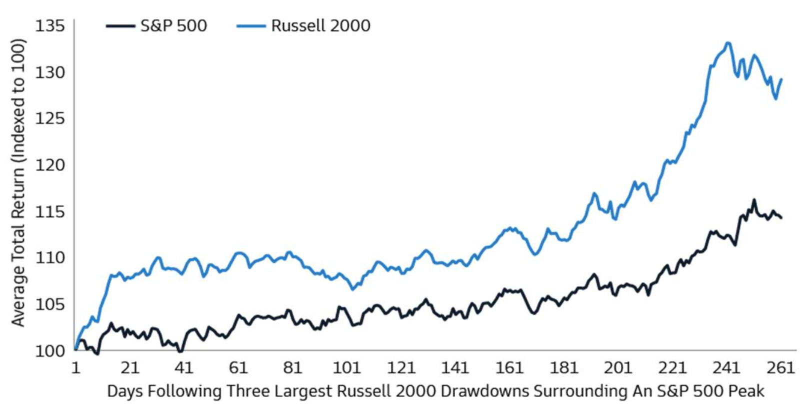
# Monthly Commentary 2nd of February 2024

2024 started on a relatively positive note with most equity indices up modestly for the month of January. More specifically, the S&P500 up 1.59%, MSCI Euro up 2.18% and the Nikkei up 7.61%. By contrast, the FTSE 100 finished lower by 1.27%. Government and Corporate bonds in the US, EU and UK were flat to slightly negative. Broad commodities and crude oil ended the month with strong gains of 3.25% and 5.86% respectively while Gold lagged with losses of 1.03% The dollar as measured by the DXY Index was up 2.38% and Bitcoin was down 0.88% for the month.

**Will 2024 be the year for small cap stocks?**

According to Goldman Sachs, January 2024 marked the first time in history that the S&P 500 hit an all-time high while the Russell 2000 (the broad US small-cap index) was in a bear market. Historically, large Russell 2000 drawdowns surrounding S&P 500 peaks have been a bullish indicator for both small and large caps, with the former outperforming on average. Attractive valuations, a positive economic outlook, and strong upside potential form Goldman Sach's favorable view on small caps in the year ahead.




Source: Goldman Sachs

For most of 2023, small cap stocks were plagued by recession worries and higher interest rates because they are especially sensitive to the economy and tend to be hurt more by rising borrowing costs. By the end of 2023 small cap stocks re-emerged on new hopes of a soft landing and possible rate cuts ahead. The start of 2024 however was a reality check. With hotter than expected economic data and a possible longer-term pause for rate cuts, small cap stocks dropped 4% in January vs +1.6% for the S&P 500 Index. A bad month, however, is not an indicator of future returns. Company earnings are what drive prices, and most analysts expect earnings growth among companies in the small cap universe to rebound to 28.2% in 2024.

Although we cannot time the markets we believe that a tactical deviation in small caps can be justified. For our USD and Global portfolios we have already been using Pacer US Small Cap Cash Cows 100 ETF. This is a strategy-driven exchange traded fund that aims to provide capital appreciation over time by screening the S&P SmallCap 600 for the top 100 companies based on free cash flow yield. The ability to generate a high free cash flow yield indicates a company is producing more cash than it needs to run the business and can invest in growth opportunities. The results can be viewed in the second chart below. CALF has outperformed the general US small cap index ETF by 20% in the last year.

Pacer US Small Cap Cash Cows 100 ETF (CALF) vs Russell 2000 Index


Source: Bloomberg

**Bitcoin ETFs**

Earlier this month, about a dozen ETFs that track spot Bitcoin were listed in the US markets. Some prestigious fund houses like Blackrock (the world's biggest asset manager), Fidelity and Invesco were part of this. For such serious houses to be partaking into a crypto asset is a significant story.

For those of you who would like to diversify your portfolios with modest amounts, please contact us. Being up 165% since its low 12 months ago, many say that this is the start of a new up-cycle.

# Q & A

**Advisor Question: Below is an email we received from one of our associate advisors:**

*Good morning ,*

*As the Magnificent 7 are reporting this week, would it be possible to do a Commentary Update on why we have Microsoft, Alphabet, Amazon. & NVIDIA and not Tesla, Apple & Meta in Best Ideas , at the end of this week with details of their reporting , ie positive or negative ?*

**Our Answer:**

It is important to note that no two Best Ideas portfolios are the same.

Actually we do have Apple in most Best Ideas portfolios, as we have invested similar amounts in Apple as we have in Alphabet and Amazon.

The reasons we avoided Tesla are that it was ridiculously overvalued, reliant on one man and open to meaningful competition.  Also, as you know, we are not traders.  We have held 5 of these stocks for much longer than the phrase “Magnificent 7” has existed.

If you look at a three-year horizon (see next page), Tesla has fallen 27%.  So unless we traded in and out every time it reached bottom, which is not easy to do, then I do not think our clients would have been that happy.  It has admittedly been hammered YTD and we might consider a position.


As for Meta, too many clients had expressed their dislike for the CEO.  At the same time, three years ago, when Zuckerberg went flat out and threw tens off billions down the Metaverse drain, it did not seem that good a bet.  Yes, we have been proven wrong on META.

So what?  We hit the jackpot with Lilly, Visa, Mastercard, JP Morgan, Airbus, ASML, Hermes etc, all of which reached record highs recently and are all in our Best Ideas portfolios.  It would be bad risk management if we were full-on the Mag 7, no matter how much we like their prospects. In fact in almost all cases, our best ideas has beaten most benchmark indices.

The Elgin Analysts Team

**Disclaimer**

The information in this article should neither be regarded as an offer nor a solicitation to buy, sell or otherwise deal with any investment referred to herein. As a regular rule, the value of any investment may rise or fall. Past performance is not an indicative of future results. Do not take unnecessary risk and always request advice from an investment professional before undertaking any investment.