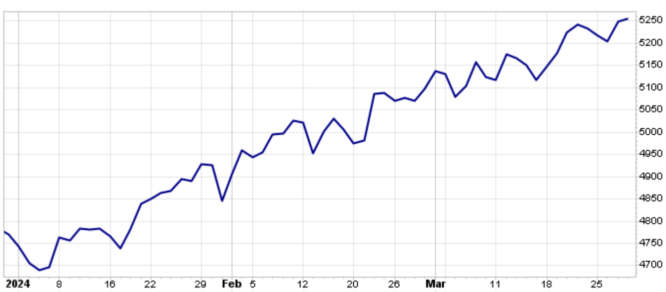
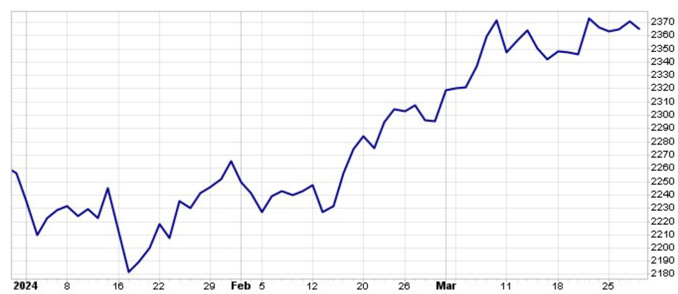
INTELLIGENT INVESTMENT

First Quarter 2024

S&P 500 YTD 10.16%[3]



MSCI ALL WORLD ex US YTD 4.88%[3]



"Brought to You Courtesy of the Red, White and Blue!"[1]

Following a stellar 2023 where we saw the S&P 500 recover from the dismal days of 2022 as well as double the return of its international counterparts, this "American Ride"[1] continues to run full steam ahead expanding by over 10% in just these first three months… "God Love Her"[1]. That's certainly worth celebrating with your favorite drink in "Red Solo Cup"[1]!

It's fitting this year's market gains have been "American Made"[1] as we unfortunately lost one of our favorite cowboys; Toby Keith. Toby embodied the spirit of an American wrangler through and through. His songs spoke to the strength and grit of the American character and he will be forever in our hearts.

Not only did the robust first quarter gains show the broad market is still "As Good As They Once Were"[1] but they're "As Good Once As Ever"[1]! How is 2024 able to continue "Dream Walkin"[1] from last year's recovery? Earnings… earnings have continued to be stronger than expectations. However, it hasn't been just a few of the mega heavy weights that are providing earnings strength, we've seen it across many sectors of the economy which has led market breadth to expand. Although the big tech, communication services and consumer discretionary sectors have continued to lead the way with "Magnificent Seven" being responsible for 40% of the S&P 500's year-to-date gain, according to S&P Dow Jones Indices, that's significantly lower than the 60% they were responsible for last year. These other sectors of the market perking up and joining the party is typically representative of continued and sustainable strength.

It's 2024's expanding market breadth that has allowed the S&P 500 to enjoy two strong back-to-back quarters. Two extremely strong quarters in a row are not all that common and do bode well for the future. From Nasdaq "The S&P 500 Index just posted back-to-back 10% quarters for only the eighth time since 1950. To put the impressive gains in perspective, the S&P 500 Index has averaged 10% for the entire year over the past thirty years. More importantly, what does such strength mean for investors? Judging by the historical data, bulls should feel confident. A year later, the S&P 500 Index is up 12.3% on average and has only been lower once in seven times (it lost less than one percent the single time it was lower)."[2]

As strong as the economy, earnings and market may be there does remain significant headwinds the bulls haven't fully come to terms with. Interest rates although poised to contract to a more neutral level from their current restrictive stance they remain stubbornly high as the economy and labor markets refuse to relent. Fed Chair Powell alluded to a reduction of policy rate "At some point during the year when deemed appropriate"[5]. Well, "A Little Less Talk and Lot More Action"[1] are what equity and real estate markets are banking on… no pun intended… wait, pun intended… Unfortunately the bond market isn't as patient, we began 2024 with our beloved 10-year US Treasury Note yielding 3.86%, down from the 4.57% at the onset of Q4 2023. Along with inflation falling these directional factors led equity markets and many forecast analysts to believe yields would continue their long slow contraction. I guess bond markets didn't get the memo or the wish list from their counterparts as yields have climbed back to over 4.20% by end of March.

Equity prices and interest rates expanded together in the first quarter. This seems to be counterintuitive. How can equity markets rise over 10% while interest rates as measured by the 10-year note expand almost 9% over the same time period? Aren't higher interest rates supposed to negatively affect equity prices due to the competition provided by the increased yield bonds are providing? Yes and No... Equity markets will normally expand alongside an increasing interest rate environment if the higher rates stem from economic and earnings expansion as well as a likelihood of lower or stable rates in the near-to-intermediate future. ARPG believes this to be the consideration equity markets are making. As inflation continues to fall; albeit not in a straight line, interest rates should follow suit until the ever-illusive Goldilocks' scenario of an equilibrium is reached.

The fly in the ointment for a sustainable path to lower interest rates could come from the labor markets. As the millennial population ramps up into their peak income and spending years, demand for goods and services will ramp up right along with them. Labor continues to be a bright spot in the economy with nearly 9 million available jobs according to the Bureau of Labor Statistics JOLTS report. We have seen this number contract from over 12 million in March of 2022 to 8.75 million 24 months later[4]. However, if this JOLTS number turns around and begins to expand; even a minor amount, the bond market may lose any remaining patience and sell off sending interest rates higher in hurry. Let's hope that doesn't come to fruition and we are able to achieve the balance in labor and pricing markets we enjoyed prior to the pandemic.

The new year has brought the markets several positive developments and a few things we need to keep our eye on… so it's the same as every year, I guess… 2024 appears to have a few more moving parts than usual… It can be difficult remaining patient while simultaneously trying to pick the best of the heard. "Man I Shoulda Been A Cowboy"[1]!... I'll just need to learn how to rope and ride.

Spring is here, time to go outside and get those "to do's" done before it gets "A Little Too Late"[1], summer will be here before we know it. In any season or market, the best investors always focus on the long term and ARPG will continue to practice our approach to value investing, "Intelligent Investment is Investment on Value, buying high quality companies in low quality times". This is what sets ARPG apart from the rest. As always, we thank you for your confidence and are humbled by your trust. Please feel free to contact us at any time.

INTELLIGENT INVESTMENT

Sincerely,
Matthew D. Dahl
Chief Investment Officer

1. Toby Keith
2. Nasdaq
3. ARPG / Stockcharts.com
4. Factset
5. Board of Governors of the Federal Reserve Transcript