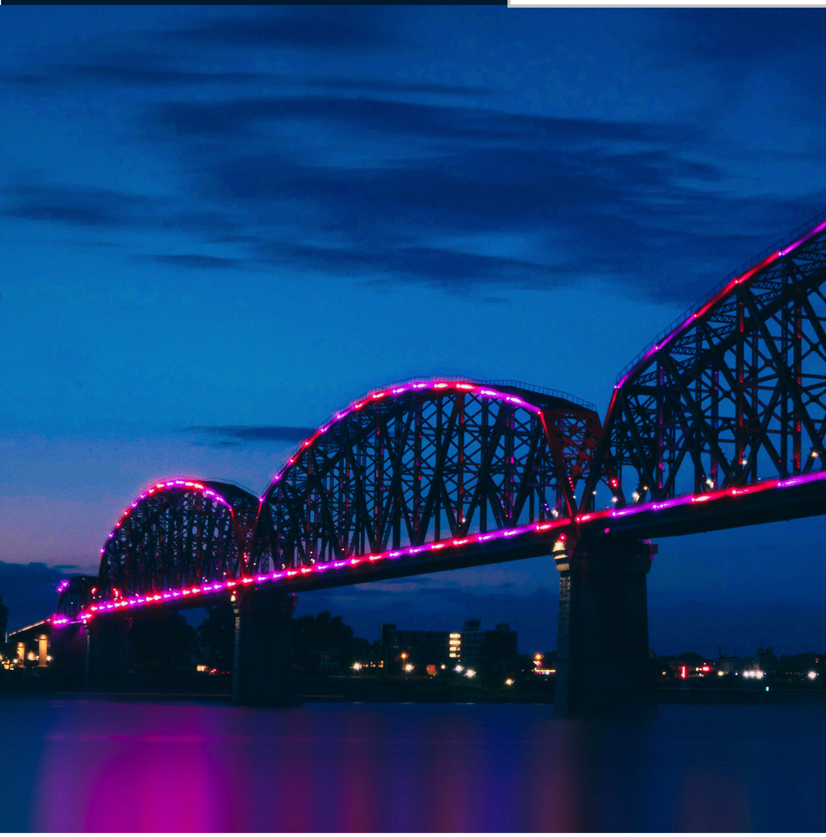
mFORCE
CAPITAL



mFORCE Capital Corner

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June
2023

Executive Summary

Inflation Easying, Fed Pauses, Earnings Improving All Positives for Markets

This month, we had Consumer Prices (CPI) and Producer Prices (PPI) come in below expectations right before the Federal Reserve's decision on interest rates. The Fed elected to go on pause after raising interest rates 10 times consecutively. The pause was mostly expected, but the surprise was the fact that half of the Federal Open Market Committee (FOMC) members expect that rates still need to go up further – possibly twice more with a target terminal rate of 5.6%. Their concern is founded in the ongoing strength of the labor market

But the Fed said they remain data-dependent, meeting to meeting. In addition, they are not forecasting a recession but more of a soft landing this year and next. As we know, 2024 is a Presidential election year and recessions normally don't happen during this time frame. Our outlook still remains positive on markets and we're looking for the equity market to rally into the summer but there could be brief corrections. We still anticipate a peaking in interest rates. Investors should maintain a balanced and quality portfolio given the concentration risk within the equity market.

Long-Term Secular Cycles Can Last 15-20 Years – Only 10-Years So Far For This Secular Bull

There are many trends and cycles for the market. The most important to watch, in our view, is the long-term and determining whether the market is in a Secular Bull or Secular Bear trend. Most market commentators only speak of the short-term trends not the secular trends. The S&P 500 entered a Secular Bull market in 2013 marking a 10-year anniversary of the cycle. History has shown that these longer cycles can last 15-20 years. We believe there are several more years to the current secular trend. Secular trends do have bear markets (corrections of 20% or more) but markets recover and achieve newer highs. This month the S&P 500 has rallied 20% since the low of October 2022, putting us back into a bull cycle within a Secular Bull Market.

Dow Jones Industrial Average is in a Secular Bull Market Since 2013

Source: Stockcharts.com, June 9, 2023

S&P 500 Has Had Three Bear Markets in Four Years – Not the Norm

Historically the equity market has a bear market – a decline of 20% or more – every 3½ to 4 years. What we find fascinating is that the S&P 500 has had three bear markets within four years – highly unusual. So there have been price adjustments in the market, giving it a longer runway for stock prices to rally. We anticipate the S&P 500 Index will test its all time highs near 4800 and a new high is possible. However, this is not what the market is forecasting. There are still many skeptics of this rally. Markets do not peak on pessimisim, they peak on optimism.

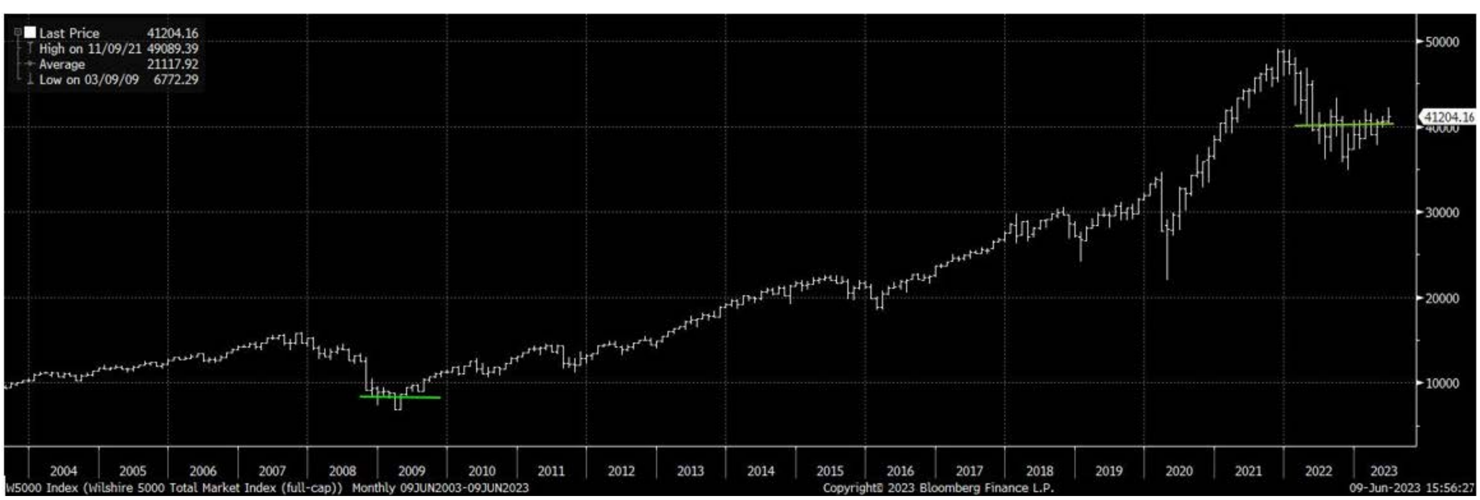
S&P 500 Had Three Bear Corrcetions Since 2018 – Historically This Happens Every 3 ½ to 4 Years

Source: Bloomberg; June 9, 2023

Wilshire 5000 Trading Range Provides Support For Rally to Test the Highs

We are impressed with the current consolidation trading range of the Wilshire 5000 (the index that measures the market capitalization of the total market), which is reading similar to the 2008-2009 consolidation trading range. The current range measures to test the all-time highs of the Index – and it is possible new highs will be achieved.

Wilshire 5000 Index: Base is the Same to Bigger than 2008-2009 – Test of the High Should be Expected

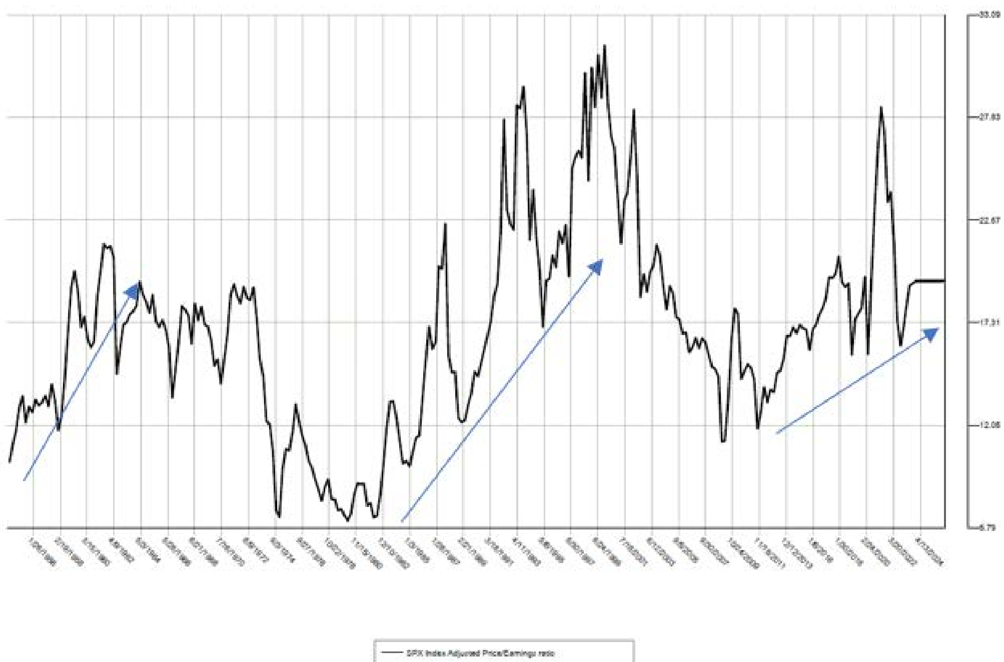


Source: Bloomberg June 9, 2023

Secular Bull Markets Get An Expansion in Price-Earning Multiples

Price-earnings multiples have cycles along with the cycles of the equity market. The price-earnings multiple historically has expanded as the markets rally and peaked with the markets as well. We believe price-earnings multiples can continue to expand, especially if the Fed is on pause with higher interest rates. Should interest rates eventually come down – which we expect in time – it will allow price-earnings multiples to expand.

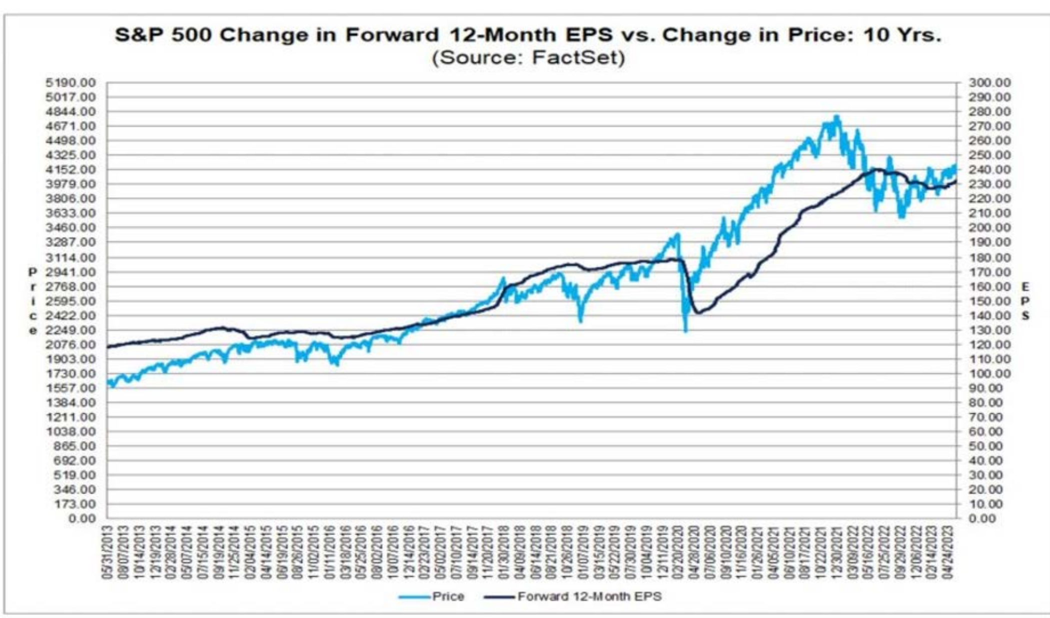
S&P 500 Price-Earnings Ratio Rises During a Secular Bull Market



Source: FactSet June 9, 2023

Earnings Outlook is Improving

Earnings have contracted but not as much as was anticipated by many investors. Markets have to reprice for better earnings. Earnings growth rates are now forecast to be positive as we move into 3Q and 4Q supporting a sustained rally in markets.



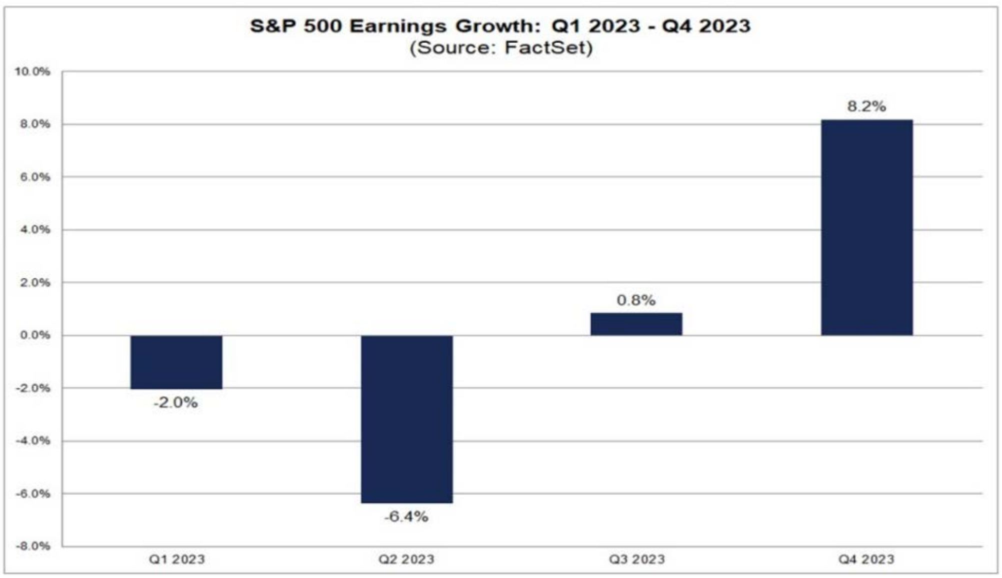
Source: FactSet June 9, 2023

Earnings Outlook is Improving Cont.

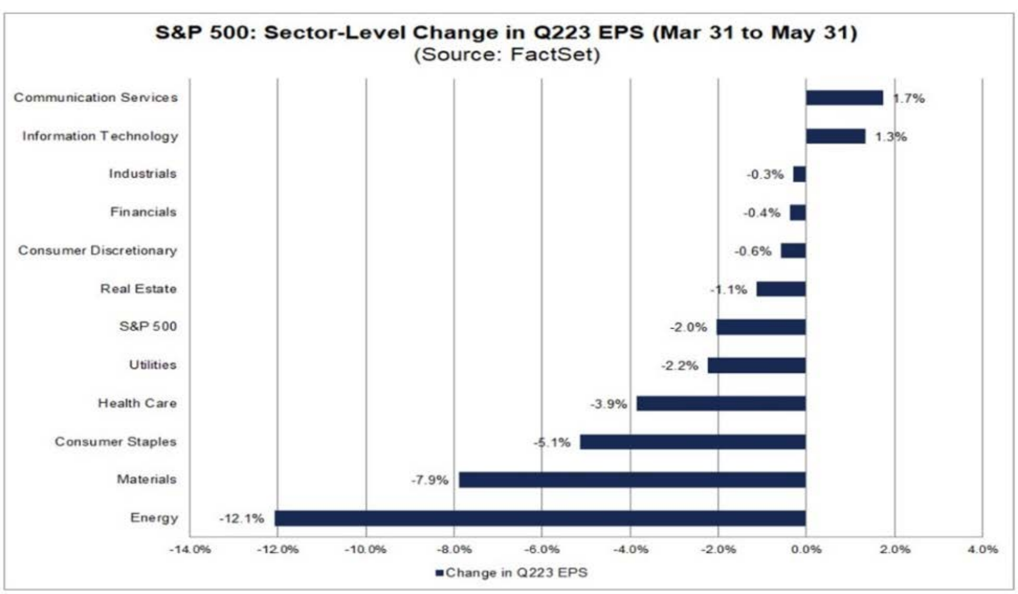
According to FactSet on June 9, analysts expect earnings for the S&P 500 to decline in Q2 2023, with earnings growth projected to return in the second half of 2023. For Q3 2023, the estimated earnings growth rate is 0.8%. For Q4 2023, the estimated earnings growth rate is 8.2%. If 8.2% is the actual growth rate for the quarter, it will mark the highest year-over-year earnings growth rate reported by the S&P 500 since Q1 2022 (9.4%). So, what is driving the expected improvement in earnings growth in Q4 2023?

At the sector level, nine of the Index's eleven sectors are predicted to report year-over-year earnings growth in Q4 2023. Five of these nine sectors are expected to report double-digit earnings growth for the quarter: Communication Services (36.3%), Utilities (26.2%), Consumer Discretionary (21.3%), Information Technology (12.4%), and Financials (11.2%). Of all eleven sectors, the Communication Services and Information Technology sectors are expected to be the largest contributors to earnings growth for the fourth quarter. If these two sectors were excluded, the estimated earnings growth rate for the S&P 500 for Q4 2023 would fall to 3.9% from 8.2%.

At the company level, Amazon, Meta Platforms, Alphabet, and NVIDIA are expected to be the largest contributors to earnings growth for the S&P 500 for Q4 2023. Amazon, Meta Platforms, and NVIDIA are expected to report year-over-year EPS growth of more than 100% in Q4 2023. In addition, analysts have increased EPS estimates since December 31 for all four companies for the fourth quarter. If these four companies were excluded, the estimated earnings growth rate for the S&P 500 for Q4 2023 would fall to 4.2% from 8.2%.



Source: FactSet, June 9, 2023



Source: FactSet, June 2, 2023

US Cyclicals Versus Defensives: Investors Moving to Cyclicals As Earnings Are Improving Here

Source: Bloomberg, Federal Reserve

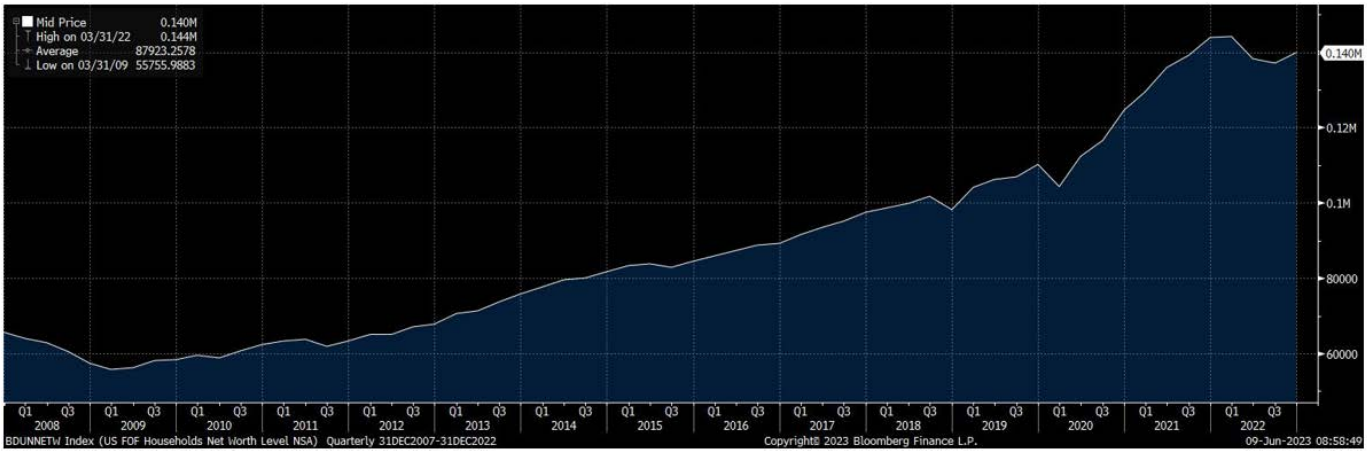
European Cyclicals Versus Defensives Are Also Outperforming as Earnings are Improving

Source: Bloomberg, Federal Reserve

Household Net Worth Rises Consumers Have Money

Flow of Funds data -- which is extremely lagged (last datapoint is 12/22) -- has been improving. With the equity markets up 20%+ since then, the data point has most likely continued to improve. Consumers are taking on debt, but levels are not at an extreme. Consumers are being more selective on their purchases, but they are spending. This should continue to support the economy.

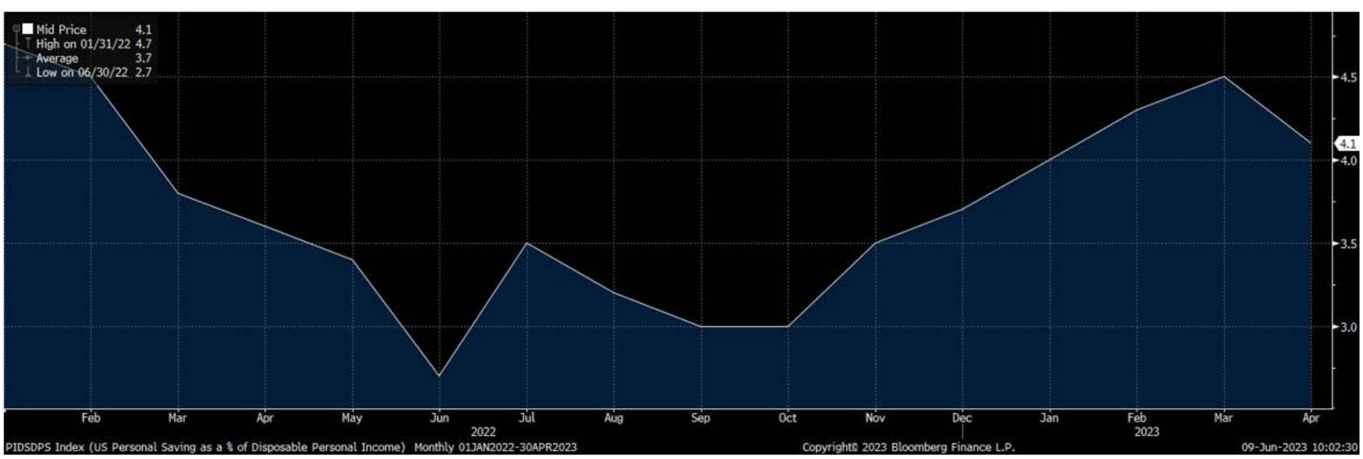
Flow of Funds Household Net Worth Rises Giving Consumers Confidence to Spend



Source: Bloomberg, Federal Reserve

Consumers Still Have Savings To Spend But Are Spending More Selectively

US Personal Savings As A % Of Disposable Personal Income



Source: Bloomberg, Federal Reserve

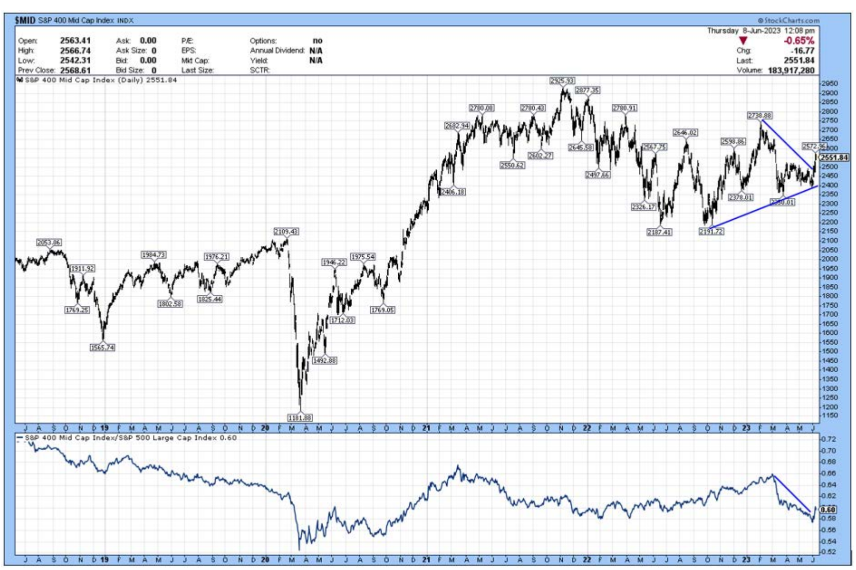
S&P 500 Finally Breaks Out Following the Nasdaq

After months of being in a trading range the S&P 500 breaks to the upside as many investors are defensively positioned with a lot of cash on the sidelines. In early June, the S&P 500 reached a 20% gain from the October low, ending the longest bear market since 1948. And it's the first time the bull has arrived when a recession was forecast to be on the horizon! According to Bank of America, after crossing the 20% mark from a bottom, the S&P 500 continued to rise over the next 12-months 92% of the time, returning 19% on average back to 1950. The message is that the markets are still in a secular bull market. This indicates the market can reach new record highs. Markets peak on optimism not pessimism!

S&P 500 with 20-Day Rate of Change and Relative Strength Index – Breakout!

Source: Stockcharts.com, June 8, 2023

S&P Mid Cap Index and Relative to S&P 500 – Breakout But Weak to Large Caps



Source: Stockcharts.com, June 8, 2023

Small Caps Rallying But Overall Remain Weak Compared to Large Caps

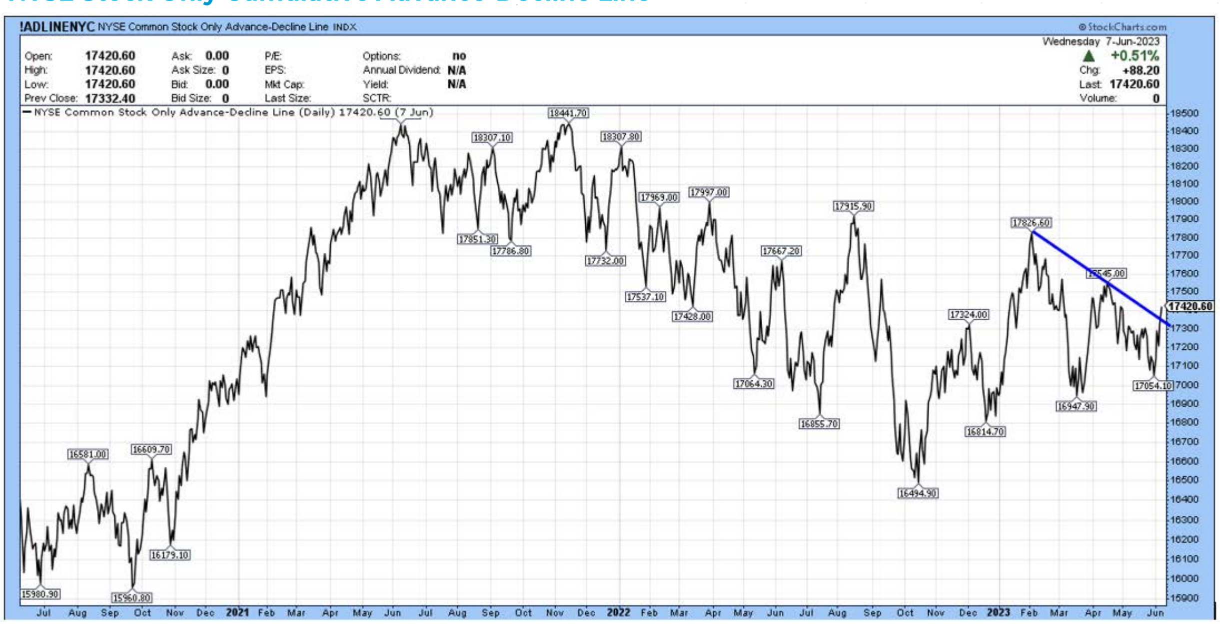
iShares Russell 2000 (IWM) versus SPDR S&P 500 ETF (SPY) –

Source: Stockcharts.com, June 8, 2023

Breadth of the Market is Expanding to Sustain the Rally into the Summer Months

Market breadth (advancing issues minus declining issues) has finally begun to expand. As long as breadth continues to expand, the rally is sustainable into the summer months. Ideally if market highs are reached, you need the breadth of the market to also approach its highs.

NYSE Stock Only Cumulative Advance-Decline Line

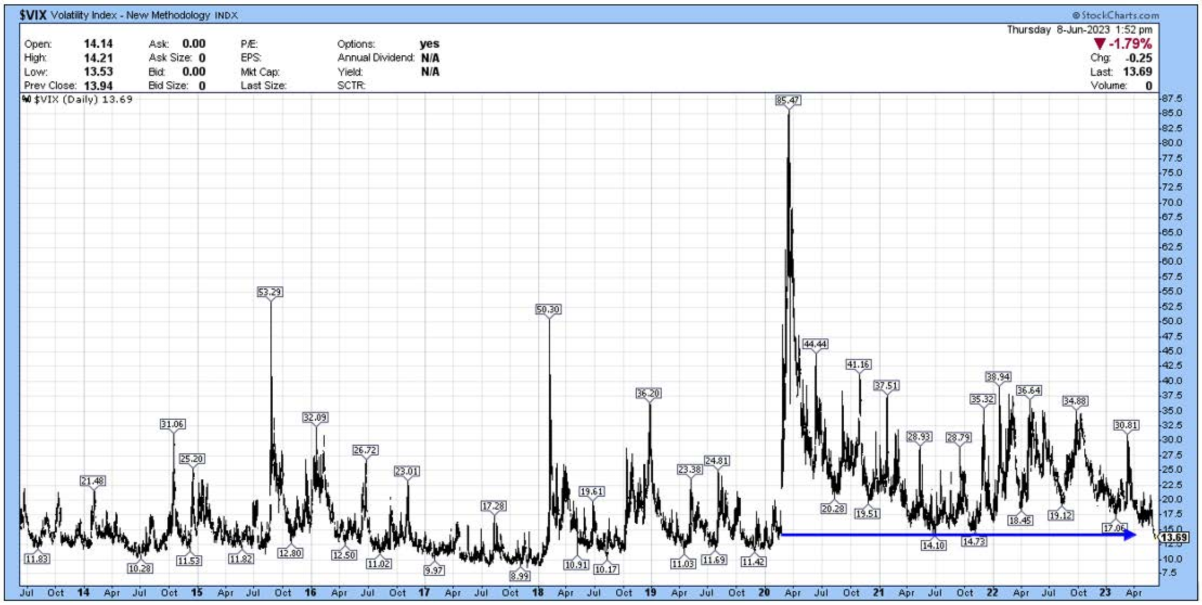


Source: Stockcharts.com, June 7, 2023

Volatility is Falling Pointing to a Sustained Rally

Volatility has collapsed and looks to be approaching the level of 10 or below, which points to a sustainable rally. Traditionally signal levels or bands are 20 and 10, with 20 signaling a market that is oversold and 10 signaling a market is overbought. The market timing on the levels can vary. For now we are reading this as a positive indication for the markets.

VIX Volatility Index – Volatility is Falling Pointing to a Sustained Rally



Source: Stockcharts.com, June 8, 2023

Cyclical Sectors of the Market are Rallying

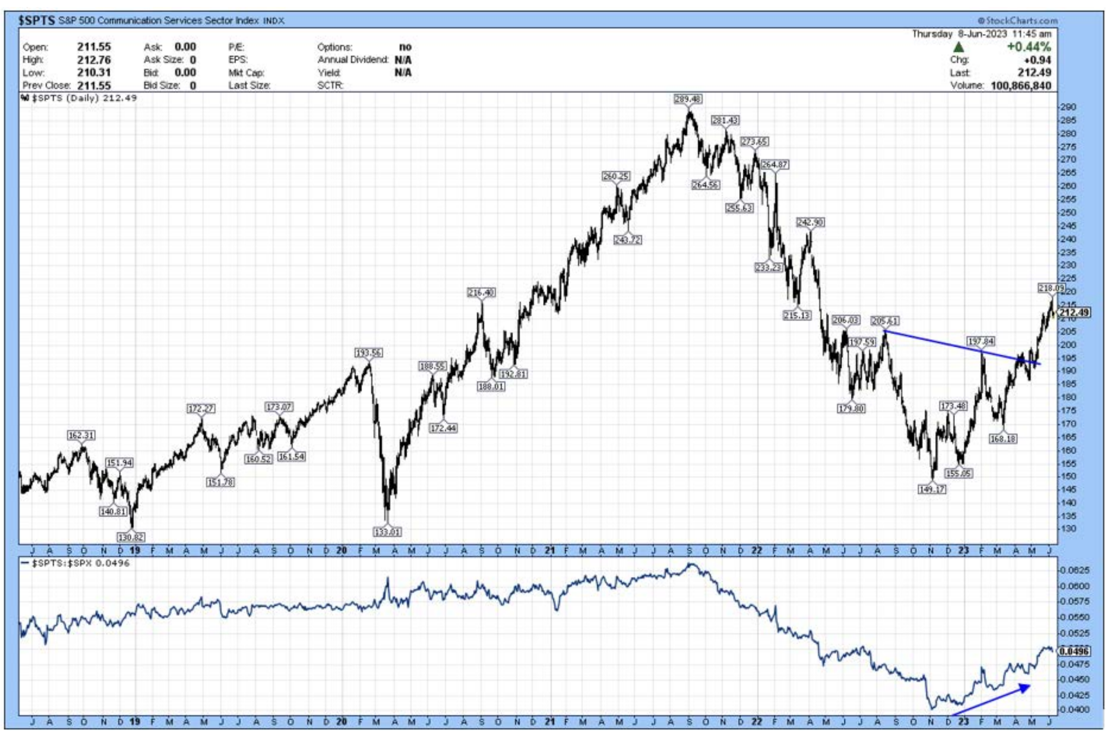
The Technology sector is the strongest part of the market. We have favored semiconductors and software and services and continue to do so. Transportation which is very cyclical is also seeing a rally, followed by Communications Services, Consumer Discretionary and Industrials. Earnings growth is expanding in Technology and Communications Services. The weakest areas of the market are Energy, Utilities, Healthcare and Financials. We remain cautious on regional banks. We believe banks overall remain a value trap. Commodities remain under pressure, so commodity sensitive sectors are not performing well. Energy would be our favorite commodity sector, but it will remain a laggard until oil prices firm up. Healthcare has positive long-term demographics but is defensive and out of favor on this rally.

Source: Stockcharts.com, June 7, 2023

S&P 500 Information Technology with Relative Ratio to the S&P 500

Source: Stockcharts.com, June 8, 2023

S&P 500 Communications Services with Relative Ratio to the S&P 500

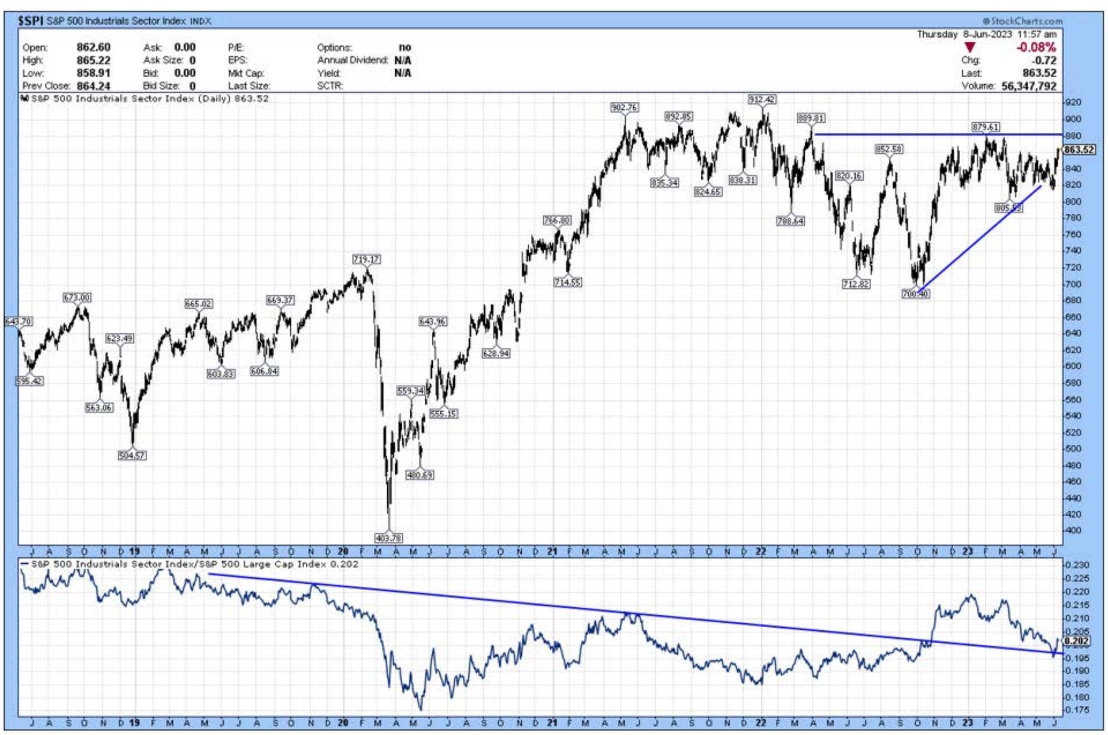


Source: Stockcharts.com, June 8, 2023

S&P 500 Consumer Discretionary with Relative Ratio to the S&P 500

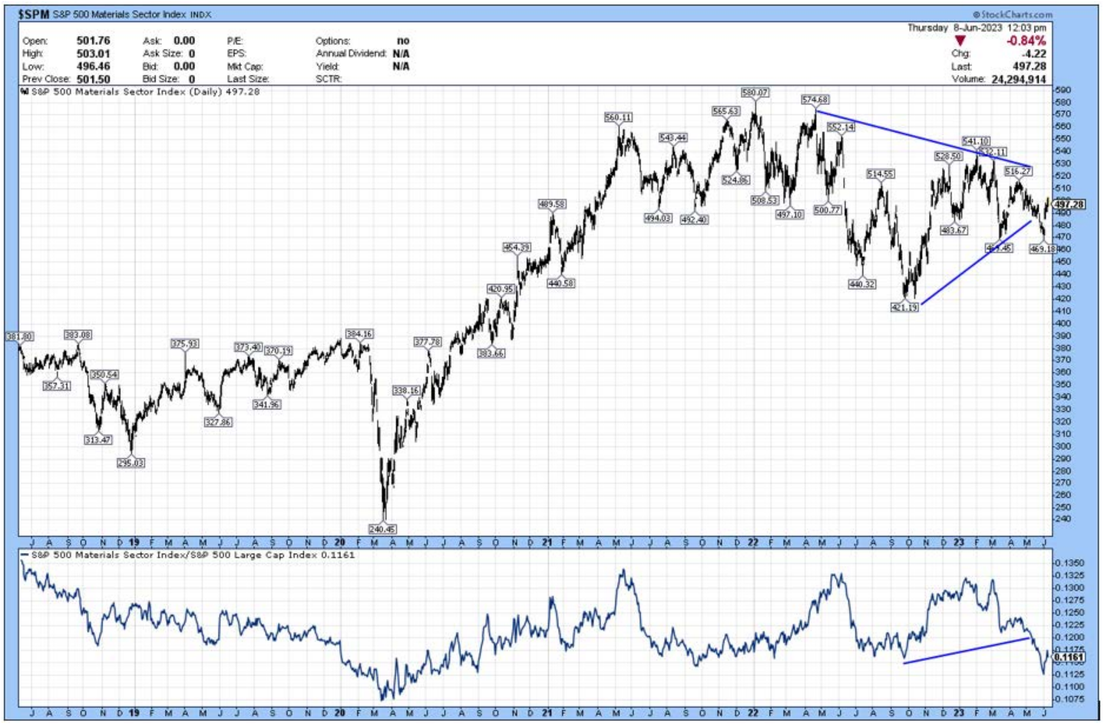
Source: Stockcharts.com, June 8, 2023

S&P 500 Industrials with Relative to the S&P 500



Source: Stockcharts.com, June 8, 2023

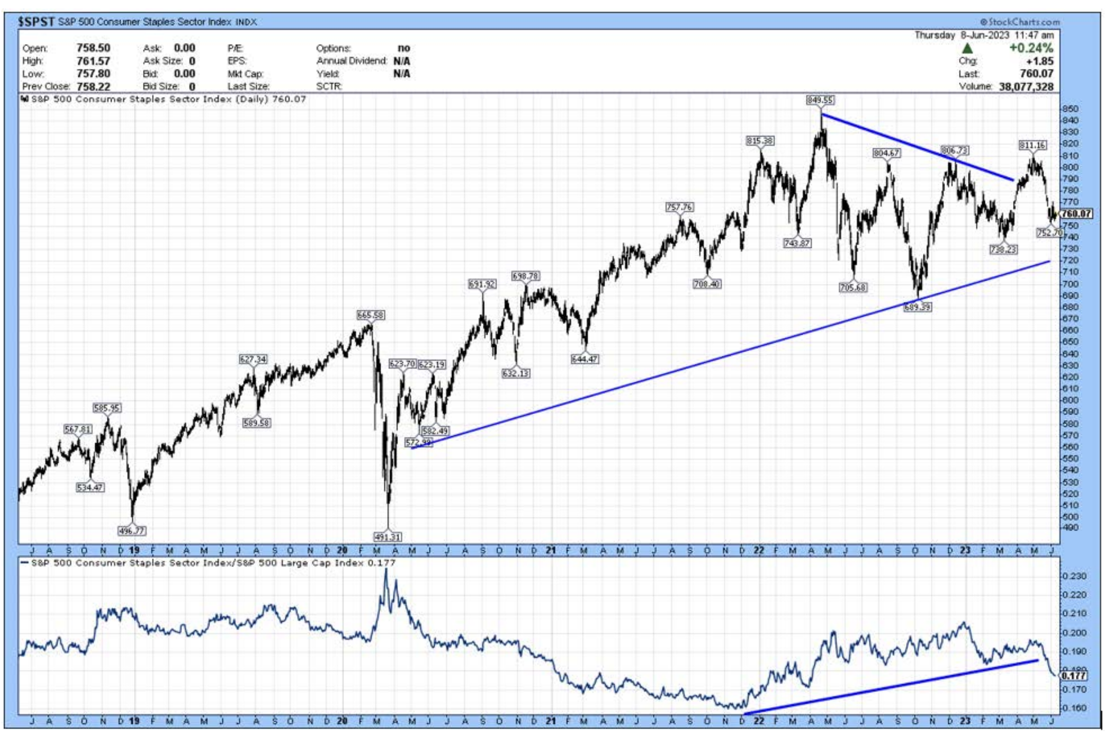
S&P 500 Materials with Relative Ratio to the S&P 500



Source: Stockcharts.com, June 8, 2023

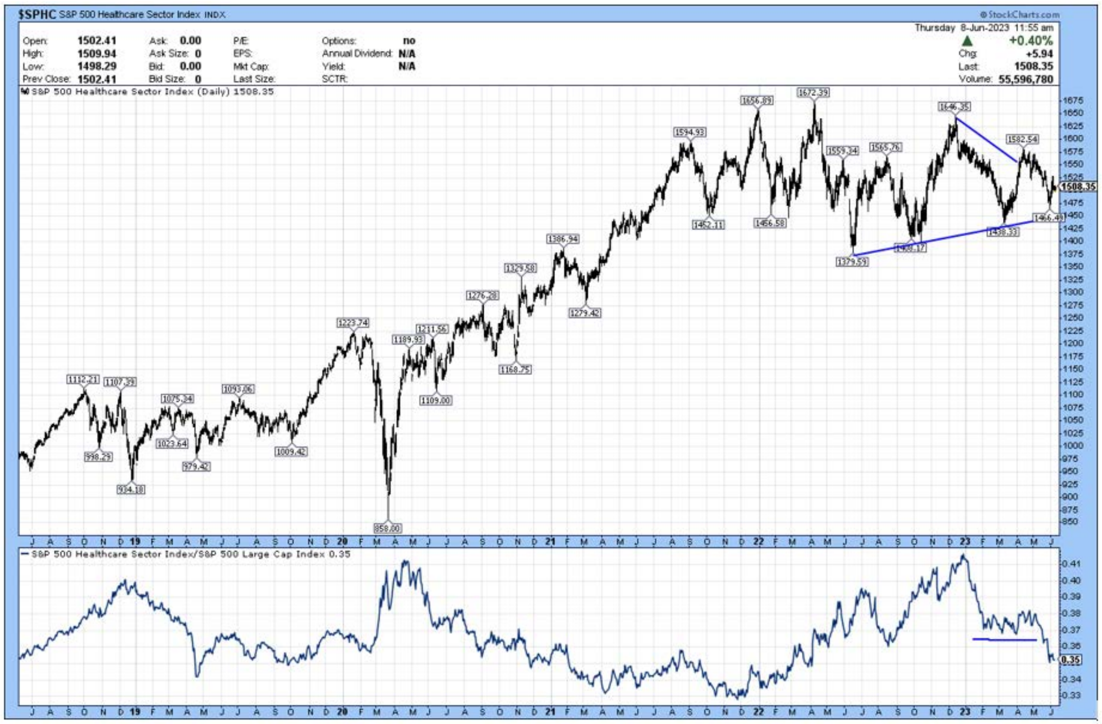
Defensive Sectors are Weak and Under performing the S&P 500

S&P 500 Consumer Staples with Relative Ratio to the S&P 500



Source: Stockcharts.com, June 8, 2023

S&P 500 Healthcare with Relative Ratio to the S&P 500 -

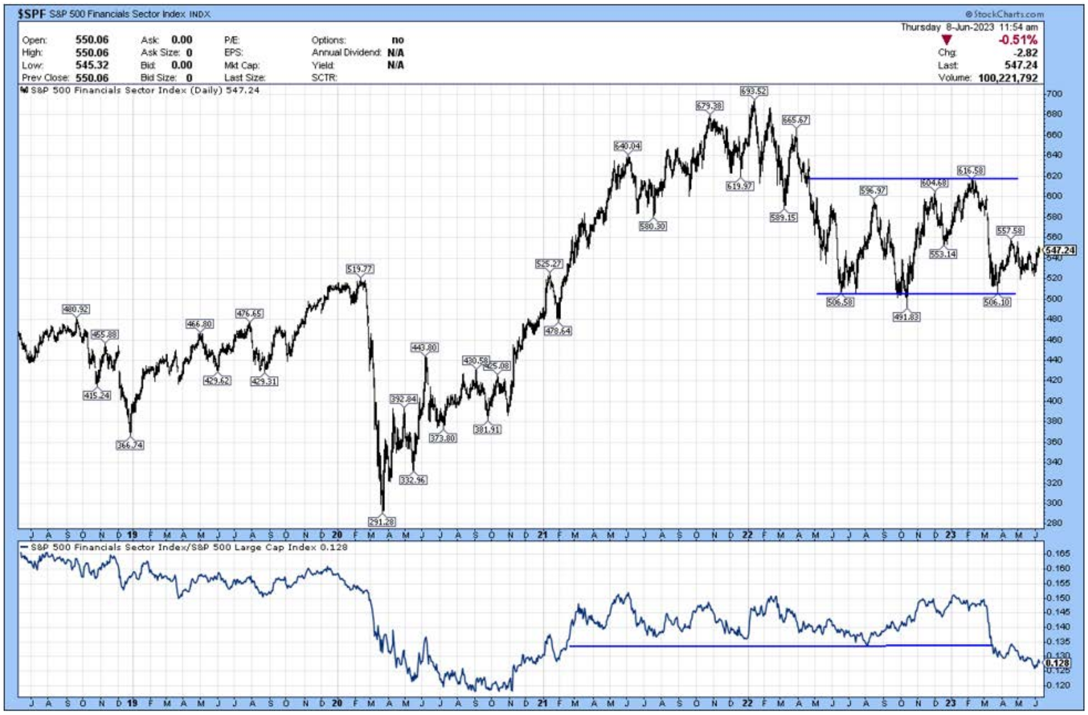


Source: Stockcharts.com, June 8, 2023

S&P 500 Energy with Relative Ratio to the S&P 500

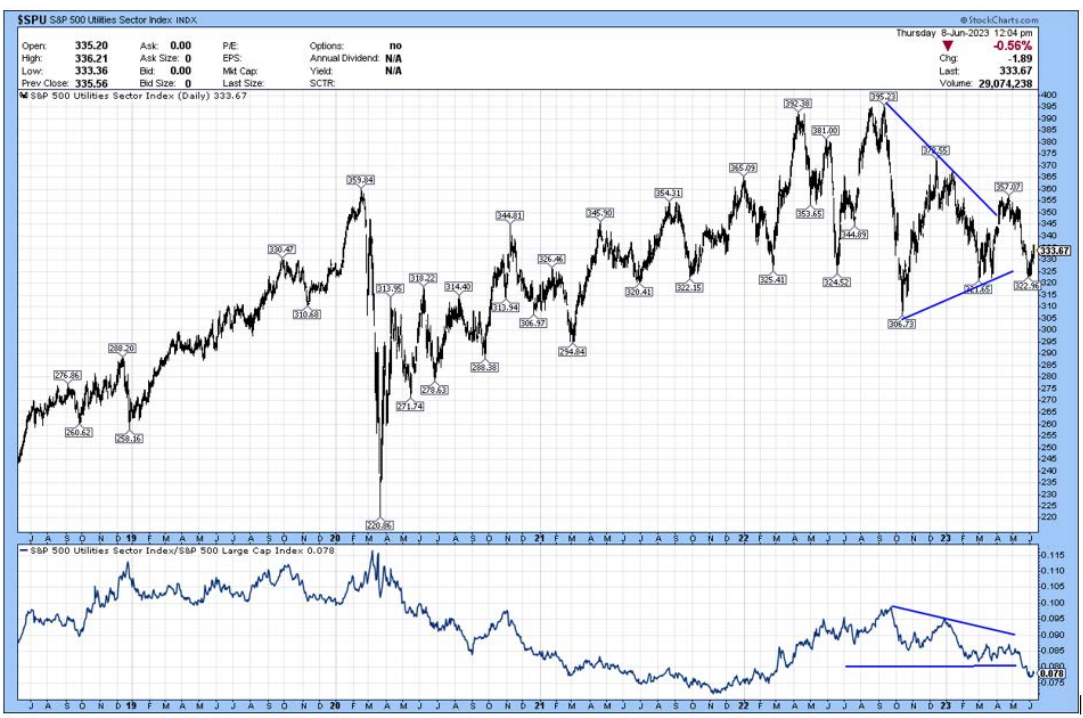
Source: Stockcharts.com, June 8, 2023

S&P Financial with Relative Ratio to the S&P 500



Source: Stockcharts.com, June 8, 2023

S&P 500 Utilities with Relative Ratio to the S&P 500



Source: Stockcharts.com, June 8, 2023

S&P 500 Real Estate with Relative Ratio to the S&P 500

Source: Stockcharts.com, June 8, 2023

Growth versus Value: Growth is Likely to Continue to Rally

Source: Stockcharts.com, June 8, 2023

We Believe Inflation is Peaking Leading to a Cyclical Peak in Rates for 2 & 10 Year Ts

US 10-Year Treasury Yield

Source: Stockcharts.com, June 8, 2023

US 2-Year Treasury Yield

Source: Stockcharts.com, June 7, 2023

Last Words

Equity markets have a way of performing the opposite of what most are expecting – this is known as contrarian investing. Positioning and sentiment have been very negative or bearish on stocks, yet markets continue to rally strongly. The mantra to remember is that markets peak on optimism not pessimism.

With volatility measures collapsing and short-term technical reading having the market overbought, sharp corrections can occur. Our sense is markets will maintain a rally into the summer months and then we expect to see seasonal weakness in September and October followed by a seasonal year-end rally with markets closing the year with a double-digit return. In this concentrated market, we stay balanced in our investments, and favor quality in both equity and fixed income.

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