Mischler Capital Markets

May 1, 2024

March's Overly Greedy Greed Fear Index Led to April Showers on Stocks…Now What?

Compared to other months, April tends to have more positive returns in the year. Dating back to 1928, the average return was 1.41%, and it was profitable 66% of the time. Unfortunately, this April has yet to beat the odds, with the market down 2.74% as of April 26. Despite the fact that of 310 SP500 companies that have reported to date, 77.5% beat analyst expectations, vs long-term average of 66%.

That said, Citigroup's end of March Panic Euphoria Model was off the charts; euphoria drove stocks, bitcoin, and commodities still higher from February and January, despite an interest rate regime that has also found yields across the curve trending higher.

So, it came as no surprise the S&P 500 (along with its sister and cousin indices) to be a difficult time through most of April, with virtually no safe harbors. From April 1 to April 26, the technology sector ETF (XLK), which was arguably ahead of its skis in terms of the prior few months price gains, lost 4.32% and the financial sector (XLF) fell 2.55%.

There were reasons to be concerned earlier in the month as the S&P began selling off, and by April 4, initial support at the 20-day moving average had been broken. This was again tested unsuccessfully at the 50-day moving average, which failed to hold up the market price level. What was disconcerting was that such breakthroughs are often followed by a weakened market environment. This was the case last year between September 13 until November 3, 2023. This breakthrough also provided a number of warning signals throughout 2022.

The optimistic view: a 'reversion to the mean' after outsized moves is typical, and not necessarily a harbinger of things to come. For the five-month period starting end of October 2023 through end of March 2024, the broad market as measured by the SPX had gained more than 25%; the April retreat shaved barely 5% from the recent peak. More to the point, the SP500 enjoyed a 10% gain since the beginning of the year into the end of March, so the 5% haircut in April represented a 50% reversion to the mean; arguably not something to overly fret about (unless upcoming economic data suggests something else).

And as of this writing (moments after Jay Powell concluded the latest in a series of post-interest rate decision interviews, the first trading of day of May has bounced from an early morning low, then while Powell spoke, rallied to make up for nearly all of yesterday's gains, yet at the close of trading gave back all of the Powell 70-point SPX spike, and closed slightly down on the day. While this pin action is less than an auspicious way to start the month, and inspires bears to evoke "Sell In May and Go Away"; the adage is not terribly useful, as evidenced by this historical picture:

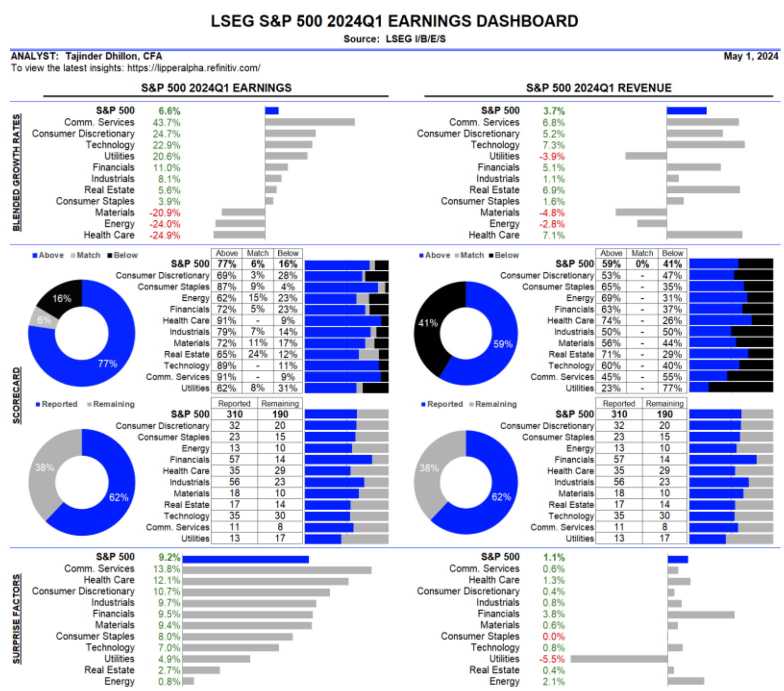
The Glass Half Full View: Q1 Earnings Beats; Margins Better; Outlooks Tempered

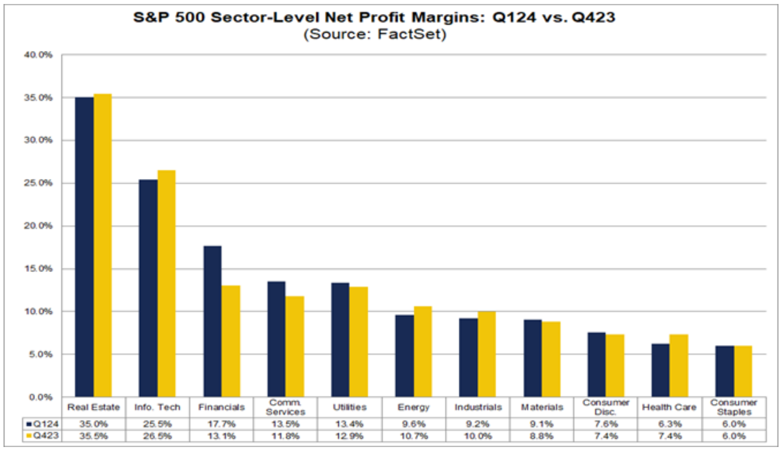
The (blended) net profit margin for the S&P 500 for Q1 2024 is 11.5%, which is in line with the year-ago net profit margin and the 5-year average, but above the previous quarter's net profit margin.

At the sector level, six sectors are reporting a year-over-year increase in their net profit margins in Q1 2024 compared to Q1 2023, led by the Information Technology (25.5% vs. 22.4%), Utilities (13.4% vs. 10.3%), and Communication Services (13.5% vs. 10.9%) sectors. On the other hand, five sectors are reporting a year-over-year decrease in their net profit margins in Q1 2024 compared to Q1 2023, led by the Health Care (6.3% vs. 9.3%) and Energy (9.6% vs. 12.5%) sectors.

Six sectors are reporting net profit margins in Q1 2024 that are above their 5-year averages, led by the Information Technology (25.5% vs. 23.4%) and Communication Services (13.5% vs. 11.5%) sectors. On the other hand, five sectors are reporting net profit margins in Q1 2024 that are below their 5-year averages, led by the Health Care (6.3% vs. 10.0%) and Materials (9.1% vs. 10.9%) sectors.

Five sectors are reporting a quarter-over-quarter increase in their net profit margins in Q1 2024 compared to Q4 2023, led by the Financials (17.7% vs. 13.1%) sector. On the other hand, six sectors are reporting a quarter-over-quarter decrease in net profit margins in Q1 2024 compared to Q4 2023, led by Health Care (6.3% vs. 7.4%), Energy (9.6% vs. 10.7%), and Information Technology (25.5% vs. 26.5%) sectors.



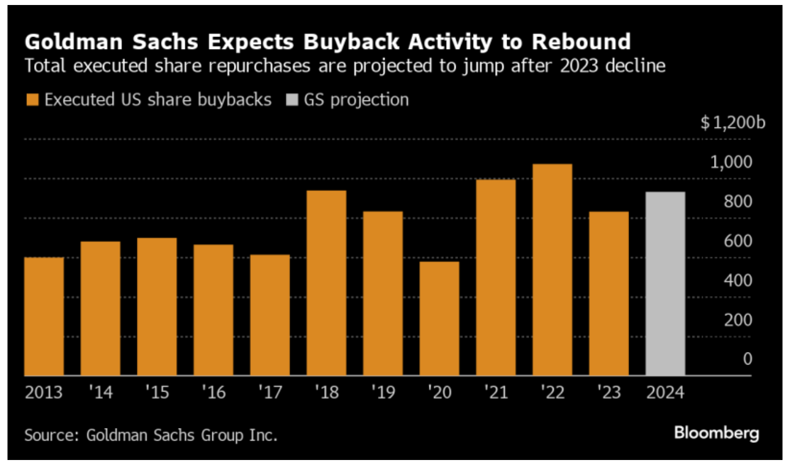


Buybacks to Bolster Stocks Now That Blackout Periods are Over?

As the earnings seasons draws to an end, blackout periods for corporate share repurchase will also conclude, leading many companies, (including industry sector leaders Alphabet, Microsoft, Northrup Grumman, MetLife, AIG, Exxon Mobil, Colgate Palmolive, Charter Communications among many others) to turn on their 10b-18b engines earnest. Goldman Sachs underscores that 2024 will see a rebound from the prior two years.

That said, there remains a long-standing debate as to whether the systematic 'set it and forget it' VWAP approach delivers better performance versus an 'opportunistic approach' that seeks to exploit volatility in share prices consequent to overall volatility in the stock market; a regime that many expect to remain in place as markets continue to ponder the economic data, and brace for the upcoming presidential election season.

This writer is sensitive to the distinctions between the passive VWAP approach, and the fact that many treasury teams defer to their lead IBs to execute these trades (using VWAP) as a quid pro quo for other services provided. On the other hand, a discrete universe of treasury executives has discovered that independent firms that specialize in 10b-18 better execution, and especially those who combine systematic styles with opportunistic tactics, can deliver better-than-VWAP performance. 100bps here or there can add up.



What's Keeping F500 CEOs and CFOs up at night now?

Despite a somewhat lumpy month of April, CEOs and institutional investors continue to have a positive outlook for mergers and acquisitions (M&A) in 2024, albeit compared to a subdued 2023 for deals. More CEOs are looking to make acquisitions, and even more are planning to divest assets. The majority of institutional investors (61%) anticipate a stable deal environment, with a third (34%) expecting an acceleration of deals.

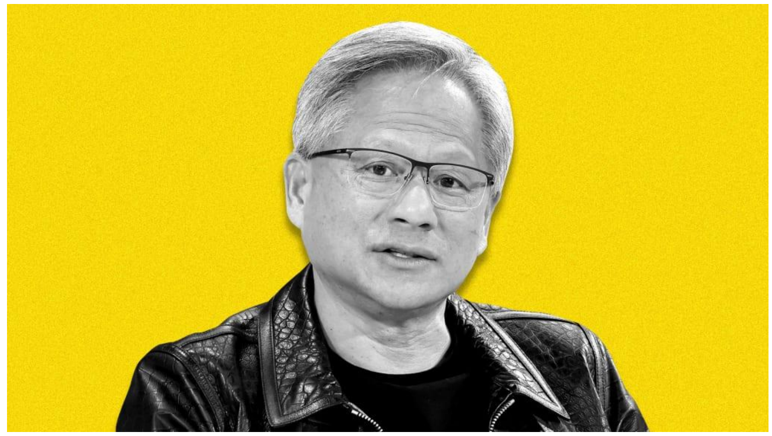
Oh, Let's Not Forget AI Will Really Prove to be Transformative

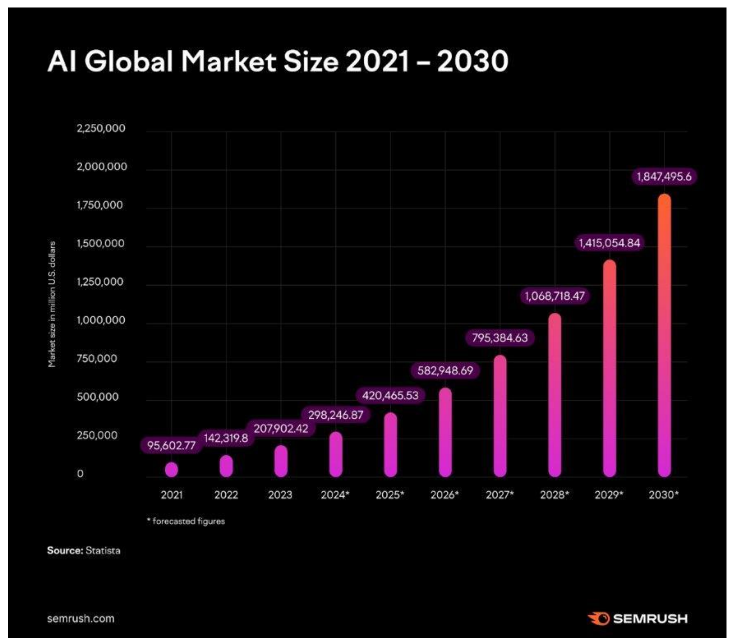
The survey polled 100 CEOs from U.S. companies with between $500 million and $10 billion in annual revenue in February and March.

In the survey, the CEOs' key challenges and opportunities for driving growth are:

- Inflationary elements that continue to keep labor costs elevated.
- Lack of visibility as to consumer spending behavior
- Generative AI initiatives are expected to offset any impacts on sales and profit margins, yet significant capital investment remains necessary to achieve volatility management processes.

To the latter, one only needs to appreciate the multitude of announcements year-to-date profiling the tens of billions that will be deployed by the largest global corporations, sovereign wealth funds and a broad assortment of venture capital initiatives. This theme is not going away anytime soon, even if bottom line returns are still many quarters away from making themselves visible.





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203.276.6646
www.mischlerfinancial.com

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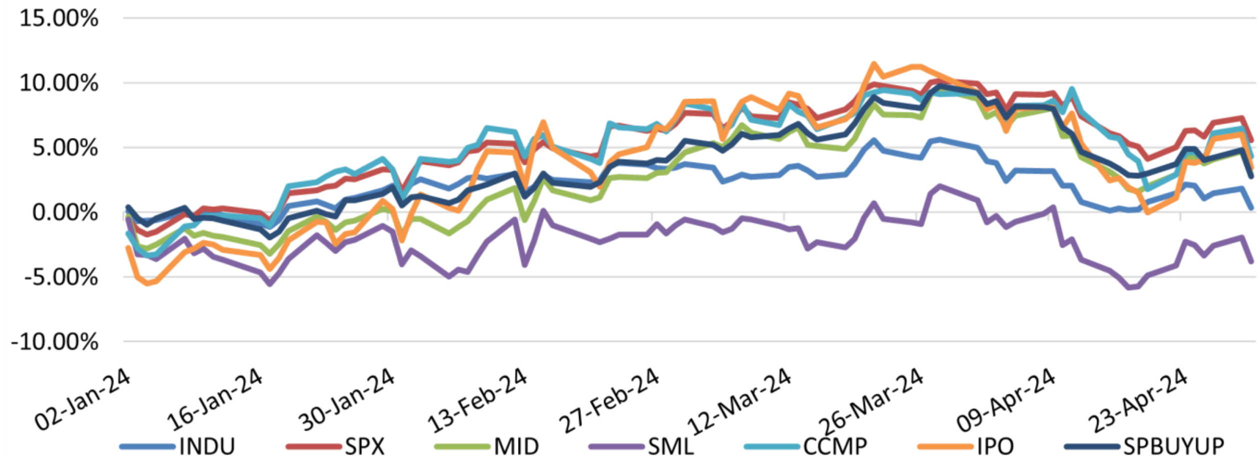
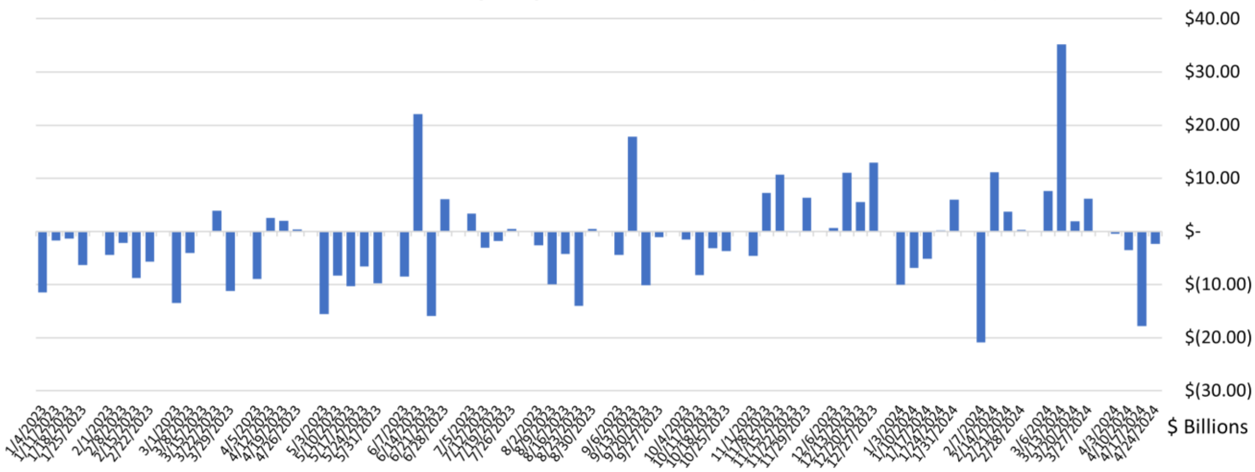
Market Benchmark and Sentiment Data

Index Performance (2024)



Net ICI Domestic Equity Fund Flows (2023 - Present)



	Spot Price	YTD	MTD	% YTD High	% YTD Lo
INDU	37,815.92	0.34%	-5.00%	-5.00%	1.4
SPX	5,035.69	5.57%	-4.16%	-4.16%	7.4
MID	2,861.11	2.86%	-6.08%	-6.08%	6.2
SML	1,267.94	-3.82%	-5.71%	-5.71%	2.1
CCMP	15,657.82	4.31%	-4.41%	-4.77%	7.9
IPO	4,469.97	3.46%	-6.43%	-7.17%	9.4
SPBUYUP	27,617.85	2.76%	-6.39%	-6.39%	4.8
VIX	15.65	25.70%	20.29%	-18.62%	25.8

*As of close of business 04/30/2024

VIX (2024)