Palisade CAPITAL MANAGEMENT | Private Wealth

Q1 2024 REVIEW AND OUTLOOK

	Q1 2024 RETURN (%)
S&P 500® Index	10.56
Dow Jones Industrial Average	6.14
NASDAQ Composite Index	9.31
Russell 2000® Index	5.18
VIX Volatility Index	4.50
Barclays U.S. Aggregate Bond Index	-0.78
10-Year U.S. Treasury Yield	8.30
Baltic Dry Index – Spot (Ocean Cargo Shipping Rate)	-13.04
Gold ($ per ounce) – NY Spot	8.25
Oil ($ per barrel – West Texas intermediate)	16.79
Bitcoin ($)	67.81

Source: FactSet Research Systems, Inc.

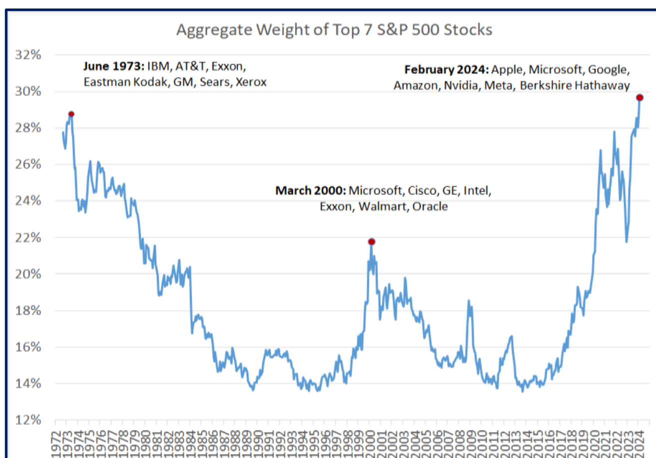
What Just Happened? Last year's bull market stormed into 2024. The S&P 500® Index of large stocks returned over 10% in the March quarter, one of the best first quarters of this century. The other major U.S. equity indices – the Dow Jones Industrial Average and the NASDAQ Composite Index – enjoyed similarly strong March quarters, up 6% and 9%, respectively. These star turns were anchored in economic strength: U.S. real gross domestic product (GDP) surged by 3.4% in the December 2023 quarter, well above the economy's 10-year average annual growth rate of 2%. Many factors explain this strength: continued federal infrastructure outlays, rapidly growing U.S. oil and gas production and exports, labor growth (+4% since 2020), residual wealth from pandemic era government checks, and even the adoption by business and government of artificial intelligence in many evaluative tasks, boosting productivity and thus growth.

Economic Conditions: "Soft Landing" Ahead? Just a year ago many prominent forecasters thought that the American economy and its financial markets were dancing on a high wire. So far, the predicted fall has not occurred, yet the concerns of America's forecasting gurus were well-founded. For one, the Federal Reserve had raised interest rates sharply – over 500 basis points (from near zero to 5.25-5.50%) – in just 18 months in 2022 and 2023, the sharpest rate increase in the shortest time in nearly a half-century. A reminder: the federal funds rate drives most other interest rates in the United States; changes in the funds rate affects everything from the cost of car loans to mortgages. Another concern was gloomy consumer sentiment which, though up from last year, is still well below its pre-pandemic level (see chart). That gloom arose from a level of core price inflation (6.5% in early-2023) that had not been seen since the early `80s. And that is why the Fed raised interest rates so sharply – to dampen demand and inflation. Finally, by early 2022 the Russo-Ukraine war had escalated, and Western policy makers were unsure of the war's impact on key commodity prices like grain and oil – yet another reason for market watchers' prior concern.

Source: Federal Reserve Bank of St. Louis, based on University of Michigan data.

Though it is too soon to run a victory lap, U.S. policy makers have threaded a demanding needle: maintaining economic strength (full employment, GDP growth) while lowering inflation – not to the Fed's 2% end-goal, but close. Be that as it may, forecasts that the Fed will cut rates up to *five times* this year are just too optimistic, in our view. The last two consumer inflation reports (January: +3.1% and February: +3.2%) show that inflation might be wounded, but it's not dead. In recent weeks the prices of important commodities (*e.g.*, oil, copper, and money itself – interest rates) have all jumped. These might be straws in the wind, but Fed policy makers are taking note. If interest rates remain "higher for longer" that could cool investor enthusiasm for expensive shares. The iron laws of finance teach us that high priced stocks (those with high price/earnings ratios) tend to fall more sharply than low P/E stocks in the face of rising – or stubbornly high – interest rates.

Shifts in the U.S. Equity Market. Without much fanfare important leadership changes have begun to occur in the U.S. stock market. For starters, two of the so-called "Magnificent Seven" stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) have recently been knocked off their high perches. Our point is not to discuss the merits of any individual stock, but to point out that the market is broadening; it is less concentrated at the top than it had been – and that is a good thing. Last year, the Magnificent Seven rose by 75% (on a capitalization-weighted basis) and accounted for approximately two-thirds *of the total* increase in the value of the S&P 500® Index. Their performance sucked up most of the oxygen in the market last year. An investor not heavily invested in those few stocks would have had difficulty keeping pace with, let alone surpassing, the performance of the broader index. This concentration has few equals in modern U.S. market history, as shown in the 50-year chart below. But cracks are showing: the S&P 500® Index *did* beat the NASDAQ (more weighted to the Magnificent Seven than the S&P 500®) last quarter – after trailing the NASDAQ in 2023.



Source: Furey Research Partners, 2024.

We cannot predict how or when market concentration will shift, but shift it will. Change is in the DNA of free market capitalism. Eastman Kodak, huge in 1973, has died, but Apple, founded in 1976, has risen. Sears, that behemoth of American retailing in the 20th century, has nearly gone away (13 stores left in the U.S.) while the world today shops and stores data online at Amazon.com, founded in 1994.

There is a kind of see-saw – a back and forth – always at work in financial markets. What is out of fashion, like small capitalization shares, for example, become so cheap versus large stocks that market participants eventually see the distortion and rush into the valuation gap. We think that is occurring now not just with small cap stocks, but with value shares vs. growth stocks; dividend payers vs. non-payers; and even foreign market vs. U.S. markets, which are richly valued as compared to the past.

What We Expect for the Rest of the Year. The U.S. economy is slowing, but it is not slow. Inflation is easing, but is not yet at the Federal Reserve's 2% target. Short-term interest rates, which are controlled by the central bank are not likely to go much higher; but, in our view, expectations of five or so Fed rate cuts seem overly optimistic. Finally, we expect this year to see a continued broadening out of market concentration in just a handful of stocks – a trend that seems to have begun in the March quarter. Fairly priced stocks of great companies, regardless of market cap, could be the pathway to performance in the rest of 2024.

Thank you for allowing us to manage your investments. We aim to reward your faith in us for years to come.

Sincerely,
Palisade Capital Management

PRIVATE WEALTH MANAGEMENT TEAM

MICHAEL FEILER
Partner,
Private Wealth Management

BERNARD PICCHI, CFA
Managing Director
Private Wealth Management

WENDY POPOWICH
Managing Director,
Private Wealth Management

LORRAINE R. SALVO, CFP®, CDFA®
Managing Director,
Private Wealth Management &
Head of Financial Planning

DENNISON "DAN" T. VERU
Senior Partner,
Chief Investment Officer

CLIENT RELATIONS TEAM

CATHERINE CARPENTER, FPQP®
Assistant Vice President,
Client Relations & Strategic Initiatives

ROSEANN HEFFERNAN
Assistant Vice President,
Client Relations

ARELY QUINTANILLA
Associate,
Client Services & Technology

INVESTMENT SOLUTIONS TEAM

FRANK GALDI
Partner,
Chief Risk Officer &
Deputy Chief Investment Officer

Amrita Thapa, CFA
Senior Vice President
Investment Manager Research
& Risk Management

IMPORTANT INFORMATION

The information contained herein reflects the view of Palisade Capital Management, LP and its affiliates (collectively, “Palisade” or the “Firm”) as of the date of publication. These views are subject to change without notice at any time subsequent to the date of issue. All information provided in this letter is for information purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security.

Certain information contained herein has been obtained from third party sources and such information has not been independently verified by Palisade Capital Management, LP. No representation, warranty, or undertaking, expressed or implied, is given to the accuracy or completeness of such information by Palisade Capital Management, LP, or any other person. While such sources are believed to be reliable, Palisade Capital Management, LP does not assume any responsibility for the accuracy or completeness of such information. Palisade Capital Management, LP does not undertake any obligation to update the information contained herein as of any future date.

Certain information contained in this letter constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “estimate,” “intend,” “continue,” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results, or the actual performance of investments may differ materially from those reflected or contemplated in such forward-looking statements. Nothing herein may be relied upon as a guarantee, promise, assurance, or a representation as to the future.

The S&P 500® Index is an unmanaged index that is widely recognized as an indicator of general market performance, based on the market capitalizations of 500 large companies having common stocks listed on the NYSE or NASDAQ. The S&P 500® Index does not have a defined investment objective, nor does it charge fees and expenses.

The Dow Jones Industrial Average (The Dow), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock market.

The Russell 2000® Index (the "Index") measures the performance of the small-cap segment of the U.S. equity universe. It consists of approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. Source: London Stock Exchange Group plc and its group undertakings (collectively, the “LSE Group”). © LSE Group 2024. FTSE Russell is a trading name of certain of the LSE Group companies. Russell® is a trade mark(s) of the relevant LSE Group companies and is used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group, nor its licensors, accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor, or endorse the content of this communication.

VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500® Index options.

The Bloomberg Barclays U.S. Aggregate Bond Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities.

The Baltic Dry Index (BDI), is issued daily by the London-based Baltic Exchange. The BDI is a composite of the Capesize, Panamax, and Supramax Timecharter Averages. It is reported around the world as a proxy for dry bulk shipping stocks, as well as a general shipping market bellwether.

West Texas Intermediate (WTI) is a grade of crude oil used as a benchmark in oil pricing and is the underlying commodity of the New York Mercantile Exchange’s oil futures contracts.

This information is confidential and for the use of the intended recipients only. It may not be reproduced, redistributed, or copied in whole or in part for any purpose without prior written consent. This document is not intended for distribution to, or use by, any party in any jurisdiction where such distribution or use would be contrary to local law or regulation. Certain information included in this document has been obtained from third-party sources believed to be reliable. No assurances can be given that such information is accurate.

Investing in securities involves risk, including the risk the entire amount invested may be lost. Securities investments are not guaranteed. Palisade’s valuation predictions may not be correct and/or achieved within the anticipated time frame. Fixed income securities are generally subject to interest rate risks. The risk is greater for long-term securities than for short-term securities. A risk in a long-term purchase strategy is that Palisade may not take advantage of short-term gains that could be profitable. Moreover, if Palisade’s predictions are incorrect, a security may decline sharply in value before being sold. Conversely, a risk in a short-term purchase strategy is that Palisade may incorrectly predict the performance of a security over a short period of time, and we may not take advantage of long-term gains that could be profitable. Equity and equity-linked securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates, and general economic environments. REITS are affected by underlying real estate values, which may have an exaggerated effect to the extent those REITs concentrate investments in particular geographic regions or property types. A company issuing convertible securities may default. Palisade’s portfolios are susceptible to operational, information security, and related risks from cyber security incidents resulting from deliberate attacks or unintentional events.

Palisade is an SEC registered investment management firm established in 1995. Based in Fort Lee, NJ, the Firm manages a variety of assets for a diversified client base, including institutions, foundations, endowments, pension and profit-sharing plans, retirement plans, mutual funds, private limited partnerships, family offices, and high net worth individuals. Registration with the Securities and Exchange Commission does not imply a certain level of skill or expertise.

Past performance is not a guarantee of future results.

Please note, each client account has different characteristics and other accounts with the same strategy may have materially different results. The actual characteristics of any particular account will vary based on a number of factors including, but not limited to (i) the size of the account; (ii) the timing of investment; (iii) investment restrictions applicable to the account, if any; and (iv) market exigencies at the time of investment.