MARKET AND ECONOMIC REVIEW & OUTLOOK

AN UPDATE FROM THE ADVISORS AT GASKIN ASSET MANAGEMENT *CHARLOTTE, NORTH CAROLINA*

The following letter was written for you by the undersigned. The opinions expressed are those of your advisors at Gaskin Asset Management and do not necessarily reflect the opinions of Raymond James or its affiliates. We know this is a long letter, but we hope you will invest five minutes in reading it. Thank you.

Like it or not, technology is changing the way we live and interact with each other faster than imaginable. By now, most of us have been rerouted on the interstate highway by our cell phone navigational app due to a backup on the road ahead of us. You may not realize it but those navigational programs on our phones are a low-level form of Artificial Intelligence according to Raymond James economist, Giampiero Fuentes.[i] In a recent whitepaper, Fuentes provides a broad overview of artificial intelligence past, present, and future outlook. He defines three broad categories of AI beginning with Artificial Narrow Intelligence (ANI) which is also known as "Weak Artificial Intelligence." It is in routine use by most of us through navigational tools such as our cell phone apps which are capable of not only using online maps to provide directions but also the ability to integrate real-time updates provided by drivers and course correction calculations. It's considered weak since it can only perform tasks for which it was programmed. The higher forms of AI include Artificial General Intelligence (AGI) and Artificial Super Intelligence (ASI). Those higher forms of AI are the source of much of the excitement and fear around artificial intelligence today. Please let us know if you would like a copy of the whitepaper: "*Artificial Intelligence – An Economic Revolution*." We would be happy to mail or email a copy.

We wanted to start with a few comments on Artificial Intelligence because not only is it already affecting our daily lives and representing unimaginable future potential, but it is also a driving force in our economy and the financial markets. An important name in AI today is Nvidia (symbol:NVDA). Of the Magnificent Seven* stocks we've mentioned in earlier newsletters, Nvidia was the top performer last year with a total return of 237%.[ii] To carry this further, it's important to understand that Nvidia was largely unknown to much of the general investing public until the last few years. As of this writing, it now ranks as the third-largest company in the S&P 500 Index behind only Apple and Microsoft according to Jack Hough of Barron's.[iii] Let that sink in for a moment. In case you're wondering what the company actually produces, Nvidia currently produces more than 80% of the high-speed computer chips required to accelerate server speeds for AI applications to function according to Asa Fitch of The Wall Street Journal[iv].

SECTOR ALLOCATIONS MATTER

In previous letters, we commented on the concentration of a handful of stocks that moved the markets last year. It's important to note that these same stocks mostly underperformed the broad stock markets in 2022 and could possibly do the same again in the future. The nearby graphic representation of the Magnificent Seven's 2023 price performance when compared to the S&P 500 Index and the S&P 500 less the Magnificent Seven through mid-December of last year. It may be tempting to compare this run up in tech stock prices to the "Dot-Com Bubble" of the late 1990's but that could be an oversimplification. While we recognize that these stocks represent a concentration that will likely prove volatile to the markets this year and into the future, these companies are growing revenues and earnings at a rate that many argue provide justification for the current price levels. For example, Nvidia has recently reported a blowout earnings report of $22.1 billion for the quarter ending last January which represents 265% year over year growth per Tae Kim of Barron's.[v] Nevertheless, by many metrics, the Magnificent Seven stocks are pricy, and markets are fickle. But here's an

7615 Colony Road, Suite 100, Charlotte, NC 28226
(704) 544-7990 • (800) 407-2249 • (704) 544-7454 (fax)
www.GaskinAsset.com

important little detail, of the other (non-Nvidia) "Mag 7" stocks, Apple posted earnings growth of only 2% on the low end and Meta Platforms came in at 25% growth on the high end. Peter Boockvar of Bleakley Financial Group goes so far as to state "Nvidia has become its own asset class."[vi] As evidenced in the chart below, investors have a tendency to fall in and out of love with sectors and the stocks that represent them in changing economic and market cycles.

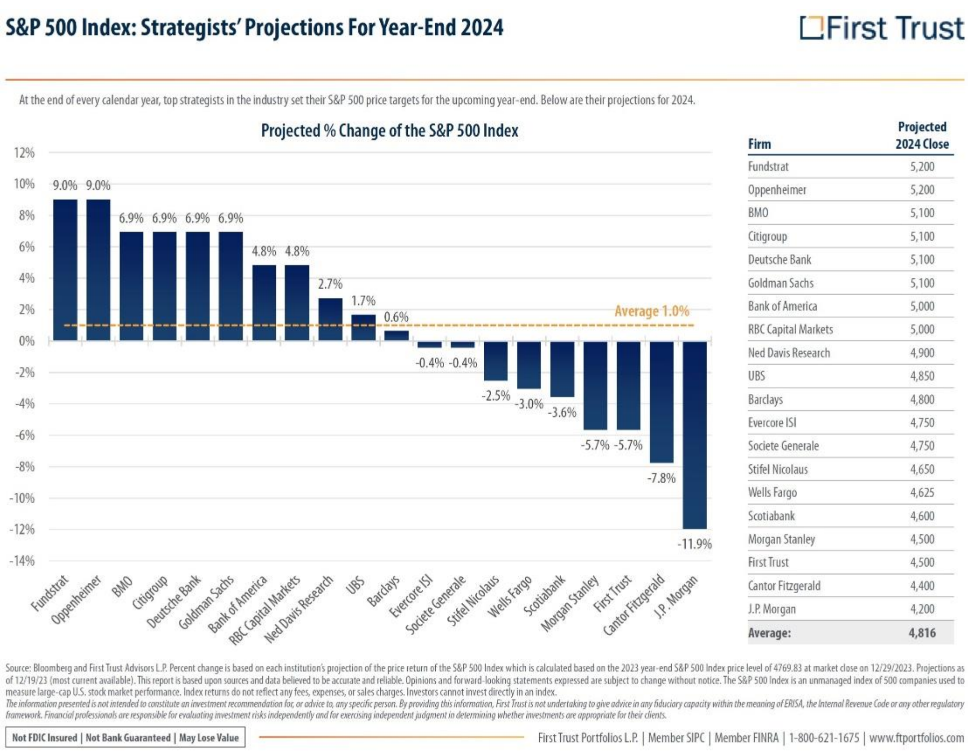
Additionally, the chart provides a stark reminder of the S&P 500's bias towards the Information Technology sector which is almost 8x the size of the entire Energy sector. As the S&P 500 Index is capitalization weighted, this weighting is a result of the total market value of the stocks represented in the index. As you can imagine, any price movements in the tech sector will have a larger pro-rata impact on a market-weighted investment portfolio than movements in other sectors. Thus, sector allocations within an investment portfolio can significantly impact both performance and volatility over the short and long-term. For instance, a loss of 39.9% as experienced in the communication services sector in 2022 will require a gain of 66% to break even. Likewise, a loss of 50% will require a gain of 100% to simply get back to the starting point. With its heavy tech sector concentration, the Nasdaq Composite, after languishing in 2022 just closed on February 29th at its first record since November 2021.[vii] While huge swings in volatility can be very profitable when they are surging upward, the downdrafts tend to illicit different emotions and challenges. Sector allocations matter.

S&P 500 Index Sector	Share of S&P 500 Index	2019	2020	2021	2022	2023
Information Technology	29.50%	50.30%	43.90%	34.50%	-28.20%	57.80%
Financials	13.10%	32.10%	-1.70%	35.00%	-10.50%	12.10%
Health Care	12.80%	20.80%	13.40%	26.10%	-2.00%	2.10%
Consumer Discretionary	10.30%	27.90%	33.30%	24.40%	-37.00%	42.40%
Communication Services	8.90%	32.70%	23.60%	21.60%	-39.90%	55.80%
Industrials	8.60%	29.40%	11.10%	21.10%	-5.50%	18.10%
Consumer Staples	6.10%	27.60%	10.70%	18.60%	-0.60%	0.50%
Energy	3.80%	11.80%	-33.70%	54.60%	65.70%	-1.30%
Real Estate	2.40%	29.00%	-2.20%	46.20%	-26.10%	12.30%
Materials	2.30%	24.60%	20.70%	27.30%	-12.30%	12.50%
Utilities	2.20%	26.30%	0.50%	17.70%	1.60%	-7.10%

Sources: S&P Dow Jones Indices; Raymond James Capital Markets Review Jan 2024

OUTLOOK

The recession that did not happen in 2022 was surely one of the most predicted "non-recessions" in U.S. economic history. As evidenced in the earlier chart, most of the major sectors dropped in 2022 largely in anticipation of a recession and then rallied last year when fears of recession gave way to expectations of the Fed lowering rates and the explosion of excitement over artificial intelligence. The net effects of the Fed's reduction of money supplies and lifting rates from nearly zero to the current range of 5.25% to 5.5% resulted in a moderation of consumer price inflation from the peak of 9.1% in mid-2022 to 3.4% in December 2023. The Fed has not yet begun to lower rates and many strategists have reduced their estimates for rate reductions this year. For example, Raymond James economists Eugenio J. Aleman and Giampiero Fuentes believe the Fed is likely to wait until later in the year to begin cutting rates for fear of reaccelerating inflation.[viii] Additionally, they anticipate slower growth of around 1% in 2024 which may coincide with a very modest period of recession.



The chart on the left highlights the 2024 S&P 500 Index performance projections from several major asset management firms. The effort to project where the markets will land in any given calendar year is an "educated" guess at best. And given the fact that the S&P 500 Index is already up nearly 8% as of March 1st, the projections above seem even more interesting.[ix] With the persistence of sticky inflation and a decreasing likelihood of significant Fed rate reductions this year, the equity markets are becoming increasingly dependent upon a less than certain smooth landing for the economy.

As we write today, wars rage in Eastern Europe and the Middle East, while America's adversaries strengthen coalitions. Meanwhile, here at home we remain mired in a politically charged election year that promises nothing but more uncertainty about the future. Times like this can seem challenging, discouraging, and even frightening. We get it. We feel it too.

RECOMMENDATION

Just as you, we have many thoughts on the problems, challenges, and opportunities of the day. For brevity's sake, we'll stick with just a few on the investment side of things. First, beware of conventional wisdom or stated another way, don't get caught up in the herd mentality. Sometimes the herd is running in the same direction because it's running from a forest fire or maybe it's running to the food or water. But then at other times, the herd is just running toward a cliff because that's what herds do sometimes. So, here's the point – the herd is not always wrong but it's certainly not always right either. But with the herd engulfed in a cloud of dust and every eye at the same level, it's hard to know where the herd is heading.

Today, we see two investment "herd" movements that are racing in nearly opposite directions. While the aggressive Artificial Intelligence herd is betting on an uninterrupted AI future, the conservative cash herd is investing cash in money markets, CDs, and US Treasury Bills. At seemingly polar-opposite ends of the investment spectrum, these investment strategies reflect fundamentally different views on the economy and markets. We do not believe that one strategy is necessarily correct and the other wrong. After all, allocations of capital are dependent upon many personal factors that vary for each investor such as time horizon, comfort with risk, and personal interests. In fact, many investors are balancing dollars with both herds. That's okay.

Nevertheless, we see risks and opportunities in today's equity and bond markets. For instance, the AI herd may see another year of double-digit returns, or it could experience another 2022 type pull back, or worse.

Meanwhile, cash savers who are benefiting from high short-term rates may find their CDs renewing at lower yields before year-end. Given the past and potential market volatility, this may be a good time to carefully consider stock allocations by sector and fixed income allocations along the yield curve. We look forward to speaking with you again soon.

Best wishes,

Robert J. Gaskin, CIMA®
Managing Principal
Senior Financial Advisor, RJFS

Gaskin Asset Management is not a registered broker/dealer, and is independent of Raymond James Financial Services. Securities are offered through Raymond James Financial Services, Inc. Member FINRA/SIPC. Investment Advisory Services are offered through Raymond James Financial Services Advisors, Inc.

The views and opinions expressed by the author are those of Gaskin Asset Management and do not necessarily reflect the opinion of Raymond James Corporation or its affiliates. All opinions are as of this date and are subject to change without notice. Raymond James is not affiliated with Bespoke Investment Group. There is no guarantee that these statements, opinions, or forecasts provided herein will prove to be correct.

Investing involves risk and investors may incur a profit or a loss. Past performance is no guarantee of future results. Investors cannot directly purchase any index.

The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material.

The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation.

This information is not intended as a solicitation or an offer to buy or sell any security referred to herein.

Investments mentioned may not be suitable for all investors.

Stocks offer long-term growth potential but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations.

Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. Holding bonds to term allows redemption at par value. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

Investment Management Consultants Association (IMCA®) is the owner of the certification marks "CIMA,®" and "Certified Investment Management Analyst,®" Use of CIMA® or Certified Investment Analyst® signifies that the user has successfully completed IMCA's initial and ongoing credentialing requirements for investment management consultants.

*Magnificent Seven stocks: Microsoft Corp, Apple Inc., Nvidia Corp, Amazon.com Inc., Meta Platforms, Inc., Alphabet Inc., Tesla, Inc.

RJ CAR #44030

[i] Fuentes, Giampiero. "Artificial Intelligence, An Economic Revolution", Raymond James. 2023
[ii] https://www.barrons.com/articles/nvidia-stock-price-chart-01a4ac17
[iii] Hough, Jack. "How Nvidia Became the Apple of AI, Just 10 Times Faster", Barron's. p. 8. Feb. 19, 2024
[iv] https://www.wsj.com/tech/ai/how-a-shifting-ai-chip-market-will-shape-nvidias-future-f0c256b1
[v] Kim, Tae. "Nvidia Has Become King of the Mag 7. And It's Not Even Close. Barron's. p. 10. Feb. 26, 2024
[vi] Forsyth, Randall W. "Amazon Joins the Dow 30. Is That Bullish or Bearish". Barron's. p.6. Feb. 26, 2024
[vii] Jasincki, Nicholas. *Barron's Review & Preview*, p. 1. February 29, 2024.
[viii] Aleman, Eugenio J., Fuentes, Giampiero. "2024 Economic Outlook: Prepare for Landing", Raymond James. January 2024.
[ix] Source: Morningstar; Raymond James Weekly Market Flash. Data as of March 1, 2024