CORBETT ROAD
CAPITAL MANAGEMENT

MACRO MUSINGS

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U.S. Leads Improving Global Growth and Market Trends

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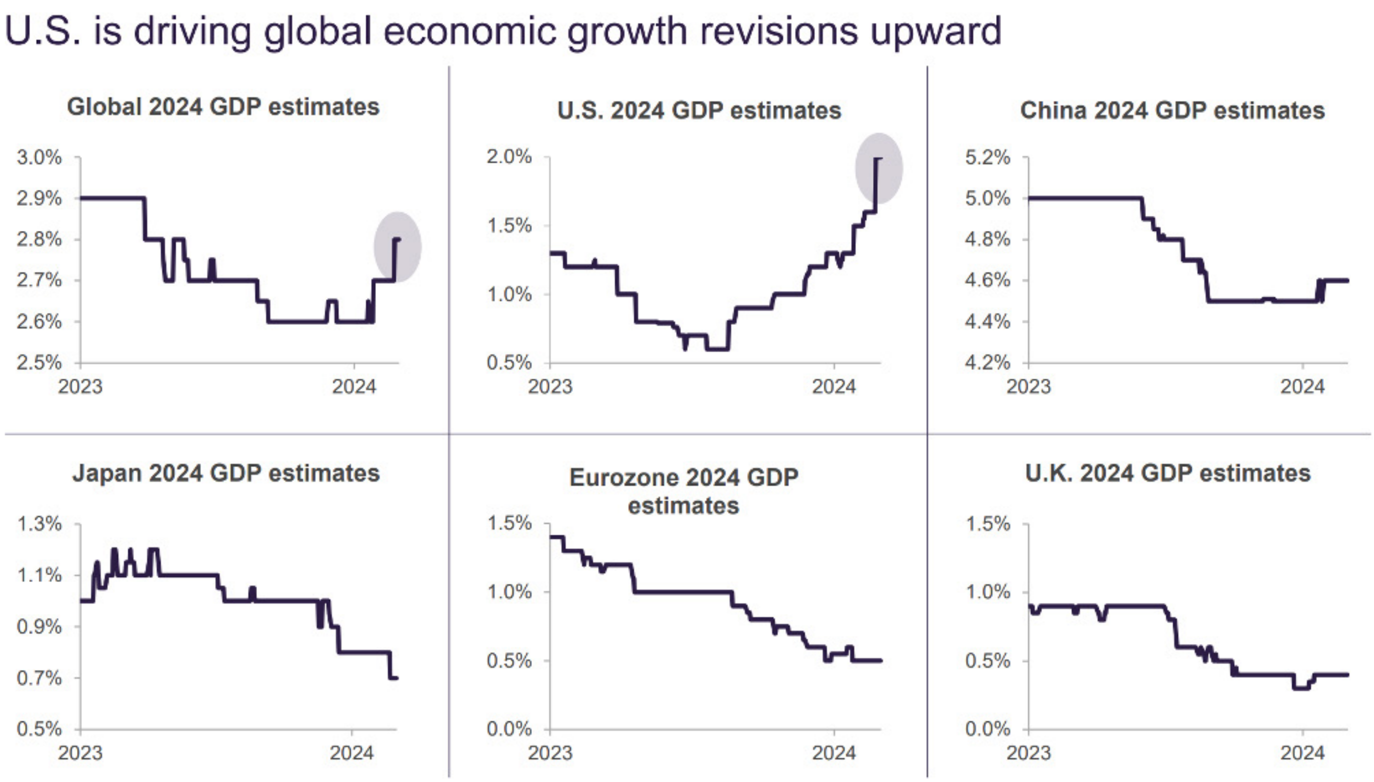
SUMMARY

- **macro**cast™ remains positive and suggests the risk of a recessionary bear market in 2024 is low. Our current **micro**cast™ signal remains at an aggressive allocation. Both models continue to indicate a generally optimistic outlook as the first quarter of 2024 comes to an end.
- The global economy is showing signs of improvement, primarily led by the United States. Europe, on the other hand, may be heading toward a recession based on declining GDP estimates. China is taking proactive measures to stimulate its economy and prevent a slowdown.
- The stock market has shown impressive gains over the past few months, with the S&P 500 rising over 20% since the end of October. Historically, strong winter performance and the absence of significant corrections are typically followed by further gains in the months following. While these trends are not guaranteed to continue, they provide an optimistic outlook for the market's near-term future.
- Although the current market rally is encouraging, it's crucial to remember that corrections are a normal and healthy part of the market cycle. Historical examples from the late 1990s show that even during periods of exceptional growth, double-digit drawdowns can occur along the way.

See content within for additional information on the summary items discussed above

GLOBAL GROWTH GETS A BOOST,
LED BY U.S. STRENGTH

The global economy appears to be improving, largely driven by strength in the United States. In contrast, GDP estimates in Europe have been trending lower, suggesting a potential recession. Meanwhile, China is deploying a multi-pronged stimulus program to counter a potential economic slowdown. In an effort to stimulate their economy, China's central bank recently lowered the amount of cash banks are required to hold, which policymakers hope will free up capital for lending to businesses and consumers (chart from Truist):



Data source: Truist IAG, Bloomberg. Gross domestic product (GDP).

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MARKET MOMENTUM SIGNALS
POTENTIAL FOR MORE UPSIDE

The market has experienced several positive price trends over the past month, including gains across major indices and various sectors. These trends suggest potential for further growth in the months ahead. Consider the following:

1. **The recent performance of the S&P 500 has been remarkably strong.** The S&P 500 is up more than 20% over the past four months. Historically, similar periods of strength have been followed by gains of almost 19% for the S&P 500 over the next year, and since 1970, the market has always closed higher in these instances (table from Canaccord Genuity):

		4-Month	S&P 500 Index (SPX) Forward Returns					
Month End	SPX	ROC	1-Month	2-Months	3-Months	6-Months	9-Months	12-Months
1/31/1975	76.98	21.15	5.99%	8.29%	13.41%	15.29%	15.67%	31.02%
1/30/1976	100.86	20.26	-1.14%	1.14%	0.77%	2.56%	2.02%	1.06%
10/29/1982	133.71	21.99	0.37%	5.63%	8.08%	22.97%	21.58%	22.18%
2/28/1991	367.07	20.75	2.22%	3.26%	4.05%	8.06%	2.58%	12.43%
7/31/1997	954.29	26.04	-5.74%	-0.73%	-4.16%	2.72%	16.50%	17.43%
12/31/1998	1229.23	28.41	4.10%	0.74%	4.65%	11.67%	4.35%	19.53%
6/30/2009	919.32	25.06	7.33%	11.92%	14.98%	22.53%	27.62%	12.12%
7/31/2020	3271.12	26.56	7.01%	2.81%	-0.04%	13.55%	27.82%	34.37%
Current	*5085.00*	*21.25*						
Source: Bloomberg/ Canaccord Genuity		**Avg.**	**2.52%**	**4.13%**	**5.22%**	**12.42%**	**14.77%**	**18.77%**
		Median	**3.16%**	**3.03%**	**4.35%**	**12.61%**	**16.08%**	**18.48%**
		% Pos.	**75.0%**	**87.5%**	**75.0%**	**100.0%**	**100.0%**	**100.0%**

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Past performance is not a guarantee of future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

2. **Historical data suggests that strong winter performance in the stock market often leads to further gains.** The market was up in November, December, January, and February. Similar instances of four consecutive monthly gains have occurred eight times since 1950. In each of these instances, the market was higher a year later, with an average gain of 16% (table from Carson Group):

Another Clue This Bull Market Has Legs Left

S&P 500 Performance When Higher November, December, January, and February

	S&P 500 Index Returns			
Year	March	Calendar Year Return	Final 10 Months of the Year	Next 12 Months
1950	0.4%	21.7%	18.6%	26.6%
1954	3.0%	45.0%	37.6%	40.6%
1955	-0.5%	26.4%	23.7%	23.3%
1961	2.6%	23.1%	12.8%	10.3%
1971	3.7%	10.8%	5.4%	10.1%
1983	3.3%	17.3%	11.4%	6.1%
1986	5.3%	14.6%	6.7%	25.2%
1991	2.2%	26.3%	13.6%	12.4%
1993	1.9%	7.1%	5.2%	5.4%
1996	0.8%	20.3%	15.7%	23.5%
1998	5.0%	26.7%	17.1%	18.0%
2004	-1.6%	9.0%	5.8%	5.1%
2013	3.6%	29.6%	22.0%	22.8%
2017	0.0%	19.4%	13.1%	14.8%
2024	?	?	?	?
Average	2.1%	21.2%	14.9%	17.4%
Median	2.4%	21.0%	13.4%	16.4%
% Higher	78.6%	100.0%	100.0%	100.0%
Average Year				
Average	1.1%	9.3%	8.1%	
Median	1.4%	12.0%	9.0%	
% Higher	64.9%	71.6%	73.0%	

Source: Carson Investment Research, FactSet 2/26/2024
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CARSON

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3. **Contrary to popular belief, a lack of correction in the stock market is not necessarily a bearish signal.** It's been four months since the S&P 500 had a 2% decline. That's incredibly rare, with only 8 occurrences since 1953. In 7 out of 8 instances, the market was higher six months later, with an average gain of almost 8%. While this trend cannot continue indefinitely, it is encouraging to see that similar periods of strength were not followed by a bear market over the next year (table from Bespoke Investment Group):

S&P 500 Performance After Four Months Without a 2% Decline

84th Trading Day	S&P 500 84-Day Performance (%)	Total Length of Streak	S&P 500 Performance (%) One Month	Three Months	Six Months	One Year
1/15/54	9.90	176	2.4	9.9	18.7	38.7
6/12/57	12.87	86	2.1	-6.7	-15.6	-6.9
9/10/58	10.75	106	6.4	10.7	16.6	18.0
2/24/61	19.24	119	2.5	5.4	7.6	11.6
3/25/64	10.26	116	1.0	2.8	6.6	10.0
4/7/95	12.23	151	2.7	9.9	15.0	29.5
11/10/06	11.71	149	2.1	4.1	8.0	5.3
12/15/17	10.12	110	4.1	2.7	3.9	-2.8
2/28/24	22.54	86				
Average	**12.13**		**2.9**	**4.8**	**7.6**	**12.9**
Median	**11.23**		**2.5**	**4.8**	**7.8**	**10.8**
% Positive	**100**		**100**	**88**	**88**	**75**
All Periods Since 1953						
Average			**0.68**	**2.04**	**4.31**	**8.94**
% Positive			**61**	**66**	**69**	**73**

EVEN STRONG BULL MARKETS **NEED A BREATHER**

The potential for a larger pullback in the future is higher the longer the rally continues without one. However, a moderate drawdown can be a healthy sign, helping to cool off sentiment and potentially extending the overall uptrend.

In a recent article, Ben Carlson reminded us of the incredible returns for the market in the second half of the 1990s:

1995: +37%
1996: +23%
1997: +33%
1998: +28%
1999: +21%

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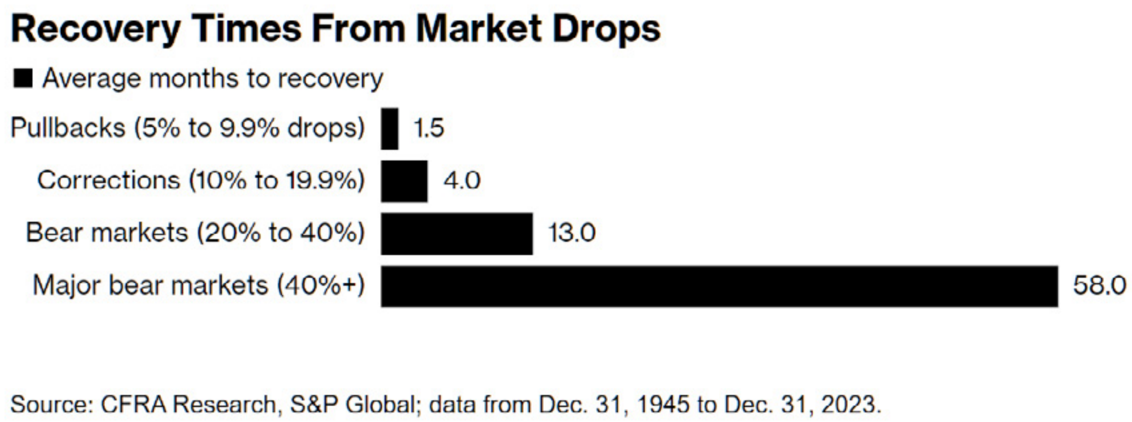
Along the way, there were 3 double-digit drawdowns:

- **Asian Financial Crisis (1997):** This crisis began in Thailand and spread to other Asian economies, causing significant instability in global markets. Concerns about the impact on the global economy led to an 11% decline in the S&P 500.
- **Russian Financial Crisis/LTCM (1998):** Russia's economic collapse and debt default raised concerns about the health of emerging markets, triggering major losses at the hedge fund Long Term Capital Management. From July to August, the market dropped 19%.
- **Y2K Concerns (1999):** In the lead-up to the year 2000, there were anxieties about potential computer malfunctions (the Y2K bug) that might disrupt businesses and the economy. This uncertainty along with worries about Fed hikes led to a correction of 12%.

While our analysis suggests a potentially bullish market based on the previous section, it is important to remember that corrections are a normal part of the market cycle. Historically, declines of 5-10% have recovered within an average of two months and 10-20% declines have rebounded within an average of four months. The timeframe for recovery can vary, but the key for investors is to maintain a long-term perspective and avoid making impulsive decisions based on short-term volatility (chart from Bloomberg):



In summary, the global economy is showing signs of improvement, led by the United States. While Europe faces potential recession risks, the world's second largest economy, China, is implementing stimulus measures to counter a slowdown. The stock market has exhibited strong momentum in recent months, with historical data suggesting the potential for further gains. However, even strong bull markets experience corrections along the way, as seen in the late 1990s. While the current rally is encouraging, investors should maintain a long-term perspective and be prepared for the possibility of a pullback, which can be a healthy development for the overall market trend.

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