

February Market Update

As of 2/29/24 | amnat.com



American National Bank & Trust

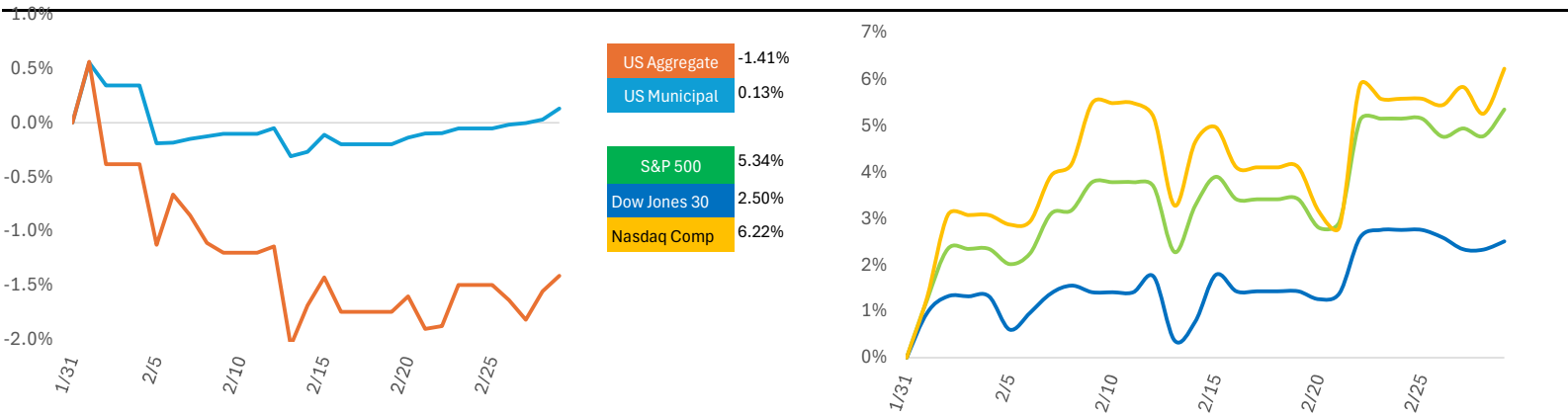
Macro & Market View: Potential Profit-Taking

Interest rate policy uncertainty, domestic and international growth, the U.S. consumer, and inflation have contributed to negative returns in broad fixed income benchmarks and positive returns in broad equity benchmarks shown below. For this month, we have seen equity markets increase for the three broad US indices, while correlations have been -65% and -12% for the aggregate and municipal bond markets, respectively. Historically, February has reflected a positive equity market return of 0.4% on average; however, the market had an above average return of 5.34% for February.

Fixed Income Index Returns

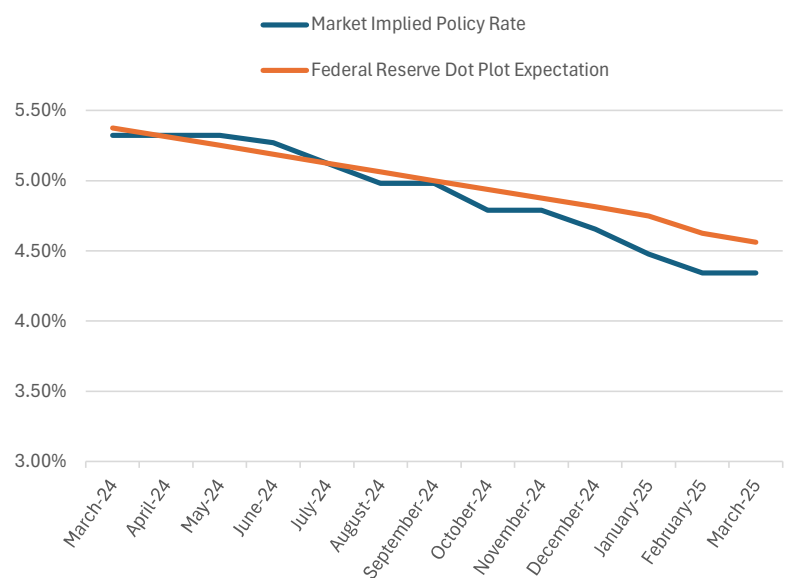
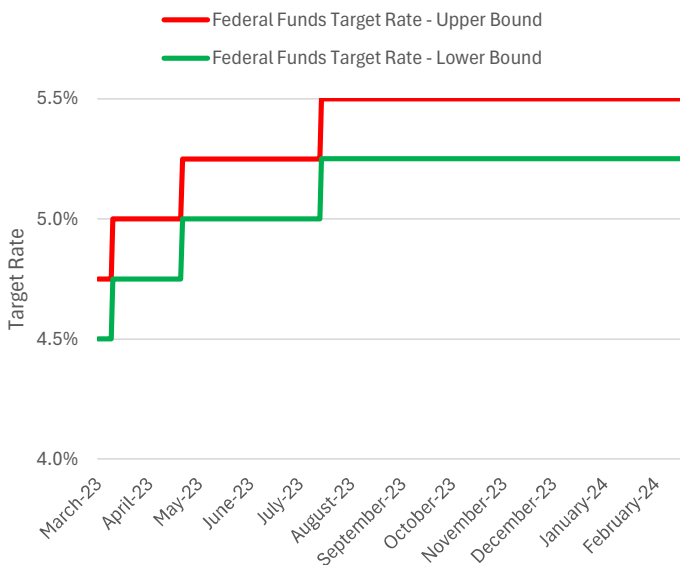
February Returns

Equity Index Returns



Source: Bloomberg LP

Market participants are now forecasting the policy rate that sets interest rates for the economy to be lowered over the next twelve months. The next Federal Reserve meeting to discuss monetary policy is scheduled for March 2024. The overall expectation is for the policy rate to be lowered by near -1% to 4.34% in the next twelve months. The change in market participants' view of what the Federal Reserve should do can be explained by the inflation data measured by CPI (Consumer Price Index).



Source: Bloomberg LP

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Houston

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Denton

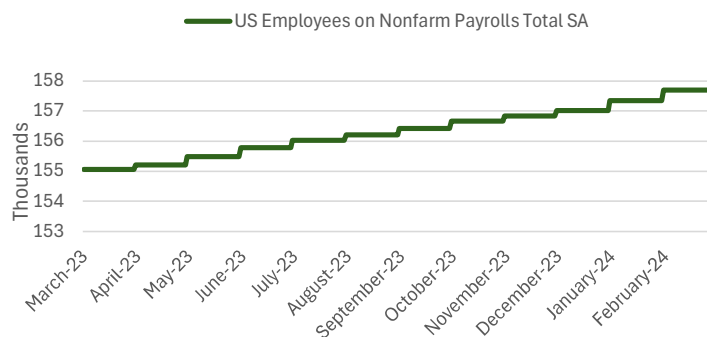
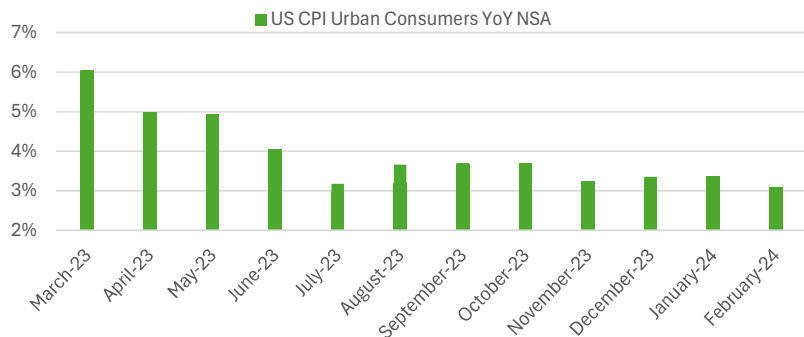
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McKinney

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Dallas

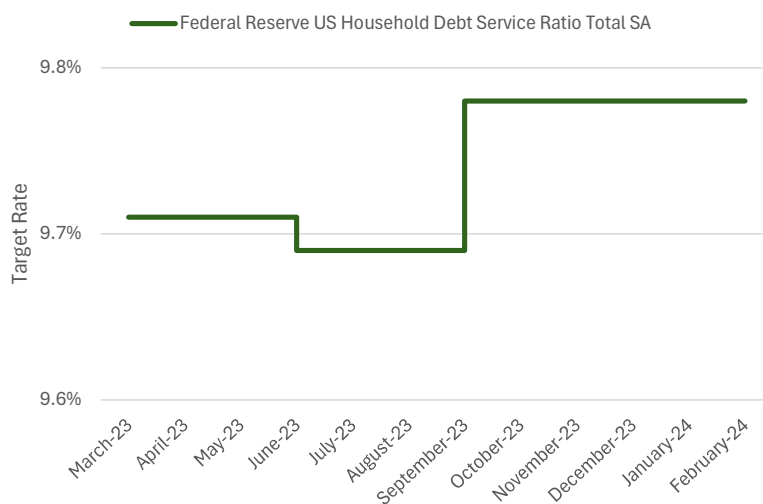
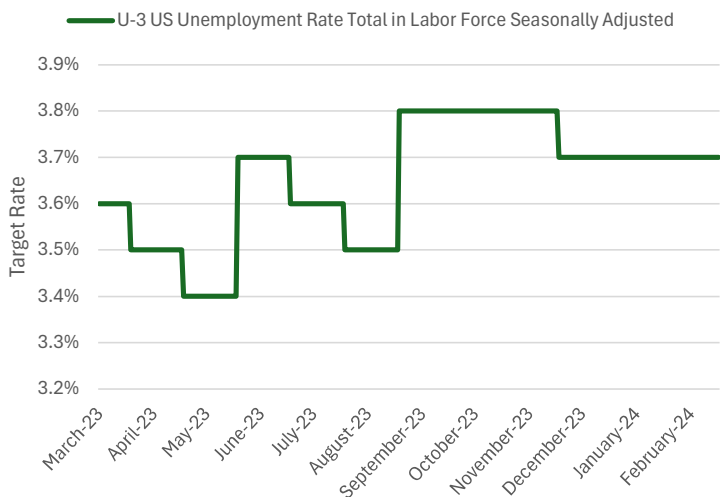
10000 N. Central
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Source: Bloomberg LP

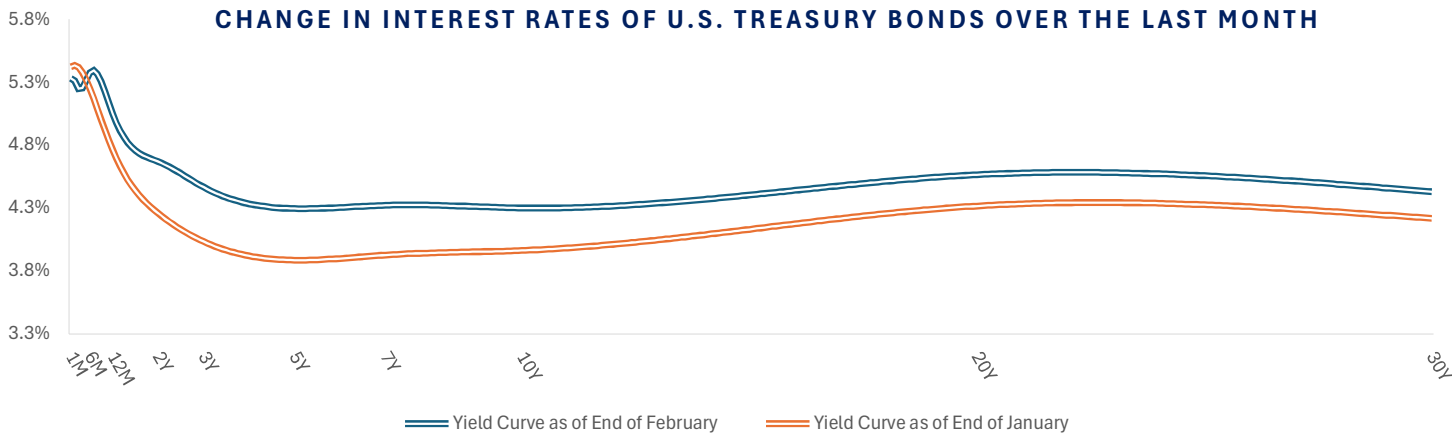
As shown in the US CPI Consumers year-over-year chart above, February experienced downward trending inflation. Additionally, nonfarm payrolls continue to trend upward, which contributes to whether or not the Federal Reserve will continue raising interest rates. However as the data shows, the downward inflation improvements in CPI to the Fed target of 2.5% has given market participants hope that climbing interest rates is nearing the end. Historically, the inverted treasury yield curve signalled the economy was near a recession, but as noted in our January Market Update, consumption has been strong and has bolstered the economy.

The chart below shows the unemployment rate sitting at 3.7%, an increase from 3.6% one year ago. We have also observed the U.S. Household Debt Service Ratio remaining below the threshold associated with consumer weakness in past economic cycles. Debt ratios will continue to feel the pressure from higher rates.



Source: Bloomberg LP

CHANGE IN INTEREST RATES OF U.S. TREASURY BONDS OVER THE LAST MONTH



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Across the sectors, company reporting has shown a positive surprise to sales and earnings for February with the exception of negative surprise to sales and earnings in the Utilities and Real Estate sectors. For February, of the 331 companies that reported in the S&P 500, 184 of the companies had positive sales surprise and 245 of them had positive earnings surprise; we consider this positive surprise to be a tailwind for equity valuations for the next quarter. For the 331 companies, the overall sales and earnings surprise is positive 1.25% and 7.53%, respectively for February with companies being more resilient than consensus analyst estimates.

For our equity portfolios, here are our top and bottom three performers per strategy. Our Legacy portfolio focuses on blending long-term growth and value on a discretionary basis, while our Dividend portfolio seeks lower volatility and higher current income. We also have Momentum and Quality strategies that are factor-driven, smart beta portfolios. The Momentum portfolio dynamically adjusts positions to benefit from positive momentum while remaining diversified. The Quality portfolio blends low volatility with the momentum factor to produce a portfolio focused on high quality equity income and positive momentum. Benjamin Builder solutions offer an efficient method to invest broadly across geography, style, and sector using a dynamic fund screening process and complement the other equity strategies.

The Three Best and Worst Investments during the Month

	Legacy Portfolio		Dividend Portfolio		Momentum Portfolio		Quality Portfolio	
Best	AMAT	22.71%	MPWR	19.47%	LSCC	25.88%	LSCC	25.88%
	ALB	20.14%	LECO	15.47%	ENPH	21.97%	ENPH	21.97%
	DIS	16.17%	MAS	14.07%	LPLA	12.00%	MAS	14.07%
Worst	NEE	-5.87%	HSY	-2.90%	AGCO	-10.32%	FDS	-2.80%
	APD	-8.47%	UI	-6.81%	CHTR	-20.71%	MSCI	-6.29%
	AMGN	-12.87%	SIRI	-13.16%	LBRDA	-22.71%	AGCO	-10.32%

Benjamin Builder Solutions		
Best	FDIS	8.06%
	VBK	8.01%
	FIDU	7.20%
Worst	BCD	-1.08%
	AGG	-1.77%
	SCHI	-1.82%

With the ongoing commitment by the Federal Reserve to reach the 2% inflation target, there is still progress to be made given that 3.09% inflation year-over-year is still not 2%. Also, the stance of “no further rate high hikes” does not necessarily mean that rate cuts are coming soon although investors are expecting it through the futures market. The Fed will continue on the path of reaching a 2% inflation target on a sustained basis. With the stance of “seeing what the data brings”, monetary policy will be dictated by the evolution of inflation over time and the underlying economy and consumer. Finally, when we compare historical monthly returns for the S&P 500 over the last five decades with the increase in interest rates, it brings us back to the impact of diversification across asset classes to portfolio volatility and providing current income. Corporate and municipal bonds now provide a real rate of total return that includes current income as well as price appreciation as interest rates come down. With the innovation of generative artificial intelligence (AI), the productivity of employees is poised to introduce a fundamental change like the invention of electronic hardware, the internet, and the web 3.0 impacted business productivity and processes. These factors lead us to value and growth investments across sectors that are augmenting their business processes with AI tools. Thank you for your continued trust in managing your financial assets. Please reach out to your administrator if you have any questions.



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