Market Commentary

1st Quarter 2024 Market Review & Outlook

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2024	Q1
Dow Jones Industrial Index	5.6 %
Nasdaq Composite Index	9.1 %
S&P 500 Index	10.2 %
Russell 2000 Index	4.8 %
iShares Core US Aggregate Bond ETF	(1.3)%
Price Return, As of 3/31/2024	

The nice run of performance that the market experienced at the end of 2023 continued into the first quarter of 2024. After stumbling in the few weeks of January, stocks took off afterwards and now have more than made up for their losses during the 2022 bear market. The large-cap S&P 500 was up 10.2% over the first 3 months of 2024, breaking 22 record closing highs over the quarter. The **S&P 500 Index** even beat the growth-oriented **NASDAQ Composite Index**, which was up 9.1% for Q1. The **Dow Jones Industrial Average** ended up 5.6%, brought down by the stumbles of **Boeing**. The small cap index lagged the others, up only 4.8% for the quarter. And the bond market, with rates rising over the quarter, lost 1.3% during Q1.

Some highlights of the quarter:

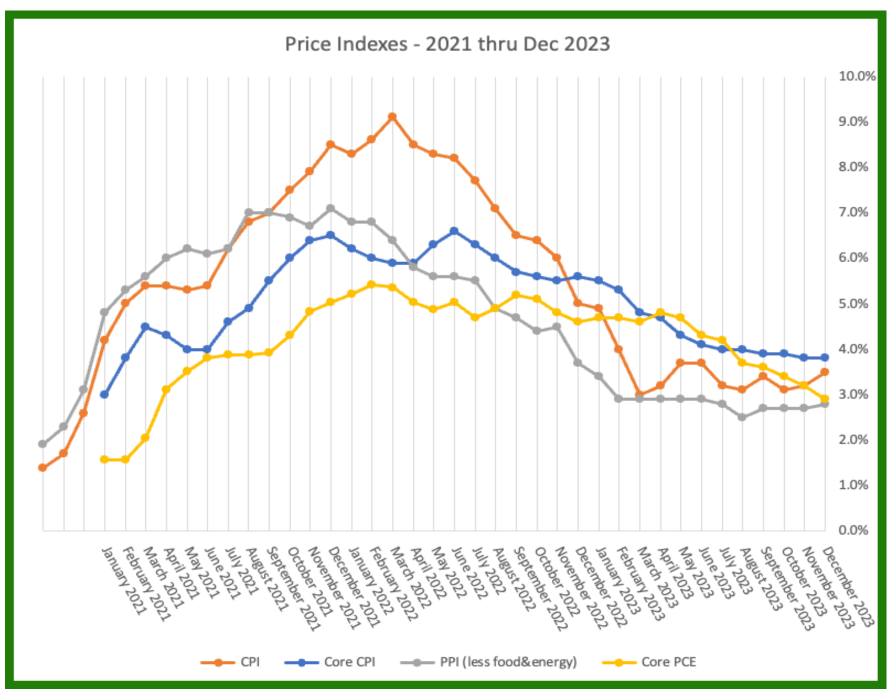
- Value stocks narrowly beat growth stocks.
- Big tech stocks continued to drive market gains, with the IT sector up 12.7% for the quarter. Energy stocks recovered from a tough fourth quarter, while real estate stocks floundered.
- Dividend stocks continue to lag the broader market, trailing by 2 percentage points, but they performed better than in previous quarters.
- Oil prices rose amid geopolitical uncertainties, putting extra upward pressure on inflation.
- The Fed kept interest rates steady. From the 2023 predictions of rate cuts averaging 4-5 or more times for this year, the expectations of number of cuts steadily declined over the quarter.
- Bond yields ticked up and prices fell, with the largest losses coming from long-term bonds. Investors found price appreciation in high-yield bonds and leveraged loans.
- The yield curve remained inverted.
- The approval of the exchange-traded funds that can own bitcoin spurred an enormous rally in the most popular cryptocurrency. Bitcoin hit a new all-time high and notched gains of more than 60% in the first quarter.
- Volatility, as measured by the VIX, trended slightly down for the quarter, although there were a few 10% spikes throughout the quarter.

S&P 500 SECTORS

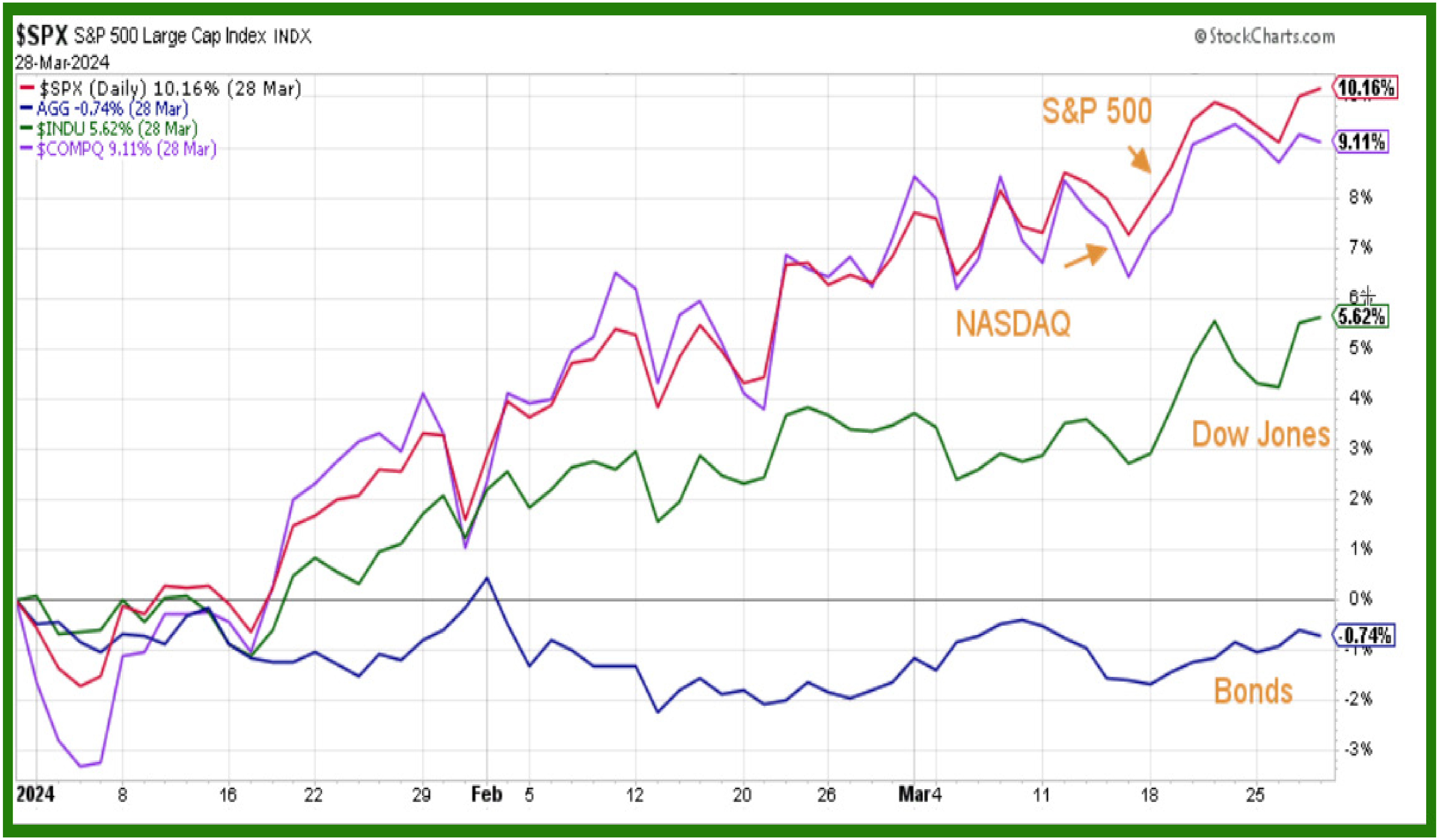
Index	S&P Weight	3-month Total Return	1-year Total Return
S&P 500 Index	100.0%	10.6%	29.9%
Information Technology	29.6%	12.7%	46.0%
Financials	13.2%	12.4%	33.5%
Health Care	12.4%	8.9%	16.1%
Consumer Discretionary	10.3%	5.0%	28.7%
Communication Services	9.0%	15.8%	49.8%
Industrials	8.8%	11.0%	26.6%
Consumer Staples	6.0%	7.5%	7.2%
Energy	4.0%	13.7%	17.6%
Materials	2.4%	8.9%	17.6%
Real Estate	2.3%	-0.5%	9.6%
Utilities	2.2%	4.6%	0.4%

Some of the major themes playing out during the quarter included <u>inflation</u> and <u>artificial intelligence (AI)</u>. Regarding inflation, the monthly CPI readings continued to show progress that were being realized over the last almost 2 years, but the March readings (out this month-April) have showed that inflation has stopped its steady downward trend and that "the last mile" of bringing inflation down to the Fed's target is going to be tricky and may take a while. The overly optimistic tone some pundits declaring that the Fed would start a relentless cutting binge have now proven to be premature, and many pundits say now (and the Fed Chair and others on the Fed as well) say that the cuts are farther off now, perhaps until the end of the year or even later.

And for the ever-popular theme of AI, the optimism on the near and long-term potential of AI to change our lives continues. I believe the real promise of AI will be mostly found in the capability of companies of all types to realize real productivity improvements resulting from their integration of AI into their business processes. AI has all the potential to make work more efficient by making workers more efficient, thereby lowering costs and increasing profits. Most companies are only now truly evaluating what AI can do for their own business, and it will take some time before its potential can by realized. But I do believe AI has the potential to make significant improvements to companies and ultimately to our lives. And those companies that embrace it effectively will be winners for some time to come.



Q1 2024 Price Performance for Major Indexes

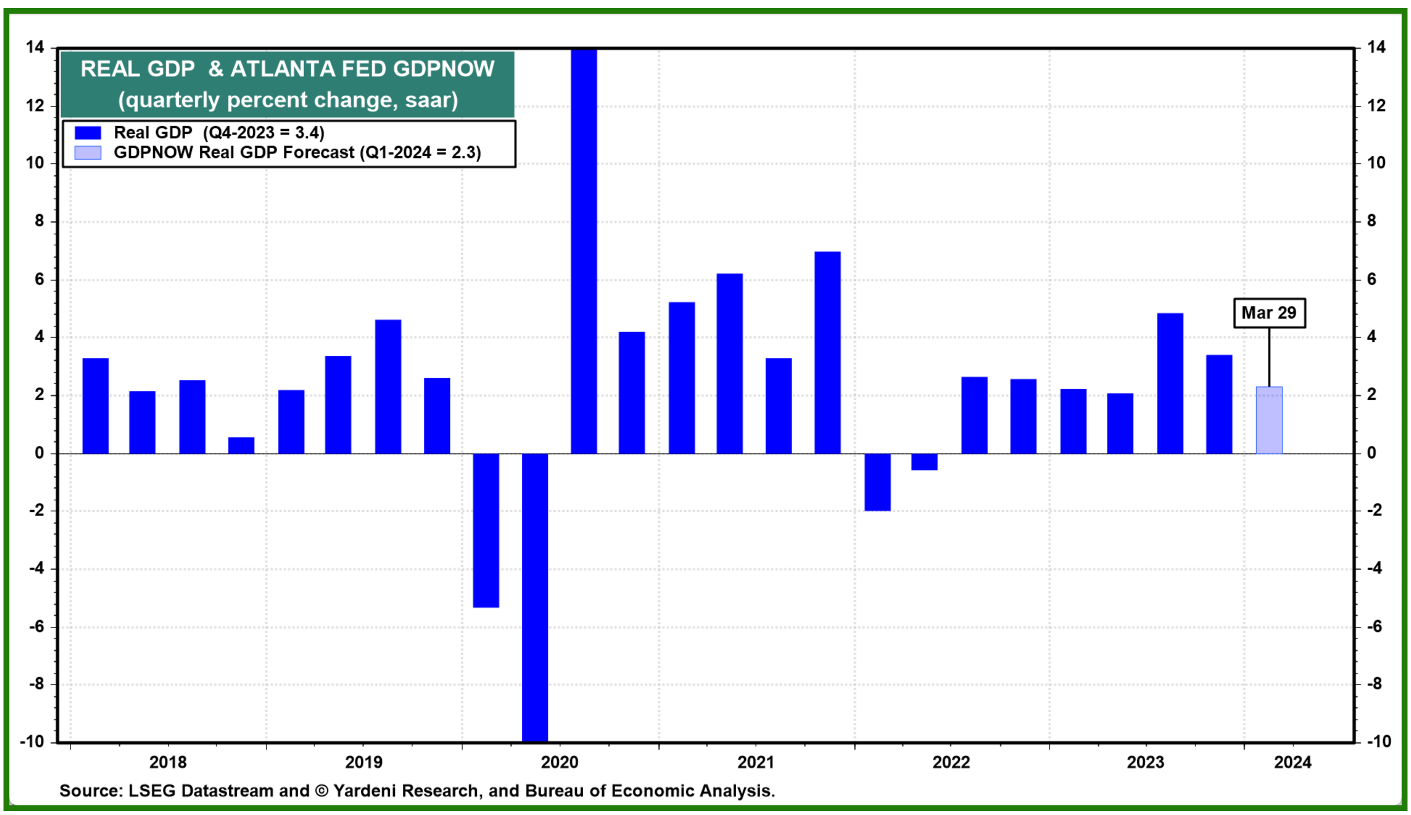


Q2 2024 & Beyond Market Outlook

So, what do we have to be thinking (read: *worrying*..) about now:

- Continued complete dysfunction in our nation's government;
- Continued heightened tensions in the Middle East, with Iran just launching an actual attack on Israel (though it seemed like they weren't really trying);
- Continued war in Ukraine where a truly evil force is trying to take over and dominate a neighboring country;
- Continued chaos at our country's southern border;
- And a very contentious and distracting presidential election of 2 candidates that not many are very excited (in a positive way) about.

Wow. That seems like a daunting list *of extraneous factors to the U.S. economy* (note the italics...). However, our economy seems to be humming along pretty well in spite of these factors. 2023's annual GDP rise was 3.1%, and the 4th quarter was up 3.4% over the past 12 months. Q1 2024 will probably not be that high (the Atlanta Fed is forecasting 2.3%), but still in positive territory. It's interesting that no one is talking about "landings" anymore (hard landing for the economy, soft landings, etc.). The widely predicted recession of 2023 did



not happen, and it's hard to see an imminent one now. The Q1 earnings season is just now underway, and **Blackrock** is saying "*we eye signs of earnings growth broadening beyond tech stocks to industrials and others. We stay overweight U.S. equities*." The market has started off Q2 with a rough patch, mainly driven by concerns around the sticky inflation previously mentioned and the likelihood that the Fed's predicted rate cutting is getting father and father into the future. Fed chair Powell just yesterday stated that "*The recent data have clearly not given us greater confidence and instead indicate that it's likely to take longer than expected to achieve that confidence*", to be interpreted as he is not jumping at the thought of rate cuts just yet. So, lower rates that had been baked into equity prices are being adjusted out for now. I just listened to a Blackrock discussion on the market outlook and the consensus was that the corporate sector is strong and generating strong and consistent cash flow, and a year from now the market should still be a good place to be invested. The bond market shows more risk from their perspective, with the possibility of rising rates and higher rates for longer having a drag on bond prices. One of their head analysts stated that there will be periods of volatility in the markets, but they will not be long-lasting. That has been true for many years, and my hope is that it will continue to be so. In any case, stay tuned for another interesting year ahead!

Frank Brannon, CFP®
April 19, 2024

Latest Model Portfolio Changes - Target Allocation ETF Models

Blackrock just made changes to their **Target Allocation ETF** models on **3/14/24**. Below is Blackrock's commentary explaining the changes made to their **Target Allocation ETF** models, and charts showing their current allocations and position changes for their models:

Key Takeaways:

- **Move to 3% overweight stocks and tactically dial up active risk,** underwritten by a blowout earnings season and follow on earnings revisions that are whetting our appetite for more exposure to tech/growth
- **Lean further into an acute preference for US over international stocks,** expecting US companies to continue to flex their relative earnings muscle
- **Increase exposure to actively managed factor rotation and income-focused strategies,** seeking to benefit from their embedded flexibility to more nimbly navigate market conditions
- **Slide out of floating rate US treasuries and into emerging market and tech-heavy convertible debt,** adding to duration and sources of risk-on upside potential within fixed income-heavy profiles

Trade Rationale:

We came into the year with a distinctly more bullish outlook than consensus. We held some modest reservations regarding possible seasonal weakness in the short-term but desired to err on the side of an overall risk-on stance, expecting the underappreciated strength of a 'Goldilocks' U.S. economy and resilient corporate earnings to likely help propel markets higher. The speed and magnitude of the sizzling rally to start the year has been somewhat unexpected but importantly not unwarranted.

Sales, earnings, and forward guidance from some of the largest names in tech have unequivocally crushed even the loftiest expectations. The subsequent price moves higher have been noteworthy – but contrary to conventional intuition – these stocks have gotten cheaper arguably, as their breathtaking prowess at cashflow generation outpaces their current corresponding price appreciation. This adds fuel to our bullishness and persuades us to tilt more aggressively into growth over value. Far from FOMO, this is us simply recognizing the slice of the market with MOJO; reallocating risk into the targeted cohort of stocks we expect will lead the market higher over the course of the year.

Additional bullish kindling could come from an increasingly unsuspected source: the Fed, whose rate cuts are slightly delayed but not derailed. Despite futures markets' wobbling confidence and a small choir of Wall Street analysts singing a 'no cut' tune, we maintain our high-conviction opinion the Fed will follow through with rate cuts sometime this summer. The confusion from recent months' inflation data has obfuscated the clear and decisive trend lower. Our reading of the data leads us to think inflation will surprise to the downside and lead policy rates lower, albeit after we may potentially get another month or two of 'sticky' headline scares.

The fact this is no longer as consensus a view as it was in December, has created meaningful potential upside opportunity for duration-sensitive plays in both stocks and bonds and, alongside the steep upward move in earnings estimates, creates urgency to adjust positions as we are doing with this trade. The biggest risks to our view are if we are wrong about the trajectory of inflation and consequently the Fed. A temporary pullback after such a sharp run also wouldn't be unreasonable. But the A.I. gold rush is in our view a secular phenomenon. Its impact on productivity (and therefore the economy) should be a stunning catalyst for future growth – and we view this as early innings.

Target Allocation ETF Model - Latest Allocations as of 3/14/24

Latest Holdings (%)

Allocation as of 3/14/24

		As of Date	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
Net Expense Ratio (%)		2/29/24	0.11	0.11	0.13	0.13	0.14	0.14	0.15	0.15	0.16	0.17	0.18
Gross Expense Ratio (%)		2/29/24	0.13	0.13	0.14	0.15	0.15	0.16	0.17	0.17	0.17	0.18	0.19
US Equities			**-**	**12.0**	**18.0**	**25.5**	**32.5**	**39.5**	**45.0**	**53.0**	**60.0**	**67.5**	**71.0**
DYNF	BlackRock U.S. Equity Factor Rotation ETF		-	2.5	3.5	4.5	5.5	6.0	6.5	8.0	8.5	9.5	10.0
IVE	iShares S&P 500 Value ETF		-	-	1.0	2.0	2.5	3.0	4.5	4.5	5.0	5.5	6.0
IVV	iShares Core S&P 500 ETF		-	7.0	9.0	13.0	16.0	20.0	22.0	26.5	30.5	34.5	36.0
IVW	iShares S&P 500 Growth ETF		-	1.0	2.0	2.5	3.5	4.5	5.0	6.0	7.0	7.5	8.0
QUAL	iShares MSCI USA Quality Factor ETF		-	1.5	2.5	3.5	5.0	6.0	7.0	8.0	9.0	10.5	11.0
International/Global Equities			**-**	**1.0**	**4.0**	**6.0**	**8.0**	**10.5**	**13.0**	**14.5**	**17.0**	**19.0**	**20.0**
EFG	iShares MSCI EAFE Growth ETF		-	-	1.0	1.5	2.5	3.0	4.0	4.5	5.0	5.5	6.0
EFV	iShares MSCI EAFE Value ETF		-	1.0	2.0	2.5	2.5	3.0	4.0	4.5	5.0	5.5	6.0
EMXC	iShares MSCI Emerging Markets ex China ETF		-	-	1.0	1.0	1.5	1.5	2.0	2.5	3.0	3.5	3.5
HEFA	iShares Currency Hedged MSCI EAFE ETF		-	-	-	1.0	1.5	2.0	2.0	2.0	2.5	3.0	3.0
IEMG	iShares Core MSCI Emerging Markets ETF		-	-	-	-	-	1.0	1.0	1.0	1.5	1.5	1.5
Sector Equities			**-**	**-**	**1.0**	**1.5**	**2.5**	**3.0**	**5.0**	**5.5**	**6.0**	**6.5**	**7.0**
IFRA	iShares U.S. Infrastructure ETF		-	-	-	-	-	-	1.0	1.0	1.0	1.0	1.0
IXC	iShares Global Energy ETF		-	-	-	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0
IYW	iShares U.S. Technology ETF		-	-	1.0	1.5	1.5	2.0	3.0	3.5	4.0	4.5	5.0
US Fixed Income			**94.0**	**81.5**	**72.0**	**62.5**	**53.0**	**43.0**	**33.5**	**25.0**	**15.0**	**5.0**	**-**
BINC	Blackrock Flexible Income ETF		6.0	5.0	4.5	4.5	3.5	3.5	2.5	1.5	-	-	-
GOVT	iShares U.S. Treasury Bond ETF		6.0	5.0	4.5	4.5	2.0	2.0	-	-	-	-	-
ICVT	iShares Convertible Bond ETF		3.0	2.5	2.5	2.5	1.5	-	-	-	-	-	-
IUSB	iShares Core Total USD Bond Market ETF		45.0	40.5	35.0	31.5	29.5	23.5	22.0	17.5	11.0	3.5	-
LQD	iShares iBoxx $ Investment Grade Corporate Bond ETF		5.0	4.5	4.0	3.5	3.0	2.5	-	-	-	-	-
MBB	iShares MBS ETF		15.0	13.0	11.5	9.5	8.0	7.0	6.0	3.5	2.0	-	-
TFLO	iShares Treasury Floating Rate Bond ETF		5.0	3.5	3.0	-	-	-	-	-	-	-	-
TIP	iShares TIPS Bond ETF		4.0	3.5	3.0	3.0	2.5	1.5	-	-	-	-	-
TLT	iShares 20+ Year Treasury Bond ETF		5.0	4.0	4.0	3.5	3.0	3.0	3.0	2.5	2.0	1.5	-
International/Global Fixed Income			**4.0**	**3.5**	**3.0**	**2.5**	**2.0**	**2.0**	**1.5**	**-**	**-**	**-**	**-**
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF		4.0	3.5	3.0	2.5	2.0	2.0	1.5	-	-	-	-
Cash & Cash Alternatives			**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
CASH-USD	UNITED STATES DOLLAR		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Latest Model Portfolio Changes - Target Allocation Tax-Aware ETF Models

Blackrock last made changes to their **Target Allocation Tax-Aware ETF** models on **10/19/23**. Below is Blackrock's commentary explaining the changes made to their **Target Allocation Tax-Aware ETF** models, and charts showing their current allocations and position changes for their models:

KEY TAKEAWAYS

- **Move two-percent overweight stocks and cautiously "risk-on",** seeking to capitalize on the recent market pullback and position for potential upside surprises in U.S. economic growth and corporate earnings
- **Lean further into U.S., growth, and technology overweights,** expressing a high-conviction preference for the largest cap stocks in the U.S. that appear to have attractive growth profiles
- **Decrease exposure to Europe,** moving underweight international Developed Market (DM) stocks due to weakening corporate earnings signals and more pronounced downside vulnerability to potential rising energy prices and geopolitical turmoil
- **Prune underweight to Emerging Markets (EM),** increasing exposure to a carve-out of EM countries with the most attractive earnings prospects (like Taiwan) while also seeking to insulate the portfolio from a litany of mounting headwinds in China
- **Recalibrate fixed income sleeve,** maintaining duration overweight to balance risk being taken on equity side of portfolios

Trade Rationale:

The ghost of Septembers past haunted markets once again in 2023. This notoriously weak seasonal period - combined with rising rates and declining liquidity - saw stock and bond prices press lower but this also creates opportunity. We believe this pullback is exploitable, supported by growing strength in U.S. economic activity that may prove less fragile than many suspect.

U.S. corporate earnings have surprised to the upside and analyst earnings estimates have steadily been revised higher since July. Both time-tested signals have been predictive leading indicators to future stock returns. Fed GDPNow growth estimates in the U.S. have also blossomed higher, doubling from an average of 2.5% through midyear, to an average of 5% since. Reinvigorated growth expectations are also the likely culprit for the latest leg higher in real rates (and less so expectations for higher inflation). As this distinction becomes more apparent to investors, the repricing of this phenomenon could especially benefit U.S. stocks, with the most pronounced effect in large cap stocks.

further fuel to the "risk-on" trade could also come from a potentially under-appreciated source - the Federal Reserve. While such moves are not our base case, we believe there's more upside than downside risk to changes in Fed temperament. The "higher for longer" theme appears to be consensus opinion among investors. But with easing supply chain constraints pushing inflation lower and growing geopolitical strife amidst a coming election year, the Fed may be more sensitive to shifts in sentiment and any whiffs of weakness in the jobs market. The Fed has multiple levers at its disposal that could reignite animal spirits – without having to resort to cut rates. More encouraging forward guidance, alongside the possibility of slowing or even ending QT, could deliver stimulative wonders.

Our cautious bullishness is mostly contained to the U.S., but a temporary reversal in the dollar's historic winning streak wouldn't be outlandish. In such a scenario, EM stocks could sharply outperform - we have reduced our underweight accordingly. Another plausible curve-ball to our risk-on thesis is higher oil prices, so we add a hedge in global energy stocks. Wartime disruptions and structurally lower global supply raise risks of $100+ per barrel oil, which could hamper consumer demand and weigh on this year's growth-heavy winners.

Target Allocation Tax-Aware ETF Model - Latest Allocations as of 10/19/23

		As of Date	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
Net Expense Ratio (%)		8/31/23	0.08	0.09	0.10	0.11	0.12	0.13	0.13	0.14	0.10	0.16	0.16
Gross Expense Ratio (%)		8/31/23	0.08	0.09	0.10	0.11	0.12	0.13	0.13	0.14	0.10	0.16	0.16
US Equities			**-**	**10.0**	**15.5**	**22.5**	**29.0**	**36.0**	**42.5**	**49.5**	**57.0**	**63.0**	**68.0**
ESGU	iShares ESG Aware MSCI USA ETF		-	2.5	2.5	5.0	5.5	8.5	10.0	12.0	13.5	15.0	16.5
IVV	iShares Core S&P 500 ETF		-	5.0	9.5	11.5	15.5	18.5	22.5	26.0	30.0	33.5	36.5
IVW	iShares S&P 500 Growth ETF		-	-	1.0	1.0	1.5	2.0	2.5	3.0	3.5	3.5	4.0
OEF	iShares S&P 100 ETF		-	1.0	1.0	2.0	2.5	3.0	3.0	3.0	3.0	3.5	3.5
QUAL	iShares MSCI USA Quality Factor ETF		-	1.5	1.5	2.0	2.5	2.5	2.5	3.5	4.5	4.5	4.5
USMV	iShares MSCI USA Min Vol Factor ETF		-	-	-	1.0	1.5	1.5	2.0	2.0	2.5	3.0	3.0
International/Global Equities			**-**	**2.0**	**5.5**	**8.0**	**10.0**	**12.5**	**15.0**	**18.0**	**20.0**	**23.0**	**24.0**
EFG	iShares MSCI EAFE Growth ETF		-	-	2.0	2.5	3.5	4.0	5.0	6.0	6.5	7.5	8.0
EFV	iShares MSCI EAFE Value ETF		-	1.0	2.0	3.5	4.0	5.0	6.0	7.0	8.0	9.0	9.5
EMXC	iShares MSCI Emerging Markets ex China ETF		-	1.0	1.5	2.0	2.5	3.5	4.0	5.0	5.5	6.5	6.5
Sector Equities			**-**	**-**	**1.0**	**1.5**	**3.0**	**3.5**	**4.5**	**4.5**	**5.0**	**6.0**	**6.0**
IXC	iShares Global Energy ETF		-	-	-	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0
IYW	iShares U.S. Technology ETF		-	-	1.0	1.5	2.0	2.5	3.5	3.5	4.0	5.0	5.0
US Fixed Income			**98.0**	**86.0**	**76.0**	**66.0**	**56.0**	**46.0**	**36.0**	**26.0**	**16.0**	**6.0**	**-**
MUB	iShares National Muni Bond ETF		71.0	65.0	57.5	50.5	43.0	37.0	31.0	22.0	14.0	6.0	-
SUB	iShares Short-Term National Muni Bond ETF		12.0	8.0	7.0	5.5	4.5	2.0	-	-	-	-	-
TLH	iShares 10-20 Year Treasury Bond ETF		15.0	13.0	11.5	10.0	8.5	7.0	5.0	4.0	2.0	-	-
Cash			**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
CASH-USD	UNITED STATES DOLLAR		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

About KMR Financial Advisory, Inc.

KMR Financial Advisory is an independent, fee-only registered investment advisor specializing in the development of comprehensive financial plans and developing & managing investment portfolios.

Frank R. Brannon, CFP ®, is the president of KMR Financial Advisory, Inc. Frank's educational background includes:

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Frank is a Certified Financial Planner™ professional and achieved his license in 1996. Frank has worked most of his career in corporate financial planning for a Fortune 200 company. He has lived his entire life in Atlanta.

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