

BULL & BEAR *Bulletin*



VALICENTI
ADVISORY SERVICES, INC.
Asset management as individual as you

400 East Water Street
Elmira, NY 14901
607-734-2665

447 East Water Street
Elmira, NY 14901
607-733-9022

24 West Market Street
Corning, NY 14830
607-936-1203

www.valicenti.com



~ Our Clients Come First ~

The Good, the Bad and the Ugly

May 2024

At the end of last year, markets as well as the Federal Reserve were signaling an end to rate hikes and were beginning to price in a series of cuts to the short-term policy rate. Commensurately, long-term government interest rates began to fall. That trend did not gain momentum throughout the early part of 2024. Generally speaking, as we have progressed through this year, economic data has proven to be resilient and it has slightly exceeded expectations, whereas, inflation data has been stickier than expected, while surprising to the upside. These data trends can be seen in the Citi data surprise indices. Perhaps this mix also explains the reduced consumer sentiment expectations and mood (See graph).

One encouraging aspect to the current investing landscape revolves around corporate earnings and expectations for the full year. There may be a sense that any potential economic headwinds will be managed without a dramatic downturn in the economy and wide scale layoffs. We are nearly complete with earnings for Q1 2024 and, while certain areas of the economy underperformed, there were others that outperformed. In aggregate, S&P 500 earnings for the first quarter largely met expectations and the outlook for Q2 and the full year 2024 have not been materially altered. Current expectations for 2024 see roughly 10% growth in S&P 500 earnings year-over-year driven by things like resilient consumption, government spending and strong information technology investment.

Some possible challenges ahead tend to deal with any tradeoffs that may exist for this continued economic performance. Strong fiscal spending with high levels of liquidity supplied to the system could assist in smoothing out cyclical headwinds, but they could also lead to a stickier inflation over time. In other words, that which is leading to a higher level of inflation foams the runway. It may even turn a harder landing into a softer landing in the aggregate economy. This may even lead in time into a cyclical takeoff again.

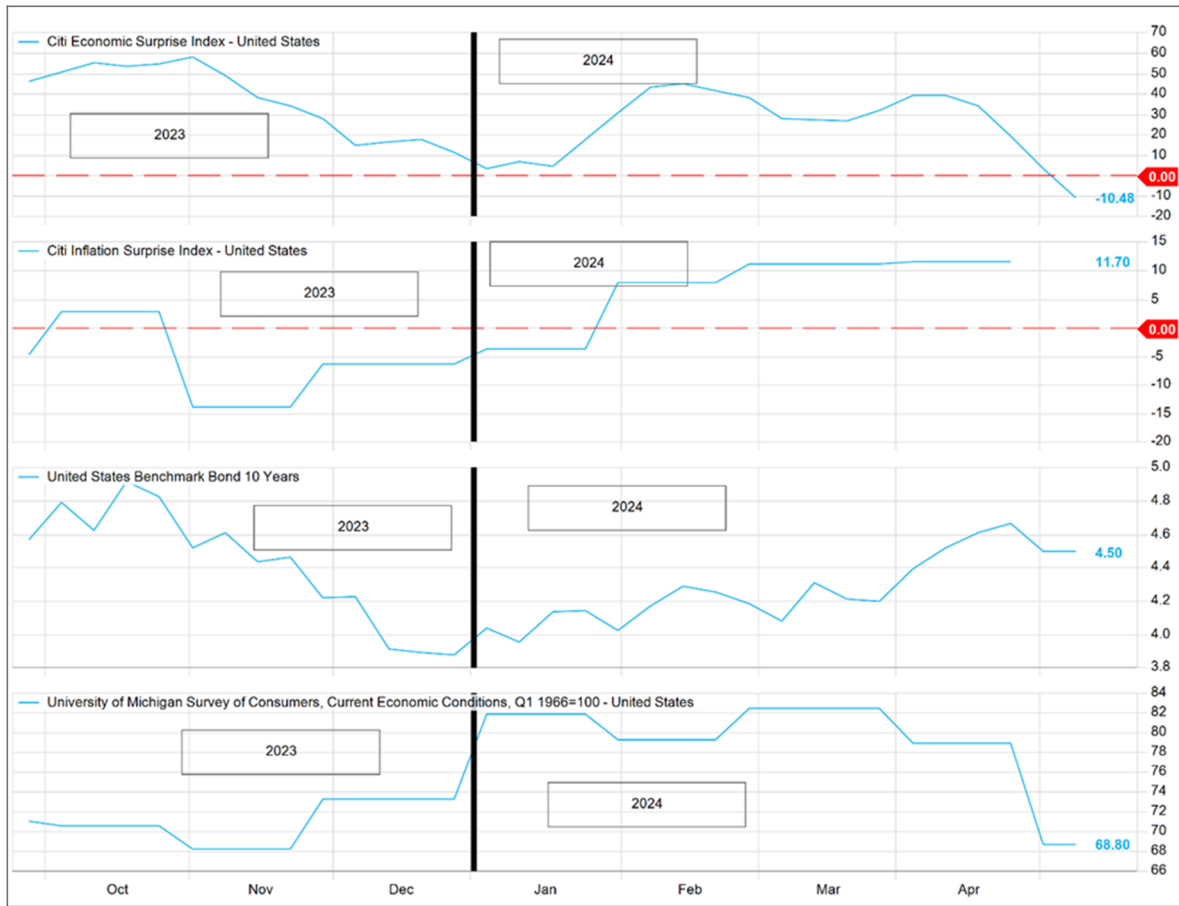
Further, it could be that consumers and those least able to absorb the resulting continued price pressures simply don't get relief right away. For example, certain consumer businesses such as fast casual restaurants are reporting results and clearly indicating that there is a noticeable slowdown in the ability to absorb higher prices amongst the lower income economic cohorts. Most recently, nonfarm payrolls, claims and retail sales data have been weaker though by no means in collapse. It may point to early innings of a slowdown in the income generation feeding consumer resilience or it could just be a softening.

Summing this all up, recently economic data has been coming in weaker than expected in what is possibly an observed downshift in economic strength. This is reasonably expected as the economy has been running quite above trend growth for some time. Inflation has also been running hotter than desired and this has led to interest rates trending higher again throughout the early part of this year. Consumer sentiment has recently moved markedly lower (See graph – bottom panel). Under the hood, corporate earnings expectations are not marking down abruptly and consensus views may be expecting

traction to be gained economy wide in the back half of the year, after a modest and necessary slowing which could go some way towards alleviating the pricing pressures everyone is experiencing. If that happens, it may lead to the Federal Reserve beginning to lower rates again.

One difficult scenario for markets could come from a consumer shock from within the U.S. economy. The possibility of a downturn caused by an external shock from outside the U.S. is also a possibility. The former would likely need a strong labor market contraction and the latter could be driven by global economies simply not being in a position to pace with the U.S. fiscal driven strength. As always, in what is a complex backdrop, we are focused on navigating the good, the bad and the ugly by investing in quality companies that can wade through a variety of possible changing circumstances in the marketplace ahead.

Economic & Inflation Data Surprise (Citi Indices) vs US 10YR Yield & U of Michigan Current Conditions



Copyright © FactSet Research Systems, Inc.

Please remember that past performance is no guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Valicenti Advisory Services, Inc. ["VASI"]), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from VASI. No amount of prior experience or success should not be construed that a certain level of results or satisfaction if VASI is engaged, or continues to be engaged, to provide investment advisory services. VASI is neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or accounting advice. A copy of the VASI's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request or at www.valicenti.com. Please Remember: If you are a VASI client, please contact VASI, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Please Also Remember to advise us if you have not been receiving account statements (at least quarterly) from the account custodian. Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your VASI account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your VASI accounts; *Please Note: Ranking Limitations. Neither rankings nor recognitions by unaffiliated rating services, publications, media, or other organizations, nor the achievement of any professional designation, certification, degree, or license, membership in any professional organization, or any amount of prior experience or success, should be construed by a client or prospective client as a guarantee that the client will experience a certain level of results if the investment professional or the investment professional's firm is engaged, or continues to be engaged, to provide investment advisory services. A fee was not paid by either the investment professional or the investment professional's firm to receive the ranking. The ranking is based upon specific criteria and methodology (see ranking criteria/methodology). No ranking or recognition should be construed as an endorsement by any past or current client of the investment professional or the investment professional's firm. ANY QUESTIONS: VASI's Chief Compliance Officer remains available to address any questions regarding rankings and/or recognitions, including the criteria used for any reflected ranking.