WITH YOU EVERY MILE

MARKET LANDSCAPE | Q2 2024

MIRACLE MILE INVESTMENT STRATEGY GROUP

MIRACLE MILE ADVISORS

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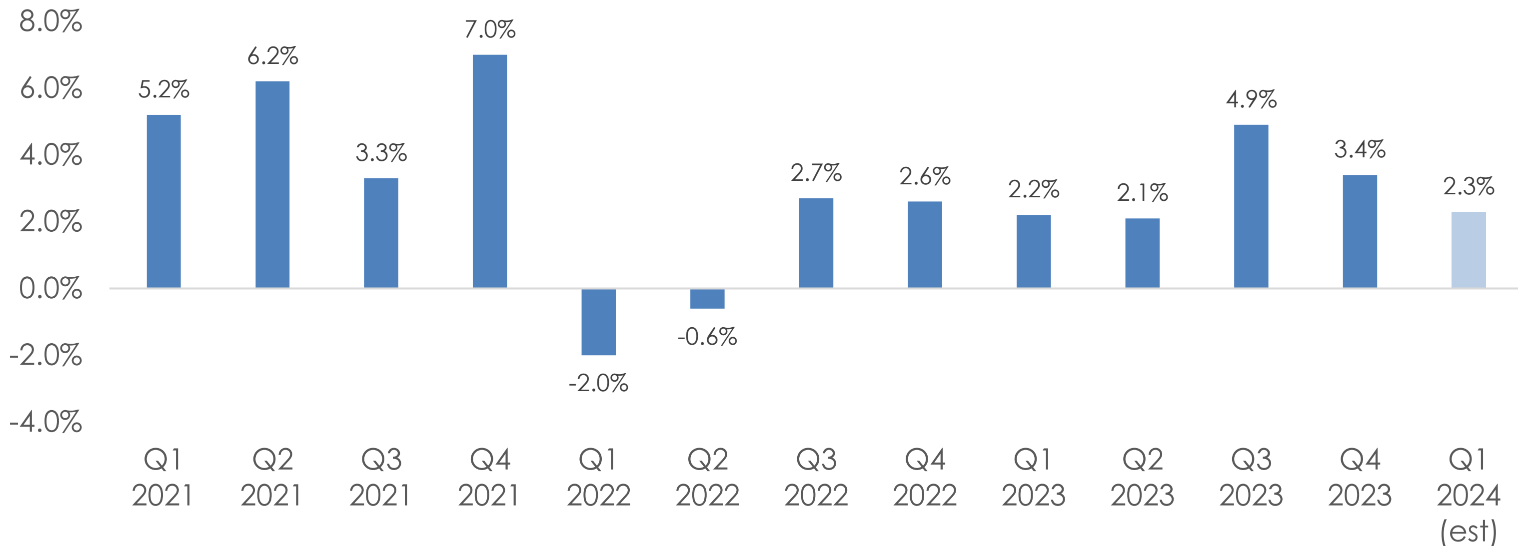
ECONOMIC GROWTH, WHILE SLOWING, REMAINS ROBUST

Following a surprising surge in economic growth during the back half of 2023, economic activity has begun to moderate but remains on solid footing.



Source: Bureau of Economic Analysis, Bloomberg as of 3/31/2024
*Q1 2024 estimated GDP based on Federal Reserve Bank of Atlanta's GDP Now

Our Perspective: Elevated levels of consumer and government spending have collectively driven strong economic growth. Activity has been above trend despite declines in manufacturing activity and higher borrowing costs. Our base case expectation is for a moderation in the rate of economic growth as spending patterns normalize.

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Markets

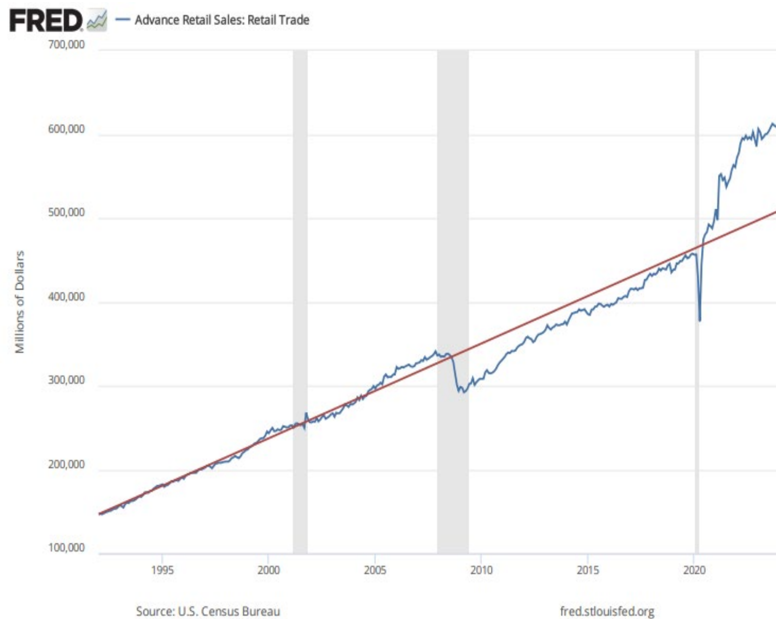
Equities

Fixed Income

Alternatives

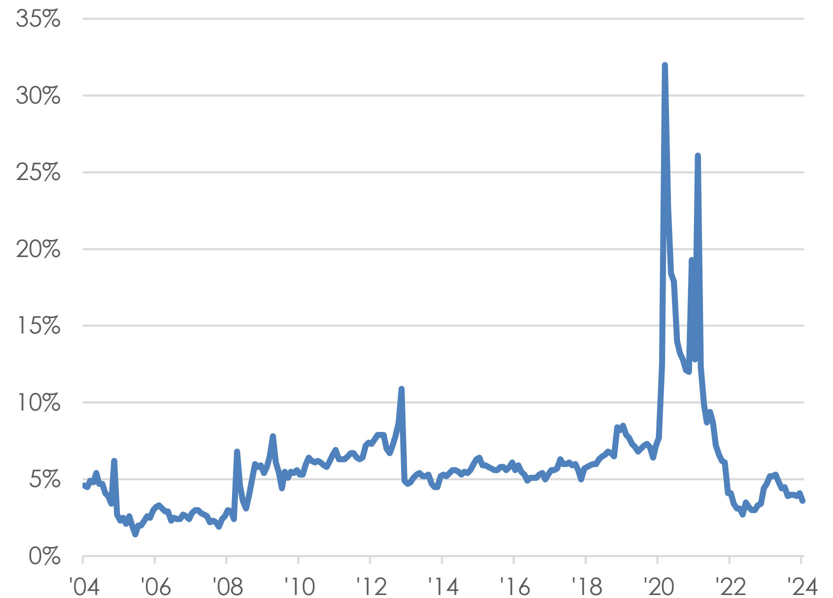
Consumer spending levels have begun to moderate following the post pandemic surge. Higher levels of spending have led to low savings rates, which sit below long-term averages.

U.S. Retail Sales



Source: U.S. Census Bureau , FRED Database as of 2/29/2024

Personal Savings Rate



Source: U.S. Bureau of Economic Analysis, FRED Database as of 2/29/2024

***Our Perspective*:** Excess savings stemming from the pandemic, below average savings levels, and the appreciation of financial assets in the last year have collectively supported above-average consumer spending. Over time we'd expect the pattern to revert toward long-term norms and spending to moderate.

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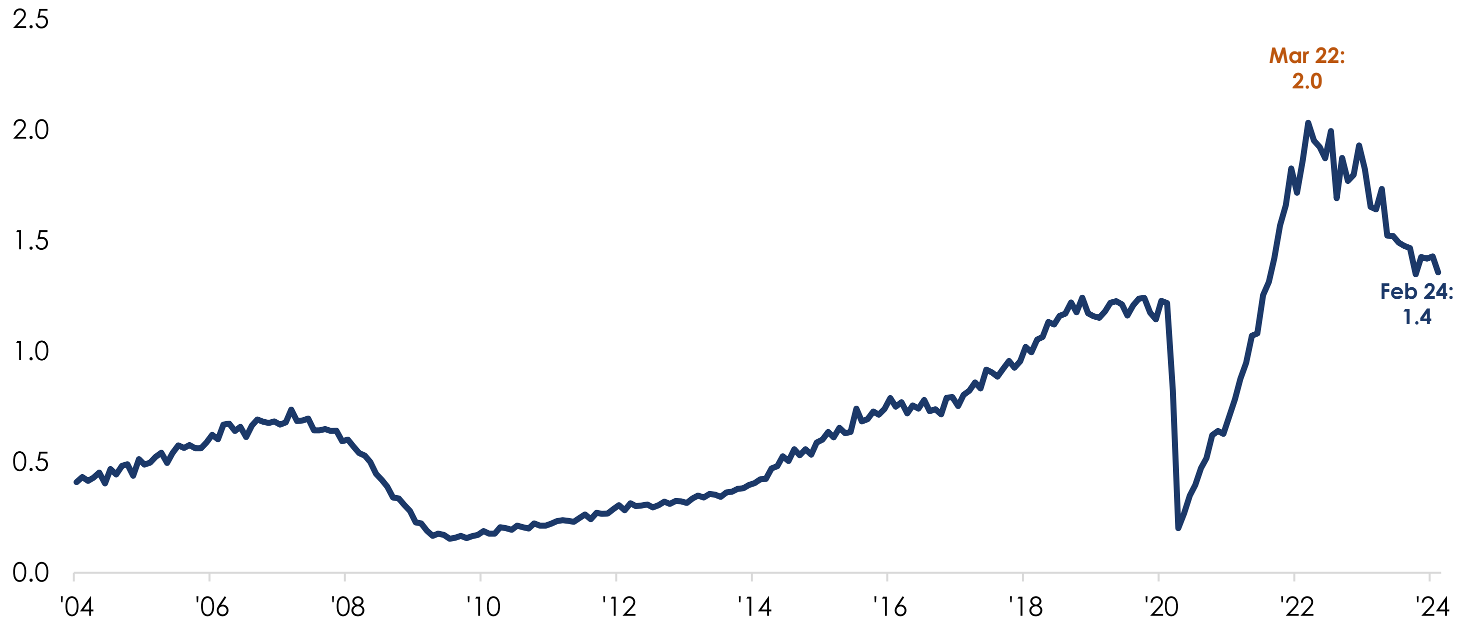
An imbalance remains in the labor market. The demand for workers (job openings) continues to exceed supply (unemployed).



Source: Bureau of Labor Statistics as of 2/29/2024

Our Perspective: Should economic activity soften, we would not expect a significant increase in the rate of unemployment given the structural undersupply of workers. Comfort in labor conditions has also helped to spur the willingness of consumers to spend, thereby providing a level of underlying support to the economy.

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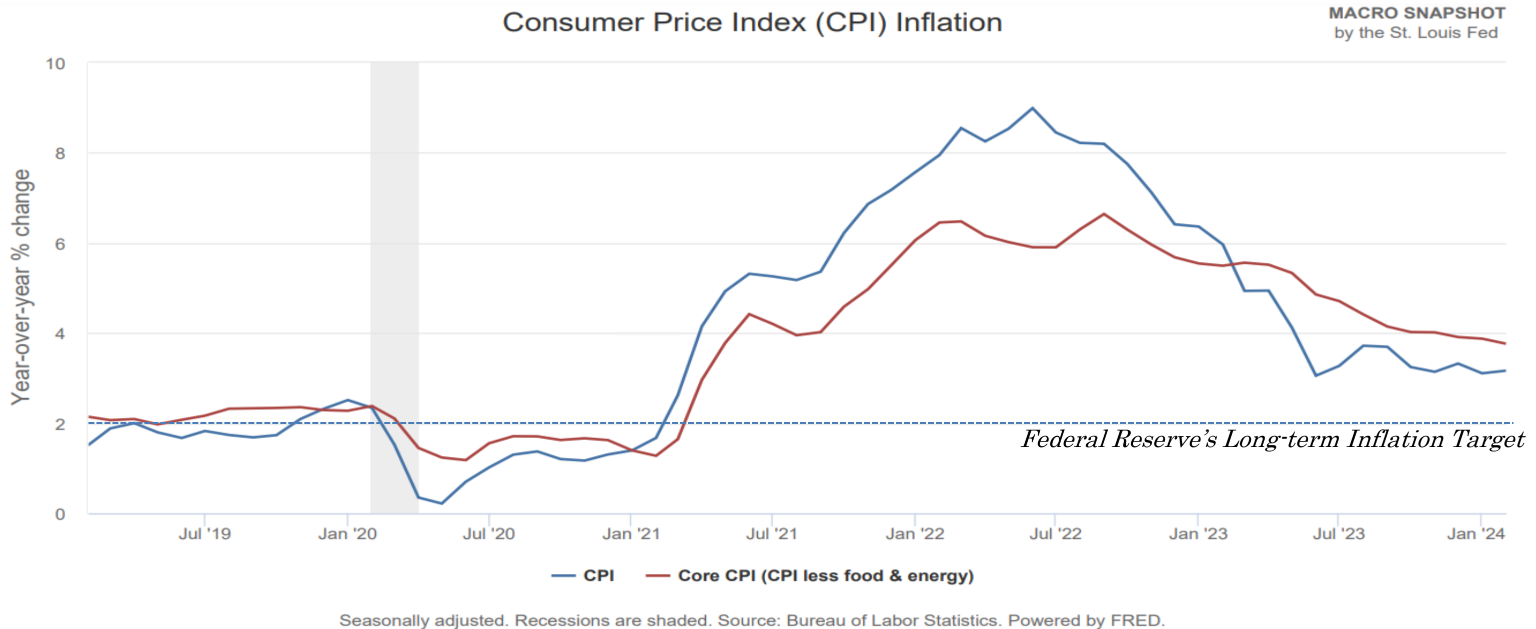
The rate of inflation has begun to level off with further improvement proving harder to achieve.



Source: St. Louis Federal Reserve, FRED Database as of 2/29/2024

Our Perspective: While the rate of inflation has retreated from a 9% annualized rate in June of 2022 to 3.5% as of March 2024, it remains above the Fed's target of 2%. The last mile of inflation is proving most challenging to eradicate and requires progress to be made before the Federal Reserve can begin to reduce interest rates.

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EXPECTATIONS FOR FED RATE CUTS HAVE BEEN CURTAILED

Going into 2024, market expectations were for six (quarter of a percent) rate cuts during 2024. By the end of the first quarter, those expectations were culled back to only three rate cuts.

Probability of Federal Reserve Rate Reductions

	Number of Rate Cuts							
	1	2	3	4	5	6	7	8
12/31/2023	100%	100%	100%	100%	97%	82%	46%	9%
01/31/2024	100%	100%	100%	99%	92%	66%	27%	3%
02/29/2024	99%	94%	74%	42%	13%	2%	0%	0%
03/28/2024	99%	91%	66%	31%	7%	0%	0%	0%

Source: Chicago Mercantile Exchange (CME) Fed Watch Tool as of 3/31/2024
*Tracks market implied expectations in the number of 0.25% reductions in the federal funds rate

Our Perspective: Market expectations were too optimistic going into the year on how aggressive the Fed might be in cutting rates. Given the resilience of recent inflation indications, the Federal Reserve may need to be more patient than it and the market would prefer in holding interest rates at current levels.

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Miracle Mile Positioning

1. We are constructive on the economy and believe it will continue to expand in 2024. However, we would expect consumer spending to eventually ease, which should translate to a lower rate of economic growth. This outlook leaves us constructive in owning risk assets, however, we prefer to have balanced exposures across portfolios given the recognition that growth may moderate as the year progresses.

2. Inflation remains sticky and above the long-term target of 2%. This will take time to eradicate, and we expect fits and starts as it gradually progresses lower. This will lead to a more patient Fed and interest rates that may remain higher for longer. A higher for longer interest posture will over time pressure more highly levered companies and interest rate sensitive sectors. This biases our positioning toward higher quality assets and businesses that can withstand elevated interest rates.

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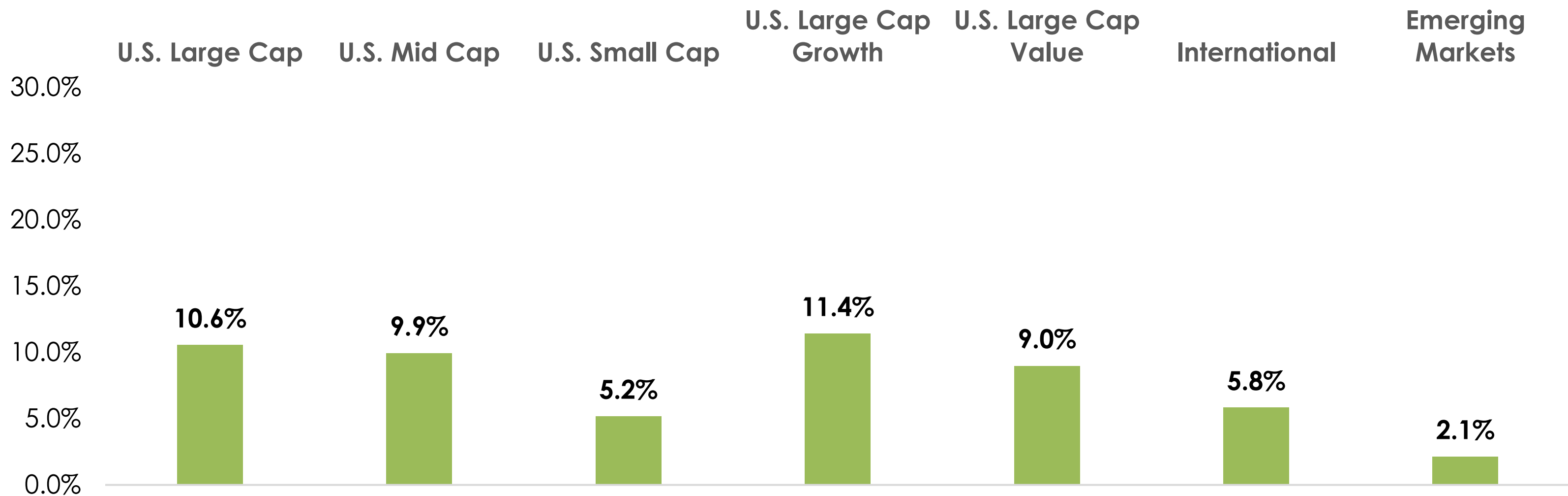
A STRONG START FOR STOCKS IN 2024

Large cap, growth-oriented U.S. stocks remain the top performing category within the equity market. Small cap and international stocks experienced more modest gains.



Source: Bloomberg. U.S. Large Cap represented by the S&P 500. U.S. Mid Cap represented by the S&P 400. U.S. Small Cap represented by the Russell 2000. U.S. Large Cap Growth and Large Cap Value represented by the Russell 1000 Growth and Russell 1000 Value respectively. International represented by the MSCI EAFE. Emerging Markets represented by the MSCI Emerging Market index. Data as of 3/31/2024

Our Perspective: Strong earnings results out of technology driven business helped to support continued investor interest in large growth businesses. Valuations for these stocks are elevated and expectations are for growth rates to even out as 2024 progresses. As the year progresses, we would expect to see broader participation beyond large growth businesses.

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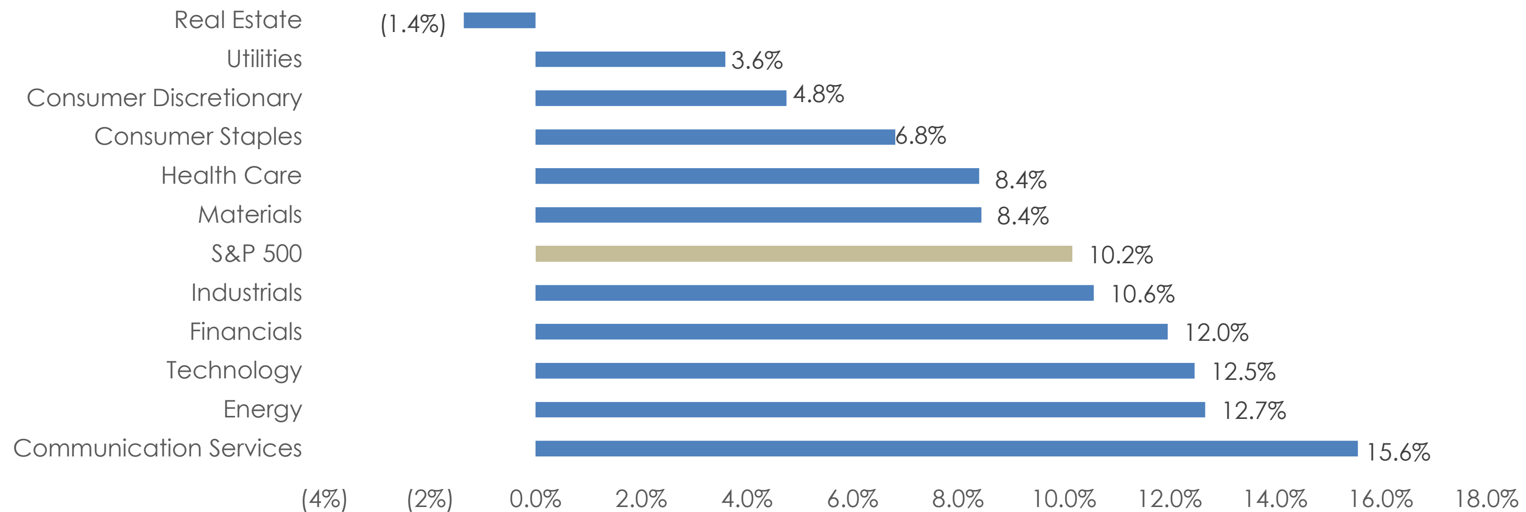
Compared to the narrow equity market of 2023, there was broader participation in the number of stocks and sectors contributing to market gains during the first quarter.



Source: Bloomberg as of 3/31/2024

Our Perspective:. There was a healthy mix of growth oriented and economically cyclical sectors that outpaced the return of the broader S&P 500. Among the 'Magnificent Seven' stocks that drove the market in 2023, only four of the seven experienced returns ahead of the S&P 500's 10.2%. We view this outcome as an indication that we may be in the early stages of the market beginning to broaden out.

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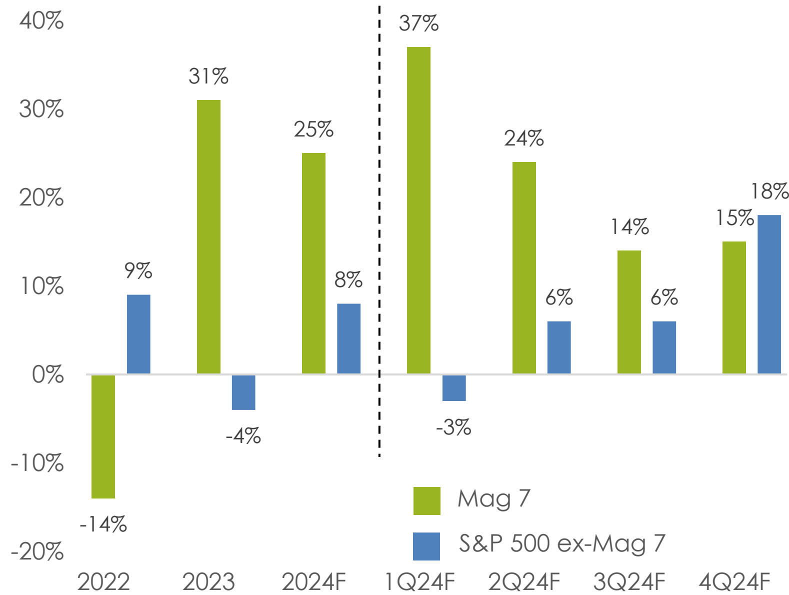
MAGNIFICENT SEVEN BECOMING LESS DOMINANT

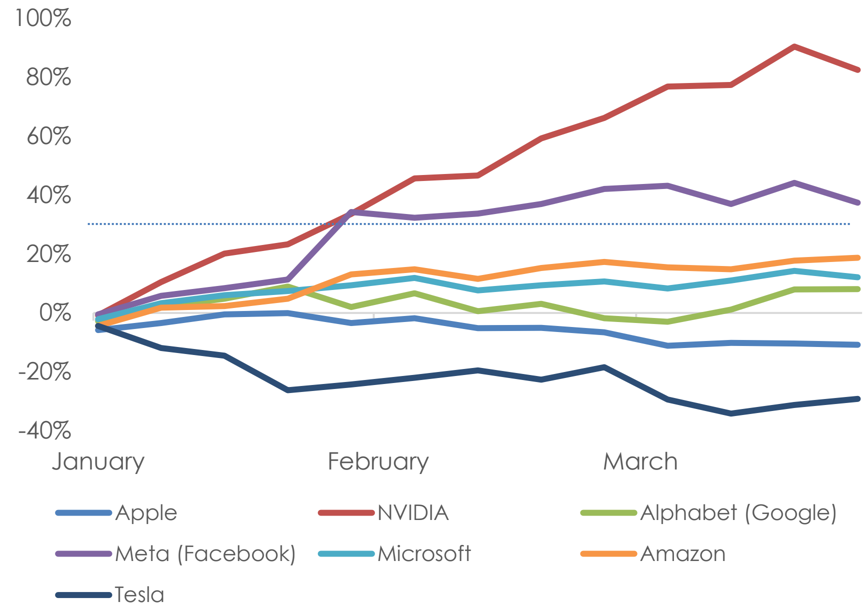
The Magnificent Seven was less influential on overall market returns, as only four of the seven outpaced the broader S&P 500. As we look ahead, the growth rate of Magnificent Seven is expected to moderate while growth for the rest of the market is expected to accelerate.

Earnings Growth
Pro-forma EPS, y/y



Source: Factset, Standard & Poors, J.P. Morgan Asset Management as of 3/31/2024

Magnificent Seven
Q1 2024 Performance



Source: Bloomberg as of 3/31/2024

Our Perspective: We prefer to balance exposure to both the attractive growth Magnificent Seven stocks, alongside exposure to other parts of the market that exhibit more attractive valuations and are positioned for accelerating growth.

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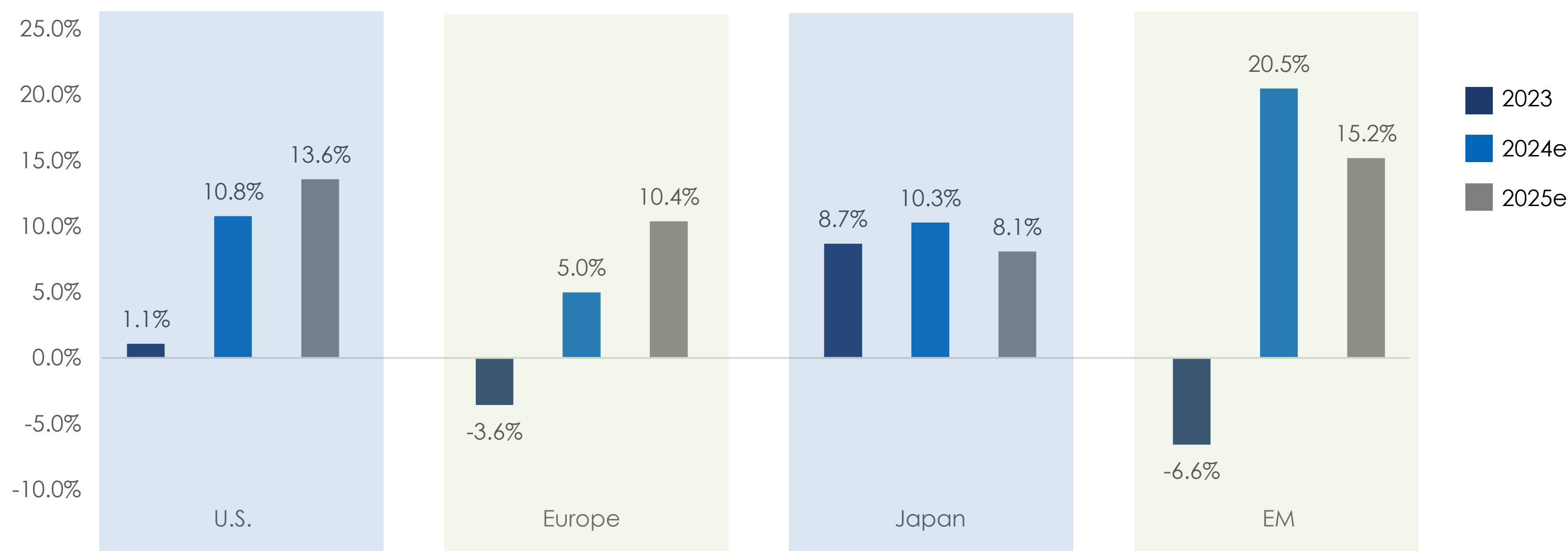
THE OUTLOOK FOR U.S. CORPORATE EARNINGS IS POSITIVE

In 2023 earnings of U.S. companies largely outpaced other geographies. Expectations are that other regions will experience improving earnings trends over the next two years, moving more inline with U.S. growth rates.



Source: Factset, MSCI, Columbia Threadneedle Investments, as of 3/28/24

Our Perspective: Growth rates in the U.S. remain attractive versus most other geographies, leaving us overweight U.S. stocks. Outside of the U.S. we've had a favorable view of Japan given unique drivers of earnings growth in that region along with specific segments of emerging markets, such as India, that have potential for above-average long-term rates of earnings growth.

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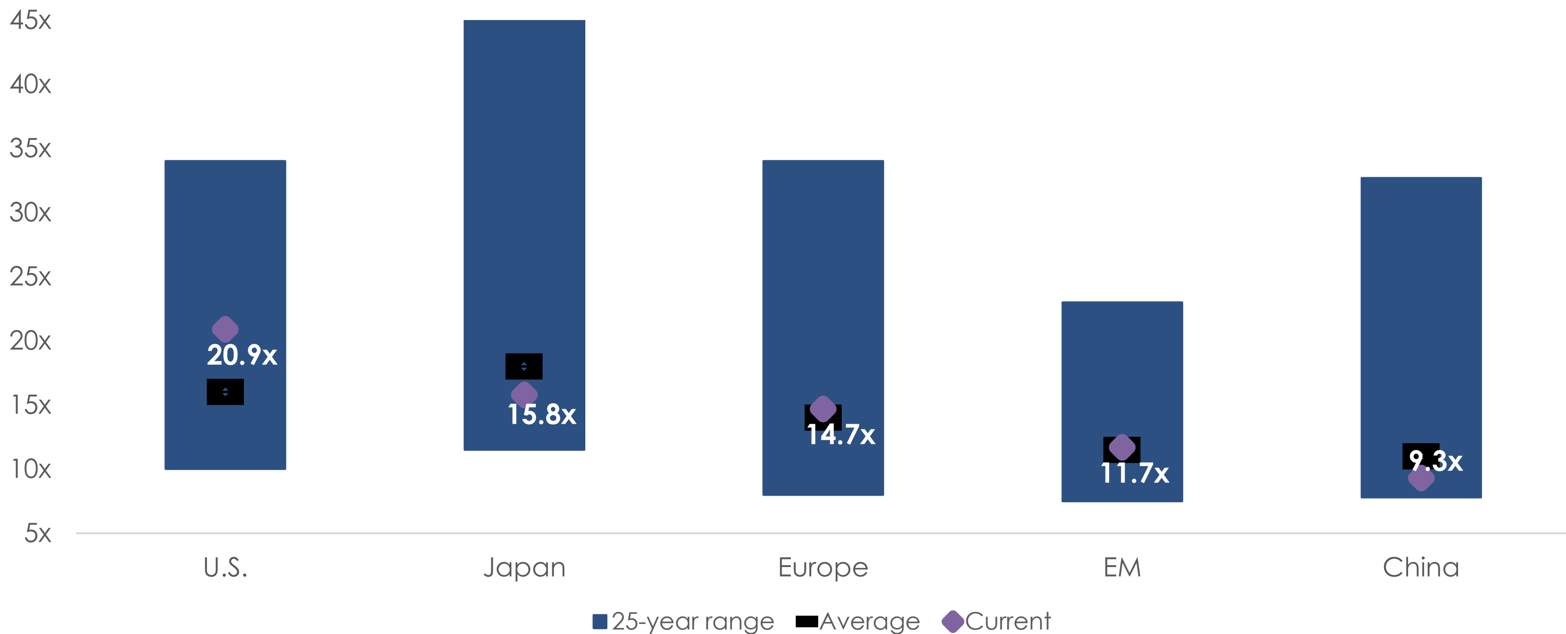
Markets
Equities
Fixed Income
Alternatives

The U.S. market trades at a premium to its long-term average versus most other developed and emerging markets that trade near or below long-term average valuation multiples.



Source: J.P. Morgan Asset Management as of 3/31/2024

Our Perspective: We believe the U.S' valuation premium is appropriate given attractive expected growth rates and higher levels of profitability. The divergence in valuations warrants an allocation to non-U.S. markets where valuations could modestly compress over a multi-year horizon.

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Miracle Mile Positioning

1. Large growth companies are projected to continue to outgrow the broader market. However, relative growth rates are expected to narrow as 2024 progresses. We are targeting a balance by maintaining exposure to the large growth companies, while also having exposure to more attractively valued companies that have more attractive relative growth rates exiting 2024.

2. Given expectations for a slowdown in the pace of economic growth, alongside increasing probabilities that the Federal Reserve may need to hold rates higher for longer, we remain biased toward higher quality companies that are less sensitive to the economic cycle or financing rates.

3. Outside of the U.S., we find structural changes in Japan to be a catalyst that offers continued return potential in the market. Within emerging markets, the unique country specific growth drivers within India present attractive long-term return potential.

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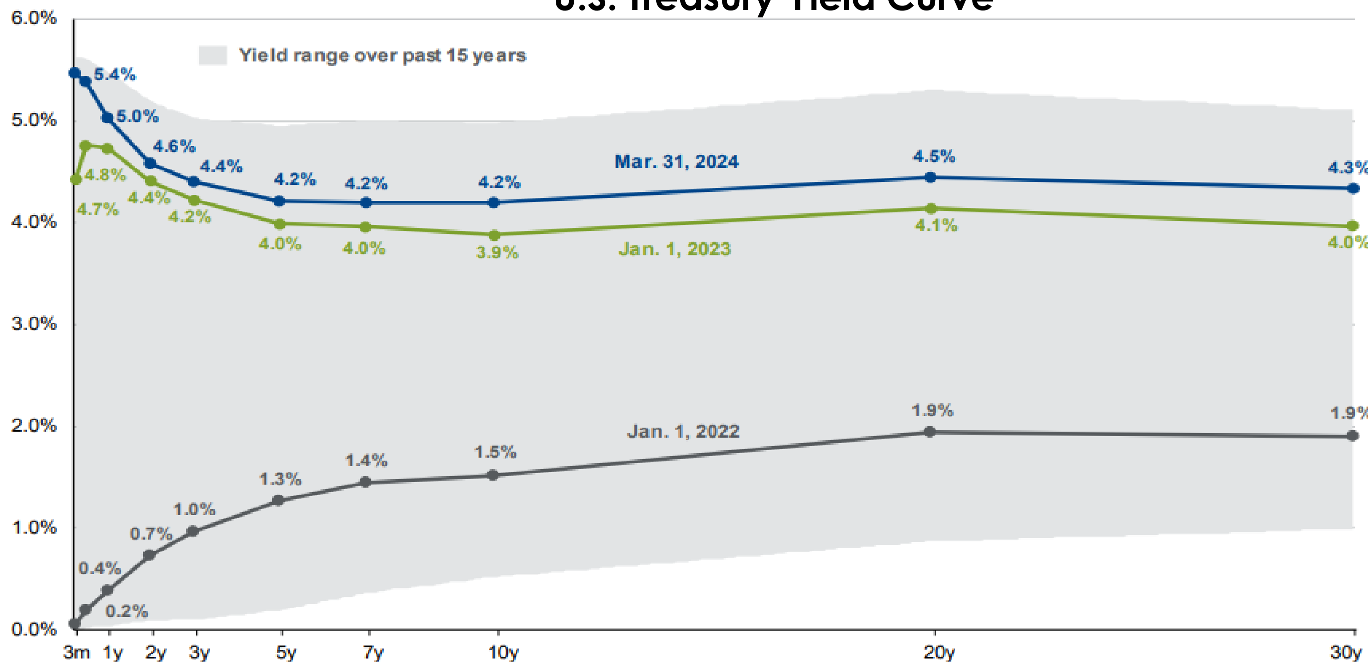
TREASURY YIELDS ROSE DURING THE QUARTER

Yields on Treasury bonds rose during the quarter as higher than expected inflation led to expectations that the Fed may maintain elevated rates longer than previously anticipated.



Source: J.P. Morgan Asset Management, as of 3/31/2024

Our Perspective: Overly optimistic expectations around the pace and magnitude of federal reserve rate cuts depressed Treasury yields at the end of 2023. As expectations reset during the quarter, yields rose to levels that we now view as being in line with our long-term fair value ranges. We expect yields on maturities 2-years and under to gradually fall, but have become more constructive on yields offered on maturities longer than 2-years. As a result, we have moved toward a neutral interest rate posture and avoiding any bias toward rising or falling rates among intermediate and long-term bonds.

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YIELDS ON CORPORATE BONDS HAVE BECOME LESS ATTRACTIVE

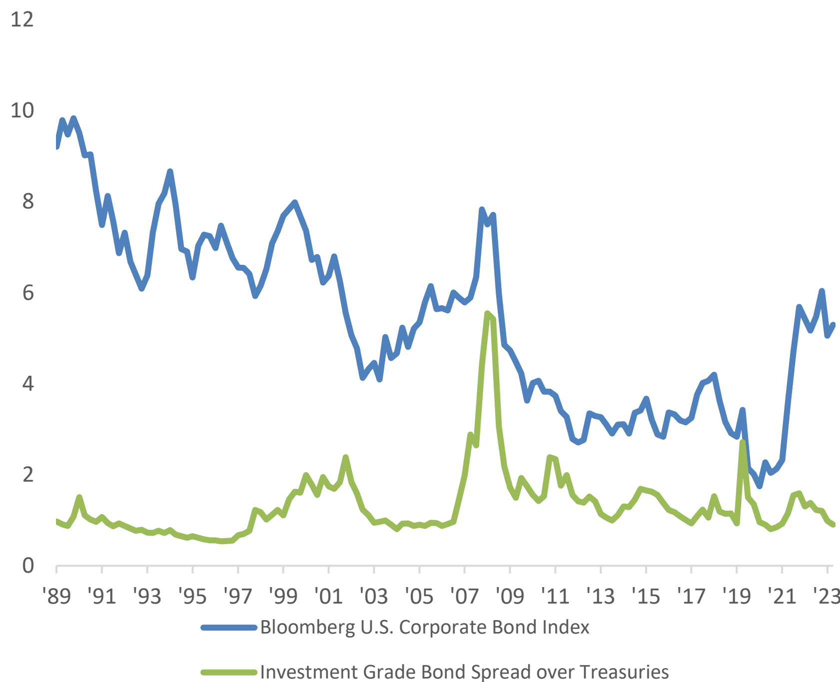
Markets

Equities

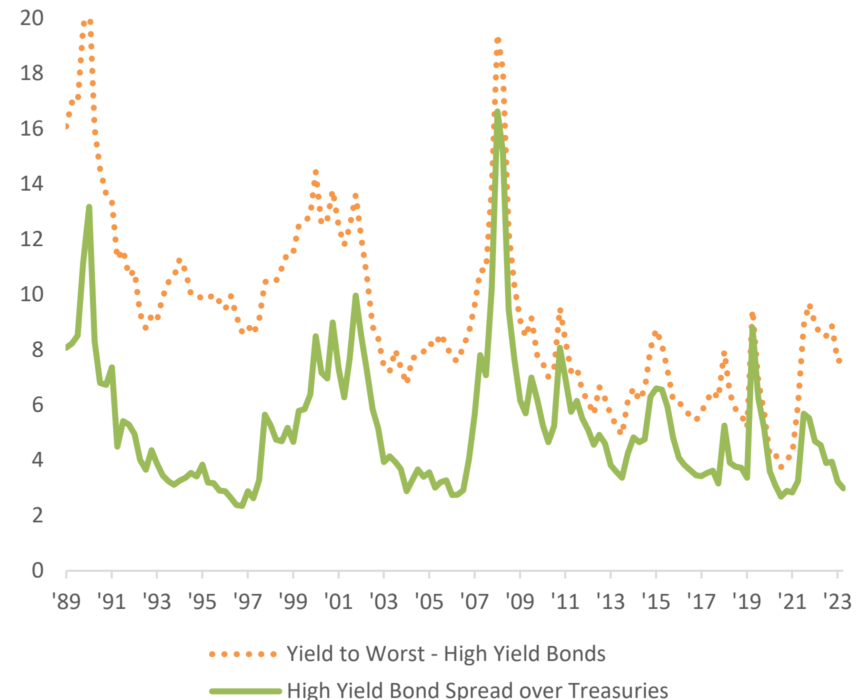
Fixed Income

Alternatives

The yield advantage (or spread) offered on investment grade and high yield bonds, relative to U.S. Treasury bonds, continues to compress and presently sits near the low end of the historical ranges.



Source: Bloomberg as of 3/31/2024



Source: Bloomberg as of 3/31/2024

Our Perspective: We don't believe investors are currently being offered attractive compensation for taking on incremental credit risk with corporate bonds. As such, during the quarter we moderately reduced corporate bond exposure where appropriate.

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BONDS OFFER REASONABLE YIELDS

The yield on the Bloomberg Aggregate index has returned to 5%.

Source: Bloomberg as of 3/31/2024

Our Perspective: We are constructive on the return opportunity offered by bonds. We don't believe investors need to take on extra risk within their bond portfolios to earn an attractive return.

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TREASURY YIELDS OFFER ATTRACTIVE UPSIDE AND MANAGABLE DOWNSIDE RISK

The current yield offered on a 10-year Treasury offers greater upside potential relative to downside risk.

One-year Return Outcomes for a 10-year Treasury

(assuming +/- 2% change in yield)

Change in Bond Yield

10-year Starting Yield%	-2%	-1%	0%	1%	2%
1.0%	16.8%	8.9%	1.0%	(6.9%)	(14.8%)
1.5%	17.3%	9.4%	1.5%	(6.4%)	(14.3%)
2.0%	17.8%	9.9%	2.0%	(5.9%)	(13.8%)
2.5%	18.3%	10.4%	2.5%	(5.4%)	(13.3%)
3.0%	18.8%	10.9%	3.0%	(4.9%)	(12.8%)
3.5%	19.3%	11.4%	3.5%	(4.4%)	(12.3%)
4.0%	19.8%	11.9%	4.0%	(3.9%)	(11.8%)
4.5%	20.3%	12.4%	4.5%	(3.4%)	(11.3%)
5.0%	20.8%	12.9%	5.0%	(2.9%)	(10.8%)
5.5%	21.3%	13.4%	5.5%	(2.4%)	(10.3%)
6.0%	21.8%	13.9%	6.0%	(1.9%)	(9.8%)

Source: Miracle Mile Advisors
Scenarios based on active on-the-run 10-year Treasury Bond As of 4/15/24

Our Perspective: While bond returns have not stood out over the past three years, yields have reached a point where their risk/reward profile has become more attractive, not only providing more reasonable yields but upside potential should rates drop from current levels.

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Miracle Mile Positioning

1. Treasury yields reasonably reflect our long-term interest rate expectations. As a result, we've moved toward a more balanced positioning across the yield curve. We don't want to be overly biased toward a scenario of rising or falling rates (among intermediate and long-term bonds).

2. Corporate bonds have begun to price in less yield advantage (spread) relative to Treasury bonds. Given the added credit risk associated with this sector, the lower level of yield has reduced the sector's attractiveness. As a result, we have lowered our target for corporate bond exposure.

3. We are constructive on bonds as an asset class, viewing taxable bond yields of roughly 5% to be attractive, relative to the last twenty years.

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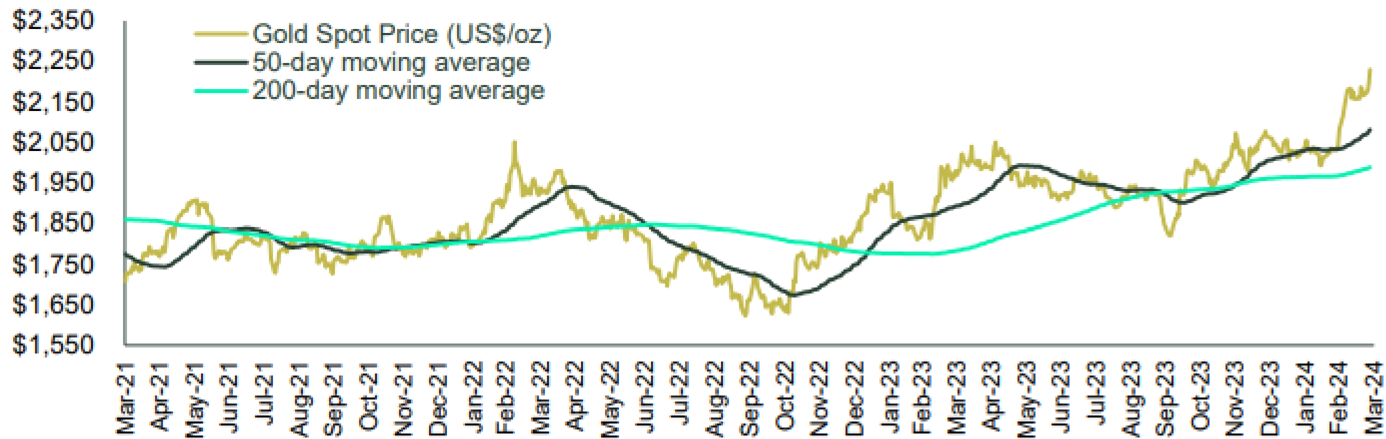
A return of inflationary pressures and an elevation in geopolitical concerns drove a strong uptrend in the price of gold.



Source: Bloomberg, State Street Global Advisors as of 3/31/2024

Our Perspective: Historically, gold has performed independent of stocks and bonds. We view it as a way to diversify portfolios during episodes of unexpected economic or geopolitical concerns. This past quarter, the change in disinflationary trends and geopolitical concerns in the Middle East served as catalysts for higher gold prices.

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Disclosures:
Slide 2: Data from Bureau of Economic Analysis, Bloomberg and Federal Reserve Bank of Atlanta. As of 3/31/2024
Slide 3 Chart (retail sales) from FRED Economic Data, U.S. Census Bureau. Chart (Personal Savings Rate) from FRED Economic Data and U.S. Bureau of Economic Analysis.. Data for both as of 2/29/2024.
Slide 4: Data sourced from Bureau of Labor Statistics and FRED Economic Data. As of 2/29/2024
Slide 5: : Data sourced from FRED Economic Data. As of 2/29/2024
Slide 6: Data from CME Fed Watch Tool. As of 3/31/2024
Slide 8: Data from Bloomberg as of 3/31/2024
Slide 9: Data from Bloomberg as of 3/31/2024
Slide 10: Chart (earnings growth) from J.P. Morgan Guide to the Markets Q2 2024. Chart (magnificent seven stock performance) data from Bloomberg as of 3/31/2024
Slide 11: Chart from Columbia Threadneedle Capital Market Outlook and Opportunities Q2 2024
Slide 12: Chart sourced from J.P. Morgan Guide to the Markets Q2 2024
Slide 14: Chart sourced from J.P. Morgan Guide to the Markets Q2 2024
Slide 15: Data sourced from Bloomberg as of 3/31/2024
Slide 16: Data sourced from Bloomberg as of 3/31/2024
Slide 17:10-year Treasury bond duration sourced from Bloomberg as of 4/15/24. Data compiled by Miracle Mile Advisors
Slide 19: State Street Global Advisors Gold Chart Pack as of 3/31/24