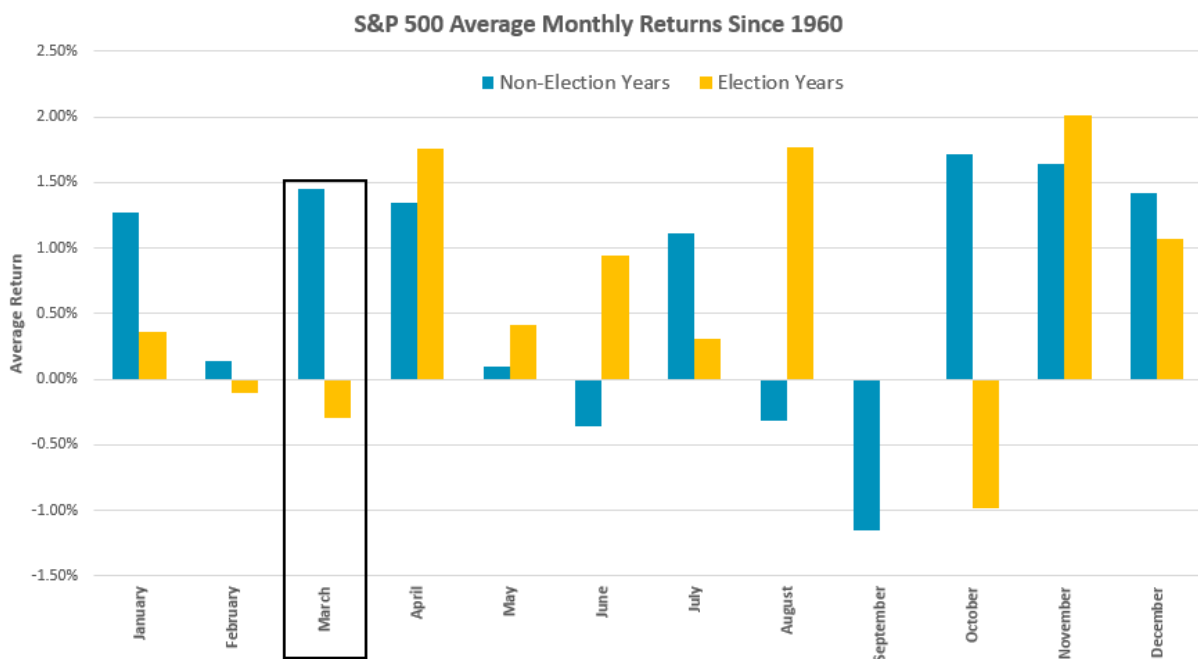


## February Client Newsletter

February is typically a weaker month for markets. Since 1928 the S&P 500 ([SPX](#)) has averaged a loss of 0.07% and closed positive just 55% of the time. Spoiler alert: February 2024 did not fall in line with expectations. The S&P 500 and Nasdaq 100 ([NDX](#)) each added over 5%. Keep in mind these returns came after markets were already up big in the fourth quarter of last year and in January of this year.

Based off seasonality data alone, hopes for a stellar March would be unfounded (bar chart below). For instance, during election years SPX has averaged a 0.3% loss in March compared to a 1.45% gain in non-election years; the difference in average returns (1.75%) is the third largest spread of all twelve months. In other words, SPX has deviated from its seasonal norm by the third biggest margin during March of election years. The only two months with greater historical deviation are August and October. All that said, trading off seasonality alone would have led us astray in February, so take this caution lightly.



\*Data through 2/29/2024. Returns do NOT include the reinvestment of dividends.

Image Source: NASDAQ DORSEY WRIGHT

The continued rally last month was a surprise to (most) investors for several reasons.

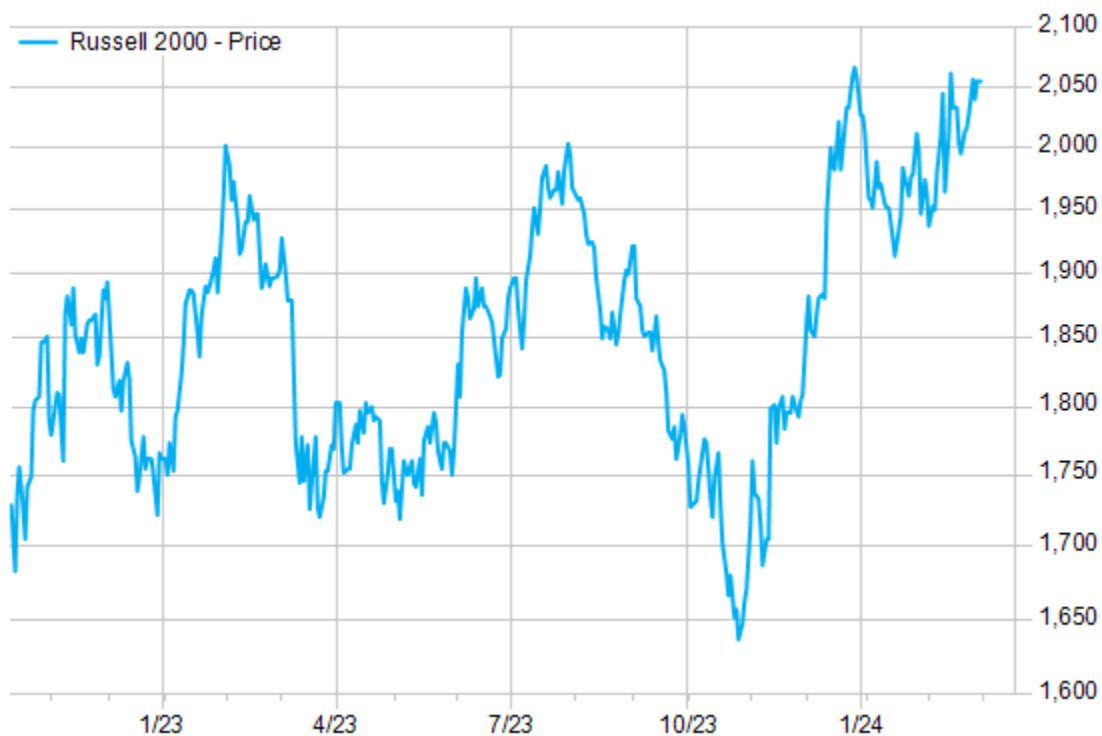
- First, the major averages were already trading well above areas of prior support without a recent consolidation (i.e., breather).
- Second, the number of stocks driving the upside move was small. For example, when SPX was making all-time highs, the Advance/Decline for the NYSE reversed

down and made lower tops...something technical people call a “bearish divergence.” In other words, fewer stocks were making highs than lows.

- Third, in the wake of stronger-than-expected economic data, investors were thinking that the Fed would maintain a tighter policy stance for longer than previously thought. Over the long run, this may be a positive sign for stocks as it means the economy is not in need of as much aid. However, over the short-term, tighter financial conditions could be a headwind for a rally that (at least partially) seems to have been built on the expectation of the Fed loosening policy in relatively short order.

As for potential catalysts, corporate earnings were generally favorable. Rather than contracting, Q4 earnings have grown at +3.9% year-over-year. Three-quarters of S&P 500 firms ended up beating earnings projections which is near the 5-year average (Source: Nasdaq Economic Research). On the technical side, 75% of high-rated stocks (3+ on our system) beat top line estimates sourced by FactSet, and 80% beat bottom line estimates. Note: this is good news for momentum/trend followers. Of course, NVIDIA ([NVDA](#)) was a major standout.

A big thing to watch for this month will be broadening participation; investors want to see more stocks contributing to the rally. To that point, small caps will be in the limelight. The Russell 2000 ([RUT](#)) is still fighting with the upper end of an elongated trading range and trailing the mega caps by a wide performance margin. The Equal Weight S&P 500 Index ([SPXEWI](#)) is another key chart to follow as it now sits just below its all-time highs.



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