BIRLING CAPITAL ADVISORS, LLC **Think Strategically**

The Power of Staying Invested: Sentiment and Strategic Approach Amidst Market Fluctuations

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Navigating Through Rate Hikes, Labor Markets, and Robust Corporate Earnings

Recently, the financial markets have undergone a significant shift in sentiment, driven by key factors such as changes to the Fed policy, the job market, lower US GDP growth rate, and corporate earnings. This shift, which took center stage last week, has resulted in a positive turn for stocks in these early days of May, following April's downturn. This marked the first monthly loss since last October, with all five key indices we follow reporting negative returns for April. The emerging data and market results reflect this shift in sentiment, prompting many to reevaluate the market outlook and consider market rotations as an opportune strategy.

Market Adjustments Following the First Quarter of 2024

We must discuss our current view on the state of markets so that anyone can determine what has been adjusted and how these adjustments should impact our view.

Higher Interest Rates for Longer

Then: Rate Cuts In June

Since the beginning of 2024, optimism that interest rates would begin falling as early as June was priced into the markets. Some expected at least four rate cuts during 2024, fueled by a sustained decline in core CPI, which in turn drove the market recovery and ignited a rally.

Now: Higher Interest Rates for Longer

Contrary to expectations, the anticipated Fed pivot to rate cuts will not occur as early as June due to persistent inflationary pressures. The Fed's preferred inflation benchmark, the PCE, had fallen to 2.48% in January 2024, a mere 19.35% from the Fed's 2% inflation target rate. However, by last month, the PCE had increased again to 2.71%, shifting the market's focus from predicting

GLOBAL MARKET SQUARE

Federal Reserve Bank Interest Rate Actions

FOMC Meeting	Rate Action	Fed Funds Rate
5/1/24	Unchaged	5.25%-5.50%
3/20/24	Unchaged	5.25%-5.50%
1/31/24	Unchaged	5.25%-5.50%
12/13/23	Unchaged	5.25%-5.50%
11/1/23	Unchaged	5.25%-5.50%
9/20/23	Unchaged	5.25%-5.50%
7/26/23	0.25%	5.25%-5.50%
5/3/23	0.25%	5.00%-5.25%
3/22/23	0.25%	4.75%-5.00%
2/1/23	0.25%	4.50%-4.75%
12/14/22	0.50%	4.25%-4.50%
11/2/22	0.75%	3.75%-4.00%
9/21/22	0.75%	3.00%-3.25%
7/27/22	0.75%	2.25%-2.50%
6/16/22	0.75%	1.50%-1.75%
5/5/22	0.50%	0.75%-1.00%
3/17/22	0.25%	0.25% -0.50%

when rate cuts would occur to questioning whether they would happen at all in 2024. This shift in the Fed's policy timeline has significant implications for investment strategies.

What's Ahead: While we still expect rate cuts during 2024, we foresee a delay until inflation indicators sustain such a change in policy. We expect that the new timeline for rate cuts will be during the fourth quarter of 2024. Despite the current scenario, a less restrictive monetary policy is being implemented, supporting market growth.

The Labor Market Begins to Crack

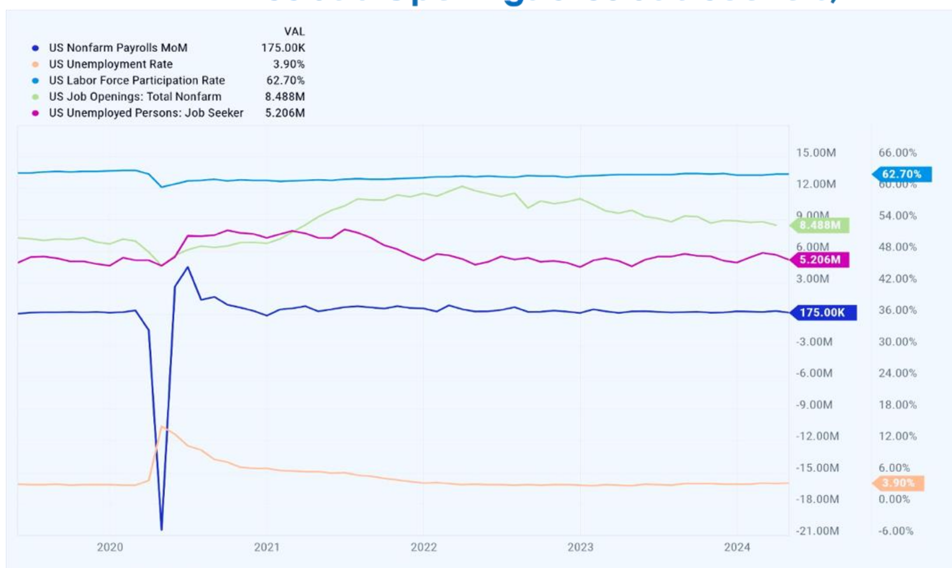
Then: U.S. Labor Markets are a pillar of resiliency and growth

The robust labor market has been a consistent pillar supporting economic growth, mitigating the need for recession despite Fed tightening. During 2023, 3,007 million new jobs were created, and during the first quarter of 2024, there were 807,000 new jobs created, a run rate that could have created 3.24 million new jobs.

Now: US Jobs Growth Falls below 200,000 per month

The recent jobs market data present a mixed picture of employment, leading to market volatility. While job growth slowed to 175,000 in April, reducing the jobs growth rate to 2.9 million, unemployment rose to 3.90%. Job openings fell to 8.448 million, down 4.51% YTD. Job seekers rose to 5.206 million, up 5.68%. These figures highlight a deficit of 59.21% between job openings and job seekers, indicating a need for balance. The market's response to these labor market dynamics will shape future investment strategies.

US Nonfarm Payrolls, US Unemployment Rate, US Labor Participation Rate, US Job Openings & US Job Seekers,



What's Next: A balanced scenario in which the labor market softens slightly, allowing for further wage moderation without significant job losses, seems plausible. Factors like the growing labor supply and increased productivity suggest a sustainable path forward, albeit with some uncertainties.

Corporate Earnings Parade: A Source of Strength

Then: Earnings Growth Dependent on Cuts

Some market enthusiasm was pegged to anticipated rate cuts, overshadowing robust corporate earnings' positive impact and magnitude.

Amidst market fluctuations, quarterly earnings reports exceeded expectations, underlining a broader improvement across various sectors. With 80% of S&P 500 companies having reported their 1Q24 earnings, out of these companies, 77% have reported earnings per share above estimates, ahead of the 10-year average of 74%.

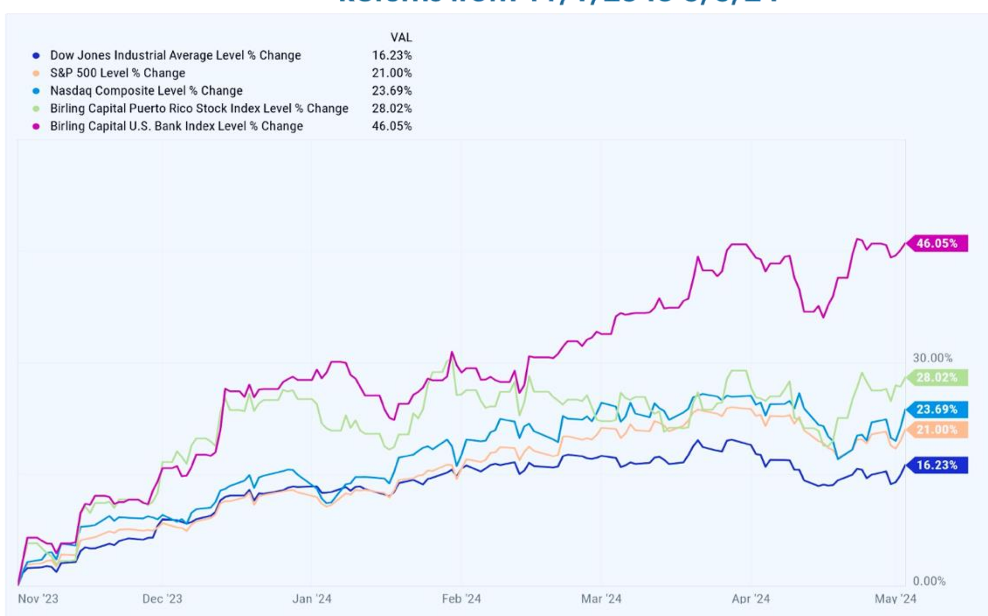
Overall, corporate profits for the S&P 500 are poised to grow by over 10% for the year, signaling a notable acceleration from the previous year and underpinning the continued upward trajectory of stocks. This shift in focus from mega-cap tech companies to broader market segments signals a healthier market foundation.

Looking ahead: The market's resilience in the face of shifting rate expectations instills confidence in favorable earnings growth prospects. We anticipate continued market gains driven by earnings growth, albeit at a slower pace than last year, offering a promising outlook for investors.

While volatility may persist, the key to navigating these fluctuations is a strategic approach and diversification. With a broadening base of earnings support and a cautiously optimistic outlook on Fed policy, we maintain a positive stance on equities, expecting them to outperform bonds and cash in the foreseeable future. This approach empowers investors to make informed decisions in a dynamic market.

The Final Word: It Pays to Stay Invested

Dow Jones, S&P 500, Nasdaq Composite, Birling P.R. Stock Index & Birling U.S. Bank Returns from 11/1/23 to 5/3/24



As we have discussed, the three main elements driving up or down markets in the current scenario are monetary policy or interest rates, labor markets, and corporate earnings. We have also discussed what is next for each of these parameters; we now focus on the recent market trends and how to profit from them.

Usually, market trends, whether up or down, arrive in small waves of volatility. To that end, we want to highlight a pattern that began more or less on November 1, 2023, and continued until last Friday, May 3, 2024. Even with the terrible end of April, the broader results over these last five months have been stupendous.

We review below the returns from the five key indices we follow from 11/1/23 to 5/3/24:

- **Dow Jones** recorded a return of **16.23%.**
- **S&P 500** recorded a return of **21.00%.**
- **Nasdaq Composite** recorded a return of **23.69%.**
- **Birling P.R. Stock Index** recorded a return of **28.02%.**
- **Birling U.S. Bank Index** recorded a return of **46.05%.**

Let's assume an investor made a $25,000 investment and divided it into five $5,000 investments in each index to demonstrate the power of investing. Let's review the results:

- **Dow Jones Industrial Average:** With an initial investment of $5,000, the return on investment (ROI) would be $811.50, reflecting a 16.23% increase.
- **S&P 500 Index:** Investing $5,000 would yield an ROI of $1,050, marking a 21.00% growth rate.
- **Nasdaq Composite Index:** An investment of $5,000 would result in an ROI of $1,184.50, representing a 23.69% increase.
- **Birling P.R. Stock Index:** Investing $5,000 would generate an ROI of $1,401.00, indicating a robust 28.02% growth.
- **Birling U.S. Bank Index:** With an initial investment of $5,000, the ROI would be $2,302.50, showing a substantial 46.05% increase.
- **Total gains = $6,749.50**

These figures illustrate the potential returns from various indices from November 1, 2023, to May 3, 2024. However, actual investment outcomes may vary due to fees, taxes, and market fluctuations. For personalized financial guidance, consulting with a qualified advisor is recommended.

In conclusion, the market landscape during 2024 has been characterized by a shift in sentiment driven by changes in the Fed policy, labor market dynamics, and corporate earnings. Despite the volatility, the market has shown resilience, with crucial indices demonstrating positive returns. Although delayed, the anticipation of rate cuts, coupled with a robust labor market and strong corporate earnings, underpin the continued upward trajectory of stocks.

The recent market trends underscore the importance of staying invested. As demonstrated, a diversified investment across various indices from November 1, 2023, to May 3, 2024, would have yielded substantial returns. However, it's crucial to note that market conditions can change rapidly, and past performance does not indicate future results. Therefore, investors should approach market fluctuations strategically, maintaining a diversified portfolio and seeking personalized financial guidance from qualified advisors.

While uncertainties remain, the broadening base of earnings support and a cautiously optimistic outlook on Fed policy suggest a positive stance on equities, expecting them to outperform bonds and cash in the foreseeable future. Thus, despite the challenges, the message is clear: it pays to stay invested.

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