Market Strategy
by STRATEGAS A BAIRD COMPANY

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Private Wealth Management

Market Strategy Weekly

March 15, 2024

Strategas Research Analyst Thomas DiFazio describes some of the key indicators—from trend work to earnings breadth to credit spreads—that his team watches as they formulate their recommended asset allocations.

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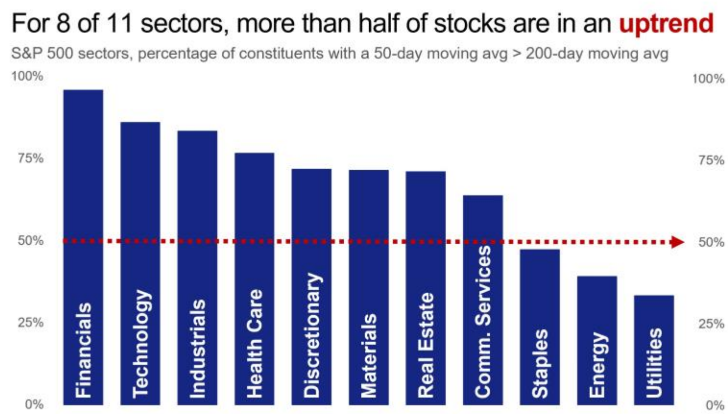
Ross Mayfield, Baird
Investment Strategy Analyst

UPTRENDS ABOUND | EARNINGS BREADTH TURNING | NO WEAKNESS IN CREDIT

ROSS MAYFIELD: What's a key indicator you're using in your asset allocation work right now?

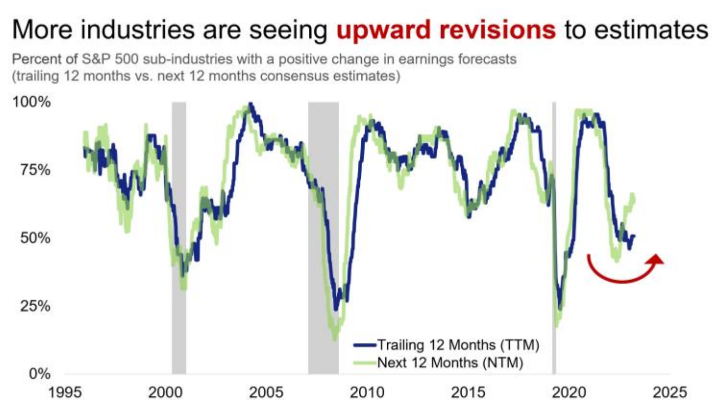
THOMAS DIFAZIO: One that's been most helpful has been the percent of stocks that are in an uptrend (50-day moving average price is above their 200-day moving average price). Even relative laggards like Consumer Staples and Utilities are seeing a higher percent of stocks in uptrends. And the small-cap contingent of the overall market is seeing this sort of action, too. The Russell 2000 rallied strongly into 2024, and has consolidated that move in a very healthy way. The data didn't go down, it just went sideways, and that kind of participation is very important. You don't need to outperform in order to help the overall market move forward.



Source: Strategas, FactSet

ROSS: It's great to see the price momentum in markets – do you pair that with any indicators that look at fundamentals?

THOMAS: One of our favorites is a measure of earnings breadth. So, we take every sub-industry within the U.S. market (over 150 of them), and we look at past earnings growth and forecasted earnings growth. The number of sub-industries expecting earnings to grow has turned higher and that's a very good thing. However, the trailing data has remained somewhat low. We'd like to see the trailing data hook higher to confirm the move in forward expectations. On the flip side, if the forward estimates were to pause or roll over, we would get more cautious. All in all, we're holding our asset allocation firm this month as we wait for these signals to play out a bit more.



Source: Strategas, FactSet

ROSS: What about the fixed income side of the equation?

THOMAS: Our fixed income strategist covers the bond world closely, but we haven't seen any stress within credit so far this year. We used recent regional bank stress as a way to see if something more sinister was going on under the surface or if there would be a contagion effect, but so far we have not seen any stress. We'll get a bit more concerned if credit spreads widen (the yield of a corporate bond over the yield of a Treasury indicates economic stress when investors demand higher yield to hold riskier bonds). That would warrant more attention, so credit spreads are a great indicator to watch.

IMPORTANT DISCLOSURES

This conversation is lightly edited and consolidated from an interview located at www.youtube.com/@BairdTV.

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