

Monthly Investing Update and Asset Allocation

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Welcome to Zacks Forecasts of Future Asset Class Returns

This monthly report provides the Zacks forecasts for all major asset classes and the details of our outlook.

As the firm's Chief Equity Strategist, I put together this report each month. I rely on a number of resources to come up with the individual asset class forecasts, including

- (a) Zacks proprietary models;
- (b) Input from the Zacks investment committee comprised of, besides myself, Mitch Zacks, senior portfolio managers at Zacks Investment Management, Sheraz Mian, the Director of Research, and the full team of stock strategists at Zacks.com;
- (c) Reviewing material produced by Zacks consulting economists, Consensus Economics, and San Francisco Fed "Fed Views";
- (d) Carrying out a Zacks survey of sell-side investment strategists and buy-side chief investment officers (CIO).

All information is integrated to arrive at Zacks Forecasts.

This report represents the "Zacks Forecasts" and outlook for the different asset classes. Look around page 37 for a summary.

For contrast, we deploy a quarterly "Chief Investment Officer" or CIO survey. This is called the "Strategist Forecasts of Future Asset Class Returns". Their responses show you consensus forecasts and outlooks for the same asset classes.

Together, they provide Zacks Forecasts and Consensus Outlook details about U.S. and global GDP growth outlook, interest rates and the Fed, S&P 500 earnings, returns outlook for the S&P 500 and Russell 2000 sub-indices, outlooks for individual sectors and industries, equity style boxes, global regions and individual country returns, etc.

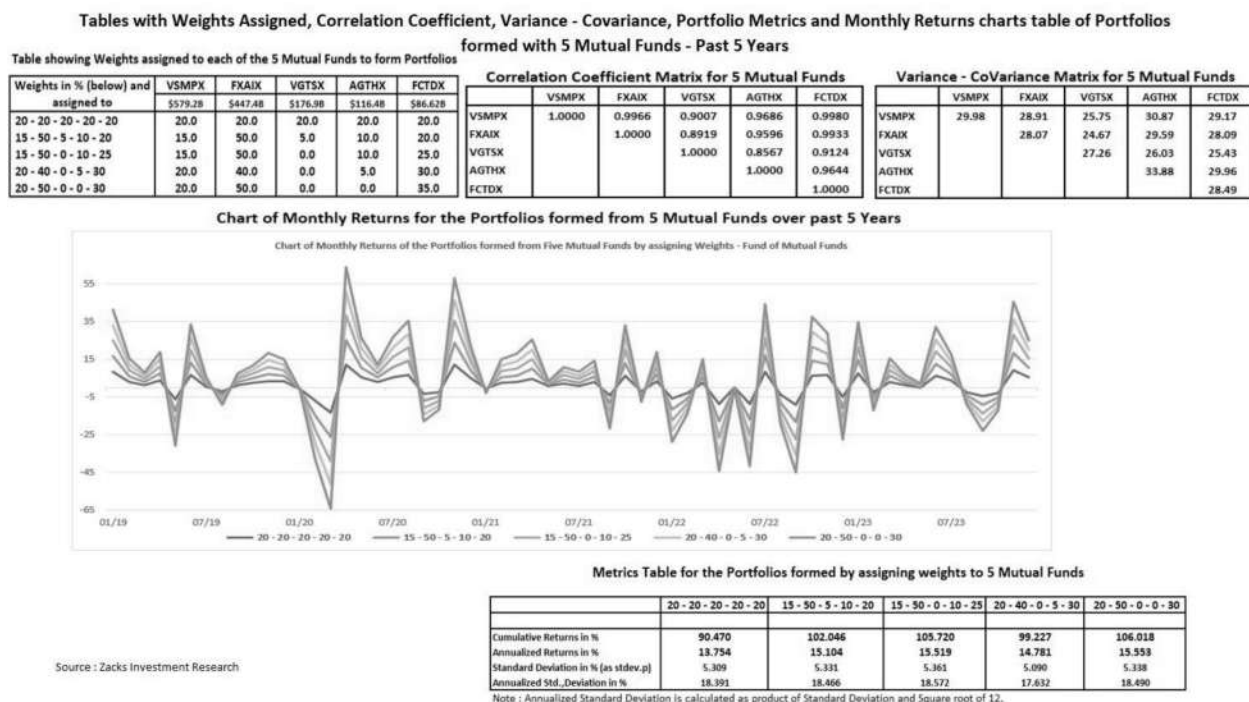


1. Zacks March View on Equity Markets

U.S. Markets

Cumulative and annual stock market returns tables (shown below) employ **Five Major Stock Mutual Funds**, inside each of five Zacks model portfolio asset allocations:

- (1) **VSMPX**: Vanguard Total Stock Market Index Fund
- (2) **FXAIX**: Fidelity 500 Index Fund
- (3) **VGTSX**: Vanguard Total International Stock Index Fund
- (4) **AGTHX**: American Funds, the Growth Fund of America
- (5) **FCTDX**: Strategic Advisors - Fidelity Total Stock Market Index Fund



The basic point I want to make?

Over the last 5 years from 2019 to 2024, a stock mutual fund asset allocation with 0% put into **VGTSX (Vanguard Total International Stock Index Fund)** did best (+106%).

The less non-U.S. exposure, the better. Will it change going forward? We shall see.

Global Markets

Cumulative and annual financial asset returns tables (shown below) use six global asset groups.

(1) **VSMPX**: Vanguard Total Stock Market Index Fund

(2) **ABNDX**: The Bond Fund of America, Capital Group

(3) **BICSX**: Blackrock Commodity Strategies Portfolio

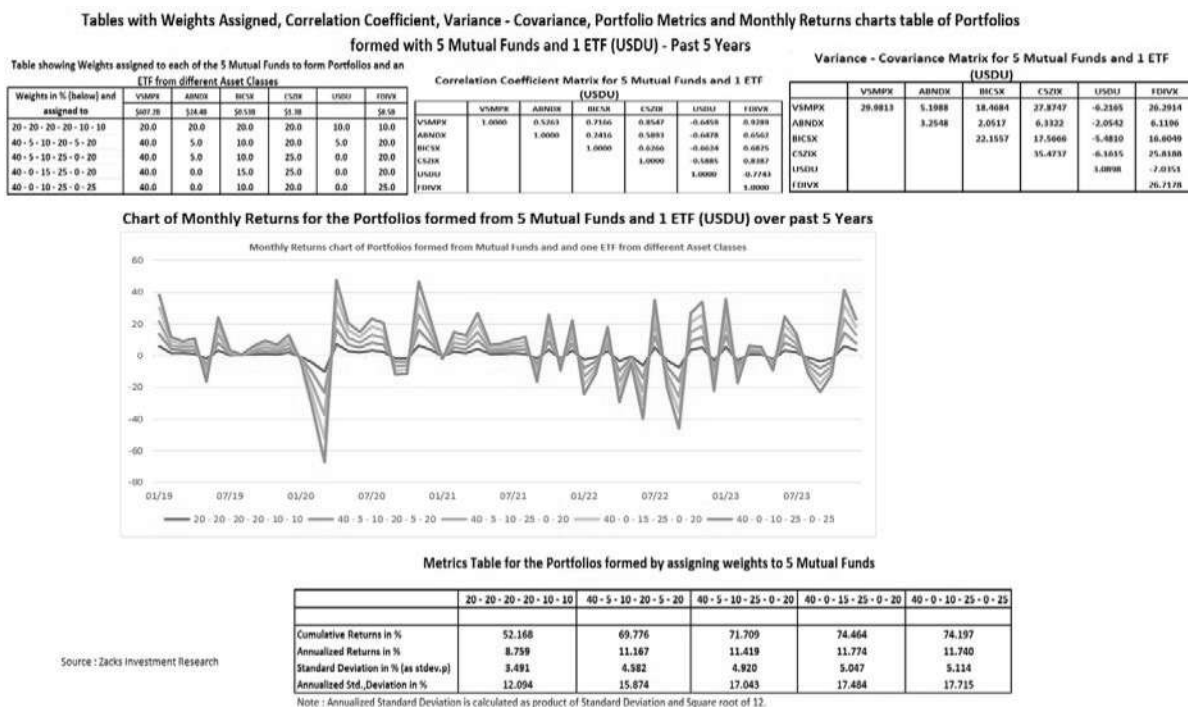
(4) **CSZIX**: Cohen & Steers Real Estate Securities Fund

(5) **USDU**: WisdomTree Bloomberg US Dollar Bullish Fund

(6) **FDIVX**: Fidelity Diversified International Fund

Note: There are allocations to stocks, bonds, **commodities**, real estate, **USD bullish**, and international stocks.

So, there is a more explicit asset allocation to global markets.



The basic point I want to make, here?

Less portfolio exposure to the **Blackrock Commodity Strategies Portfolio (BICSX)** and to the **WisdomTree Bloomberg US Dollar Bullish Fund (USDU)** did best (+74% over the last five years). Again, will these two returns trends continue? We shall see.

Enjoy the rest of my Zacks MARCH 2024 market strategy report.

2. U.S. Macro Outlook- San Francisco Fed “Fed Views”

Jerome Powell, Federal Reserve Chair, gave his semi-annual monetary policy report to the Congress on March 6th, 2024.

These were his prepared remarks. Click the hotlink to review the 71-page details.

Chairman McHenry, Ranking Member Waters, and other members of the Committee, I appreciate the opportunity to present the Federal Reserve's semiannual Monetary Policy Report.

The Federal Reserve remains squarely focused on our dual mandate to promote maximum employment and stable prices for the American people. The economy has made considerable progress toward these objectives over the past year.

While inflation remains above the Federal Open Market Committee's (FOMC) objective of 2 percent, it has eased substantially, and the slowing in inflation has occurred without a significant increase in unemployment. As labor market tightness has eased and progress on inflation has continued, the risks to achieving our employment and inflation goals have been moving into better balance.

Even so, the Committee remains highly attentive to inflation risks and is acutely aware that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials, like food, housing, and transportation. The FOMC is strongly committed to returning inflation to its 2 percent objective. Restoring price stability is essential to achieve a sustained period of strong labor market conditions that benefit all.

I will review the current economic situation before turning to monetary policy.

Current Economic Situation and Outlook

Economic activity expanded at a strong pace over the past year. For 2023 as a whole, gross domestic product increased 3.1 percent, bolstered by solid consumer demand and improving supply conditions. Activity in the housing sector was subdued over the past year, largely reflecting high mortgage rates. High interest rates also appear to have been weighing on business fixed investment.

The labor market remains relatively tight, but supply and demand conditions have continued to come into better balance. Since the middle of last year, payroll job gains have averaged 239,000 jobs per month, and the unemployment rate has remained near historical lows, at 3.7 percent. Strong job creation has been accompanied by an increase in the supply of workers, particularly among individuals aged 25 to 54, and a continued strong pace of immigration.

Job vacancies have declined, and nominal wage growth has been easing. Although the jobs-to-workers gap has narrowed, labor demand still exceeds the supply of available workers. The strong labor market over the past two years has also helped narrow long-standing disparities in employment and earnings across demographic groups.¹

Inflation has eased notably over the past year but remains above the FOMC's longer-run goal of 2 percent. Total personal consumption expenditures (PCE) prices rose 2.4 percent over the 12 months ending in January.

Excluding the volatile food and energy categories, core PCE prices rose 2.8 percent, a notable slowing from 2022 that was widespread across both goods and services prices. Longer-term inflation expectations appear to have remained well anchored, as reflected by a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets.

Monetary Policy

After significantly tightening the stance of monetary policy since early 2022, the FOMC has maintained the target range for the federal funds rate at 5-1/4 to 5-1/2 percent since its meeting last July. We have also continued to shrink our balance sheet at a brisk pace and in a predictable manner. Our restrictive stance of monetary policy is putting downward pressure on economic activity and inflation.

We believe that our policy rate is likely at its peak for this tightening cycle. If the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year. But the economic outlook is uncertain, and ongoing progress toward our 2 percent inflation objective is not assured.

Reducing policy restraint too soon or too much could result in a reversal of progress we have seen in inflation and ultimately require even tighter policy to get inflation back to 2 percent. At the same time, reducing policy restraint too late or too little could unduly weaken economic activity and employment.

In considering any adjustments to the target range for the policy rate, we will carefully assess the incoming data, the evolving outlook, and the balance of risks. The Committee does not expect that it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.

We remain committed to bringing inflation back down to our 2 percent goal and to keeping longer-term inflation expectations well anchored. Restoring price stability is essential to set the stage for achieving maximum employment and stable prices over the longer run.

To conclude, we understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. We at the Federal Reserve will do everything we can to achieve our maximum employment and price stability goals.

Thank you. I am happy to take your questions.



3. Zacks Forecasts at a Glance

Top-Down S&P500 Yearend 2023 and 2024 Targets

To March 2nd, 2024 YTD, the DJIA was up +3.71%, the S&P500 was up +7.70%, the tech-heavy Nasdaq was up +8.42%. The small cap RUT index was up +2.43%.

Across 2023, the narrow DJIA index was up +13.72%, the broader S&P500 index was up +23.43%, and the tech-heavy Nasdaq was up +41.05%. The small cap RUT index was up +13.78% YTD.

The historical expected annual return (using data from 1930 to 2021)? This is +7.9%.

2024 can deliver a durable index share recovery.

Zacks' update on 2024 and 2025 S&P500 EPS and "fair value" index concepts.

Year	"Bottom-up" S&P500 Operating Earnings	Fair Value at 5-yr average forward 12M PE of 17.6	Actual YE price of S&P500 and Zacks S&P500 Targets
2019	\$163.12	2,887	2,954
2020	\$140.46	2,486	3,668
2021	\$205.55	3,638	4,770
2022	\$214.59	3,798	3,840
2023 (est)	\$221.05	3,913	4,550
2024 (est)	\$243.82	4,316	?
2025 (est)	\$276.45	4,893	?
			*Wall Street Sell-Side
Year	"Bottom-up" S&P500 Operating Earnings	Zacks Call for S&P500 Operating Earnings	Zacks Price Target for S&P500 proxied with a 5-yr Avg. PE of 18
2019	\$163.12	\$163.12	
2020	\$140.46	\$140.46	
2021	\$205.55	\$211.11	3,737
2022	\$214.59	\$223.99	3,965
2023 (est)	\$221.05	\$215.92	3,814
2024 (est)	\$243.82	\$239.39	4,237
2025 (est)	\$276.45	\$270.52	4,788

Source: Zacks, March 2nd, 2024

Across 2022, the S&P500 loss was -19.4%. The Nasdaq 100 was down -34.8%. All three prior years recorded well above average annual S&P500 returns.

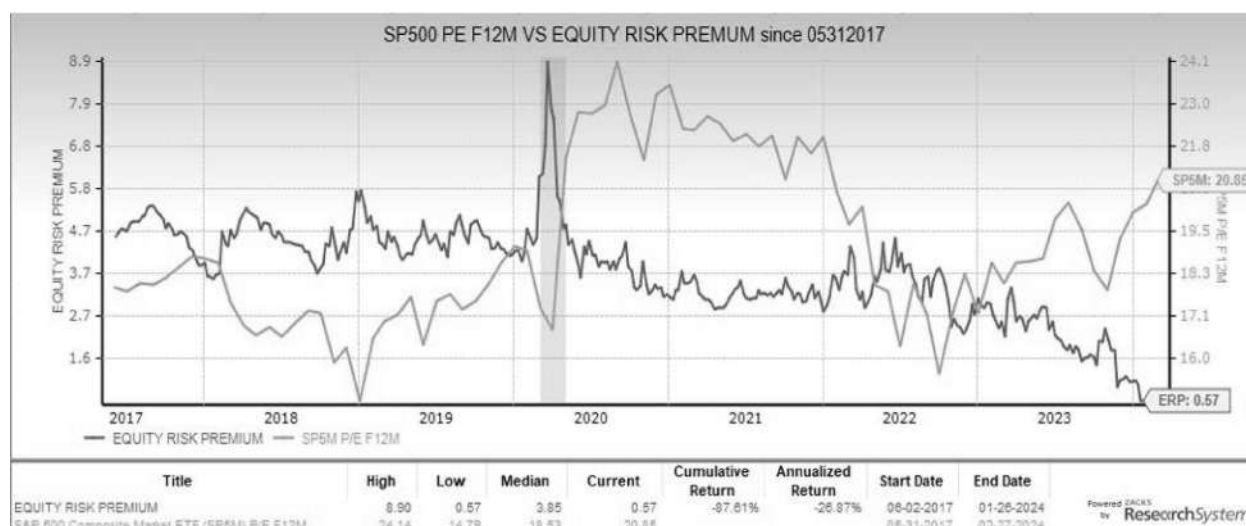
- In 2021, the annual S&P500 share gain was +26.9%
- In 2020, the gain was +18.4%
- In 2019, the gain was +28.9%



Label any excess over Zacks "Fair Value," compared to the current S&P500 index price, as the "Fed or G10 Money Printing" effect, and an excess COVID savings effect.

In Mar. '24, large cap U.S. index valuations are well above recent 5-year history.

The next chart shows a **S&P500 P/E F12M ratio** on the **right axis** (20.85 on Feb. 27th) and a low **Zacks Equity Risk Premium** (at 0.57%) on the **left axis**.



In 2024, share valuation headwinds have yet to weigh on large cap U.S. stock indexes.

Three major macro catalysts debated by bulls and bears in March 2024?

- A Fed Funds rate reduction (100 bps from June) off a 5.33% U.S. "neutral" rate,
- An ongoing gradual Fed "QE" exit from a bloated Fed balance sheet, and
- Trade, investment, and oil price effects related to Russia & the Israel-Hamas war.

These (and sector headwinds) stay in play in 2024. Exhibit A is the Real Estate Sector.

Yearend 2024 focused stock traders can look over any short-term headwinds.

2025 estimates matter, now. Even 2026.

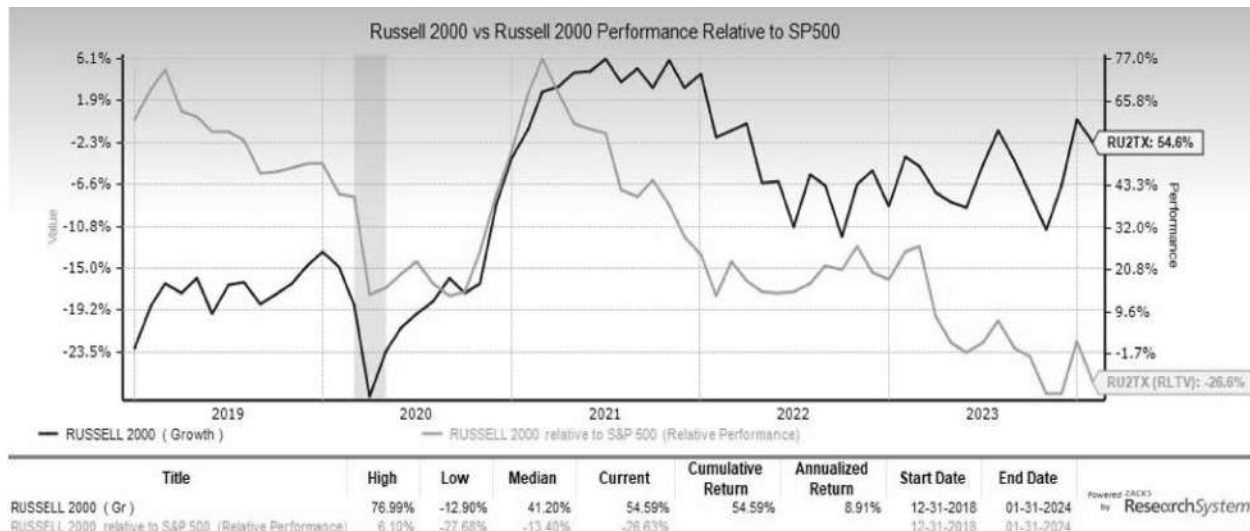
A S&P500 EPS delivery can happen, in line with strong 2024 and 2025 EPS estimates.

Notably, a big value gap exists between U.S. large cap & small cap benchmarks.

Applying a 2019 to 2023 timeline, a **blue** line shows the Russell 2000 (RUT) index value, in absolute terms on the RHS.

An **orange** line shows the Russell 2000's index value, relative to the S&P500. This metric is tracked on the LHS.

Russell 2000 (blue) & Russell 2000 relative to S&P 500 (orange)
Jan. 1st, 2019 to Jan 31st, 2023



Zacks sees three small cap insights. They could foreshadow future index style rotations.

First, the small cap Russell 2000 growth stock index remains deeply undervalued relative to the S&P500 index, by -29.63%. The RUT annualized return has been +8.91% -- over the last few years. This is lagging behind the large cap returns.

At Joe Biden's Jan. 20th, 2021 inaugural, the Russell 2000 traded ~2,100. On March 2nd, 2024, it was 2,076. We are getting close to that break out level.

Second, a U.S. small cap consolidation period (a tight trading range) runs to 26 months.

Will we get a strong RUT in 2024? Likely, if real growth narratives stay dominant.

Third, 2.5 years ago, traders did see a short-lived run-up in small cap land. The broad blended small cap RUT index peaked on Nov. 8th, 2021 at 2,458.

In conclusion, with a November 2024 Presidential election of an incumbent in play, and strong JAN '24 U.S. stock markets?

Watch for an unpredictable, but possibly explosive, return on Russell 2000 (RUT) stocks.

Underlying U.S. macro fundamentals?

Private sector employment increased by +140K jobs in February and annual pay was up +5.1% year-over-year, according to the February ADP® National Employment Report.

"Job gains remain solid. Pay gains are trending lower but are still above inflation," said Nela Richardson, chief economist, ADP. "In short, the labor market is dynamic, but doesn't tip the scales in terms of a Fed rate decision this year."

From our Feb. 20th, 2024 research --

Zacks showed q/q S&P500 growth rates were depressed only in the first two quarters of 2023.

A. Zacks quarterly EPS growths rates for 2023:

For Q1-2023, S&P500 EPS growth was -2.3%; revenue was +4.7%.

For Q2-2023, S&P500 EPS growth was -6.7%; revenue was +1.4%.

For Q3-2023, S&P500 EPS was +3.8%; revenue was +2.0%.

For Q4-2023, S&P500 EPS growth should be +5.5%; revenue should grow +3.2%.

B. Zacks quarterly EPS growth rates in 2024:

For Q1-2024, S&P500 EPS growth looks for +2.7%; revenue should grow +3.2%.

For Q2-2024, S&P500 EPS growth looks for +9.1%; revenue should grow +4.5%.

For Q3-2024, S&P500 EPS growth looks for +7.1%; revenue should grow +4.9%.

Zacks latest y/y earnings data?

Zacks estimates show S&P500 stocks offer solid 2024 EPS growth – an even stronger y/y EPS lift could begin in Q2-2024.

Zacks expects **+13.0%** y/y EPS growth in 2025 for S&P500 companies (Feb. 20th, '24).

Zacks expects **+11.1%** y/y EPS growth in 2024 for S&P500 companies.

Zacks expects **-3.8%** y/y EPS growth in 2023 for S&P500 companies.

Zacks gathered **+6.1%** y/y EPS growth in 2022 from these S&P500 companies.

What fundamentals are U.S. stock markets pricing in?

Next, we show YTD to March 2nd, 2024 returns. The S&P500 was up +24.23% in 2023, and is up +7.90% YTD.

Just two S&P500 (SPDR) sectors show outperforming returns across YTD in 2024:

- Communication Services \$XLC: +10.13%
- Info Tech \$XLK: +9.50%

Three more S&P500 sectors offer an SPY-like YTD 2024 return:

- Health Care \$XLV: +7.30%
- Financials \$XLF: +7.15%
- Industrials \$XLI: +6.61%

Four S&P500 sectors offer positive, underperforming YTD 2024 returns:

- Energy \$XLE: +3.94%
- Consumer Discretionary \$XLY: +3.47%
- Consumer Staples \$XLP: +3.37%
- Materials \$XLB: +2.83%

At the bottom, two S&P500 sectors show a negative YTD 2024 return:

- Utilities \$XLU: -2.54%
- Real Estate \$XLRE: -1.30%

The Feb. 29th, 2024 era Zacks Industry Ranks show a dramatic upgrading rise, with four Very Attractive sectors.

The end to the Q4-23 earnings season clearly played a role, in that sudden shift. Analysts finally made decisive changes to their estimates.



- These are the four Very Attractive sectors now: Industrials, Info Tech, Consumer Discretionary, and Financials
- At Attractive was Communication Services
- At Market Weight was Health Care (no surprise here) and Materials
- At Unattractive was Utilities
- At Very Unattractive were two sectors: Consumer Staples (surprising!) and Energy sectors

On Dec. 1st, 2023, WTI oil prices traded \$74.38. On March 2nd, 2024? \$80 a barrel.

The consensus outlook for WTI oil 15 months from now? \$74.19 in June 2025.

After widespread announcements of major oil and gas export sanctions against Russia, WTI prices spiked to \$123.70 a barrel on March 8th, 2022.

With Natural Gas prices hitting new lows, and Russia evading sanctions, the energy businesses do not show investors attractive fundamentals, or safe geopolitics.

What's 'Fair Value' on the S&P500?

Always keep up-to-date. Apply a 12M forward-looking COVID earnings landscape.

Study the latest estimates on 2024... and think harder on 2025!

Below are Zacks 2024 y/y EPS data on Feb. 20th, 2024.

Recall: Markets look ahead 6-12-18 months.

- **Aerospace (+30.9%)**
- **Consumer Discretionary (+22.4%)**
- **Medical (+17.1%)**

- **Technology (+16.5%)**
- **Conglomerates (+16.0%)**
- **Retail/Wholesale (+14.7%)**

- **Utilities (+8.2%)**
- **Construction (+8.0%)**
- **Finance (+6.1%)**
- **Consumer Staples (+5.5%)**
- **Industrial Products (+3.7%)**
- **Autos (+3.3%)**

- **Oil/Energy (-2.4%)**
- **Basic Materials (-4.5%)**

Play sectors on a 2024 EPS/revenue build. These are the force-ranked bull plays.

The latest S&P500 Margins picture looks OK for fundamental EPS upside, according to Research Director Sheraz Mian's work on Dec. 20th, 2023.

Net margins (aggregate net income divided by aggregate revenues) are expected to be:

- 11.8% in Q1-24
- 12.4% in Q2-24
- 12.8% in Q3-24
- 12.7% in Q4-24

- 11.8% in Q1-23
- 11.9% in Q2-23
- 12.6% in Q3-23
- 11.9% in Q4-23

Net margins on an annual basis:

- 2025 margins at 13.2%
- 2024 margins at 12.4%
- 2023 margins at 11.7%

- 2022 margins were 12.4%
- 2021 was 13.1%
- 2020 was 10.2%. That was the COVID low, and
- 2019 delivered a pre-COVID 11.5% net margin.

In sum, the Feb. 20th Zacks expectation is S&P500 profit margins to be 12.4% in 2024.

Then, that profit margin rises to 13.2% in 2025.

Both future annual profit margins are well above a pre-COVID 11.5%.

My stock strategist thoughts?

Carry on with regularly-spaced, market weight equity asset allocations. The Fed and G10 central banks (still) have share buyer's backs.

Respectable large and mid-cap stocks are the way to go.

2024 Zacks data shows +11.1% EPS growth and +4.7% revenue growth



Consensus “bottoms-up” earnings growth projections for 2024 show a +11.5% rise.
2024 revenue growth (according to the latest outside estimates) should be +5.5%.

Zacks “fair value” S&P500 earnings call is based on 2025 EPS at \$270.52. $\$270.52 \text{ multiplied by } 17.7 = 4,788$.

Zacks uses 4,788 at Year End 2024 as our ‘fair value’ target base.

The latest “bottoms-up” call is for the S&P500 to reach **5,589** in 12 months’ time.

In 2023, Zacks had 4,237 as our last YE ‘Fair Value’ estimate. Then, we might apply 300 points to get Fed money printing effects in (4,576). 2023 ended at 4,740. That was 164 pts. over the usual 300 points of Fed money printing. Call this the “AI” boom effect.

Zacks had the S&P500 index 3,740 at YE 2022. The 2022 S&P500 market year ended at 3,840. Only 100 points above our target.

Always keep in mind excessive Federal Reserve money-printing effects.

- Very bullish top-down Wall Street strategists called for the S&P500 to end 2020 trading at 3,450. It ended at 3,756. A difference of **~300** points.
- Zacks had 4,350 as a YE 2021 call for “fair value” without money printing. The year ended with the S&P500 at 4,770. A difference of **~320 points**.

To actively compute “fair value” valuations, factor in earnings growth ahead, like the stock market does, 6 to 12 to 18 months.

“Bottom’s up” estimates are for **\$243.82 in 2024** and **\$276.45 in 2025**.

A 12-18 month look ahead at the moment? The S&P500 traded at 5,137 on March 2nd, 2024.

Divide this by $\$260.14 = 19.7$. That’s one fact-check on current S&P500 valuation.

This month, the annualized S&P500 forward 12-month P/E at (20.4) was well above the 5-year average (19.0), and well above the 10-year average (17.7).

On stocks in March 2024? Be long-term greedy. Apply market weight allocations.

In the latest look, done on March 2nd, 2024, the VIX volatility index was at 13.1.

- On Jan. 4th, 2022, I had the VIX at 16.54
- On Dec. 3rd, 2021, I had the VIX at 27.44
- On Dec. 31st, 2020, I had the VIX at 22.75
- Across 2019, the pre-COVID VIX volatility index was trading at 12

The VIX can and most likely will pop higher. Whenever it spikes above 30 or so, this marks a good entry point.

In closing: U.S. Federal spending packages remain current bull market factors (think of the infrastructure package). Further back in time, other spending bills raised savings and wealth substantially, during the main shutdown COVID period.

The U.S. Fed, the People’s Bank of China (PBoC), the Bank of Japan (BoJ) & Europe’s ECB bought all types of debt in 2021. They

can do this again, if the stock markets panic about the depth of any correction, in 2024 and beyond.

In fact, the Fed did this during the regional banking crisis seen in March 2023.

Expectations for money printing can still drive stock prices, well beyond any projections for EPS growth.

Setting U.S. returns expectations for 2024

In a Presidential election year, with an incumbent running for re-election, the S&P500 usually performs well.

On top of that, the S&P500 was up in JAN '24. When that happens in an election year, recent history suggests a +15% annual S&P500 share return.

To early March 2024, U.S. consumer and labor mobility keeps on showing observers a strong travel and experience appetite. This has been called 'revenge' travel.

Added to this, reflect on the amount of COVID and post-COVID stimulus applied to the U.S. and other major global economies.

Plus, a NATO organized military spending boost for Ukraine. And then more on Israel and Taiwan, and other locales.

What happens to S&P500 returns **in 2024** can look like average annual stock market bull runs in year's past. Mr. Market always rules.

Look back — at S&P500 sector returns across the prior 10-year-long bull market.

For bulls, **8 of 16** Zacks sectors are showing positive (relatively strong) Q4-23 earnings:

- **Retail/Wholesale (+29.9%)**
- **Consumer Discretionary (+29.2%)**
- **Technology (+25.7%)**
- **Utilities (+15.3%)**
- **Aerospace (+13.2%)**
- **Industrial Products (+12.6%)**
- **Finance (+9.2%)**
- **Business Services (+8.1%)**

With S&P500 Q4-23 earnings growth at +5.5%, **two** Zacks groups showed in-line data:

- **Consumer Staples (+4.3%)**
- **Construction (+2.4%)**

For bears, **six** Zacks sectors show very weak earnings growth.

- **Conglomerates (-12.2%)**
- **Transportation (-15.5%)**
- **Medical (-17.9%)**
- **Oil/Energy (-23.4%)**
- **Basic Materials (-25.0%)**
- **Autos (-32.3%)**

Recession bears can flag this final set of Zacks sectors.

The Tech Sector has been very profitable, and cloud and AI are bull factors. Medical is past a post-COVID reset, but Pfizer and Moderna are not. Construction demand lags, in certain areas, but not in others. Finally, Basic Materials and Oil/Energy are in the worst shape (but could bounce with Mainland China stimulus and OPEC+ production cuts).

Concluding remarks?

No doubt, the outlook for Fed Funds rates is a factor motivating stocks. It will **NOT** be a simplistic case of quarterly earnings and revenue "Beats" that propel stocks.

As to weak hands, looking to incorporate soft Q4-23 quarterly EPS reports? Traders look ahead. It is just a matter of how far ahead.

Traders look at 2024 and 2025. Maybe even to 2026.

To see the broad bullish fundamentals?

First, keep money supply in mind, provided by \$7.9T in Fed assets.

Second, incorporate \$1.45T in fiscal spending, with \$934B in the bipartisan passage of the Infrastructure plan, CHIPS, PACT and Safer Communities Act, and the Democratic passage of \$518B in the Inflation Reduction Act (see **NY Times, Oct. 20, 2022**).

What Produces 2024 Optimism?

First, there is less concern about a 2024 U.S. recession. Two Goldman Sachs economists wrote on Jan 16th, 2024 "We expect much stronger GDP growth in 2024 than consensus and see a much lower risk of recession." ***Stay vigilant though!***

Second, with an experienced U.S. administration, trade, military advisory, and diplomatic cooperation are stronger across states and countries.

Third, traders see a shallow June 2024 Fed Powell rate cut cycle. Europe and Japanese central banks will follow.

Fourth, there is the ongoing investment of \$1.2T in "Infrastructure" funds. Ends Dec. '24.

Fifth, 2024 and 2025 offer a stock trader possible double-digit fundamental EPS growth.

- 2025 S&P500 EPS shows growth of +13.0%. Revenue grows +5.9%.
- 2024 S&P500 EPS shows growth of +11.1%. Revenue grows +4.7%.
- 2023 S&P500 EPS shows EPS growth of -3.8%. Revenue growth is +2.2%.
- 2022 EPS growth showed +6.1% EPS. Annual revenue growth was +11.9%.

Sixth, recognize: U.S. corporates offer high profit margins.

Seventh, U.S. fundamentals benefit from ongoing sector catalysts --

- Semiconductor IoT (Internet of Things) and AI developments hold attractions.
- Fiscal spending on fresh carbon emissions reduction plans.
- Business equipment investment stays strong (structures remain depressed).
- Remote working accelerated demand for chips, certain software, and cloud-based, or *in-situ*, computer storage.
- Aging demographics builds Medical Care demand.
- Expanded Obama-Biden health insurance subsidies and veteran's benefits.

To March 2024, S&P500 and Nasdaq valuations are well above historic valuation levels.

The latest Zacks estimates show more fundamental lift at Q2-24.

- Q1-2023 showed EPS growth of -2.3% and revenue growth of +4.7%.
- Q2-2023 showed EPS growth of -6.7% and revenue growth of +1.3%.
- Q3-2023 shows EPS growth of +3.8% and revenue growth of +2.0%.
- Q4-2023 shows EPS growth of +5.5% and revenue growth of +3.2%.
- Q1-2024 shows EPS growth of +2.7% and revenue growth of +3.2%.

- Q2-2024 shows EPS growth of +9.1% and revenue growth of +4.5%.
- Q3-2024 shows EPS growth of +7.1% and revenue growth of +4.9%.

In sum, traders do incorporate quarterly earnings AND revenue growth. As do analysts.

The forward 12-month P/E rests at 20.4 (~21 by Zacks). Those two F12M P/E metrics are near the 5-year average at 19.0. The latest valuations are well above the 10-year F12M P/E average at 17.7.

Mr. Market (full of retail and momentum traders) plays a bullish forward look, without excessive fear of overvaluation.

We need the strong double-digit fundamental earnings and the solid revenue growth outlooks to be confirmed for 2024 and 2025.

Many analysts (stunned by a rate-driven stock market correction) and economists (worried about a future rate-driven recession) remain too pessimistic.

Pessimism is warranted. Excess pessimism is not.

On Wall Street, it pays to keep your head down.

What's Alive for 2024 Pessimists?

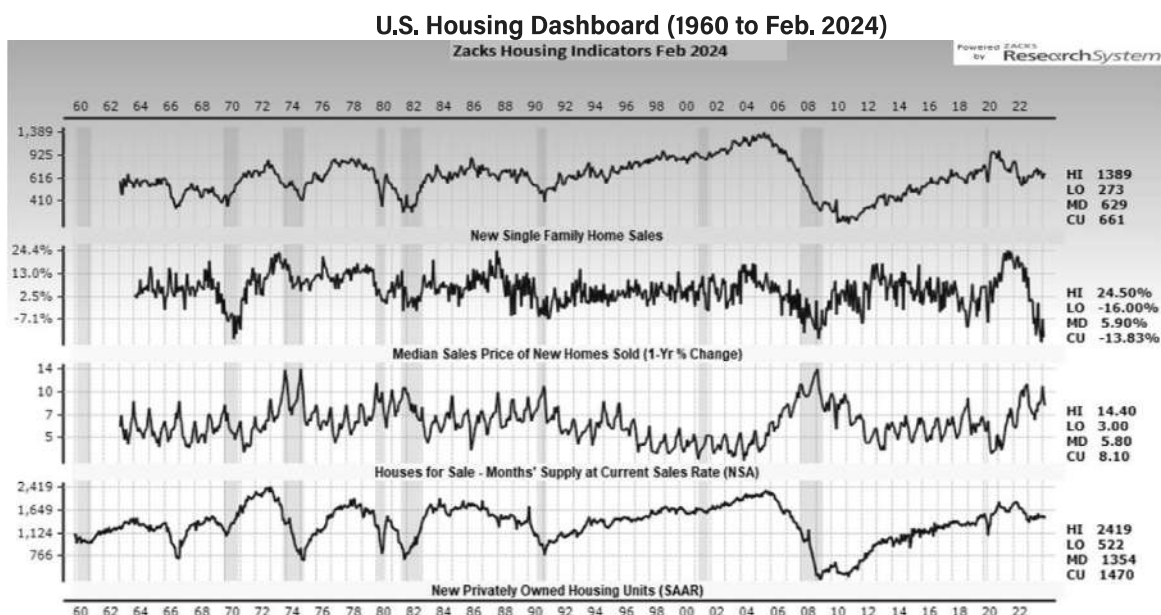
Don't ignore the financialization of Fed thinking.

Federal debt accumulation and money printing reached unprecedented levels.

After swift Fed Funds rate hikes, the U.S. Housing market is cooling, in a unique way.

Along with tracking the 10-year U.S. Treasury yield, consider the following updates.

- **New Single-Family Home Sales** at 661K in February are at the 629K median.
- **Median Sales Price of Houses Sold** are down sharply at -13.83%.
- **Houses for Sales - Months' Supply at Current Sales Rate** was 8.1 months in February. The median is 5.8 months.
- **New Privately-Owned Housing Units** built at 1470K, above median at 1354K.



From here, if a Fed Funds rate and QE-driven stock and (huge) housing price bubble pops, worries would dramatically increase about financial losses reeling out of office and retail America, into the banks.

Loan losses can beat up share and housing markets. The shorts have beaten up office REITs. A rise in fears (founded and unfounded) would lead to a deeper U.S. share pullback.

Both High Yield and Investment grade credit may blow out without a Fed "pivot."

Other big risks lie hidden. Inside a rosy corporate and real estate lending environment, without being widely appreciated.

Don't forget this: Too much cheap money for too long. Years and years of it.

BTC prices rising. The approval of Bitcoin ETFs is driving up demand, on the fixed bitcoin supply. On Sept. 5th, 2023 it was \$25,805. On Oct. 30th, it was \$34,431. On Nov. 29th, it was \$38,188. On Jan. 2nd, 2024, it was \$45,137. On March 2nd, it was \$61,960.

Tesla shares trade at the bottom of a \$200 to \$250 range. In late Nov. 2022, **TSLA** traded at \$184, after a 3 for 1 split. The shares picked up steam with charger sharing deals for Ford, GM and other OEMs. On July 4th, 2023, **TSLA** shares priced at \$277. On Sept. 5th, **TSLA** was \$253 a share. On Jan 2nd, 2024 it was \$248. Lately, cyclical demand for BEV's is causing concern. On March 2nd, the share traded at \$202

Next in line, showing cooling sentiment, 2023 "meme" share prices have started to recover for **GME**, while **AMC** share prices, and other "meme" Reddit stocks go lower.

However, a new 2024 "meme" AI stock may be **SuperMicro Computer (SMCI)**.



Finally, the latest SPAC IPO data remains weak for 2023 and 2024. The Jan 30th, 2024 data shows a wide distance from huge counts in 2020 and 2021 (consult the next table).

U.S. SPAC IPO Issuance		
Year	Proceeds, \$B	Count
2024	7.4	37
2023	3.8	31
2022	13.4	86
2021	162.5	613
2020	83.4	248
2019	13.6	59
2018	10.8	46

Source: SPAC Research, March 2nd, 2024

On top of that, after about half a decade of registering double-digit percentage returns in nearly every quarter, venture capital's performance has reversed dramatically.

U.S.-based venture capital funds' internal rate of return (IRR) fell to -16.8% in Q4 2022, according to PitchBook's Quantitative Perspectives report on Oct. 3rd, 2023.

That's the worst quarterly return the asset class posted in 10 years. Some investors think that it will likely be the worst performance for a while.

2024 could see a very modest recovery in IPO deal numbers.

These inter-related booms are over. Who booked the big losses?

Is it time to buy U.S. stocks in early March?

The S&P500 trades at 5,137. The 20.9 forward P/E offers you no price value. 2024 and 2025 show S&P500 double-digit EPS growth. Earnings can deliver fundamental lift. Growth optimism must be matched by 'real' data.

Zacks strategists (including me) stay bullish. The S&P500 has a 4,788 "fair value" estimate for YE 2024. Coming years show double-digit fundamental growth.

Bulls rosily envision 2023 U.S. and global EPS performances beating the current pessimism. 2024 and 2025 estimates incorporate that sentiment.

- Latest estimates see 2025 S&P500 EPS up +13.0% and revenue up +5.9%.
- Latest estimates see 2024 S&P500 EPS up +11.1% and revenue up +4.7%.
- Latest estimates see 2023 S&P500 EPS down -3.8% and revenue up +2.2%.
- 2022 S&P500 estimates show EPS growth of +6.1% and revenue up +11.9%.
- 2021 closed with a snapback S&P500 EPS growth of +52.3% and annual revenue growth of +17.0%.

The mantra is always: Don't Fight the Fed.

However, don't expect a Powell-led Fed to continue with tight policy, if their bubble-popping and CPI-crushing gets out of control. That's the Fed "pivot."

Don't focus just on U.S. liquidity.

You also won't be able to fight the ECB in Europe, the BoE in the U.K., the BoJ in Japan or the People's Bank of China (PBoC).

All major central bank players can bring the "anything goes" monetary policy artillery.

Bears?

- Bubbles of euphoria can deflate dramatically and without warning, after a "higher-for-longer" Fed Funds rate crushes the CPI data down, more and more.
- Wars are blooming.

Bears see an added -10% to -30% downside, with spreading deep growth negatives.

This could also be due to an unforeseen swath of corporate bankruptcies and loan and stock margin losses. There is large downside risk to lots of stock and home prices. Those plays are available to shorts.

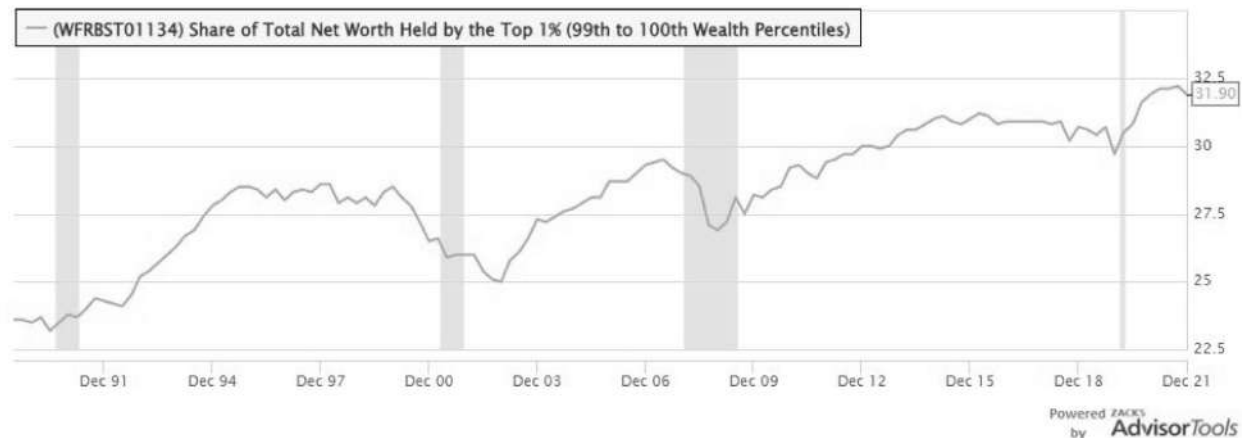


There are negative side effects to money printing, too. Income inequality is growing.

- The top 1% now owns nearly 32% of the U.S. total Net Worth
- The bottom 50% own 2.0%.

A widening income inequality gap is a worldwide phenomenon, fueled by central bank intervention -- whether Fed driven or central bank driven outside the USA.

Consult the U.S. chart next...



The Fed insists their policies do not add to U.S. and global income inequality. But if you do not own stocks, you do not benefit from a broad increase in share prices.

Range-bound sages make light of attractive yields offered in CD and bond markets. For the 10-year U.S. Treasury rate, I see it at ~4.3%.

I used to write, month-after-month, that "TINA" is short for "There is No Alternative."

Now, with 5.0% brokered 1-year CD rates, there is a low-risk asset alternative.

The Positives:

S&P500 profit margins remain high...

U.S. corporate balance sheets are flush. High U.S. corporate profits remain durable.

Cyclical industrial demand can stir. Manufacturing can cross above a 50 PMI.

A 3.9% U.S. household unemployment rate shows up in February 2024 BLS data:

- 3.8% was here in February 2022
- 4.8% in September 2021
- 5.9% was here in June 2021
- In April 2020, the U.S. household unemployment rate spiked to 14.6%

Want a prior 'full employment' comparison? In Feb. 2020, the U.S. 3.6% unemployment rate was at a prior 50-year low.

Obama/Bidencare enrollment supports more citizens. That helps supply more health care spending to lower income cohorts.



The Negatives:

High 30-yr fixed mortgage rates (I noted a 6.94% average on March 2nd, 2024). There are major over-priced (+40% home price rises since 2019) housing units on offer across the USA, particularly in the West. Florida has major home insurance issues.

A global growth scare would spread. The Russian war on Ukraine can become more bitter, leading to still more sanctions. The Israel-Hamas war can easily spread.

U.S. federal deficits were already above \$1 trillion a year before COVID. This exploded with another \$3T in spending support and financial market stabilization. With tight policy rates, this can become a major federal funding issue.

U.S. consumers can turn cautious. High gasoline prices at the pump, and sticker shock in the retail spaces, particular on Consumer Staples, can cause softness.

A momentum stock boom and bust, the SPAC boom and bust, and the IPO boom and bust happened. What further negative consequences show up? Do we know?

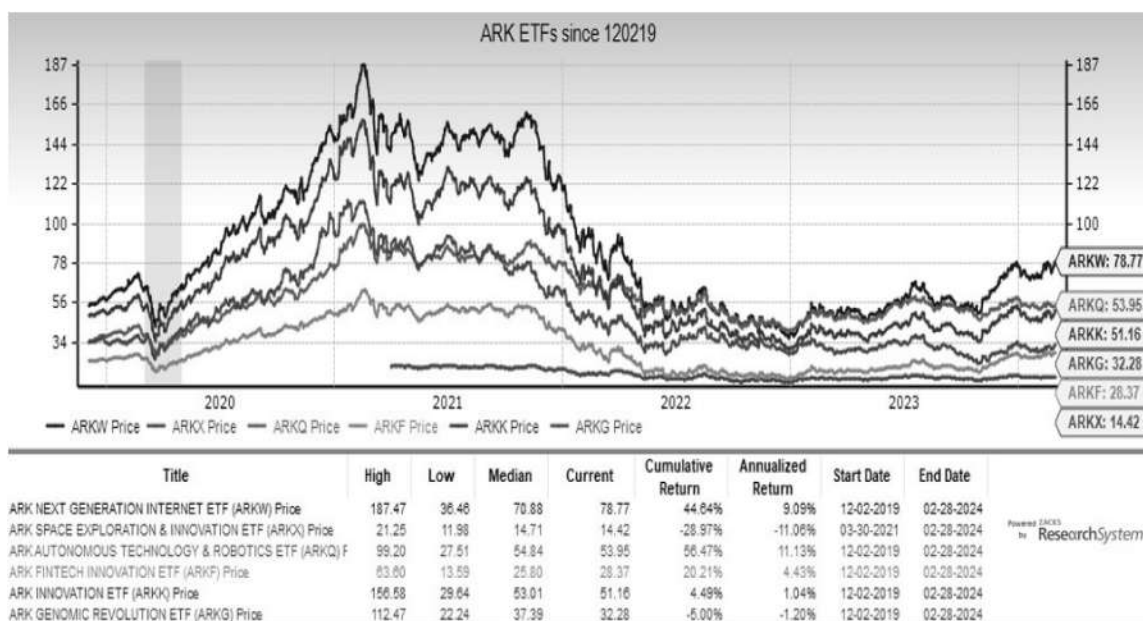
Cathie Wood's ARK ETFs helped to drive the Nasdaq to a Q1-21 peak.

And led the subsequent short-driven plunge.

Her speculative "Innovation" ETFs remain a topic of interest.

- In early 2023, these 'Innovation' ETFs started to rise
- Then, across the middle section of 2023, that trading strength abated

Entering March 2024, these 'innovation' ETFs are rallying notably, once again...





Note this: All ARK Fund ETF prices track one another.

Here is the forced ranking, based on ETF annualized returns—

- | | |
|----------------|--|
| 1. ARKQ | Autonomous Technology and Robotics ETF |
| 2. ARKW | Next Generation Internet ETF |
| 3. ARKF | Fintech Innovation ETF |
| 4. ARKK | ARK Innovation ETF |
| 5. ARKG | Genomic Revolution ETF |
| 6. ARKX | Space Exploration & Innovation ETF |

ARKG (the biotech darlings) and **ARKX** (space and exploration) recovered the least.

For bulls, if these risky tech indices continue to rise, the **Autonomous Technology & Robotics (ARKQ)**, **Next Generation Internet (ARKW)** could be the ETFs to target, for a sustained share price run.

The broad 'Innovation' ARKK fund and the **Fintech Innovation ARKF** ETF appear to be near the breakeven returns point now.

Perhaps just cherry-pick the stocks inside these portfolios, the ones that are moving up?

March 2024 Economic Outlook

Here is the Swiss Re Economic Outlook, published on February 7th, 2024—

"We now see the US economy growing +2.2% in 2024, 1.1 percentage points higher than our prior forecast."

"Headline CPI inflation is expected to average +2.7% in 2024 after a +4.1% increase in 2023."

"With disinflation making strong progress, we expect the Federal Reserve to kick-start a cautious easing cycle in the second quarter of this year."

"However, the strength of growth and upside risks to inflation render unlikely the rapid easing cycle that is being priced in futures markets."

"We expect the Federal Open Market Committee (FOMC) to begin reducing its policy rate at the May meeting, easing by 75 basis points (bps) this year while the 10-year Treasury yield picks up to 4.2% by year end."

Key takeaways:

- A strong handoff into 2024 prompts a revision in our U.S. GDP growth forecast, up 1.1 percentage points to +2.2% in 2024.
- Cooling inflation and a softening labor market support our call that the Fed will begin gradual cuts to policy rates from Q2 2024.
- We see three 25 bps cuts from May 2024, the pace reliant on growth trends.
- We expect robust growth and still-elevated policy rates in H2 will support the 10-year Treasury yield rising to 4.2% by the end of 2024.

What of U.S. GDP Growth?

The Atlanta GDPNow estimate for Q1-24 shows **+2.5%** GDP growth on March 7th 2024.

- Q4-23 GDP growth was +3.2% in a final estimate.
- Q3-23 GDP growth was +4.9%.
- Q2-23 GDP growth was +2.1%.
- Q1-23 GDP growth was +2.0%

I continue to write this note: +1.0% in GDP growth over a year is when recession selling triggers. That is indeed what may happen, but no sooner than early 2024.

- 2025 annual GDP growth is at +1.7% in Feb. 2024 Consensus Economics data.
- 2024 annual GDP growth is at +2.1% in Feb. 2024 Consensus Economics data.
- 2023 annual GDP growth ended at +2.5%.
- 2022 annual GDP growth ended at +1.9%.

For 2024, Zacks call is for +2.1% GDP growth; in line with Feb. 2024 Consensus Econ.

For 2025, the U.S. economy will mark a +1.7% growth rate. For 2025, that same Feb. 2024 Consensus Econ data shows a +1.7% real GDP growth rate.

Prior to COVID, Zacks modeled a trend +2.1% to +2.3% U.S real GDP growth rate.

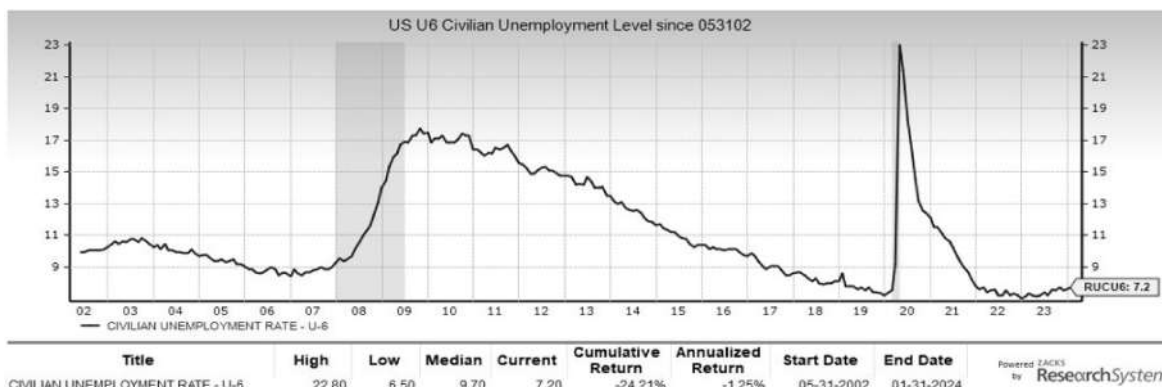
Don't overthink 2024 or 2025 earnings and GDP growth outlooks. Any surprises to that consensus, positive or negative, are what matters.

- 2025 show estimates of +13.0% annual S&P500 EPS growth.
- 2024 shows estimates of +11.1% annual S&P500 EPS growth.
- 2023 showed +3.8% annual earnings growth
- 2022 showed +6.1% annual earnings growth.

There should be trader concerns on aggressive Russian military belligerence, and excessive federal fiscal deficit spending.

Early 2024 jobs: On March 8th, we learned the U.S. added +275K jobs in February, +229K jobs in January (revised down -124K).

The broader U6 U.S. unemployment rate (2002 to Jan. 31st, 2024)



In the 2nd half of 2023: +290K jobs in December (revised down -43K) follows +182K jobs in November, +165K jobs in October, +246K jobs in Sept, +165K jobs in August, and +184K jobs in July.

In the first half of 2023? The U.S. added +240K jobs in June, +303K jobs in May, +278K jobs in April, +146K jobs in March, +326K jobs in February, and +472K jobs in January.

2022 was a strong year for jobs:

December added +260K jobs, November added +290K jobs, October added +263K jobs, Sept. added +269K jobs, August added +292K jobs. July added +537K jobs. June +293K. May +386K. April +368K. March +398K. Feb. +714K. Jan. +504K.

2021 was a very strong rebound year for job gains.

In 2020? April 2020 gave up -20.8 million job losses.

The U.S. household unemployment rate was 3.7% in December and November, 3.9% in October, with 3.8% seen in both Sept. and August, 3.5% in July, 3.6% in June 2023, 3.7% in May, 3.6% in April, 3.5% in March, 3.6% in February and 3.4% in January.

Remember: This is a lagging macro indicator.

"Total nonfarm payroll employment rose by 275K in February, and the unemployment rate increased to 3.9%.

"Job gains occurred in health care, in government, in food services and drinking places, in social assistance, and in transportation and warehousing."

- the BLS wrote on March 8th, 2024

Leisure and Retail job gains...

"Employment in food services and drinking places increased by +42K in February, after changing little over the prior 3 months.

"Retail trade employment changed little in February (+19K) and has shown little net change over the year.

"Over the month of FEB, job gains occurred in:

- General merchandise retailers (+17K);
- Health and personal care retailers (+6K); and
- Automotive parts, accessories, and tire retailers (+5K)

"These were partially offset by job losses in:

- Building material and garden equipment and supplies dealers (-6K) and
- Electronics and appliance retailers (-2K)."

Want the latest y/y average hourly earnings references?

On March 8th, 2024, BLS also noted—

- Average hourly earnings for all U.S. employees on private nonfarm payrolls rose by 5 cents to \$34.57 in February.
- Over the past 12 months, average hourly earnings have increased by +4.3%.

For a comparison, and for the ability to compute real wage increases:

- Broad U.S. consumer price inflation (the CPI) was at +3.1% y/y thru JAN.
- Core CPI was +3.9% y/y thru JAN.
- FEB. CPI data is out at 8:30 am ET on Tuesday, March 12th at 8:30 am ET.



The latest United States ISM manufacturing PMI

The following was sourced from the Institute for Supply Management®, *Report On Business*®.

(Tempe, AZ) — Economic activity in the **manufacturing sector contracted in February for the 16th consecutive month** following one month of “unchanged” status (a PMI® reading of 50 percent) and 28 months of growth prior to that, say the nation’s supply executives in the latest **Manufacturing ISM® Report On Business**®.

The report was issued on March 1st by Timothy R. Fiore, CPSM, C.P.M., Chair of the Institute for Supply Management® (ISM®) Manufacturing Business Survey Committee:

“The Manufacturing PMI® registered 47.8 percent in February, down 1.3 percentage points from the 49.1 percent recorded in January.”

“The overall economy continued in expansion for the 46th month after one month of contraction in April 2020. (A *Manufacturing PMI® above 42.5 percent, over a period of time, generally indicates an expansion of the overall economy.*)

The New Orders Index moved back into contraction territory at 49.2 percent, 3.3 percentage points lower than the 52.5 percent recorded in January.

“The February reading of the **Production Index** (48.4 percent) is 2 percentage points lower than January’s figure of 50.4 percent.

The Prices Index registered 52.5 percent, down 0.4 percentage point compared to the reading of 52.9 percent in January.

The Backlog of Orders Index registered 46.3 percent, 1.6 percentage points higher than the 44.7 percent recorded in January.

The Employment Index registered 45.9 percent, down 1.2 percentage points from January’s figure of 47.1 percent.

The Supplier Deliveries Index figure of 50.1 percent is 1 percentage point higher than the 49.1 percent recorded in January. (Supplier Deliveries is the only ISM® Report On Business® index that is inverted; a reading of above 50 percent indicates slower deliveries, which is typical as the economy improves and customer demand increases.)

The Inventories Index decreased 0.9 percentage point to 45.3 percent from January’s reading of 46.2 percent.

The New Export Orders Index reading of 51.6 percent is 6.4 percentage points higher than January’s figure of 45.2 percent.

The Imports Index continued in expansion territory, registering 53 percent, 2.9 percentage points higher than the 50.1 percent reported in January. Both indexes reported their highest readings since July 2022, when the New Export Orders Index registered 52.6 percent and the Imports Index 54.4 percent.”

Fiore continues, “The U.S. manufacturing sector continued to contract (and at a faster rate compared to January), with demand slowing, output easing and inputs remaining accommodative.

Demand moderated, with the

(1) New Orders Index back in contraction as seasonal headwinds were too strong to overcome,

(2) New Export Orders Index returned to expansion and

(3) Backlog of Orders Index improving but still in moderate contraction territory.

"The Customers' Inventories Index contracted for the third consecutive month, remaining accommodative for future production.

Output (measured by the Production and Employment indexes) dropped, with a combined 3.2-percentage point downward impact on the Manufacturing PMI® calculation.

"Panelists' companies maintained their production levels month over month, but that growth could not outpace seasonal factors.

"Head-count reductions continued in February, with notable layoff activity noted.

Inputs — defined as supplier deliveries, inventories, prices and imports — continued to accommodate future demand growth but again showed signs of stiffening.

"The Supplier Deliveries Index improved again, moving into 'slower' territory, and the Inventories Index slid back due to inability for growth consistent with seasonal factors, remaining in moderate contraction territory. The Prices Index remained in moderate expansion (or 'increasing') territory as commodity driven costs continue to oscillate.

"Of the six biggest manufacturing industries, three (Fabricated Metal Products; Chemical Products; and Transportation Equipment) registered growth in February. The first two are "foundational" industries, meaning those that provide products and components for other manufacturing industries.

"Demand is at the early stages of recovery, and production execution is relatively stable compared to January, as panelists' companies begin to prepare for expansion. Suppliers continue to have capacity but are showing signs of struggling, due in part to their raw material supply chains. Forty percent of manufacturing gross domestic product (GDP) contracted in February, down from 62 percent in January.

"More importantly, the share of sector GDP registering a composite PMI® calculation at or below 45 percent — a good barometer of overall manufacturing weakness — was 1 percent in February, compared to 27 percent in January and 48 percent in December. Among the top six industries by contribution to manufacturing GDP in February, none had a PMI® at or below 45 percent, compared to two in the previous month," says Fiore.

The eight manufacturing industries reporting growth in February — in order — are: Apparel, Leather & Allied Products; Nonmetallic Mineral Products; Primary Metals; Plastics & Rubber Products; Fabricated Metal Products; Chemical Products; Miscellaneous Manufacturing; and Transportation Equipment.

The seven industries reporting contraction in February — in the following order — are: Furniture & Related Products; Machinery; Wood Products; Computer & Electronic Products; Food, Beverage & Tobacco Products; Paper Products; and Electrical Equipment, Appliances & Components.

WHAT RESPONDENTS ARE SAYING

"Currently seeing increasing sales in our business. Most delivery dates are in the second quarter of 2024." [Chemical Products]

"The first quarter will be slower due to some customer order changes, but we are expecting the rest of 2024 to be strong. We may increase our growth projections." [Transportation Equipment]

"Typical first quarter volume drops from fourth quarter high volumes. Additional distribution has allowed us to maintain consistent production shifts." [Food, Beverage & Tobacco Products]

"Customer softness continues in China, Japan and Europe." [Computer & Electronic Products]

"Demand has finally picked up, with customer orders more closely resembling typical January and February levels. January was up 22 percent compared to December; February up 26 percent compared to January." [Machinery]

"Customer orders are steady, neither up nor down compared to last month. This steady state is what we budgeted and forecast. We are forecasting business to increase 2 percent to 4 percent over the next couple of months." [Fabricated Metal Products]

"Business outlook overall is stable. Working through customer backlog with some raw material lead times improving." [Miscellaneous]



neous Manufacturing]

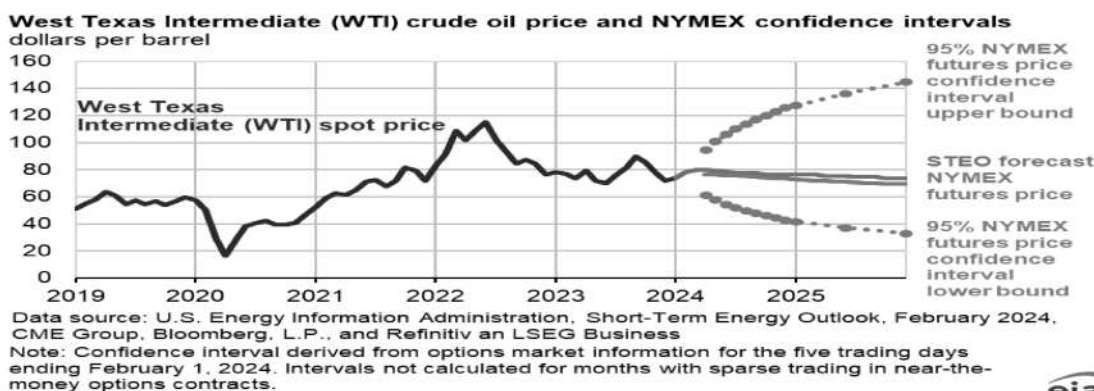
"We reflected on 2023 for maybe a minute and turned the page forward to 2024. Weather in January caused several operations to be idle, and shipments were affected." [Nonmetallic Mineral Products]

"The month seems to be getting stronger with each passing day and week. Lots of market volatility —pricing flat to downward. It will be interesting to see how the last days of the month play out, as indications seem to be all over the place." [Primary Metals]

"We are experiencing increased sales, which is putting pressure on the plant and assembly to meet new customer demand." [Electrical Equipment, Appliances & Components]

Status of energy markets

- On March 8th, 2024 WTI oil traded at \$78.74 a barrel.
- Done in March 2024, June 2025 consensus for WTI stood at \$74.19 per barrel.
- On July 3rd, 2023 WTI oil traded at ~\$71 a barrel.
- On Jan. 7th, 2022, WTI oil prices were \$80.12. On June 1st, 2022, WTI oil prices spiked to \$116.50. On Nov. 29th 2022, the price was back down to \$79.40.
- Giving energy bulls an assist, key industrial commodities from Jan. 2024 show upside in forward 15M (Copper +6.3% Aluminum +15.7%, Nickel +10.6%).
- The EIA (below) shows the possibilities for WTI oil prices over the next year.



Source: EIA Short-Term Energy Outlook, February 2024.

- U.S. oil rig counts are stalled. Baker Hughes counted 629 rigs on March 1st, 2024, down -120 rigs from a year ago.

- Share price charts show U.S. majors like XOM range-trading for 12 months. XOM was \$106 on March 2nd, 2024.

WTI Oil Prices (\$/Barrel) and Iron Ore Prices (\$/Dry Metric Ton), Last 4 Years



Asset Allocation Summaries

S&P500 Earnings at a Glance

Zacks estimates +13.0% in 2025 and +11.1% in 2024; after posting a -3.8% decline in 2023, and +6.1% growth in 2022.

In terms of quarterly S&P500 data? Perhaps a turn up happens in Q2-24. Though, this is likely already factored into stock prices.

Q3-24 EPS is at +7.1%
 Q2-24 EPS is at +9.1%
 Q1-24 EPS is at 2.7%

Q4-23 EPS was +5.5%
 Q3-23 EPS was +3.8%
 Q2-23 EPS was -6.7%
 Q1-23 EPS was -2.3%

What of 2022?

Q4-22 EPS was -5.5%
Q3-22 EPS was +2.2%
Q2-22 EPS was +8.1%
Q1-22 EPS was +10.0%

What of 2021?

- Q4-21 S&P500 EPS finished at +33.0%
- Q3-21 was +41.7%
- Q2-21 was +94.4%
- Q1-21 was +49.4%

2020?

- Q4-20 S&P500 EPS was at +3.6%
- Q3-20 was -7.3%
- Q2-20 was -32.3%
- Q1-20 was -14.9%

The steep 2020 decline followed a 2019 year of quarterly sideways performances.

- Q4-19 finished at +0.9%
- Q3-19 was -2.2%
- Q2-2019 was -0.4%
- Q1-2019 was -4.6%

Zacks S&P500 Sectors shows six very positive earnings growth stories in Q4-23.

- **Retail/Wholesale (+29.9%). Higher prices on goods and spending.**
- **Consumer Discretionary (+29.2%). Disposable incomes holding up.**
- **Technology (+25.7%). A growth sector, with AI the latest focus.**
- **Aerospace (+13.2%). Plane travel fully recovered, and then some.**
- **Industrial Production (+12.6%). Low unemployment, high profits.**
- **Finance (+9.2%). Regional bank woes abated. Recession worry growing.**

Two groups are underperformed the +5.5% y/y S&P500 EPS growth rate.

- **Consumer Staples (+4.3%). Shows negative real hourly earnings effects.**
- **Construction (+2.4%). Home building works with backlogs. Office awful.**

Six groups, with Q4-23 S&P500 earnings growth weakness, showed up.

- **Conglomerates (-12.2%). Diversified industrial companies are here.**
- **Transportation (-15.5%). Sector tied to Aerospace & Autos. Remote work.**
- **Medical (-17.9%). Services catch-up is still going on.**
- **Oil/Energy (-23.4%). Russia is evading sanctions easily, using discounts.**
- **Basic Materials (-25.0%). Commodity and Metals price effects.**
- **Autos (-32.3%). Cyclical weakness. Prices too high.**

Investors: Stay selectively optimistic on S&P500 stocks.

Other Asset Class Summaries at a Glance

DJIA The Dow records high single-digit gains in 2024.

Bears sell or short on lofty valuations; if a global activity recovery stalls; if a rising long-term Treasury yield returns; and with any sight of Fed-led recession inside the USA.

NASDAQ Stay positive on Info Tech – on a 2024 and 2025 look ahead.

Follow strong Zacks Heat Map tech industries. Zacks #1 Rank IT stocks remain well-covered.

- Info Tech sector profit margins were 26.4% in Q4-23
- The S&P500 profit margin was 11.2% in Q4-23
- Info Tech margins are more than double the average S&P500 sector

Consensus for EPS growth on Tech looks strong in 2024 and 2025.

- 2025 shows +16.8% follow-on growth
- 2024 shows a pop to +17.8%
- 2023 was +6.2%
- 2022 was +3.1%
- 2021 Tech EPS growth was +39.6%

A Zacks Research System chart (next) shows you something important re tech too.



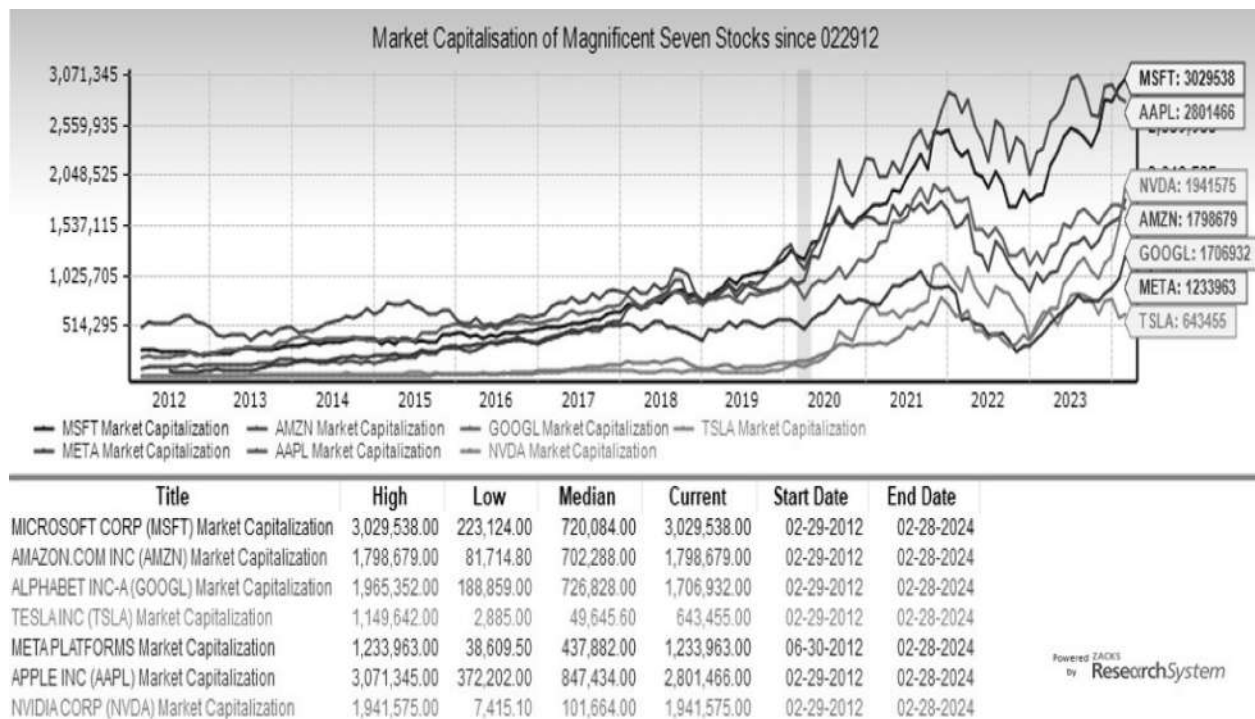
Multiple trillions of central bank liquidity and the trillion-dollar market caps of these mega-cap tech stocks keep pushing the major U.S. benchmarks higher.

These seven tech mega-caps, **Apple (AAPL)**, **Microsoft (MSFT)**, **Google (GOOGL)**, **Amazon (AMZN)**, **NVIDIA (NVDA)**, **Meta Platforms (META)** and **Telsa (TSLA)** lead.

But they have very high forward 12M P/E multiples.

A strong mega-cap P/E valuation bias is incorporated in the S&P500 and the Nasdaq.

The market capitalizations (led by **MSFT** at \$3.0T and **AAPL** at \$2.8T) are charted below.



Over the last 10 full years? Four mega-cap tech stocks drove the U.S. large cap indexes (**AAPL**, **MSFT**, **GOOGL** and **AMZN**).

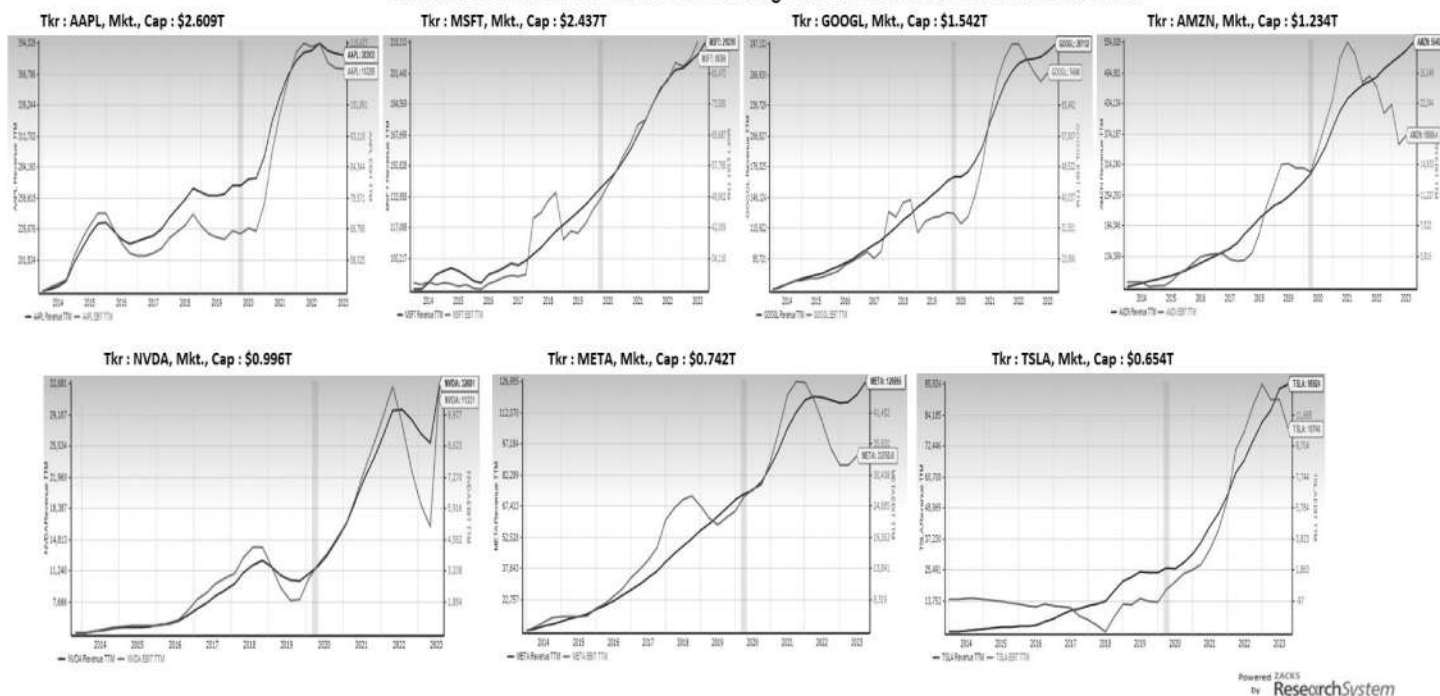
Tesla and NVIDIA? They are relatively newer entrants to this class of mega-cap stocks.

2023? Meta caught up.

2024? NVDA is leading the way. Tesla is the new laggard.

In sum, this so-called Magnificent Seven (**Amazon**, **Apple**, **Google (Alphabet)**, **Meta**, **Microsoft**, **Nvidia** and **Tesla**) make up more than a quarter of the S&P500, and their stellar performance has driven the U.S. stock market's outperformance, so far this year.

Revenue TTM and EBIT TTM Charts for The Magnificent Seven Stocks over the last 10 Years



For the bulls, the COVID pandemic accelerated online shopping and remote working. These aggregate demand factors were already in place before 2020.

In 2024, e-commerce spending continues to rise, as a % of U.S. retail spending, but only at the long-term trend growth rate.

For the bears, be aware. The Biden administration and the E.U. have announced anti-competition litigation. Furthermore, the 'return-to-life' experience focus has relatively slowed Internet and screen-based spending.

Zacks Valuation Model -- Returns for Small, Mid, and Large Cap stocks

Using the Zacks Valuation Model on March 2nd, 2024, small cap growth and mid cap growth returns out 12 months offer +12% and +11% respectively (this includes dividends). It was +14% for large cap growth returns.

Growth index returns add 4 to 6% over Value.

Russell 2000

Russell 2000 stocks lead - when markets go full "Risk-on." A 2024 small cap "risk-on" rally can begin, if both U.S. and global political risks fall, and global growth upgrades show up.

Always be mindful of illiquid small cap shorting. In 'Risk-off' periods, shorts can cut down unprofitable small caps -50%.

Fed Funds

On Jan. 31st, 2023, we got the latest FOMC statement—

"Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have moderated since early last year but remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated."

"The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are moving into better balance. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks."

"In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective."

"In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments."

FOMC Summary of Economics Projections PDF, Dec. 13th, 2023

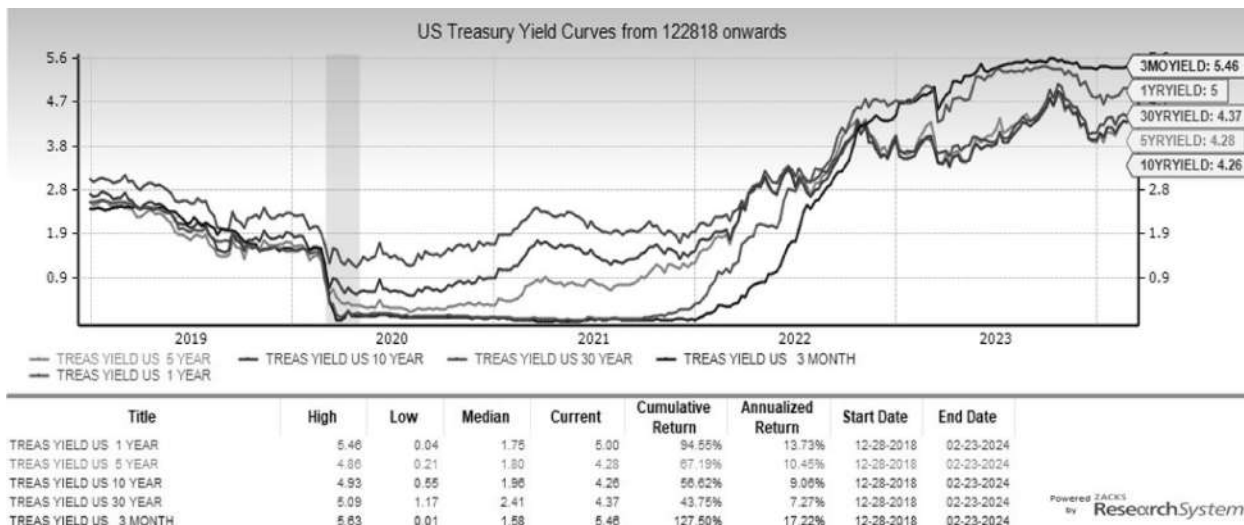
10-yr Treasury: The 10-year Treasury traded at 4.19% on March 2nd, 2024.

It was 4.26% on Sept. 5th, 3.81% on July 3rd, 3.41% on May 3rd and 4.0% on March 1st, 2023, before the regional bank crisis hit.

It was 3.74% on Nov. 29th. This risk-free benchmark bond traded at 3.41% on Feb. 1st, 2023.

Consult the following chart to confirm. The 10-year yield is the purple line below.

U.S. Treasury Yield Curve (12-28-2018 to 02-23-2024)



The 10-year Treasury bond rate, incorporating a 2H-24 Fed Funds rate ~4.3%, is no longer a loose proxy for expectations on the core consumer price inflation rate.

A 3.0% 10-year Treasury yield was in play during the fall 2018. A 10-year rate from +2.5% to +3.5% showed the range I used across 2017.

The Dec. 13th, 2023 FOMC 'dot-plot' projections are largely embedded in the U.S. gov't bond market's current prices. The FOMC currently projects a median of three 25 basis point cuts.



The U.S. Treasury yield curve is not likely to get out of control. The Fed can easily remain the primary repressor, with an assist from other G10 central banks.

In 2024 and 2025 – the Fed will continue to change course based on macro data.

The core personal consumption expenditures index (PCE) is a major target for FOMC tightening. As this core PCE rate dissipates more, the FOMC will adjust its 'real' interest rate downwards.

Corporate High Yield and Investment Grade Bonds

In our JAN 2024 poll, CIOs thought High Yield (HY) spreads will expand. Investment Grade (IG) spreads should expand too. These show lingering recession fear.

Yet IG corporates offer solid coupons. Cash on balance sheets remains impressive. Investors should keep an allocation to these high-quality bonds.

High Yield debt is fully priced in, and then some. It also holds the volatile Energy bonds.

Municipal Bonds

Note: In our latest poll done in JAN 2024, CIOs were neutral on Munis.

State tax efficient munis always look excellent for older income investors. Having written that, all bond classes got pressured by rising rates.

Plan to hold to maturity (on 5-year paper?). U.S. rates have rising markedly.

Federal recovery acts backstopped state and local entities. Now, their budgets are benefitting from full employment within the U.S. economy.

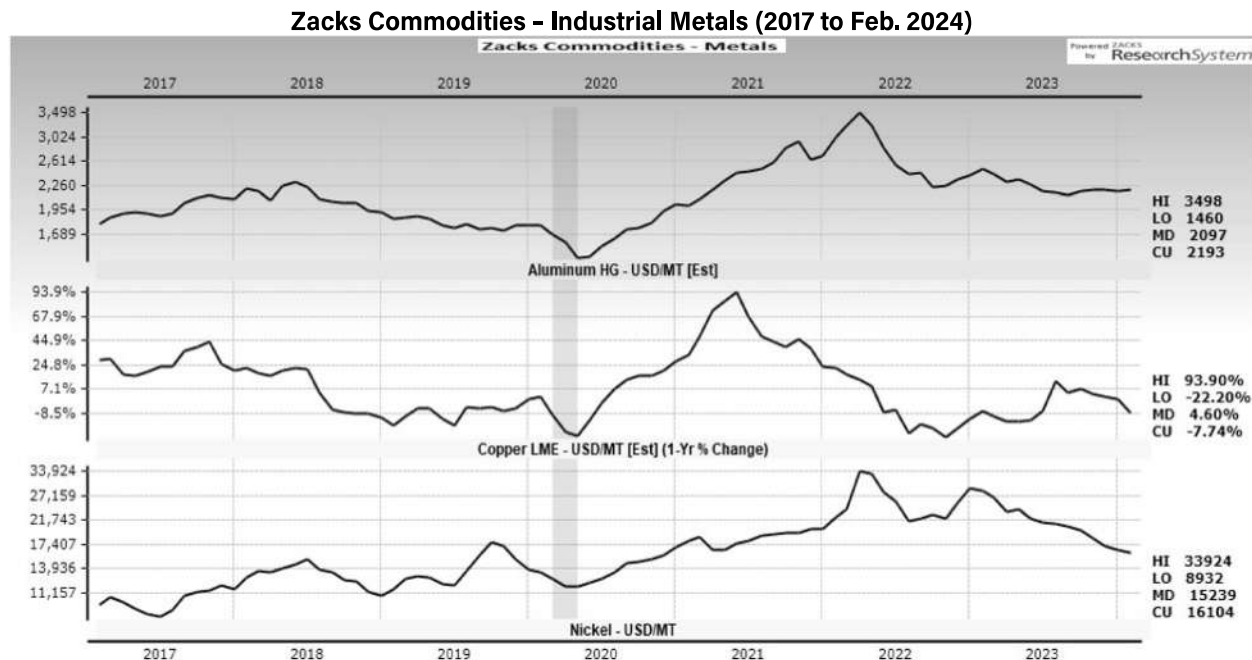
WTI Oil

Zacks Consensus looks for \$74.19 a WTI barrel and \$78.61 a Brent barrel in June 2025.

Zacks oil price outlook is tied to the impact on Russia from oil export sanctions, new OPEC agreements and arrangements with Europe, U.S. oil rig counts, and any increase/decrease in global demand for gasoline-at-the-pump.

Commodities GSCI Index

Consult a 5-year series prices for Aluminum, Copper, and Nickel in a ZRS chart (below).



The world's central banks focus on lowering consumer price inflation in 2024.

To map out a forward look on commodity prices, Zacks applies London economist consensus data, with Q1-2024 entry points, and a 15M forward look to the end of Q2-2025.

No play exists on Live Cattle (-0.7%). A high price of \$1.88 per pound in Q1-24 goes only to \$1.86 in Q2-2025.

Softs: Cotton (-12.4%), Sugar (-4.3%) and Coffee (-2.7%). Their price outlooks look weak.

Crops: Wheat (+9.1%), Corn (+9.6%) and Soybeans (+3.9%). Future prices look strong.

For Industrial Metals, from Jan. 2024 to June 2025? Nickel & Aluminum get +11.6% and +9.8% price bids in 15-months' time. Tin? -3.7%. Copper prices show +5.1% upside.

In Precious Metals, Platinum shows a +14.9% rise (Steady battery material demand?). Palladium prices should rise +7.8%. Gold could go up +3.7%. Silver shows a +9.7% rise.

Using London's December 2023 Energy Consensus, I have U.S. Gas-at-the-Pump prices up +5.15% a gallon the next 15-months. WTI and Brent Oil prices per barrel in 12 months show \$74.19 and \$78.61 a barrel in June 2025.

Zacks consensus shows a +120.3% surge for Natural Gas from JAN 2024 to JUNE 2025.

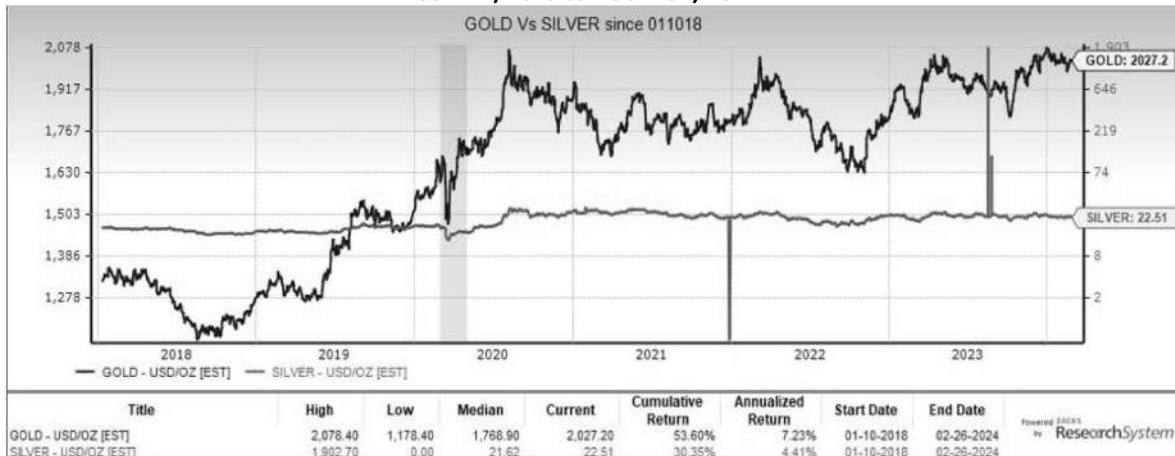
Gold

Gold traded at a new record high of \$2,141 on March 6th, 2024. It traded at \$1,800 in the middle of last year.

Consult the twin chart below.

GREEN shows silver spot price. BLUE shows the gold price.

**Gold Prices (USD per ounce) versus Silver (USD per troy ounce),
Jan. 1st, 2018 to Feb. 26th, 2024**



I would be a seller at these Gold price levels.

Gold price downside hails from higher expected real interest rates.

Greater use of bitcoin is another bear factor for gold. Though, at the moment in March 2024, gold prices are rising with BTC prices. This feels like a speculative rally.

Even though Gold's price can be influenced by numerous drivers, **real risk-free yields** are arguably considered the most important. This is important, in light of movement in U.S. 10-yr. Treasury yields.

Silver in Feb 2021 was the recent high at \$29 a troy oz. \$26.70 was here in May 2021.

In October 2022, Gold and Silver prices rose from lows, as inflation worry receded.

In early March 2024, silver prices are steady and narrowly range-trading.

- On March 2nd, 2024, I noted a \$23.34 price per troy ounce.
- On Jan. 30th, 2024, silver priced at \$23.22.
- On Nov. 29th, 2023, silver priced at \$25.43.
- On Dec. 22nd, 2022, silver priced at \$23.74.

NOTE: About Zacks Rank Sector & Industry Forecasts Coming Up Next --

Zacks Research System (ZRS) updates the Zacks Ranking System regularly; and groups each company into three aggregates. Each of the ranking aggregates still apply the standard proprietary Earnings Estimate Revisions system, but they help sort things out within a top-down context.

Zack aggregates are:

- A 16 Sector grouping (versus the S&P500's 10 sector groups),
- A 60 mezzanine grouping, known as "Middle" or Zacks M-Rank.
- And finally, a 250+ industry grouping, we refer to internally as the X- Rank.

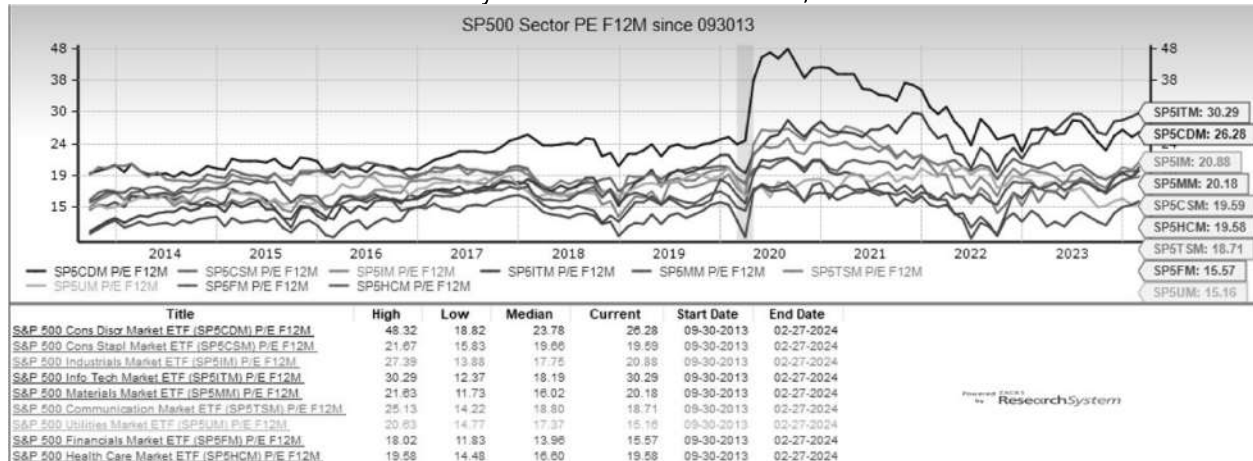
The table in section 6, running four pages long, applied the consolidated ranking information from the 60-industry, Zacks Middle, or M-Rank.

Industries titles listed along with the Zacks Middle Industries are S&P500 Industries, with revisions and additions to reflect specific Zacks industries.

4. ZRS Chart of the Month

Below: Sector Forward 12-Month Price to Earnings (P/E) valuations over 10 years.

This 10-year data set runs to Feb. 27th, 2024.



A table (below) studies these S&P500 sector forward 12-month P/E ratios, on Feb. 27th, 2024. I list nine S&P500 sectors. This list excludes **Energy** and **Real Estate**.

Sector	Current P/E	Mid 3-yr. P/E	Difference (%)
Info Tech	30.29	18.19	12.10
Materials	20.18	16.02	4.16
Industrials	20.88	17.75	3.13
Health Care	19.58	16.60	2.98
Consumer Discretionary	26.28	23.78	2.50
Financials	15.57	13.96	1.61
Consumer Staples	19.59	19.66	-0.07
Communication	18.71	18.80	-0.09
Utilities	15.16	17.37	-2.21

Info Tech (12.10) is overpriced, at rich valuations. But this excess valuation is lower after the stellar EPS reports here. Factor in the tech mega-caps.

Other Bulls? Note positive P/E differences on **Materials** (4.16), **Industrials** (3.13), **Health Care** (2.98), **Consumer Disc.** (2.50), & **Financials** (1.61).

Most likely at or under "fair value" are the deep defensives: **Consumer Staples** (-0.07), **Communication** (-0.09) & **Utilities** (-2.21).

5. Zacks Rank S&P500 Sector Picks

See the next four pages for all of the details...

The Zacks March 2024 Sector/Industry/Company Telescope

The Feb. 29th, 2024 era Zacks Industry Ranks show a dramatic upgrading rise, with four Very Attractive sectors. The end to the Q4-23 earnings season clearly played a role, in that sudden shift. Analysts finally made decisive changes to their estimates.

These are the four Very Attractive sectors now: Industrials, Info Tech, Consumer Discretionary, and Financials.

At Attractive was Communication Services.

At Market Weight was Health Care (no surprise here) and Materials.

At Unattractive was Utilities.

At Very Unattractive were two sectors: Consumer Staples (surprising!) and Energy sectors.

(1) Industrials stayed at Very Attractive. Metal Fabricating, Industrial Products & Services, Business Products, and Pollution Control were strong.

(2) Info Tech rose to Very Attractive from Attractive. Semis & Software Svcs led.

(3) Consumer Discretionary rose to Very Attractive from Market Weight. Non-food Retail, Publishing, Media and Leisure Services look very strong.

(4) Financials rose to Very Attractive from Market Weight. Insurance stays tops. Now, Investment Banking & Brokering, and Finance joined that group.

(5) Communications Services stayed Attractive. Telco Equipment is very strong.

(6) Health Care stayed Market Weight, with Medical Products & Drugs at Market.

(7) Materials stayed a Market Weight. Building Products and Paper were strong.

(8) Utilities fell to Unattractive from Very Attractive. Utilities - Water Supply was the solitary leader here.

(9) Consumer Staples fell steeply to Very Unattractive from Attractive. Soap & Cosmetics and Food/Drug Retail are best, but only rate a Market Weight rating.

(10) Energy fell to Very Unattractive from Market Weight. Oil/Gas Pipeline sole strength.



6. Zacks Rank March Industry Tables

Zacks Forecasts for S&P 500 Industries
(As of February 29, 2024)

Industry Portfolio Rating:	Very Attractive (2.00 to 2.64 Zacks Rank)	Attractive (2.65 to 2.81)	Market Performer (2.81 to 2.99)	Unattractive (3.00-3.20)	Very Unattractive (3.21 or worse)
Consumer Staples VERY UNATTRACTIVE			Soaps & Cosmetics (2.89) <u>Food/Drug Retail</u> Hypermarkets & Supercenters (2.99)	<u>Beverages</u> Soft Drinks, Brewers Distillers & Vintners (3.09)	Tobacco (3.24) Cons Prod-Misc. Staples (3.27) Food Food Distributors Packaged Foods (3.31) Agri-business (4.02)
Consumer Discretionary VERY ATTRACTIVE	<u>Non-Food Retail/Wholesale</u> Department Stores, General Merch. Stores, Specialty Stores (2.12) Publishing (2.53) <u>Media</u> Movies & Entertainment Cable & Satellite, Advertising (2.55)	<u>Leisure Service</u> Casinos & Gaming Hotels Leisure Products Restaurants (2.68) <u>Consumer Autos/Tires/Trucks</u> Auto Retail, Automotive Manufacturer, Tires & Rubber, Auto Parts & Equipment Distributors (2.79)	Other Cons Disc (2.82)		Home Furnishing-Appliance (3.03) <u>Consumer Electronics</u> (3.00) <u>Apparel</u> Footwear, Apparel & Accessories, Apparel Retail (3.59)

Industry Portfolio Rating:	Very Attractive (2.00 to 2.64 Zacks Rank)	Attractive (2.65 to 2.81)	Market Performer (2.81 to 2.99)	Unattractive (3.00-3.20)	Very Unattractive (3.21 or worse)
Energy VERY UNATTRACTIVE	Oil & Gas Prod. Pipeline (2.63)		Oil Mach/Drilling (2.91)	Energy - Alternate Sources (3.00)	Oil Misc. - (3.21) Oil Exp & Prod (3.72) Oil & Gas - Integrated (3.78) Coal & Consumable Fuels (3.94)
Financials VERY ATTRACTIVE	<u>Insurance</u> Insurance Brokers Multi-Line Insurance Life & Health Insurance Property & Casualty Insurance (2.41)	Invest Banking & Brokering (2.67) <u>Finance</u> Specialized & Consumer Finance (2.77)	Banks-Major Regional Banks Diversified Banks, Other Diverse Financial Svcs. (2.84) Banks & Thrifts (2.91) <u>Real Estate</u> (REITs), Real Est. Mgmt & Dev. (2.98)	Investment Funds (3.00)	
Health Care MARKET WEIGHT			<u>Medical Products</u> Life Science Tools & Services, Health Care Equipment (2.96) <u>Drugs</u> Biotech, Pharma (2.99)	<u>Medical Care</u> Health Care Distributors, Health Care Supplies, Health Care Facilities, Managed Health Care (3.00)	

Industry Portfolio Rating:	Very Attractive (2.00 to 2.64 Zacks Rank)	Attractive (2.65 to 2.81)	Market Performer (2.81 to 2.99)	Unattractive (3.00-3.20)	Very Unattractive (3.21 or worse)
Industrials VERY ATTRACTIVE	Metal Fabricating (2.04) Industrial Products-Services (2.14) <u>Business Products</u> Commercial Printing Office Services, & Supplies (2.45) Pollution Control (2.65)	Machinery (2.79) <u>Machinery</u> <u>Electrical</u> Electrical Comp. & Equip. (2.79) <u>Business S'vices</u> HR & Employment Services Trade Comps & Distributors (2.80) Conglomerates (2.81)	Construction - Building Services (2.88)	<u>Transport</u> Railroads & Trucking (3.10) Aerospace & Defense (3.10) <u>Transport- Air</u> Airlines Air Freight & Logistics (3.13)	
Info Tech VERY ATTRACTIVE	<u>Electronic-Semiconductors</u> Semiconductors Semiconductor Equipment Electronic Manufacturing Services (2.26) <u>Computer Software-Services</u> Home Entertainment Software, Application Software, Systems Software, Internet Software & Services (2.45)		<u>Misc. Tech</u> Data Processing & Outsourcing Services Consulting & Services (2.83) <u>Electronics</u> Electronic Components Equipment & Instruments Computer Hardware, Computer Storage & Peripherals (2.91) <u>Computer-Office Equipment</u> Office Electronics, (2.97)		

Industry Portfolio Rating:	Very Attractive (2.00 to 2.64 Zacks Rank)	Attractive (2.65 to 2.81)	Market Performer (2.82 to 2.99)	Unattractive (3.00-3.20)	Very Unattractive (3.21 or worse)
Materials MARKET WEIGHT	Building Products/ Construction Materials (2.54) <u>Paper</u> <u>Paper Packaging</u> <u>Paper & Forest</u> <u>Products (2.61)</u>		Steel (2.82)	<u>Chemicals</u> Fertilizers & Ag. Chemicals Industrial Gases Specialty Chemicals Diversified Chemicals (3.08) Containers & Glass (3.09)	<u>Metals non-Ferrous</u> Diversified Metals & Mining, Gold, Aluminum, (3.29)
Telecom Services ATTRACTIVE	Telco Equipment (2.40)			<u>Telco Services</u> Wireless Telecom Services Integrated Telecom Services (3.09)	
Utilities UNATTRACTIVE	Utilities – Water Supply (2.16)			Utilities Electric Power (3.03) Utilities Gas Dist. (3.09)	Utilities – Telephone (3.67)

7. February Asset Allocation Guidelines

<u>Category</u>	<u>12-M (%) Tot Ret</u>	<u>Uncertainty</u>	<u>Comment</u>
Russell 2000 Small Cap			MW Buy & hold growth.
Value	8		
Blend	15		
Growth	12		
S&P 400 Mid Cap			MW Stable returns vs. small caps
Value	11		
Blend			
Growth	10		
S&P 500 Large Cap		High	MW Fair value 4,788 YE '24.
Value	8		
Blend	13		
Growth	14		
MSCI Int'l (EFA)	14		MW Mexico, Dev. Asia (not China)
Corp. Bonds	7		MW IG, UW HY
Municipals	5		MW Solid state tax collections
10-Year US Treasuries	4.3		UW Look past a 4.3% term. rate
Gold	3.7		MW Real rate driven
Commodities	5		UW Need China demand.
Cash	5	Low	OW 1-yr CD rates sync to Fed F

'OW = an Over Weight Asset Allocation relative to 'normal' portfolio weights, i.e. build a stronger position

MW = a consistent, or Market Weight Asset Allocation, equal to long-term hold security preferences.

UW = an Under Weight Asset Allocation, i.e. cut back from 'normal' weight.



Target Allocation of Assets						
	Maximum Growth	ETF	Growth w/ Moderate Income	Growth with Income	Income with Moderate Growth	Income
Stocks	75	W5000	66	51	36	18
	Bias Growth Stocks			Bias Value Stocks		
US						
Small	20	SLY	16	12	6	4
Mid	20	MDY	16	12	6	4
Large	10	SPY	14	14	12	6
International	25	EEM, EFA	20	13	12	4
Bonds	9	AGG, BIL	20	37	56	81
Corps	6	VCMT, LQD	10	20	25	35
Munis	2	MUB	8	15	25	40
10Year Treasury	1	IEF, TIP	2	2	6	6
Alternatives	15	RLY	13	11	7	0
Oil/Nat Gas	6	IXC	6	5	4	0
REITS	9	VNQ	7	6	3	0
Gold	0	GLD	0	0	0	0
Commodity	0	DJP	0	0	0	0
Cash	1		1	1	1	1

NOTE: On this page, I keep references for Market Weight (MW) Allocations. These benchmark my asset allocation recommendations.

Tactically, (UW, MW, OW) calls I made — on the previous page — adjust these pre-set asset allocations.

5 different frameworks — on this page — specify portfolio risk tolerance: from Risky "Max Growth" to Conservative "Income." Choose one that fits you.

8. March Equity Style Box Returns

I draw upon the Zacks Valuation Model (the ZVM) to construct style boxes.

Returns are based on market-implied earnings growth rates looking out 3 to 5 years. In comparison, Wall Street consensus returns for large caps in the S&P 500 typically show a +10% blended return.

Table 1
Model EPS

Zacks Style Box	Value	Blend	Growth
Small Cap	6.28%	13.98%	11.55%
Large Cap	5.57%	11.82%	13.27%

Source: ZVM, March 2, 2024

ZVM annual returns results that include the annual dividend payments are below.

Table 2
Model Return (with Dividends)

Zacks Style Box	Value	Blend	Growth
Small Cap	8.27%	15.31%	12.25%
Large Cap	7.56%	13.38%	14.06%

Source: ZVM, March 2, 2024

Done on March 2nd, 2024, the ZVM has created two style boxes.

These tables suggest blend or growth indices carry the most upside the next 12 months.

(1) The latest MAR 2024 data shows indexes with style upside. Highest returns come with the small cap blend or large cap growth model return. Value lags Growth considerably.

For example, the RUT Growth return in Table 1 is 11.55% and RUT growth in Table 2 is 12.15%. RUT Value w/dividends is 8.27%.

(2) The distance between Small Cap Growth and Value model EPS returns is +3.88%.

(3) Returns w/ dividends -- Large Cap (LC) Blend or Growth indices offer upside. Consistent with that, Small Cap (SC) Blend or Growth indexes offer better returns. Index composition matters.

(4) Mid Cap Returns w/Dividends -- Mid Cap Growth was +10.20% vs. Mid Cap Value at 10.52%. Mid-Caps indices offer (0.6% G, 1.43% B, 1.80% V) in annual dividends.



9. March Sell-Side and Buy-Side—Consensus at a Glance

Sell-Side Consensus

A. On March 1st, 2024, FactSet “Bottoms-up” consensus, going 12 months out?

This outside consensus was for **5,589.20**.

The latest consensus is now looking for a 12M forward return of (+10.2%).

B. Sell-side Wall Street Consensus

Entering January 2024, Barchart produced this list of YE S&P500 predictions.

Firm	Target
Bank of America	5,000
Barclays	4,800
BMO	5,100
Cantor Fitzgerald	4,400
Citigroup	5,100
Deutsche Bank	5,100
Evercore ISI	4,750
Fundstrat	5,200
Goldman Sachs	5,100
JP Morgan	4,200
Morgan Stanley	4,500
Ned Davis Research	4,900
Oppenheimer	5,200
RBC Capital Markets	5,000
Scotiabank	4,600
Societe Generale	4,750
UBS	4,650
Wells Fargo	4,625
Yardeni Research	5,400
Avg.	4,861
Median	4,875
Max	5,400

Source: Barchart



C. Other Sell-Side Views

The "Equity Risk Premium" (ERP) is an excess return the overall stock market provides above a risk-free fixed income rate. This excess return compensates investors for taking on the relatively higher risk of equities.

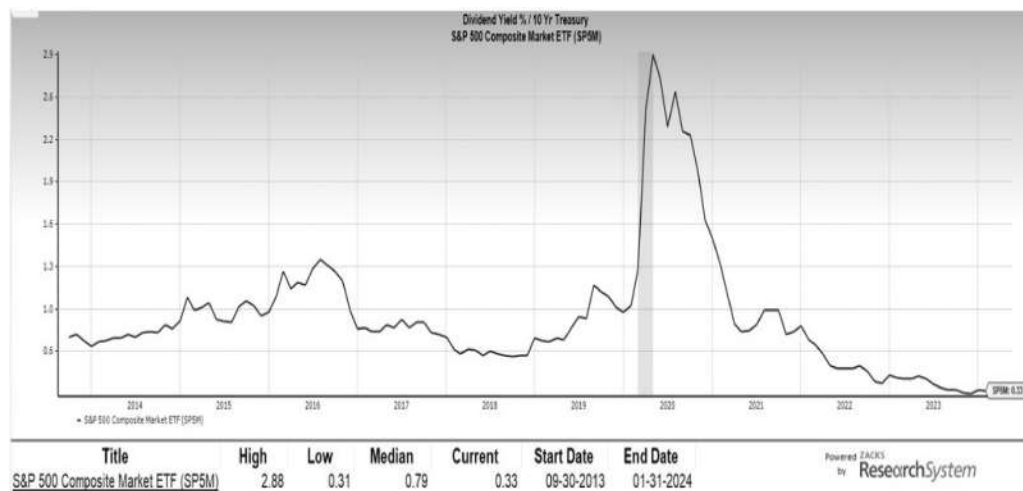
A valuation boost from the attraction of a broad equity risk premium looks OK using 2024 S&P500 earnings of \$243.82. The ERP then becomes **+4.75% on March 2nd, 2024.** +4.2% is the average in the recent past.

In 2020, post-virus, with rates at rock bottom, sell-side models showed the equity risk premium was a very positive force for stocks. The ERP was 6.0% in April 2020.

- Sell-side strategists measured the S&P 500 equity risk premium at 6.2% in early 2019.
- For more backward-looking references, the equity risk premium was +6.2% in 2013 and 6.0% in 2014. It peaked at 7.4% in 2012.
- As long as long-term risk-free U.S. Treasury rates were relatively low, an arbitrage incentive was there is to buy stock cash flows.

However, there is bearish news for stock investors, in a high bond rate environment.

The average dividend of the S&P500 is now at a 0.33 level vis-a-vis 10-year Treasury yields...



Bottom-up S&P 500 Earnings

- 2025 real U.S. GDP growth could be +1.7%
- 2024 real U.S. GDP growth should be at the long-term trend +2.1%
- 2023 real U.S. GDP growth ended at +2.5%
- 2022 real U.S. GDP growth ended at +1.9%
- 2021 real U.S. GDP growth was +5.8%

The above estimates use the latest 2024 London-based Consensus Economics data.

- GDP growth in 2020 finished with a -2.8% annual decline
- 2019 was +2.3% and 2018 was +2.9%
- The U.S. saw +2.3% in 2017, +1.7% in 2016 and +2.6% GDP growth in 2015

"Bottoms-up "consensus on EPS growth for S&P500 stocks? Outside consensus expects +13.2% in 2025, +11.0% in 2024, +0.9% in 2023 and +3.9% in 2022. EPS growth was +50.2% in 2021, and -12.9% in 2020.



Annual S&P500 EPS growth was +0.4% in 2019; a lull after a strong +23.3% in 2018 and +10.0% in 2017. Annual EPS growth was +0.5% in 2016 and -0.6% in 2015.

Consensus calls for EPS growth in 2024 and 2025 get loosely tied to a recent +2.5% U.S. growth estimate for 2023, along with long-term trend growth projected for 2024 and 2025 real GDP growth outlooks, the core CPI rate, and global real GDP and core CPI growth levels across 2024.

The Zacks view difference?

U.S. traders look to 2024 and 2025 for EPS and revenue growth narratives.

Q1-23, Q2-23, Q3-23, and Q4-23 narratives were tied to steep Fed rate hikes.

2021 was about G10 money printing. COVID shutdowns the coup-de-grace in 2020.

Pre-virus, the global economy was cut down by trade wars. 2019 delivered a tariffed-down earnings growth rate and faced tough y/y comps.

U.S. risk markets achieved outstanding nominal S&P500 earnings growth in 2018 — on corporate tax policy. That was an anomaly.

Zacks is in sync with consensus earnings for Q1-2024 and beyond. The U.S. could be witnessing a Fed-induced cycle. Stocks could struggle with weak EPS and GDP growth, until the Fed cuts rates. The outlook on the global economy looks worse.

There are surely revisions to that ahead. We stay vigilant and update.

Top-down S&P 500 Earnings

Top-down strategists, who track macro forces and apply top-down judgment to forecast S&P 500 earnings, look for **+13.2% in 2025, +11.0% in 2024**, strongly rising after +0.9% in 2023, +6.6% in 2022, and +51.4% in 2021; after -13.0% EPS growth in 2020, +0.4% in 2019 and +23.3% in 2018.

The cyclical play is to buy in front of full year 2024 and 2025 earnings, and 2H-24 Fed rate reductions.

Small Cap, Mid Cap, and Large Cap stocks

If recession worry fades, sentiment can be relatively stronger for small and mid-caps.

Over the next 12 months of 2023, JAN 2024 CIOs have forecasted:

- A likely Large Cap return is worse than -5% in 12 months. Value indexes Out Perform. Growth indexes Under Perform.
- A likely Mid Cap return is worse than -5% in 12 months. Value indexes Market Perform. Growth indexes Market Perform.
- A likely Small Cap return is better than +15% in 12 months. Or worse than -5%. Value indexes Market Perform. Growth indexes Market Perform.

The 2024 sell-side looks for historical +7.9% annual returns.

The 2023 sell-side looked for +15% to -4% large cap returns, with the mode at a historic trend of +8%. There was no favorite style class. In hindsight, the S&P500 was up +24%.

2022 was poor year for all stock indices.

2021 saw a +14.5% return for the Russell 2000, which was fully consistent with Zacks asset allocation





model returns for that year. Large caps beat that.

The Zacks view difference?

For 2024, we see +15% returns for the S&P500. We can see a +15% gain for the small cap growth indexes, only if 'deep' global recession worry fades.

2023 saw narrow strength in big tech names.

For 2022, the Fed rate hikes caused a valuation re-set.

In 2021, we called it right. We stayed bullish all year, on the Fed money printing story.

In late March 2020, we turned bullish on U.S. growth and value stock indexes across the style spectrum. Tech stocks were our favorite industry group.

In addition, we will see any volatile (VIX at 45) 2024 selloff on smaller cap indexes as a time to pounce, but only on ETFs, not individual risky stocks. There is value to shifting into small and mid-cap index tracking, not names.

Large caps outside the U.S. are also worthy in 2024, on relative valuations. A strong rotation into them would be confirmed, as GDP growth picks up outside the USA -- relatively more.

China is not the likely international stock leader. The PBoC has begun to provide more liquidity to China's financial markets, as real estate groups get supported.

Buy-Side Consensus

Keep in mind. These are long-term investors, not momentum traders.

S&P 500 and Russell 2000

In January 2024, our CIOs shared this outlook for the next 12 months--

- A likely Large Cap return is worse than -5% in 12 months.
- A likely Mid Cap return is worse than -5% in 12 months.
- A likely Small Cap return is +15% or better, or worse than -5%, in 12 months.

S&P 500 and Russell 2000: Value or Growth

JAN 2024 CIOs called for 12M forward outlooks where --

- Large Cap Value Out Performs. Large Cap Growth Under Performs.
- Mid Cap Value Market Performs. Mid Cap Growth Market Performs.
- Small Cap Value Market Performs. Small Cap Growth Market Performs.

Fed Funds

In JAN 2024, our CIOs saw the Fed Funds at 4.0% to 5.0% in 12 months.

10-yr Treasury

In JAN 2024, CIOs had the 10-year Treasury 3.5% to 5.0% in 12 months.

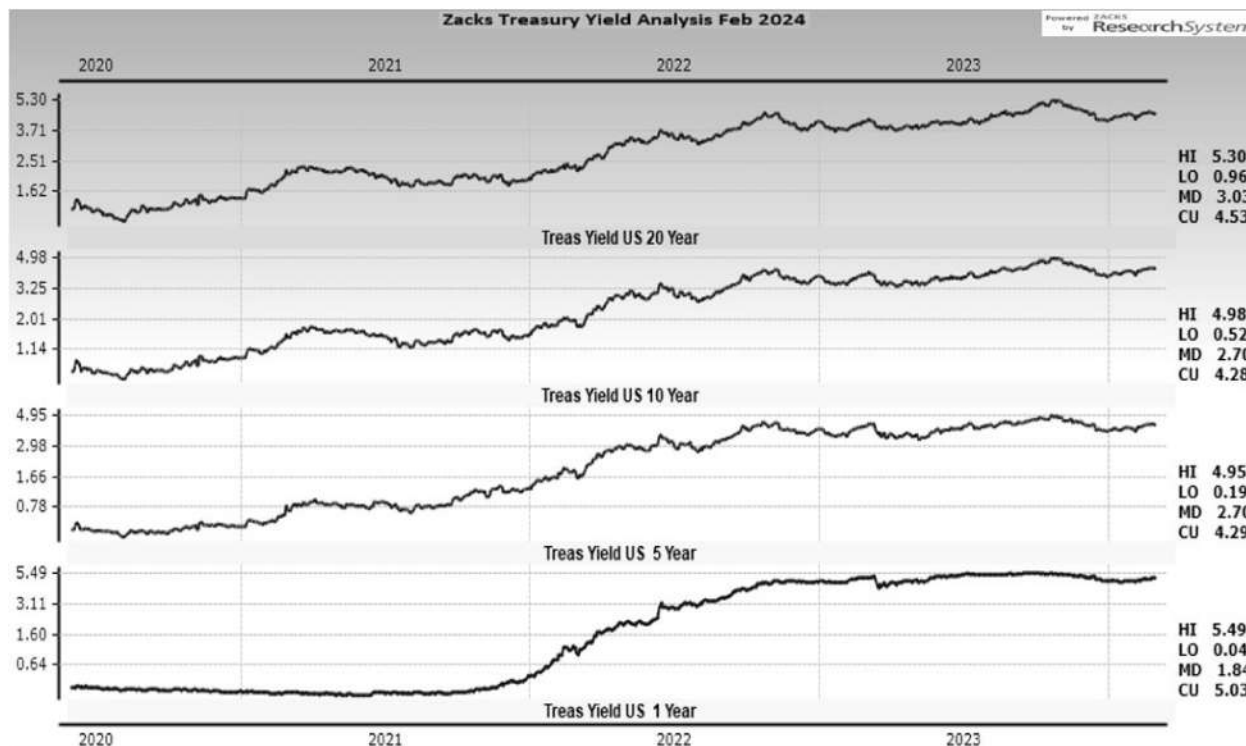
Look back at pre-COVID times for perspective.

- In November 2019, CIOs had the 10-yr Treasury rate between 2.0% and 2.5%.
- In October 2018, a mode of (50%) CIOs in our survey also thought the 10-year Treasury rate range should fall between +3.0 to +3.5%.

Look further back even more too...

- For 2015, the 10-yr Treasury was pegged at 1.5% to 2.5%.
- For 2014, CIOs saw a higher range of 2.5% to 3.5%.
- In the dark days of 2012 and 2013, the consensus 10-yr. rate floated between 1.5% and 2.5%.

Zacks Treasury Yield Analysis (Q2-2020 to Feb. 2024)



Corporate High Yield and Investment Grade Bonds

In JAN 2024, CIOs expect IG credit spreads to expand. They expect HY bond credit spreads to expand.

In pre-COVID April and August 2019, CIOs expected IG bond credit spreads to stay the same. The CIOs expected HY credit spreads to widen.

Municipal Bonds

In our JAN 2024 survey, our CIOs were neutral on returns for Munis.



In August 2019, 44% of CIOs were bearish, and 33% were at Market Perform.

- In the October 2018 survey, (40%) gave this security a bearish nod. (46%) were neutral.
- In October, August, and April 2017 and in Jan and Oct. 2016—munis got a neutral to bearish nod.

Private asset bubbles and debts piling up into enormous U.S. deficits are concerns.

Inflation is high. The Fed will stay restrictive in 2023.

WTI Oil and Commodities GSCI Index

In the JAN 2024 survey, CIOs had WTI oil as Bullish.

In the August 2019 survey, WTI oil had 70% of CIOs at Market Perform. In the April 2019 survey, (30%) of CIOs were Bullish on oil, and (40%) were at Market Perform. (30%) were Bearish. October 2018 was Market Perform" on Oil prices too.

In FEB and JUNE 2023, CIOs were at Market or Bullish on Commodities.

In August 2019, Commodities are 50% Market Perform and 30% Bullish. Commodities stayed Market Perform in both April and January 2019.

Gold

In JAN 2024, CIOs were bullish on gold.

In Nov. 2019, CIOs were bullish on Gold.

In August 2019, 50% of CIOs were at Market Perform on Gold. 30% are Bullish.

(10) International: Update on Global Regions

Top 10 World ETFs on Zacks.com
March 2, 2024

Symbol	Company	Zacks ETF Rank	1 Mos. (%)	3 Mos. (%)	1 Yr. (%)	Market Cap
VXUS	Vanguard Total International Stock E...	3	+3.13	+6.47	+12.55	\$65,559.56
VEU	Vanguard FTSE All-World ex-US ETF	3	+3.32	+6.69	+12.94	\$38,312.57
IXUS	iShares Core MSCI Total Internationa...	NA	+3.12	+6.60	+12.44	\$35,070.94
VT	Vanguard Total World Stock ETF	3	+4.21	+9.85	+22.88	\$34,342.63
ACWI	iShares MSCI ACWI ETF	3	+4.22	+10.02	+23.96	\$19,145.50
VSS	Vanguard FTSE All-World ex-US Small-...	3	+1.89	+5.97	+10.02	\$8,721.04
VYMI	Vanguard International High Dividend...	3	+2.29	+5.49	+12.62	\$7,201.81
DFAX	Dimensional World ex U.S. Core Equit...	NA	+2.98	+5.99	+12.00	\$6,478.75
VIGI	Vanguard International Dividend Appr...	3	+1.51	+7.57	+15.84	\$6,211.27
IOO	iShares Global 100 ETF	3	+4.55	+11.45	+33.94	\$5,052.67

Source: Zacks.com

1. The Impact of the Global Economy on the S&P500, done on March 12th, 2018—

The S&P 500 is widely considered to be one of the best single gauges for the U.S. equity market. Composed of 500 companies that are domiciled in the U.S., the index captures approximately 82% of the total U.S. equity market value.

An index of U.S. companies may lead one to initially assume that the index is exclusively dependent on the health of the U.S. economy.

In reality, the index is more global than one may think.

Many U.S. corporations have a global presence, with assets and revenues in or from foreign countries. Therefore, certain global events can have a material effect on S&P 500 companies and overall index performance.

To better understand where S&P 500 companies' revenues are coming from, the FactSet Geographic Revenue Exposure (GeoRev TM) dataset was used. This dataset gives a geographic breakdown of revenues for all companies with available data.

This 2018 data showed that nearly 71% of S&P 500 revenues came from the U.S. (implying that 29% of S&P500 revenues came from outside the U.S.).

Internationally, the largest individual countries by total revenue percentage included China (4.3%), Japan (2.6%), and the U.K. (2.5%).

2. According to Global X on Oct. 3rd, 2022—

S&P 500 Sensitivity to Global Factors: Macroeconomic shifts have stirred global markets this year, and the U.S. is no exception.

Tighter monetary policy in response to higher inflation and Russia's war in Ukraine have triggered a flight to safety, boosting the U.S. dollar and devaluing risk assets.

A Strong Dollar Could Weigh on Corporate Earnings: The dollar's 20% rally over the past year (as of September 28th, 2022) means that foreign earnings of U.S. domiciled firms are worth less when translated back into dollars.

While it is reasonable to assume that currency hedging will mitigate some of the losses from currency translation, there will be some negative impact on multiples as a result.

Companies that generate a substantial part of their revenue from outside of the U.S. could experience additional earnings compression, albeit with a lag.

In late 2022, they wrote that roughly 40% of S&P 500 revenues are generated outside of the U.S., and about 58% of Information Technology company sales were sourced from abroad.

3. S&P Dow Jones Indices offer a S&P500 Foreign Revenue Exposure Index

Zacks FX 3-Part Consensus to JUNE 2025

(1) Where USD Gets Stronger out to JUNE 2025 Listed by Size of Move.

Russia Rouble (+8.37%): Putin rules in a very corrupt manner. The rouble has been in decline, as sanctions constrain Russian energy revenues. Hampers the ability to fund the Ukraine war. Labor and product shortages, and a widening budget deficit. Growth outlook is +1.7% in 2024 and +1.1% in 2025. From 91.25 to 98.89 RUB/USD is the call to JUNE 2025.

Mexico's peso (+5.27%): Peso is sensitive to U.S. economy and the Fed outlook. Banxico has a 11.25% policy rate (Banxico stays ahead of the Fed). Mexico's CPI was +4.9% y/y in early 2024. 17.05 pesos go to 17.94 in 15 months.

Australia (+4.03%): Inflation in Australia was +5.2% y/y in August. The RBA sits at a 4.35% policy rate. FX support could come w better commodity outlook.

Euro Area (+2.34%): 2023 presented a few challenges to the bloc. One was high inflation. The ECB has adopted a more restrictive approach to monetary policy (following the FOMC). The euro continues to trade above USD parity (1.08).

(2) Where USD is mostly flat out to JUNE 2025.

Brazil (+0.22%). Real moves from 4.95 to 4.97 per USD. Volatility abated last summer. +5.8% inflation by YE 2023? Central bank at 11.75%, falling now, as inflation trends down.

Swiss Franc (+0.78%): At 0.944 in FEB 2024, look for a 0.951 rate by JUNE 2025. The Swiss franc offers safe haven stability and the SNB closely manages its currency. Inflation was +1.5% y/y in early 2024, putting markets on alert for earlier rate cuts vis-à-vis FOMC or ECB.

United Kingdom (-0.16%): The UK pound climbed to a one-year high, after the Fed signaled that its tightening cycle is almost over. Bank rate at 5.25%. The pound moves little from 1.26 USD per U.K. pound in FEB 2024 to ~1.26 by JUNE 2025.

(3) Where USD Gets Weaker out to JUNE 2025.

South Africa (-1.34%): The Rand's trajectory remains choppy, sensitive to declining global investor sentiment amid bank collapse, fears of recession in Developed economies, and commodity price volatility. Inflation at +5.3% y/y in Jan 2024.

STOCK MARKET OUTLOOK

India Rupee (-1.60%): The rupee is managed. This is an EM currency -- with stronger relative growth on offer for 2024. 83 rupees go to 81.7 rupees per USD by JUNE 2025.

Swedish Krona (-2.44%): June 30th, Riksbank policy rate at 4.00%. That central bank added 25 bps more in September. Inflation was +3.43% y/y in early 2024.

Canada's Loonie (-3.32%): It trades with US macro trends and Fed policy. CPI expected at +3.0% in 1H-24. Oil price trends a key factor. CAD goes 1.345 to 1.30 per USD, by JUNE 2025.

Mainland China Yuan (-5.24%): With 7.21 in hand per USD, trading at 6.83 is the call. For the renminbi, the fraught state of US-Sino relations may act as a threat to stability. The renminbi weakened in May 2023, as mixed economic indicators caused markets to question recovery

Japan Yen (-10.51%): The yen could go from 149.5 to 133.8 in 15 months. The Yen traded at 123 in Dec. 2015 before the -0.1% policy in early 2016. BoJ committed to ultra-loose policy. Japan spent \$42B to prop up the yen in Oct. 2023. 150 was lowest level in 3 decades.

For benchmarking returns on international ETFs, use the following Dec 31st, 2023 table with Vanguard benchmark returns.

Benchmark	Returns as of 12/31/2023		Month End YTD as of 12/31/2023	Average Annual Total Returns as of 12/31/2023			
	1 Month	3 Month		1 Year	3 Year	5 Year	10 Year
Consumer Discretionary Spliced Idx	7.16%	13.24%	40.48%	40.48%	4.44%	16.61%	12.42%
CRSP US Total Market Index	5.32%	12.14%	25.98%	25.98%	8.44%	15.08%	11.44%
Dividend Growth Spliced Index	4.11%	10.27%	14.52%	14.52%	8.55%	13.92%	10.77%
FTSE All-World ex US Index	5.06%	9.72%	15.82%	15.82%	1.98%	7.52%	4.24%
FTSE All-World Index	4.80%	11.03%	22.44%	22.44%	6.13%	12.07%	8.33%
FTSE AW ex US High Div Yield Idx	5.05%	8.65%	17.35%	17.35%	8.10%	8.29%	4.19%
FTSE Emerging Index	3.56%	6.57%	8.70%	8.70%	-3.52%	4.44%	3.26%
FTSE Global All Cap Index Hdq.	4.48%	9.75%	22.66%	22.66%	8.07%	13.13%	9.65%
FTSE Global Small-Cap ex US Index	6.29%	10.30%	15.53%	15.53%	0.88%	6.87%	3.85%
FTSE High Dividend Yield Index	5.59%	9.13%	6.59%	6.59%	10.27%	11.00%	9.44%
Global Wellesley Income Comp Index	4.21%	7.66%	9.68%	9.68%	1.56%	4.91%	—
Global Wellington Composite Index	4.49%	9.97%	18.40%	18.40%	3.93%	9.25%	—
Growth Composite Index	4.94%	10.33%	18.91%	18.91%	4.40%	10.33%	7.72%
High-Yield Corporate Composite Idx	3.31%	6.99%	12.14%	12.14%	1.62%	5.28%	4.47%
iMoneyNet MFR Treasury Funds Avg	0.43%	1.27%	4.68%	4.68%	1.97%	1.56%	0.94%
Income Composite Index	3.93%	7.56%	9.61%	9.61%	-1.10%	3.56%	3.58%
Information Technology Spliced Idx	4.95%	16.77%	52.64%	52.64%	11.94%	25.01%	19.77%
JP Morgan EMBI Global Diversified	4.73%	9.16%	11.09%	11.09%	-3.56%	1.67%	3.22%

Over the last 5 years?

The U.S. total market index showed a +15.08% average annual total return. The FTSE All-World ex U.S. index return was +7.52%. The FTSE Emerging Index was +4.44%.

Next, IHS Markit manufacturing Purchasing Manager Indices (PMIs)—

(1) For the Globe on March 1st —

February saw global manufacturing show signs of renewed vigor.

Output expanded for the second successive month, supported by the first increase in new order intakes since June 2022. The outlook remained broadly positive overall, with optimism regarding the year ahead staying close to January's nine-month high.

The J.P. Morgan Global Manufacturing PMI® posted 50.3 in February, up from 50.0 in January, its first reading above the neutral 50.0 mark in 18 months (since August 2022). Three of the five PMI subindices signaled growth (new orders, output and stocks of purchases).

Although the rate of expansion in output remained only mild in February, it was still the second-fastest during the past 20 months (beaten only by May 2023 during that sequence). All three of the sub-sectors covered by the survey saw output increase.

Consumer goods producers saw solid growth, whereas rates of expansion were marginal in both the intermediate and investment goods categories. China, the US, India and Brazil were among the nations to see manufacturing output rise, in contrast to declines in places such as the euro area, Japan and the UK.

The increase in global manufacturing production was supported by growth in new business intakes and efforts to complete backlogs of work. Total new orders rose for the first time in 20 months, albeit only marginally. Although the downturn in new export orders continued – international trade volumes have fallen throughout the past two years – the rate of decline eased to its weakest since June 2022.

The recent return to growth at global manufacturers was also felt in the labour market. Although further job losses were registered, the reduction to staff headcounts was the least marked since September. Lower employment was seen in China, the euro area and Japan (among others), while the US, Brazil, Mexico and Russia were some of the nations to register jobs growth.

The outlook for the global manufacturing sector remained positive in February, with optimism about the coming year staying close to January's nine-month high. Meanwhile, the cyclically sensitive ratio of new orders-to-stocks of finished goods edged up to its highest level since May 2022.

February data indicated that average supplier lead times were broadly unchanged over the month. The aggregate reading masked divergent trends beneath the surface, however. Some nations, including Germany, the US and Austria, saw marked improvements in vendor lead times. In contrast, the UK, France and Australia saw much longer times. Average input prices and output charges both increased during February

Bennett Parrish, Global Economist at J.P. Morgan, said:

"The February PMI survey saw the rebound in global manufacturing gather pace. The output PMI advanced by 0.9pts to its highest level since May 2023. The new orders index also rose above the 50-mark for the first time in 20 months. An improving orders-to-inventory ratio and upward momentum in both new export business and employment all suggest the underlying dynamics of the manufacturing sector are also moving in the right direction. Supply chain stresses seem to have faded somewhat, at least on aggregate.»

(2) Europe

Consensus Economics marked a +1.6% GDP growth rate in 2019, -6.3% in 2020, +5.3% in 2021, and +3.4% in 2022.

The consensus outlook is for +0.5% in 2023, 0.5% in 2024, and +1.3% in 2025.

For Europe on March 1st —

Further tentative signs of recovery in the euro area manufacturing sector were evidenced by the latest HCOB PMI® survey, with forward-looking indicators such as new orders and purchasing activity signaling their softest falls in close to a year in February. Production levels decreased midway through the first quarter, although the rate of contraction held steady.

Further encouragement can be taken from eurozone manufacturers' growth expectations, which were on a par with January's nine-month high.

Meanwhile, supplier delivery times shortened in February after a slight lengthening in the previous survey period. Manufacturing input costs fell further, leading to further discounts on eurozone goods.

The HCOB Eurozone Manufacturing PMI, a monthly measure of the overall health of eurozone factories and compiled by S&P Global, registered a fractional month-on-month fall in February. Nevertheless, at 46.5, the headline index was broadly unchanged from January's 10-month high of 46.6 and signaled the second-slowest deterioration in manufacturing sector conditions since March 2023.

The drop in the HCOB Eurozone Manufacturing PMI was entirely driven by the largest economy of the single currency union, Germany, which registered its sharpest deterioration in four months. The strongest performances were seen in the periphery of the eurozone, with Greece and Ireland recording their best expansions for 24 and 20 months, respectively. Spain returned to growth for the first time in nearly a year, while softer contractions were seen in the Netherlands, Italy and France.

The downturn in demand for euro area goods cooled for a fourth consecutive month during February, with factory orders declining at the slowest pace since March last year. There were also positive signals to be taken from other forward-looking survey indicators, such as quantities of purchases, which also fell to the softest extent in close to a year. Improvements in these indices coincided with resilience in growth expectations, which were on a par with the nine-month high seen in January.

Total factory output across the eurozone continued to shrink, February survey data showed, although the rate of contraction was unchanged from January (and therefore the joint-weakest for ten months). Nevertheless, eurozone manufacturers were able to clear orders pending completion. The rate of depletion was sharp and slightly faster than at the beginning of the year. The reduction in backlogs was achieved despite employment levels falling for a ninth month in succession.

Eurozone manufacturers continued to reduce their inventories midway through the first quarter of 2024. Stocks of inputs fell to the slowest degree in six months amid speedier supplier delivery times. The improvement in vendor performance followed on from January's lengthening – the first in a year – and points to a positive readjustment in the region's supply chains amid disruption in the Red Sea. Finished goods held in warehouses also declined in February, but at a slightly weaker pace than previously.

Operating expenses faced by factories in the euro area continued to fall during the latest survey period, marking a year of sustained input price deflation. Although the rate of decrease was solid, it was the weakest since March 2023. Prices charged for eurozone goods were discounted further.

Countries ranked by Manufacturing PMI: February

Greece	55.7	24-month high
Ireland	52.2	20-month high
Spain	51.5	20-month high
Netherlands	49.3	13-month high
Italy	48.7	11-month high
France	47.1	11-month high
Austria	43.0	Unchanged
Germany	42.5	4-month low

Comment Commenting on the PMI data, Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, said:

"The eurozone's one-year industrial recession is not coming to an end. Output has declined again at the same pace as the previous month, mainly due to the heavyweights Germany and France. Spain, by contrast, is the first of the leading four euro countries to re-enter growth territory. On a slightly more positive note, the decline in new orders in the Eurozone has softened somewhat, offering a glimmer of hope for a potential demand recovery in the future.

"The attacks by the Houthis on commercial vessels in the Red Sea have had a temporary impact, leading to a brief lengthening of delivery times in January, followed by a subsequent reduction in lead times in February. Consequently, the softer decline in input prices this month is unlikely to be wholly attributed to tensions in the Red Sea but rather to movements in commodity prices, such as the recent rise in oil prices. The fundamental trend of lower demand, which remains the primary driver of faster delivery times, continues to persist.

"Stock of purchases continues to deplete rapidly, albeit at a slightly softened pace for the second consecutive month. Despite this minor moderation, there is little indication of an imminent end to the ongoing one-year-long inventory run-down.

"Prospects regarding future output remain cautiously optimistic, although the index is still slightly below the long-term average, reflecting the prevailing subdued environment. Similarly, employers are reducing their workforce, but with a reluctance to adopt overly aggressive measures in this regard. As a result, the overall sentiment is not one of anticipating an exceptionally bright future, yet firms are also not bracing for depressive times. Instead, it appears that businesses are maintaining their operations, poised to spring back into action when the signs of improvement materialise. They are in a kind of waiting position."

(3) Japan

Consensus Economics shows -0.4% real GDP growth in 2019, -4.1% in 2020, +2.6% in 2021, and +1.0% in 2022

The consensus outlook has +1.9% for 2023, +0.7% for 2024, and +1.0% in 2025.

For Japan on March 1st --***Operating conditions in Japan's manufacturing sector continued to deteriorate in February.***

Both output and new orders fell at sharper rates, amid reports of deteriorating demand conditions in both domestic and international markets. Lower capacity requirements contributed to a second successive bout of job shedding, and one that was the most marked since January 2021. There was some positivity on the price front however, as input costs rose at a softer, yet still historically high, rate. This contributed to the slowest increase in factory gate charges since mid-2021.

The headline Jibun Bank Japan Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – fell from 48.0 in January to 47.2 in February, indicative of a moderate deterioration in the health of the Japanese manufacturing sector. The contraction was the ninth in as many months and the strongest recorded since August 2020.

Output and new orders saw steeper contractions during February. Both have now fallen in each of the last nine months, with the latest declines the strongest reported for a year. Panellists often commented that sales demand was weak at home and overseas, while machinery shutdowns also hindered production. As such, the latest decrease in export sales extended the current sequence

to two years and was the sharpest in 11 months. Mainland China was notably reported to be a key source of reduced international sales, although there was also weakness reported from the US and Europe.

Given the challenging market environment, manufacturers chose to reduce their employment levels for the second month in a row. While only modest, the rate of job shedding was the steepest seen since January 2021, as firms demonstrated a general reluctance to replace voluntary leavers. Weaker pressure on capacity also allowed firms to keep on top of their workloads, as evidenced by a further sharp fall in backlogs of work.

Commenting on the latest survey results, Usamah Bhatti at S&P Global Market Intelligence, said:

"February PMI data indicated another month of deteriorating operating conditions in the Japanese manufacturing sector. Depressed demand in domestic and international markets continued to weigh on sector performance, as both production and new orders fell at the strongest rate for a year.

"In response, firms opted to cut purchasing activity and employment, with the latter declining the most in just over three years.

"Supply pressures were also evident, as delivery times reportedly lengthened to the greatest extent since February 2023. Anecdotal evidence suggest that logistical disruption caused by the situation in the Red Sea and the residual impacts of the Noto Peninsula earthquake weighed on suppliers.

"One positive takeaway from the February data came on the price front, as the rate of input price inflation eased to a seven-month low, though remained above the historical average. As a result, prices charged for Japanese manufactured goods were raised at the softest pace since mid-2021 amid reports that some firms had cut prices in an attempt to attract demand."

(4) Mainland China

Consensus Economics shows Real GDP grew +6.0% in 2019, +2.2% in 2020, +8.1% in 2021, and +3.0% in 2022.

The consensus outlook expects +5.2% in 2023, +4.6% in 2024, and +4.3% in 2025.

From the China Caixin General Manufacturing PMI Comment on March 1st —

Commenting on the China General Manufacturing PMI® data, Dr. Wang Zhe, Senior Economist at Caixin Insight Group said:

"The Caixin China General Manufacturing PMI ticked up 0.1 of a point in February from the previous month to 50.9, keeping the index in growth territory for the fourth straight month. That indicated a sustained improvement in the sector.

"Supply and demand continued to expand. Growth in production along with domestic and overseas demand accelerated at different paces amid the market upturn. In February, gauges for manufacturers' output, total new orders, and new export orders picked up between 0.1 and 0.3 of a point, with the last indicator reaching a 12-month high.

"Employment was subdued. The improvement in the market failed to turn around the contraction of the job market, with companies under pressure to reduce costs while enhancing efficiency.

"The increase in workforces at consumer goods producers was unable to offset the decline in the staff of investment goods and intermediate goods manufacturers. Manufacturing employment shrank for the sixth straight month, with the corresponding subindex coming in lower than in January.

"Because growth in demand lagged increases in production, existing capacity was sufficient to absorb additional orders, leading to a slight decrease in backlogs of work.

"Price levels were weak. Some surveyed companies reported an increase in raw material prices, but input costs overall remained stable. The corresponding gauge fell to the lowest since July, though it remained in expansionary territory.

"Manufacturers faced greater pressure on sales as intense market competition limited their bargaining power, resulting in their output prices declining for a second straight month. New Export Orders Index Sources: Caixin, S&P Global PMI Employment Index Sources: Caixin, S&P Global PMI



"Supplier logistics were slightly delayed. Affected by poor weather in some regions, logistics efficiency fell accordingly, with suppliers' delivery times increasing slightly. Manufacturers' purchases and inventories of raw materials increased as a result of active production, with the gauge for inventories hitting the highest since November 2020.

"Market optimism continued to grow, with the measure for future output expectations hitting the highest since April as some surveyed companies anticipated a global economic recovery and increased demand at home and abroad in the new year.

"Overall, the manufacturing sector continued to improve in February. Sustained expansion in supply and demand resulted in increased purchases, rising stocks of raw materials and greater optimism. However, the job market continued to shrink, which, along with depressed prices, indicated that deflationary pressures persisted.

"The Caixin China manufacturing PMI showed the sector has grown for four straight months. That's the first time that has happened since the second half of 2021, indicating an overall economic recovery.

"However, the economy still faces headwinds with unfavorable factors and uncertainties remaining prevalent. This was reflected by total new orders growing more slowly than output, and subdued prices on both the production and sales sides. In addition, domestic and foreign demand remained insufficient while employment continued to contract, showing businesses retained a cautious approach to hiring and suggesting optimistic expectations need further consolidation.

"At the start of 2024, policymakers doubled down on measures aimed at stabilizing growth and strengthening market confidence, which was conveyed through a series of meetings hosted by local governments after the Lunar New Year holiday. Looking ahead, the focus should be on the effectiveness of the measures. Further efforts may be required to improve people's livelihoods and market expectations."

(5) India

Consensus Economics showed real GDP growth at +3.9% in 2019, -5.8% for 2020, +9.1% in 2021 and +7.2% in 2022.

The consensus outlook is for +6.9% in 2023 and +6.4% in 2024.

For India Manufacturing PMI on March 1st —

India's manufacturing sector approached the end of the current fiscal year with a further pick-up in growth in February, according to the HSBC India PMI®. Production rose at the fastest pace in five months, fueled the quickest increase in sales since last September and the strongest expansion in new export orders for 21 months.

An associated improvement in demand for raw materials meanwhile supported the rebuilding of input inventories, while supplier delivery times were broadly stable. Concurrently, purchasing cost inflation retreated to a 43-month low, with selling charges increasing to a lesser extent as a result.

The seasonally adjusted HSBC India Manufacturing Purchasing Managers' Index™ (PMI) recovered further from December's 18-month low, rising from 56.5 in January to 56.9 in February. The latest reading pointed to the strongest improvement in the health of the sector since September 2023.

Production levels were raised in tandem with a further steep increase in inflows of new orders, besides advanced technology and buoyant demand conditions. The upturn in manufacturing output was the strongest seen for five months and led by the capital goods category.

Similarly, factory orders expanded at the quickest pace since September and one that was above the long-run series average. Firms indicated that marketing efforts continued to bear fruit, helped by a positive demand environment.

Notably, new export orders rose at the fastest rate in nearly two years, with anecdotal evidence highlighting Australia, Bangladesh, Brazil, Canada, mainland China, Europe, Indonesia, the US and UAE as sources of demand growth.

Input costs meanwhile increased only fractionally, with the rate of inflation subsiding to the weakest in the current sequence of inflation that stretches back to August 2020. Qualitative evidence highlighted higher prices for iron, paper and plastics parallel to reductions for cotton and steel.

Ines Lam, Economist at HSBC, said: "The HSBC final India Manufacturing PMI indicates that production growth continued to be strong, supported by both domestic and external demand. Manufacturing firms' margins improved as input price inflation slipped to the lowest since July 2020. Buoyed by robust demand and improving profit margins, manufacturers have an optimistic outlook about future business conditions."

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