

<sup>1</sup>Source: S&P Capital IQ. As of 4/30/24.

<sup>2</sup>Source: Bloomberg. As of 4/30/24.

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.

“Sell in May and go away” is an old Wall Street adage you will be hearing a lot in the coming weeks. While we have never advocated timing the market, it is certainly rational to be nervous about the continued upward trajectory of US equities after the 21% increase over the last 6 months as of 4/30/24 in the S&P 500 Index including the 6% year-to-date (YTD) increase. This is especially true considering valuations are stretched, the Federal Reserve (Fed) is attempting to be restrictive, inflation is proving tough to tame and market leadership is heavily concentrated. Geopolitical worries in Russia and the Middle East along with the looming US election add further to investor angst.

If you don't want to read between the lines regarding the above, we will say it more clearly. The current risk/reward opportunity for US equities is not the best we have ever seen. It's easy to forget about diversification when the market continually goes higher. We believe it is often the case that investors that lose this focus are dealt a painful reminder in the inevitable correction.

The low volatility factor has been all but forgotten in the Artificial Intelligence (AI) powered rally of the last 17 months that began with the launch of ChatGPT in November 2022. Low volatility (low vol) was by far the worst performing factor in 2023 and followed that up with further underperformance in Q1 2024 (Exhibit 1). Given that underperformance, valuations in the low vol basket of stocks relative to the S&P 500 Index are at levels last seen following the Great Financial Crisis of 2008-09 (Exhibit 2). Low vol also has an attractive dividend yield of 2.2%<sup>1</sup> [S&P 500 Index yield is 1.4%<sup>2</sup>].

In the last 16 months, as of 4/30/24, the S&P 500 Index has outperformed the S&P 500 Low Volatility Index, a proxy for low vol stocks, by a factor of 10. Over that period, the S&P 500 Index returned 33.9% while the S&P 500 Low Volatility Index returned 3.4%. Low vol stocks have historically provided strong risk adjusted returns and benefitted investors by mitigating the downside during market corrections and, as implied by the name, lowering overall risk in investors' portfolios. We expect corrections and more volatility as we move through 2024. We believe adding some low vol exposure is a good way to potentially generate attractive risk adjusted returns at a time of increased market uncertainty.

### Exhibit 1: Factor Returns vs. S&P 500 Index

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Top</b>	Mom 45.09%	Low Vol 18.25%	Low Vol 5.08%	Value 25.78%	Quality 22.07%	Low Vol -3.15%	Quality 32.39%	Mom 34.47%	Div Yield 33.88%	Div Yield -3.74%	S&P 500 26.29%
<b>2</b>	Size 40.94%	Div Yield 17.09%	Mom 2.95%	Div Yield 23.12%	S&P 500 21.83%	S&P 500 -4.38%	S&P 500 31.49%	Quality 19.59%	Value 33.36%	Value -6.33%	Quality 22.62%
<b>3</b>	Quality 38.96%	S&P 500 13.69%	S&P 500 1.38%	Size 16.80%	Mom 20.18%	Mom -5.59%	Size 27.68%	S&P 500 18.40%	S&P 500 28.71%	Low Vol -6.70%	Size 20.30%
<b>4</b>	Value 36.54%	Quality 12.98%	Div Yield -3.16%	Low Vol 14.95%	Low Vol 18.61%	Div Yield -7.14%	Value 27.65%	Size 17.95%	Quality 25.62%	Quality -13.64%	Mom 13.46%
<b>5</b>	S&P 500 32.39%	Value 9.36%	Quality -3.34%	Quality 12.49%	Size 15.02%	Quality -8.80%	Div Yield 27.62%	Low Vol 4.16%	Low Vol 23.71%	Mom -15.50%	Value 12.63%
<b>6</b>	Div Yield 28.31%	Size 9.20%	Size -4.87%	S&P 500 11.96%	Div Yield 12.68%	Size -10.71%	Low Vol 27.48%	Div Yield -2.27%	Size 17.60%	S&P 500 -18.11%	Div Yield 9.59%
<b>Bottom</b>	Low Vol 26.30%	Mom 8.09%	Value -6.72%	Mom 7.11%	Value 12.67%	Value -13.94%	Mom 24.63%	Value -2.96%	Mom 13.00%	Size -18.99%	Low Vol 5.41%

**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 (Div Yield):** Highest dividend yield

Source: Capital IQ. As of 12/29/23. 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.

### Exhibit 2: Low Volatility Median Forward P/E Premium/Discount to S&P 500 Index



Source: S&P Capital IQ. Data from 1/31/00 - 4/30/24.