Citi Global Wealth Investments

NORTH AMERICA INVESTMENT STRATEGY

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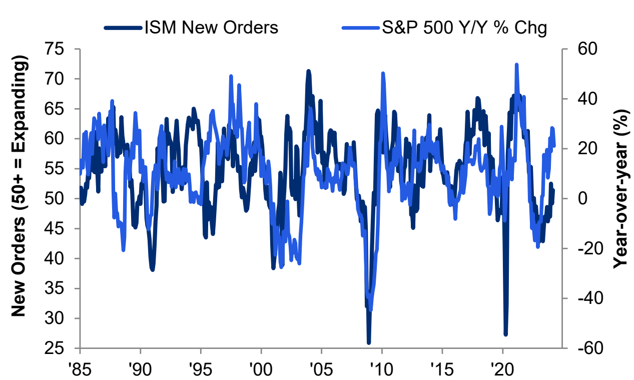
Big Data and Earnings Week Ahead

- Last week, the S&P 500, Nasdaq and Dow rebounded on Friday to finish the week up by 2.67%, 4.23% and 0.67%, respectively (Figure 4). A close-to-expected 2.8% y/y Core PCE inflation measure and strong results from Microsoft and Google parent, Alphabet, countered concerns that the US economy grew just 1.6% in Q1 with signs of sticky inflation. 10-year US Treasury yields rose 5 basis points to 4.67%. Congress passed and the President signed aid to Ukraine, Israel, and Taiwan. It also approved legislation telling ByteDance to sell its US-based TikTok business within a year or face a ban. Decoupling around technology is a central part of the G2 Polarization "unstoppable trend" covered in our 2024 Outlook report.
- This week, the market will assess 175 S&P 500 companies reporting their Q1 results. So far, 228 have reported and are beating their consensus earnings estimates collectively by 9.1%. On May 1, the ISM Manufacturing Purchasing Managers (PMI) survey is expected to just top 50, indicating an expansion, for the second month in a row (Figure 3). The New Orders component often provides clues for the stock market (Figure 1). The Fed is expected to leave rates unchanged but could get questions about its independence during its press conference, after news stories circulated Friday that the two presidential candidates' teams have discussed encouraging or even ways of pressuring the Fed to lower rates. On May 3, economists expect 244K jobs to have been created in April with a 3.8% unemployment rate.
- We think S&P 500 earnings per shares (EPS) could be up nearly 10% in Q1 versus the same time a year ago. For all of 2024, EPS gains could be around 8%. For more insights and analysis, please click here for our weekly CIO Strategy Bulletin, or read on.

Figure 1: ISM New Orders vs S&P 500 Y/Y % Change



Source: Haver Analytics and FactSet as of April 26, 2024. Note: ISM Manufacturing Index is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. MSCI USA used as proxy for stocks and Bloomberg Barclays US Aggregate used as proxy for bonds. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only. Past performance is no guarantee of future results. Real results may vary. Index returns do not include any expenses, fees or sales charges, which would lower performance. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

3 THINGS TO KNOW

Expect a Profit Broadening over the Next Few Quarters

We believe earnings per share (EPS) for the S&P 500 may have risen nearly 10% in the year through 1Q 2024 rather than the reduced gain of 1.3% predicted by analysts who cut estimates sharply just ahead of results. While large cap tech and telecom services firms are expected to post large EPS gains in excess of 20% in 1Q, we expect a broadening of profit gains for other industry sectors in the next few quarters.

The Rearview Mirror Doesn't Tell Us What's Ahead

Only the future counts for determining the value of equities. A good quarter past will not matter for a firm that is closing its doors. Therefore, guidance on future quarters matters most, and some firms that have experienced a huge lift to estimates in the year past will struggle to keep exceeding expectations.

FOMO as a Strategy Isn't a Strategy

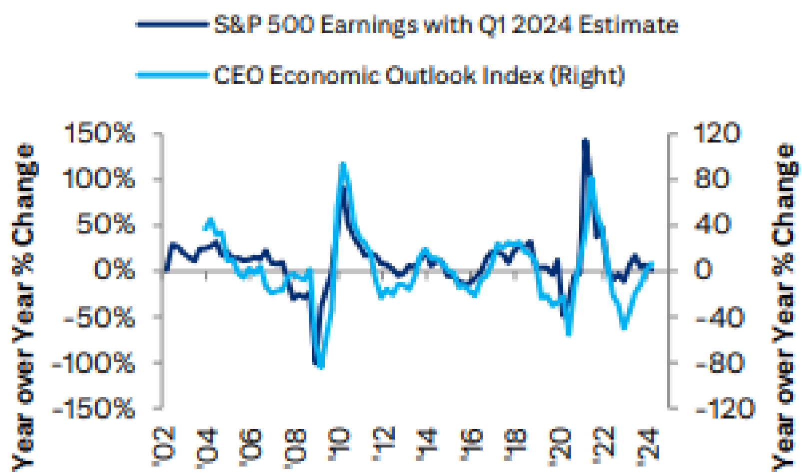
Full year estimates of US corporate profits have fallen below our own forecast near an 8% gain for 2024. Yet for many firms, beating in 1Q will merely allow them to maintain rather than boost full year estimates. While large cap US tech shares weakened ahead of EPS results, "FOMO" (fear of missing out) strategies that simply chase the best performers are unlikely to succeed in the way they have during the past half year.

Strategies to Overcome Equity Market Myopia

Last week, about 30% of publicly listed US firms reported earnings results. In the coming week, 35% more will report. Firms in other regions will report quarterly or bi-annual results around the same time. This amounts to a blast of information that many will cherry pick for value at ever-faster speeds.

With corporate confidence rising in 1Q and purchasing managers reporting a stronger "breadth" of industries with activity growing, our S&P 500 EPS estimate for the quarter is far above the reduced EPS levels analysts predict for the quarter past (see Figure 2). If correct, will the near 10% year-on-year gain in 1Q EPS help equities regain their footing following a 5% drop in the first three weeks of April? We think it is likely, particularly if bond market pressures and inflation fears calm. With this said, investors should see the bigger picture. US corporate profits (representing more than 65% of global market cap) have durably risen as a share of national income already. For those looking for big profit gains from here at a macro level, corporate profits are far from depressed.

Figure 2: S&P 500 Earnings vs CEO Confidence Index



Source: Haver Analytics, April 22, 2024. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. **Past performance is no guarantee of future results. Real results may vary.**

What does this mean for investors?

Our expectations are consistent with high single-digit gains for the S&P 500 index overall in 2024, but likely stronger gains for the equal-weight S&P 500. The drop in EPS estimates and share prices in April has moderately improved the return outlook from here.

Expect a Profit Broadening over the Next Few Quarters

If certain firms can "shoot the lights out" with unexpected profit growth, history shows their share price performance can match. This was certainly the case for the "Magnificent 7[1]" during their multi-year ascent and their stunning comeback from a poor 2022. But now, strong profit growth for the world's most highly valued companies will not come as such a strong surprise. Instead, a broadening of profit gains is likely to boost performance of other shares that "suffered their own earnings recession" in 2023. The healthcare sector in particular looks poised to recover from EPS declines last year.

Last year, the S&P 500 equal weight index fell behind the performance of the market cap weighted S&P 500 by the largest margin since 1998. This was because of the powerful gains among mega-cap tech firms. Indeed, a historically few number of firms were able to beat the S&P 500 last year. In short, there were unusually few ways for active stock pickers to outperform in 2023. This is changing now as profits improve across more sectors even as large cap tech-related profits slow from a pace above 40% in 2023.

To be clear, we see potential opportunities for both tech and healthcare as the two "super sectors" that outgrow broad economy profits over the longer term. Much like the industrialization of the economy in the 18th/19th century, these are the sectors that the economy is "becoming." While flush with competition, cyber-security software is a critical element of "Economic Security" we discussed in last week's bulletin. Semi-conductor equipment is a critical element of building secure technology supply chains. For long-term investors, we see a correction in related share prices as a mere "ripple in the tide."

The Rearview Mirror Doesn't Tell Us What's Ahead

As we said, only the future counts for determining the value of equities. Guidance on future quarters matters most, and some firms that have experienced a huge lift to estimates in the year past will struggle to keep exceeding expectations.

After last year's equity market gains, the picture of the economy we described is not likely to result in boom-style equity returns, but rather gains consistent with a "mid-cycle expansion." After a 5% pullback through mid-April[2], the S&P 500 has still returned 23% and the S&P 500 equal weight index 22%[3]. We saw US and global equity markets as mildly depressed a year ago as recession and inflation fears still dominated investor psychology. Today, that depression rut is over. With this in mind, it is important that investors understand the long-term drivers of equity returns. Even in the past three decades of tech and growth stock dominance, dividend growth, when reinvested, has accounted for roughly half of the S&P 500 total return. Firms that invest, innovate to create new products and dominate their industry outperform. But from a total return perspective, less innovative firms that are consistent growers of dividends catch up in time.

FOMO as a Strategy Isn't a Strategy

We would hold large cap US tech shares near an equal weight in diversified portfolios. We are not counting on a repeat of their outperformance in the year ahead. To express this view, our Global Investment Committee holds an overweight position in the S&P 500 Equal weight index to potentially benefit from sectors that are rebounding from a depressed performance in 2023.

For long-term investors, we see potential opportunity in the economy's "Unstoppable Trends" as described in our Wealth Outlook 2024. The "digitization" of the economy – with the latest chapter driven by AI development – is at the forefront. Healthcare technology – with the demands of an aging global population – is another. Some of the trends and their consequences are unfortunate, such as geopolitical polarization and climate change. Investors still need to adapt when needed and seek to take advantage of growth opportunities when presented. The ups and downs of the economy and short-term market performance is another matter. We believe the immediate backdrop for the economy has "no landing" in sight. Without eventual reductions in Fed policy rates, however, we

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[1] The Magnificent 7 stocks: Amazon.com (AMZN), Apple (AAPL), Google parent Alphabet (GOOGL), Meta Platforms (META), Microsoft (MSFT), Nvidia (NVDA), and Tesla (TSLA).
[2] Source: Bloomberg as of March 28, 2024, through April 19, 2024
[3] Source: Bloomberg as of October 30, 2023, through April 26, 2024

would expect the US labor market to slow more than the Fed desires. As we discussed last week, we see views of the Fed and inflation as far more mutable than many believe.

Portfolio Considerations

We've long identified Tech and Healthcare as sectors with strong long-term growth prospects. While tech recovered last year after its 2022 swoon, this year healthcare looks poised for recovery. Swerving away from a "FOMO market," investors can seek to align portfolios with the longest standing, most consistent drivers of returns. This may include investing in dividend growth and "quality" – a measure of corporate risk. We also believe investors can seek to reduce idiosyncratic portfolio risk with "broadening" strategies as fundamentals improve for more firms.

Economic Calendar and Financial Market Returns

Figure 3: US Economic Releases

Date	Time	Event	Period	Survey	Prior
4/29/2024	10:30	Dallas Fed Manf. Activity	Apr	-11.2	-14.4
4/30/2024	8:30	Employment Cost Index	1Q	1.00%	0.90%
4/30/2024	9:00	FHFA House Price Index MoM	Feb	0.20%	-0.10%
4/30/2024	9:00	S&P CoreLogic CS 20-City MoM SA	Feb	0.10%	0.14%
4/30/2024	9:00	S&P CoreLogic CS US HPI YoY NSA	Feb	--	6.03%
4/30/2024	9:00	S&P CoreLogic CS 20-City YoY NSA	Feb	6.70%	6.59%
4/30/2024	9:45	MNI Chicago PMI	Apr	45	41.4
4/30/2024	10:00	Conf. Board Consumer Confidence	Apr	104	104.7
4/30/2024	10:00	Conf. Board Present Situation	Apr	--	151
4/30/2024	10:00	Conf. Board Expectations	Apr	--	73.8
4/30/2024	10:30	Dallas Fed Services Activity	Apr	--	-5.5
5/1/2024	7:00	MBA Mortgage Applications	26-Apr	--	-2.70%
5/1/2024	8:15	ADP Employment Change	Apr	180k	184k
5/1/2024	9:45	S&P Global US Manufacturing PMI	Apr F	49.9	49.9
5/1/2024	10:00	Construction Spending MoM	Mar	0.30%	-0.30%
5/1/2024	10:00	JOLTS Job Openings	Mar	8670k	8756k
5/1/2024	10:00	ISM Manufacturing	Apr	50	50.3
5/1/2024	10:00	ISM Prices Paid	Apr	55.4	55.8
5/1/2024	10:00	ISM New Orders	Apr	--	51.4
5/1/2024	10:00	ISM Employment	Apr	--	47.4
5/1/2024	14:00	FOMC Rate Decision (Upper Bound)	1-May	5.50%	5.50%
5/1/2024	14:00	FOMC Rate Decision (Lower Bound)	1-May	5.25%	5.25%
5/1/2024	14:00	Interest on Reserve Balances Rate	2-May	5.40%	5.40%
5/1/2024		Wards Total Vehicle Sales	Apr	15.70m	15.49m
5/2/2024	7:30	Challenger Job Cuts YoY	Apr	--	0.70%
5/2/2024	8:30	Trade Balance	Mar	-$69.5b	-$68.9b
5/2/2024	8:30	Nonfarm Productivity	1Q P	0.80%	3.20%
5/2/2024	8:30	Unit Labor Costs	1Q P	3.20%	0.40%
5/2/2024	8:30	Initial Jobless Claims	27-Apr	212k	207k
5/2/2024	8:30	Continuing Claims	20-Apr	1795k	1781k
5/2/2024	10:00	Factory Orders	Mar	1.50%	1.40%
5/2/2024	10:00	Factory Orders Ex Trans	Mar	--	1.10%
5/2/2024	10:00	Durable Goods Orders	Mar F	2.60%	2.60%
5/2/2024	10:00	Durables Ex Transportation	Mar F	--	0.20%
5/2/2024	10:00	Cap Goods Orders Nondef Ex Air	Mar F	--	0.20%
5/2/2024	10:00	Cap Goods Ship Nondef Ex Air	Mar F	--	0.20%
5/3/2024	8:30	Two-Month Payroll Net Revision	Apr	--	22k
5/3/2024	8:30	Change in Nonfarm Payrolls	Apr	244k	303k
5/3/2024	8:30	Change in Private Payrolls	Apr	195k	232k
5/3/2024	8:30	Change in Manufact. Payrolls	Apr	5k	0k
5/3/2024	8:30	Unemployment Rate	Apr	3.80%	3.80%
5/3/2024	8:30	Average Hourly Earnings MoM	Apr	0.30%	0.30%
5/3/2024	8:30	Average Hourly Earnings YoY	Apr	4.00%	4.10%
5/3/2024	8:30	Average Weekly Hours All Employees	Apr	34.4	34.4
5/3/2024	8:30	Labor Force Participation Rate	Apr	62.70%	62.70%
5/3/2024	8:30	Underemployment Rate	Apr	--	7.30%
5/3/2024	10:00	ISM Services Index	Apr	52	51.4
5/3/2024	10:00	ISM Services Prices Paid	Apr	--	53.4
5/3/2024	10:00	ISM Services Employment	Apr	--	48.5
5/3/2024	10:00	ISM Services New Orders	Apr	--	54.4

Source: Bloomberg as of April 26, 2024. All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. **Past performance is no guarantee of future results. Real results may vary.**

Figure 4: Financial Market Returns

Close as of (4/26/24)	Yesterday Closing Price	Latest Week % Chg	One Month % Chg	Three Month % Chg	Six Month % Chg	52 Week % Chg	Yr to Date % Chg
US Markets							
S&P 500	5,100.0	2.67	-2.0	4.3	23.3	25.7	6.9
Russell 2000	2,002.0	2.79	-3.3	1.2	20.8	15.7	-1.2
Russell 1000 Growth	3,301.6	3.68	-2.5	4.1	27.7	36.6	8.2
Russell 1000 Value	1,704.2	1.44	-1.6	4.3	18.7	14.9	4.6
NASDAQ Composite Index	15,927.9	4.23	-2.4	3.1	26.5	34.4	6.1
DJ Industrial Average	38,239.7	0.67	-2.7	0.3	16.6	14.8	1.5
S&P 500 Sectors							
S&P 500 / Consumer Discretionary	1,430.5	3.5	-2.8	3.8	22.9	27.5	0.9
S&P 500 / Consumer Staples	806.5	1.5	0.2	4.8	13.0	1.4	5.8
S&P 500 / Energy	731.3	0.7	3.5	13.6	10.2	13.8	14.3
S&P 500 / Financials	678.9	1.0	-1.5	5.6	27.4	26.6	8.4
S&P 500 / Health Care	1,630.8	0.7	-4.1	0.5	11.8	6.2	2.5
S&P 500 / Industrials	1,038.1	1.8	-1.1	8.1	26.1	26.3	7.6
S&P 500 / Information Technology	3,679.4	5.1	-3.7	2.3	29.7	43.4	8.3
S&P 500 / Materials	563.7	0.7	-2.0	8.4	19.4	13.9	4.5
S&P 500 / Real Estate	226.4	1.2	-5.0	-6.2	9.6	-1.1	-9.8
S&P 500 / Communication Services	288.1	2.7	1.2	7.5	35.4	54.1	17.1
S&P 500 / Utilities	336.1	1.2	4.3	8.0	10.6	-3.1	4.4
International Markets							
MSCI Canada	2,217.5	1.1	-0.7	2.5	18.2	9.0	1.2
MSCI EM (Emerging Markets)	1,041.5	3.7	0.1	5.7	14.3	7.6	1.7
MSCI Europe	2,073.3	1.9	-1.9	3.2	18.4	5.9	2.6
MSCI United Kingdom	1,212.6	3.4	1.3	4.6	13.7	3.5	3.1
MSCI Japan	3,791.0	0.6	-7.3	1.5	16.4	13.9	2.5
MSCI AC World	762.4	2.6	-2.1	3.9	20.9	18.6	4.9
Fixed Income, Commodities & US $							
10-year Treasury (%, end of period level)	4.67	4.61	4.23	4.15	4.84	3.43	3.88
Crude Oil WTI (NYM $/bbl)	83.85	2.0	3.4	9.4	1.9	17.1	19.3
Gold (NYM $/ozt)	2347.20	-2.8	6.7	14.1	14.1	10.9	11.1
United States Dollar Index	105.94	-0.2	1.6	2.4	-0.6	4.4	4.5

Source: FactSet as of April 26, 2024. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. **Past performance is no guarantee of future results. Real results may vary.**

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If you buy options, the maximum loss is the premium. If you sell put options, the risk is the entire notional below the strike. If you sell call options, the risk is unlimited. The actual profit or loss from any trade will depend on the price at which the trades are executed. The prices used herein are historical and may not be available when you order is entered. Commissions and other transaction costs are not considered in these examples.

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Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

Bond rating equivalence

Alpha and/or numeric symbols used to give indications of relative credit quality. In the municipal market, these designations are published by the rating services. Internal rating are also used by other market participants to indicate credit quality.

Bond credit quality ratings	Rating agencies		
Credit risk	**Moody's[1]**	**Standard and Poor's[2]**	**Fitch Rating[2]**
Investment Grade			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

1 The ratings from Aa to Ca by Moody's may be modified by the addition of a 1, 2, or 3, to show relative standing within the category.
2 The rating from AA to CC by Standard and Poor's and Fitch Ratings may be modified by the addition of a plus or a minus to show relative standings within the category.

(MLP's) - Energy Related MLPs May Exhibit High Volatility. While not historically very volatile, in certain market environments Energy Related MLPS may exhibit high volatility.

Changes in Regulatory or Tax Treatment of Energy Related MLPs. If the IRS changes the current tax treatment of the master limited partnerships included in the Basket of Energy Related MLPs thereby subjecting them to higher rates of taxation, or if other regulatory authorities enact regulations which negatively affect the ability of the master limited partnerships to generate income or distribute dividends to holders of common units, the return on the Notes, if any, could be dramatically reduced. Investment in a basket of Energy Related MLPs may expose the investor to concentration risk due to industry, geographical, political, and regulatory concentration.

Mortgage-backed securities ("MBS"), which include collateralized mortgage obligations ("CMOs"), also referred to as real estate mortgage investment conduits ("REMICs"), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as extension risk).

Additionally, the underlying collateral supporting non-Agency MBS may default on principal and interest payments. In certain cases, this could cause the income stream of the security to decline and result in loss of principal. Further, an insufficient level of credit support may result in a downgrade of a mortgage bond's credit rating and lead to a higher probability of principal loss and increased price volatility. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. Default risk may be pronounced in cases where the MBS security is secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans.

MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements. Price volatility may also occur from other factors including, but not limited to, prepayments, future prepayment expectations, credit concerns, underlying collateral performance and technical changes in the market.

An investment in alternative investments can be highly illiquid, is speculative and not suitable for all investors. Investing in alternative investments is for experienced and sophisticated investors who are willing to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Certain of these risks may include:

- loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices;
- lack of liquidity in that there may be no secondary market for the fund and none is expected to develop;
- volatility of returns;
- restrictions on transferring interests in the Fund;
- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
- complex tax structures and delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- manager risk.

Individual funds will have specific risks related to their investment programs that will vary from fund to fund.

Asset allocation does not assure a profit or protect against a loss in declining financial markets.

The indexes are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

Past performance is no guarantee of future results.

International investing entails greater risk, as well as greater potential rewards compared to US investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics.

Investing in smaller companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity.

Factors affecting commodities generally, index components composed of futures contracts on nickel or copper, which are industrial metals, may be subject to a number of additional factors specific to industrial metals that might cause price volatility. These include changes in the level of industrial activity using industrial metals (including the availability of substitutes such as manmade or synthetic substitutes); disruptions in the supply chain, from mining to storage to smelting or refining; adjustments to inventory; variations in production costs, including storage, labor and energy costs; costs associated with regulatory compliance, including environmental regulations; and changes in industrial, government and consumer demand, both in individual consuming nations and internationally. Index components concentrated in futures contracts on agricultural products, including grains, may be subject to a number of additional factors specific to agricultural products that might cause price volatility. These include weather conditions, including floods, drought and freezing conditions; changes in government policies; planting decisions; and changes in demand for agricultural products, both with end users and as inputs into various industries.

The information contained herein is not intended to be an exhaustive discussion of the risks, strategies or concepts mentioned herein or tax or legal advice. Readers interested in the strategies or concepts should consult their tax, legal, or other advisors, as appropriate.

Diversification does not guarantee a profit or protect against loss. Different asset classes present different risks.

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