

## FIRST QUARTER, 2024 INVESTMENT REVIEW

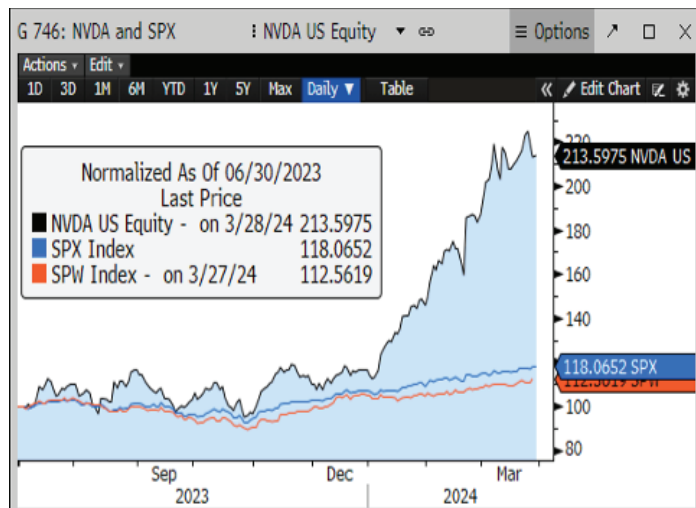
### Artificial Intelligence (AI)

*"There are always flowers for those who want to see them."*

- Henri Matisse

**AI** (Artificial Intelligence) has been the rage for over a year now. Computer systems that can quickly process vast amounts of data, interpret patterns, and extrapolate it to improve processes and predict outcomes hold much promise. Applications across industries could provide significant productivity gains and may improve our individual and collective quality of life. They require dramatic volumes of computing power and have initially boosted the revenues of semi-conductor chip producers, especially the leader in the field, Nvidia (NVDA). Sensing transformative technological breakthroughs, investors have bid up NVDA and related stocks, driving many market indicators to record highs as shown in Figure One.

FIGURE ONE: NVDA STOCK VS. S&P 500 TOTAL RETURN INDEX AND EQUALLY WEIGHTED S&P 500 INDEX



SOURCE: RWM, BLOOMBERG L.P.

Many investors, particularly risk averse ones, have missed this rally. We continue to caution investors not to chase high valuations at this early phase of AI's development. While NVDA is clearly the early leader in AI, earnings forecasts of a four-fold increase over the next four quarters create heady expectations, reflected in its 75 times (x) and 37x trailing and forward price-to-earnings ratio (P/E), respectively. The eventual winners and best AI related investments may not be clear for several years.

### Markets

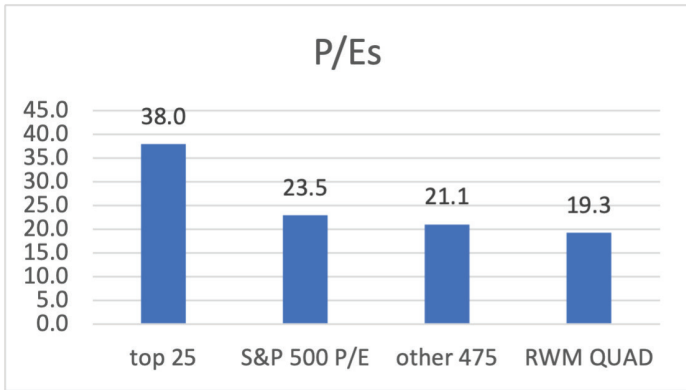
2023's stock market rally continued through the first three months of 2024. Importantly, market breadth improved, encompassing much more than just the "Magnificent Seven."<sup>1</sup> For the quarter ended March 31st, the S&P 500 Index rose 10.1%. The tech-heavy NASDAQ was 9.1% higher while the Dow Jones Industrial Average (DJIA) lagged, rising 5.6%. International stocks were mostly higher save for Swiss, Chinese, and Australian major indices. Japan's Nikkei and Italy's FTSE MIB Index rose almost 12% in the first quarter 2024. Bond yields were volatile and higher as aggressive expectations for Fed rate cuts were unmet and their timing extended. The Bloomberg U.S. Aggregate Index dropped 0.8% for the quarter. It sported a 4.85% yield as of 3/28/2024. Gold rose 8.1% lagging Crude Oil's (WTI Cushing Crude) 16% gain.

### Valuations

U.S. stocks (as measured by the S&P 500) are trading at an average P/E of 23.5x as shown in Figure Two. P/Es are still above historical averages when adjusted for the higher priced and fastest growing leaders. The S&P 500 Information Technology Sector and Software firms trade at 38x trailing P/E. In contrast the average P/E of Regency's individual stock buy list is 19.3x as shown in Figure Two.

<sup>1</sup> "Magnificent Seven" is composed of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla.

FIGURE TWO: S&P 500 TOTAL RETURN INDEX P/E



SOURCE: RWM, BLOOMBERG L.P.

International developed market stocks continue to offer a 20% or greater discount to U.S. stocks and twice the dividend yield. U.S. bonds remain competitive with stocks, offering close to a five percent yield as of March 31st. The FED has reiterated its expectations that rates are likely to move lower when inflation resumes a downward trend. It may cut rates as early as June and lower them once or twice more before the end of 2024.

**Fundamentals**

Low unemployment rates, stable residential real estate markets, and higher stock markets are contributing to extending a robust economic cycle. While both consumer and commercial delinquencies are trending up, most measures remain below pre-pandemic levels. Office property values are lower, and many businesses must refinance maturing debt at higher levels (zero to two percent interest rates are long gone). Still, most sizeable businesses are reporting improving earnings gains with relatively high margins.

**Outlook and Investment Strategy**

Spring is here and flowers are blooming for us to enjoy – you just need to know where to look and who wants to see them. Others will focus on the rain clouds and occasional severe storms.

We remain cautiously optimistic that the recent rally will continue to expand and that interest rates are more likely to drop than rise later this year. In a presidential election year, turbulence and volatility are to be expected so we espouse discipline and the avoidance of both greed and fear.

Thank you for allowing us to be on your financial team and for referring us to those you care about most. Don't forget to smell the flowers!



Andrew M. Aran  
CFA  
Managing Partner



Mark D. Reitsma  
CFP®, CMFC, AEP®  
Managing Partner



Timothy G. Parker  
CFA, AEP®  
Managing Partner



Bryan D. Kabot  
CFP®, AAMS®  
Managing Partner  
& Chief Operating Officer



Mark M. Andraos  
CFA, CFP®  
Partner & Wealth Advisor



Gavin Charlton  
Associate Portfolio Manager