STOKES CAPITAL ADVISORS, LLC

Market Commentary
March 31, 2024

Quarterly Market Review

U.S. equities established new record highs into the new year with the S&P 500 recoding a 10.6% gain, the best Q1 since 2019. For nearly two years (January 2022 to January 2024), U.S. equity markets were flat due to rising interest rates, runaway inflation, slowing corporate earnings growth and recession fears. This changed in Q4 2023 when the Federal Reserve signaled a pivot in monetary policy and improving economic data and earnings growth removed the prospects of a recession and ignited a 28% gain in the broader market over the last five months.

While mega cap technology and/or momentum strategies cooled during the quarter they maintain an historic lead over the remainder of the equity market as artificial intelligence or "AI" continues to attract investor attention and their investment dollars. It remains to be seen if these companies can grow into their current valuation multiples, but investors should not bet against it, nor should they concentrate on the sector either in our opinion.

A broadening out of the equity market or greater participation from other segments is a welcome trend over that last few months and historically a necessary condition for a bull market to continue. Indeed, the 28% advance from the October 2023 low caught a lot of investors "offsides" with an estimated $6 trillion of cash hiding out in a 5% yielding money market mutual fund. FOMO (fear of missing out) may be a catalyst here as well. Once again proving how difficult it is to time the market…. In fact, from 1994 to 2023 the average annualized return in the S&P 500 was 10.14%. If you missed just 30 of the best days over this 30-year period, your return drops to just 3.83%! (Ned Davis Research).

Turning to bonds, the broader bond market as measured by the Barclays Aggregate Bond Index, recorded a decline of -0.8% to start the year as bond yields moved higher (prices move lower) under the expectations that Fed rate cuts will be fewer than originally priced in and potentially later in the year as well. The recent strong jobs data and stubborn inflation readings are underscoring the Fed narrative of "higher for longer".

During the quarter credit outperformed as credit spreads tightened to levels not seen since April 2022 echoing the risk on mood of investors across the capital market spectrum. Similarly, the VIX (a closely followed measure of expected volatility) has trended lower and remains at levels not seen since the pre-COVID market of 2019.

In terms of commodities, gold hit an all-time high during the quarter closing at $2,214/oz and has continued its accent into record territory for Q2. Concern over the long-term implications of fiscal uncertainty/insanity, rising sovereign indebtedness and higher levels of inflation are expected to place downward pressure on the U.S. dollar as well as other fiat currencies. Gold has long been a store of value in uncertain times but has proven to be a somewhat modest hedge against inflation over the long term, in fact it's the equity market that has provided the best hedge against inflation over the long run. (See Table Below)

Index Description	1994 Value	2024 Value	Growth Rate
Inflation	100	185	2.07%
Gold	100	609	6.21%
S&P 500 Index	100	2,034	10.56%

Indices starting base value of 100 for comparison purposes. Growth rate is an average annualized return.

Investment Strategy & Outlook

The S&P 500 has set 22 records so far this year and has recorded a 10% gain for the year, an impressive start to the new year for sure. Indeed, equities appear to be priced for perfection with the U.S. economy avoiding a recession, the Federal Reserve cutting short term rates, a vibrant and healthy labor market, inflation under control and earnings growth accelerating into the back half of the year. This is the "Bull" thesis.

The "Bears" however, point to rising geopolitical tensions, inflationary pressures cutting into corporate earnings, fewer rate cuts from the Federal Reserve, stretched valuations and a slowdown in global economic growth. So, who will get it right? The simple answer is nobody gets it

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exactly right. Wall Street strategists and economists spend countless hours and publish volumes of research trying to convince market participants that they can predict market outcomes. However, the "batting average" for these folks is not very good.

For long-term investors the daily push and pull of the market has little bearing on the outcome of a disciplined investment plan. As noted earlier, it is *time in the market*, not *timing the market* that builds wealth.

The modern world with its addiction to instant information can be overwhelmed at times with misinformation, political noise and hyperbole which creates short-term market gyrations. However, while the market remains an efficient gatherer and processor of information, there will always be episodes of volatility which provides opportunities for astute investors to take advantage of a "mispricing" in the capital markets. This is the classic and ongoing debate of active versus passive management. Passive management simply assumes there are no market inefficiencies, and one should own all the companies in the index or investor universe without any consideration given to the securities that comprise the index or investor universe. This is also referred to as the "efficient market thesis". Active management would be the antagonist to this theory and asserts there are periods of time when securities are mispriced. The trick of course is identifying them.

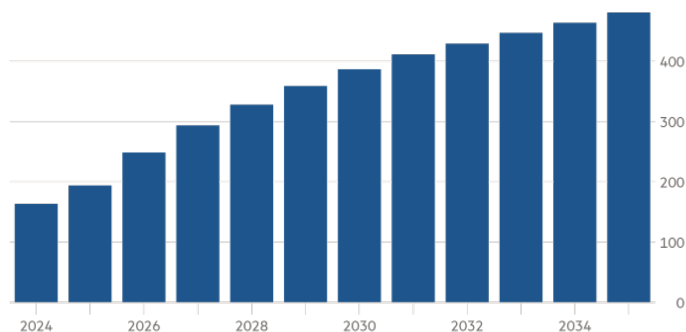
In our view, a simple and compelling investing discipline is to look for companies that pay and growth their dividends over a long period of time. This strategy has proven to be an excellent active security selection tool. Alternatively, avoiding and/or removing companies that do not increase their dividend has been an excellent active management tool as well.

Finally, if you lean into businesses that are critical to the daily functioning of the global economy, you are well on your way to building a portfolio that will provide superior, long term, risk adjusted returns in our opinion.

As an example, one thematic we are leaning into this year is the rising global demand for electricity. The arrival of artificial intelligence, crypto currency mining and electric cars along with the increasing demand for energy from the emerging world, will require large amounts of energy. Indeed, the demand for electricity alone is expected to almost double over the next decade. (Chart Below).

The tech revolution will require huge volumes of electricity

Power demand from data centres and other large loads



*Includes cryptocurrency mining and manufacturing facilities and electricfication of oil and gas operations
Source: S&P Global Commodity Insights
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In our view, the most efficient way to produce electricity from a reduced carbon output perspective is natural gas. The fossil fuel is abundant, cheap and relatively clean compared to other forms of energy. In addition, it can be stored underground for almost no cost and super cooled to a liquid state called liquified natural gas or LNG for export around the world. The U.S. is one of the largest exporters of LNG and is the low-cost producer giving it a competitive advantage on the global market. In addition, the U.S. is the largest producer of refined products in the world as well.

The world must have electricity to run the global economy, these companies trade at a discount to their intrinsic value, provide attractive dividend yields and are growing their dividends 3 to 4 times faster than the rate of inflation. FYI, energy represents less than 4% of the S&P 500 Index so the passive investor has almost no exposure.

Capital Markets Scorecard

Benchmark Description	Q1	1 Year
U.S. Treasury 3 Month T-Bill	1.3%	5.4%
Barclays Aggregate Bond Index	-0.80%	1.7%
Bloomberg US High Yield Bond	1.5%	11.2%
S&P 500 Index Total Return	10.6%	29.9%
NASDAQ Composite Total Return	9.3%	35.1%
NASDAQ Dividend Achievers TR	7.6%	20.9%
Russell 2000 Index Total Return	5.2%	19.7%
Alerian MLP Index Total Return	13.9%	38.5%
MSCI Emerging Markets Index	4.5%	11.1%
China SCI 300 Index Local Currency	3.1%	-10.5%
U.K. FTSE 100 Index Local Currency	4.0%	8.4%
Japan Nikkei 225 Index Local Currency	21.5%	41.3%

Performance data as of 03/31/2024. Stokes Capital Advisors, LLC is a Registered Investment Adviser. This market commentary is solely for informational purposes. Advisory services are only offered to clients or prospective clients where Stokes Capital Advisors, LLC and its representatives are properly licensed or exempt from licensure. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Stokes Capital Advisors, LLC unless a client service agreement is in place.