Alexis Investment Partners, LLC

Practical ✧ Tactical

Investors enjoyed a solid Q1 2024, and we are happy to report our portfolios have generally outpaced benchmarks so far this year. The S&P500 ETF (SPY) climbed +3.3% in March. Globally, the All-Country World ETF (ACWI) was also up +3.3%. Cash (SWVXX) grew by +0.4% while **the aggregate bond ETF (AGG) gained +0.9%. In other words, March was a strong month across the board.**

We've spoken a lot about the potential for broadening leadership. We began to see evidence of this late 2023, and this trend strengthened from mid-February through March (more on page 2). This isn't necessarily bad for tech stocks, but it does give us more options to manage risk through diversification without sacrificing performance. Historically, no trend lasts forever, so at some point, diversification, and the flexibility to adapt to market changes can be critical – more on page 3.

We continue to believe momentum suggests more upside, but **stocks may be rising a little too quickly.** One reason market gains have been so relentless through bouts of potentially disappointing news is the continued caution we see manifested in high cash levels and low margin debt. Although sentiment surveys show greed and complacency, positioning is currently not consistent with excess optimism.

Some stock market gains of the last year reflect inflated revenue and earnings since these are priced in nominal dollars. In other words, some businesses may be selling fewer goods and services, but they sell them at significantly higher prices, so their total revenue has increased. **This isn't gauging, it simply reflects that inflation has an uneven impact on consumers** and businesses adapt to meet demand.

Your portfolio is designed to meet your long-term goals based on your resources and preferences. It's easy to be complacent after a good year, but **please schedule time to review your portfolio and performance and update us with regards to any concerns and/or change in circumstances.**

Our models, indicators, and analysis continue to confirm a Bull market. Earnings continue to come in better than forecast, and supply chains are improving. Inflation is slowing as productivity slowly improves. Although the pandemic stimulus has been revoked, the Fed is likely to be less restrictive in the months ahead. Election years can be choppy but have generally been positive for stocks.

Tax forms are available online. If you need help retrieving your documents or if we can assist you with tax planning or anything else, we're here to help.

What to Expect in Portfolios

Last month we wrote: "Stocks have come a long way since the Oct 2023 correction low. **Broad trend strength is encouraging, but stocks may be vulnerable to a growth scare** if inflation numbers remain elevated and/or the Fed remains too tight for too long."

Q1 2024 finished strong. We continue to incrementally rebalance tactical portfolios but are also quick to take advantage of periodic pullbacks to add to attractive names.

A strong start like we've seen this year has historically been followed by continued gains, especially in election years. **Prudent risk management suggests rebalancing.**

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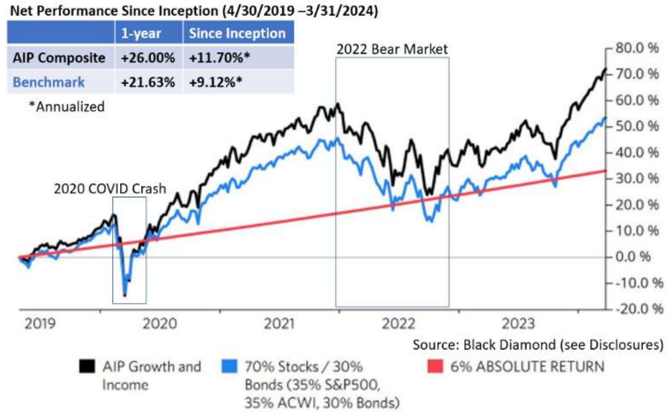
So far **in 2024, a rising tide has lifted all boats.** Looking below, we see that the tech-heavy Nasdaq (QQQ) led for the first 5 weeks of the year, but has lagged since relative to more diversified indexes, especially the equal weight S&P500 (RSP).
It's too early to know if this shift is the start of a leadership change.

The chart below shows the net performance of our **most popular composite** since inception (120 accounts – see disclosures on page 4).
The last four+ years have included the COVID crash and 2022 bear market. **Our strategy and discipline led to greater participation in gains than declines, allowing us to add value through this volatile time.**

2024 YTD: 12/31/2023 – 3/31/2024

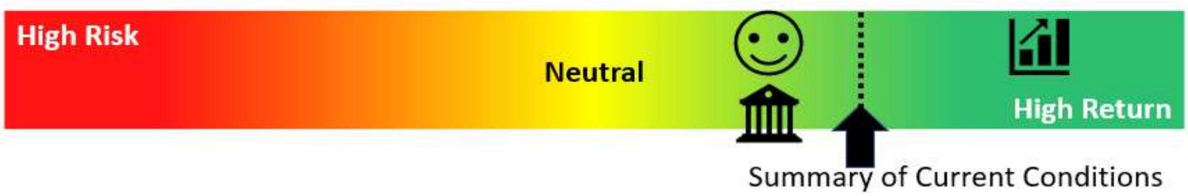
Source: Investors FastTrack

Net Performance Since Inception (4/30/2019 –3/31/2024)



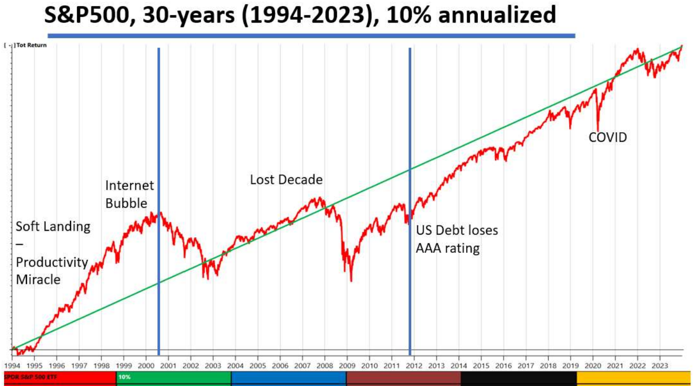
Insights and Commentary

Investing can be an emotional roller coaster leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants, (Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) summarized in the chart below:



As we consider the possibility of a soft landing as the Fed begins to normalize interest rates, it is interesting to look at the last time the Fed eased without a recession – 1995.

S&P500, 30-years (1994-2023), 10% annualized

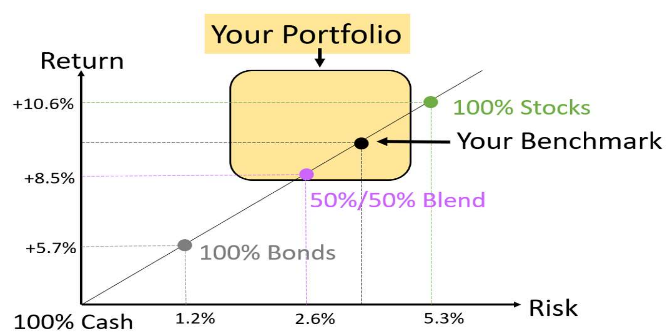


Source: Investors FastTrack

Stocks were overvalued then as well – culminating in Greenspan citing "irrational exuberance" in 1996 and the internet bubble that burst in 2000.

It's almost amazing that the trailing 30-year return for the S&P500 is almost exactly 10% annualized including an 11-year window with zero return (known as the lost decade).

<u>Risk/Return Expectations</u>



Based on historical data from 1990-2020

This graphic serves as an important reminder that our goal is to add value (generate higher risk-adjusted returns) through full market cycles by allowing our portfolios to deviate from benchmarks. **We base allocation decisions on an assessment of both risk and return potential.**

Portfolios are based on client needs, goals, and preferences.

Update, Observations, Indicators and Outlook:

In terms of our Market Pulse (right), the Bull Market case remains intact. In bull markets, we anticipate and manage pullbacks and corrections, but our focus is to participate in the growth potential of various investments that trend higher.

History doesn't repeat, but it does tend to rhyme. Current history is reminiscent of the late 1990s. For example, 1995 was the last time the Fed pulled off a "soft landing" – holding rates high then cutting before the drag from high rates triggered recession. The tech surge that followed was legendary – in part because it ended quite dramatically.

Inflation rates are quite similar today to the late 1990s, and we believe interest rates will settle into a similar range (4% for cash, 6%-8% mortgages with lower variable rates available). The reason Greenspan eased in 1995, leading to a soft landing and a stock market surge, was tech-driven productivity that offset inflation despite strong economic growth.

Today, AI offers a very similar promise to the internet "productivity miracle" of the late 1990s. We embrace the hope that AI will help promote productivity and expect significant continued investment in related technology. That said, our experience in the internet cycle of the late 1990s cautions against narrowing our investment focus. If AI meets its potential, the rewards will be felt across a range of industries – offering a broad spectrum of investment opportunities.

Inflation is a burden for fixed income investors and most workers/savers who, despite income gains, struggle to chase high and rising costs of living. It is great news to see the rate of inflation ease back to more sustainable levels, but cumulative inflation (the total increase in prices of the last few years) is unlikely to revert to prior levels. A return to 2% inflation implies that prices continue to increase over time – just at a more sustainable (2-3% per year) pace going forward now that the economy has absorbed much of the stimulus.

If the economy were currently operating at potential (supply and demand in balance), reduced inflation could be a concern for revenue and earnings growth as inflation slows. But the current economy is being held back by tight monetary policy and as inflation eases, the Fed is expected to reduce rates to a level that should help make goods more affordable to purchases using credit.

This is good for jobs because it helps sustain demand and spur investment. 2 signs that the bull market is sustainable will be normalization of the yield curve (long-term rates yielding more than short-term rates) and markets shifting to favor good news (earnings and GDP growth…) over bad news (layoffs, other signs of stress).

Thank you for your continued confidence. Please reach out with any questions or to schedule a portfolio review.

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). We can expect periodic pullbacks and corrections, but these should be relatively short and shallow – followed by resumption of the up-trend.

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3-6 months. The 2023 Sept/Oct correction is over.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18-24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from. The October lows marked the trough of the 2022 Bear Market.

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also have relationships and resources to help with life and LTC insurance and annuities.

Jason acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.

Disclosures

This material is for informational purposes only. Statements of future expectations, estimates, projections, and other forward-looking statements are based on available information and Jason Browne's view as of the time of these statements. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties.

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Mutual funds and other securities may distribute taxable dividends and capital gains to investors. Taxes on such items can affect the returns realized from such investment income received from certain investments may be subject to the Alternative Minimum Tax (AMT). Please consult with your tax advisor before making any investment and consider the effect that taxes may have on returns.

Rebalancing assets in a portfolio can have tax consequences. Selling assets in a taxable account may result in a taxable gain. Alexis Investment Partners, LLC. is neither a law firm nor a certified public accounting firm and no portion of this newsletter should be construed as legal or accounting advice.

AIP Composite Performance is calculated by Black Diamond based on the performance of all discretionary managed accounts with a Growth and Income objective that are assigned a 70/30 benchmark. Performance is net of all fees and expenses. From April 30, 2019, until Alexis Investment Partners, LLC registered with the SEC as an investment advisory firm in May 2021, Jason Browne offered advisory services using Alexis Investment Partners, LLC as a trade name through Sowell Management, LLC an SEC Registered Investment Adviser. Alexis Investment Partners, LLC and Sowell Management, LLC are independently owned and operated.

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