March 31, 2024

Cantor Fitzgerald Equity Dividend Plus

MARKET AND PORTFOLIO COMMENTARY

Separately Managed Account

Economic and Market Review

Stocks moved higher during the first quarter of 2024 as investor sentiment continued to improve. Since September 30, the S&P 500 has surged 23.4%, its largest six month return since the Covid reopening rally in 2020. Prior to that, the last time we saw such a strong short-term market move was 12 years ago. The rise has been steady, with only a single pullback of more than 2% since the surge began in late October. A number of factors spurred the market move including cooling inflation, which provides the potential for lower interest rates later this year, and an economy that has continued to show resilience with GDP growth above expectations. In addition, the idea that AI could revolutionize the economy created even more enthusiasm for equities, especially for stocks of companies most directly involved in the evolving technology. In other words, the stars aligned perfectly for a stock market "melt up."

While everyone may not agree with every policy decision made by the Federal Reserve's Open Market Committee (FOMC), credit must be given to the group for successfully navigating treacherous economic waters over the last two years. The spike in inflation in 2021-2022 led to the sharpest fed funds rate increases on record. The yield curve inverted as short rates moved from near 0% to over 5% in just a few quarters. Historically, yield curve inversions have led to recessions after a lag of 12-18 months, but today the economy continues to grow. The latest revision to fourth quarter GDP pegged the growth rate at 3.4% and inflation is near 3%. The jobs market is robust, with the unemployment rate at only 3.9% in February. Unemployment, reported monthly, has remained under 4% for more than two years, the longest such stretch since the 1960s.

Given these strong fundamentals, it is somewhat surprising that the FOMC anticipates cutting rates this year. The committee seems to have decided that inflation is close enough to its 2% target that it can lower rates without reigniting price increases and that recession risks are higher if short rates remain over 5%. With the expected rate cuts, which may come this summer, the Fed is attempting to orchestrate a soft landing, once thought nearly impossible to pull off. Early in the year, some pundits were forecasting 6 or 7 cuts in 2024, but the consensus has settled at 2 or 3 cuts. This seems more realistic to us.

2024: Continued Broadening of Performance?

Strong economic growth, higher corporate earnings and record-high stock prices are clearly indicators of a healthy environment. Stock price performance has broadened somewhat from 2023 when a small group of fast-growing technology stocks, dubbed the Magnificent Seven, led the way. In the first quarter of this year, Communication Services, Energy and Financials joined Technology as the best performing sectors. Last year the Magnificent Seven displayed earnings growth well above the rest of the market, which in some ways justified their out-performance. Looking ahead, earnings expectations are improving in other sectors, and these groups have much lower valuations as well. With the previous high-fliers at stratospheric earnings multiples, we expect the broadening to continue, benefiting stocks with lower valuations and higher dividend yields, which have lagged in the last few quarters.

S&P 500 Top Performing Sectors	1Q 2024
Communication Services	15.8%
Energy	13.7%
Information Technology	12.7%
Financials	12.5%

Source: Bloomberg

Strategy Update

Returns for the Equity Dividend Plus (EDP) portfolio were strong on an absolute basis for the quarter. Relative returns lagged the benchmarks, which tends to happen in high return environments because the covered call options in the portfolio create a performance drag. Compared to other dividend strategies, EDP performed very well. During the quarter, we sold Simon Property Group, primarily through call option exercises. Additionally, we reduced our weightings in several other stocks that approached our target prices and appeared to have elevated valuation levels. During the quarter we added three new equity holdings, Best Buy, NiSource, and Genuine Parts. We believe Best Buy is nearing a positive inflection point for its fundamentals after two years of lackluster results. We see potential improvement specifically in PCs and appliances. The stock has an above-average dividend yield exceeding 4% and offers attractive total return prospects over time. We took advantage of price weakness to add Genuine Parts to the portfolio. Genuine Parts is a leader in automotive parts and industrial distribution and has a long history of steadily increasing dividends for shareholders. NiSource is a diversified utility in an industry which we believe will benefit from a falling interest rate environment. In addition, the shares trade at attractive valuation levels compared to its history. The dividend yield is near 4%, and we believe dividend increases will outpace the industry growth rate going forward. With stock prices moving higher during the quarter, we saw more opportunities than usual to sell call options. Consequently, we are significantly ahead of pace to meet our annual cash flow objectives from dividends and option premiums.

We encourage you to contact us with any questions you may have. For additional firm wide information please visit our website at cantorassetmanagement.com or call us at (855) 9-CANTOR.

Important Disclosures

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