

May 21<sup>st</sup>, 2024

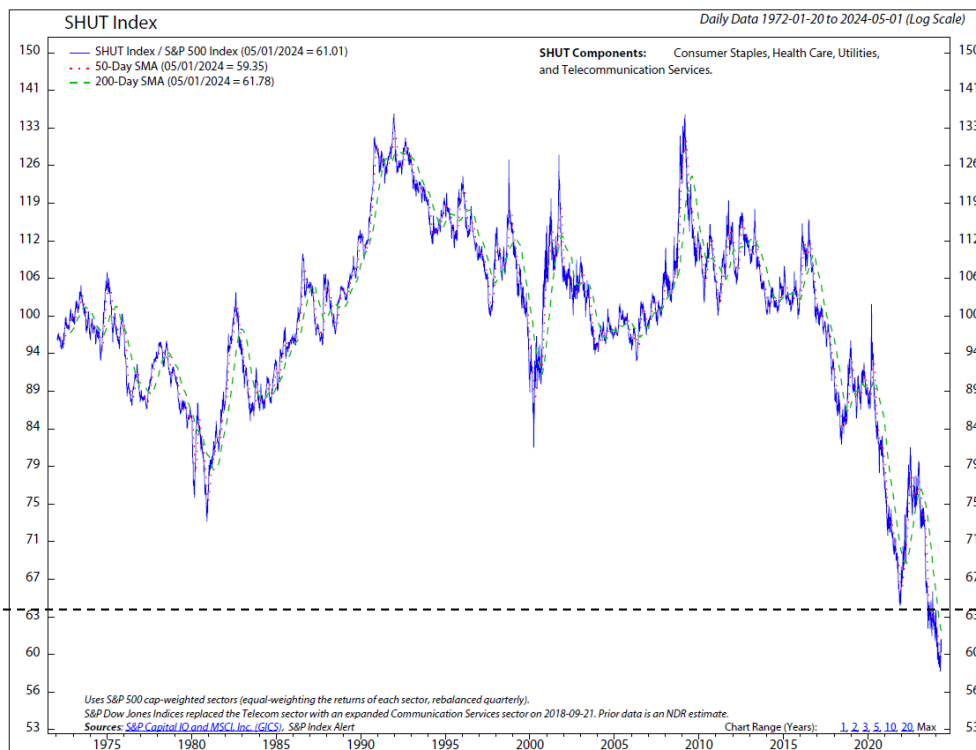
**James P. Cullen**  
Chairman & CEO

## Special Note A Pivot Point

**Speculation has become so extreme in the current market that option trading now exceeds overall stock trading volume. The fever has grown so intense that 40% of options traded are now the most aggressive zero-dated options, those that expire on the same day they are issued.\*** Meanwhile, the S&P 500 continues to be dominated by the mega-cap technology companies, with the top four contributors to gains in the quarter -- Nvidia, Microsoft, Meta, and Amazon -- accounting for 45% of the market's overall performance.\*\*

In a speculative market like the one we have, we believe value and dividend stocks tend to be ignored or sold off. To measure just how much, **Ned Davis Research has created a value index consisting of staples, healthcare, utilities, and telecoms. The index has fallen to the lowest level seen in the last 70 years (see below).\*\*\*** Meanwhile, these same four areas of the market should all be beneficiaries of the AI mania driving the high-flying, big tech stocks.

### Performance of Staples, Healthcare, Utilities and Telecom (SHUT) / S&P 500



Source: Ned Davis Research, 03/31/2024.

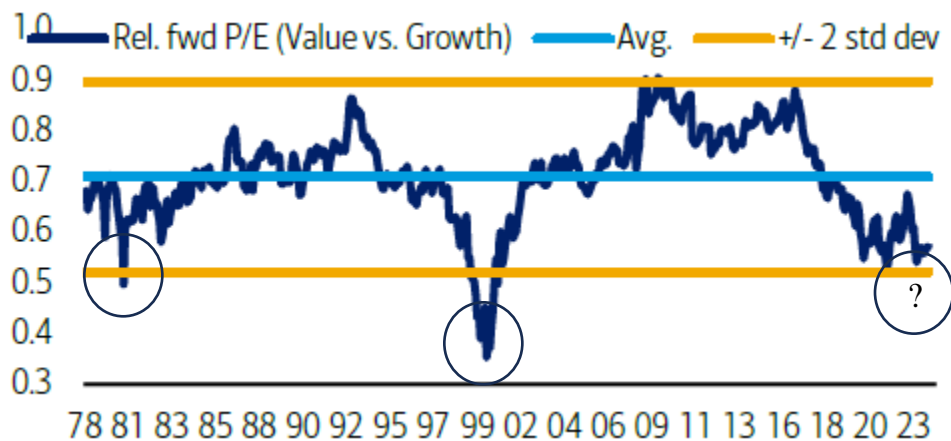
Uses S&P 500 cap-weighted sectors (equal-weighting the returns of each sector, rebalanced quarterly).

**Past Performance does not guarantee future results and there is no assurance this trend will continue.**

## Valuation Levels

Value relative to growth is also selling at levels that we have seen only at market lows, as you can see in the chart that follows.\*\*\* And the table just below the chart shows how value stocks have dramatically outperformed growth in the three-month, six-month, and 12-month periods following past oversold periods.

### Relative forward P/E of Russel 1000 Value (RLV) vs Russel 1000 growth (RLG) indices



### Relative performance of value vs. growth after past oversold periods

	Next 3 Months	Next 6 Months	Net 12 Months
Growth (RLG):	-3.90%	-10.40%	-16.50%
Value (RLV):	63%	79%	74%

Source: BofA Global Research, Quantitative Profiles, 03/14/2024.

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There can be no assurance that any investment or strategy will achieve its objectives or avoid substantial losses.

## Alternatives

During speculative periods like this one, when the average stock has dramatically trailed the performance of a few popular stocks, we believe investors are tempted to look for alternative investments. **In our last market letter, we wrote that brokerage firms were seeing heavy liquidations in common stocks and money was moving into alternatives, with flows into the various alternatives up 83% year over year, real estate and private credit being the most popular.** Recently many questions come up about the wisdom of investing in real estate. Meanwhile, the highly regarded International Monetary Fund issued a white paper raising questions about private credit. **The IMF concluded that small cap firms borrowing from**

*private credit tend to be smaller and riskier than their public market counterparts, and the sector has not typically ever experienced as severe of an economic downturn as its current size and scope. Such an adverse scenario could see a delayed realization of losses followed by a spike in defaults and large valuation markdowns.*

## **Cash**

Because of the market's high valuations and many other concerns, cash has been building up in investor accounts, in many cases by as much as 35%. **As we see it, it looks like some investors are starting to become more risk adverse.**

## **Conclusion**

**With value and dividend stocks now selling at one of the most attractive levels in history, we believe long-term investors with a three- to five-year time horizon should consider it a good time to be investing in a value strategy.**

Jim Cullen

\* Barons, The latest options trades resembles past manias 3/20/2024

\*\* Nvidia (NVDA), Microsoft (MSFT), Meta Platforms (META), and Amazon.com (AMZN)

\*\*\* Ned Davis Research, 03/31/2024.

\*\*\*\* Source: BofA Global Research, Quantitative Profiles, 03/14/2024.

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