



4 Weeks Ending February 9, 2024

	High	Low	Last
Federal Funds	5.33%	5.33%	5.33%
30yr T-Bonds	4.41%	4.12%	4.37%

Gold (London PM)	\$2053.00	\$2002.60	\$2023.50
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	High	Low	Last	200D M.A.
DJIA	38726.33	37266.67	38671.69	34971.77
DJUA	885.49	831.46	834.43	881.71
NASDAQ	15990.66	14855.62	15990.66	13820.40
S&P 500	5026.61	4739.21	5026.61	4463.29
S&P 500 P/E	Current: 27.3		95 yr Avg: 17.7	

Technical and Monetary Investment Analysis

The Goldilocks Outlook

What needs to go right... and what could go wrong...

The new year began with a universal consensus that the Federal Reserve would make its first rate cut in March, followed by as many as five more rate cuts before the end of the year. And the jubilant optimism on Wall Street seemingly turned into a competition to see who could make the most bullish forecast...

The Fed Just Confirmed 2024 Could Be Colossal For Stocks – *Investor Place, 12/13/2023*

The Dow will surge 24% after the Fed's first rate cut with recession looking unlikely – *Yahoo! Finance, 1/25/2024*

That was until this week's "sticky inflation" data hit...

Wall Street falls as hot inflation data dampens early rate-cut hopes – *Reuters, 2/13/2024*

It has been a wild 2-year ride starting with the 2022 bear market followed by a hype-driven rally that has –as yet– carried only the blue chip DJIA and S&P 500 Index to new highs. Most investors would be surprised to learn that simply sitting in safe T-bills over this two-year round trip would have beaten over 60% of the stocks in the S&P 500 and over 70% of the stocks in the small-cap Russell 2000 Index.



In this issue, we explore the new evidence supporting a possible "soft landing" scenario, and lay out prerequisite criteria for increasing our invested position. But we also accompany that with the challenges and unprecedented risks still present in today's market. One of those risks, of course, is the sheer frenzied exuberance as shown here in *InvesTech's* newly constructed Artificial Intelligence Index. After peaking ahead of the broader market in 2021 and tumbling -50%, this barometer of public speculation has soared to ominous levels that should have even the ardent supporter worried that something might go "Pop!"

It's not hard to find other systemic risks as interest rates take an increasing toll...

US loan delinquency rates 'rising across the board' – *NY Fed – Central Banking, 2/8/2024*

The Bill Is Coming Due on a Record Amount of Commercial Real Estate Debt

– *Wall Street Journal, 1/16/2024*

So let's dive into these treacherous waters and examine the weight of the evidence as this economic showdown continues toward an unpredictable conclusion...

The Round Trip

Recently, hype and headlines have been focused on the stock market reaching new all-time highs. This warrants at least a brief review of the last two years.

Dow Jones hits an all-time high as investors cheer progress on inflation – *Washington Post*, 12/13/2023

S&P 500 hits record as technology rally pushes stocks higher – *Financial Times*, 1/19/2024

Despite the strong stock market performance over the past 15 months since the bear market bottom, only the Dow Jones Industrial Average (DJIA) and S&P 500 Index have managed to fully recover their 2022 losses (see graphs at right). Other indexes (and likely many investors) have not experienced a full round-trip. The siblings of the DJIA, the Dow Jones Transportation Average (DJTA) and the Dow Jones Utility Average (DJUA), have *not* reached new highs, and in fact, the DJUA is within striking distance of its multi-year low (third and fourth graphs at right).

This is important because transports are typically more economically sensitive, while utilities are a bellwether—often leading major downturns in the market. Note that divergences between the overall DJIA and its utility and transportation counterparts have frequently occurred at major market tops in the past, as shown in this table:

Divergences at Market Tops 1960 - Current			
Year	DJTA Divergence	DJUA Divergence	DJIA Decline
1961	✓	✓	-27.1%
1966	No	✓	-25.2
1968	No	No	-35.9
1973	✓	✓	-45.1
1981	No	✓	-24.1
1987	No	✓	-36.1
1990	✓	✓	-21.2
2000	✓	✓	-37.8
2007	✓	✓	-53.8
2020	✓	No	-37.1
2022	✓	No	-21.4
2024	✓	✓	?

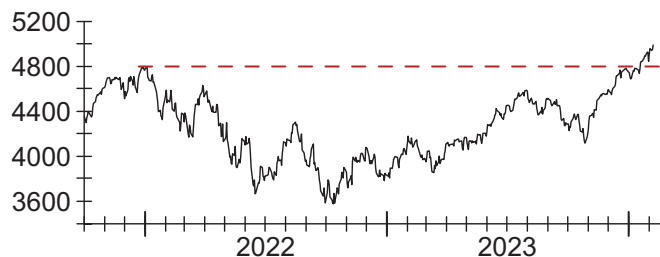
InvesTech Research

How significant is this non-confirmation of new bull market highs? What does this divergence mean today? Only time will tell...

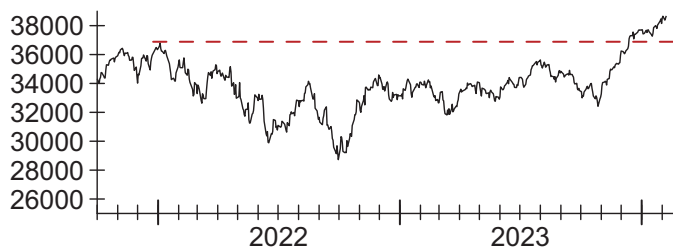
As divergences continue within the Dow Indexes, the NASDAQ has recovered much of its 36% loss from 2022 but has yet to hit a new high. The premier, small-cap Russell 2000 (bottom graph at right) has barely erased half of its losses and remains 20% off its high. While the Russell 2000 Index is typically one of the strongest indexes coming out of a bear market bottom, it is currently bouncing along at the same level it was two years ago.

So, in spite of investor exuberance, the extreme concentration and notable divergence within the stock market remain. The narrowness in this market is exemplified by the fact that *barely half* (55%) of the stocks in the S&P 500 have seen any positive gains over the past 12 months, while speculative growth stocks have driven the Index itself up 20.8% over the same period.

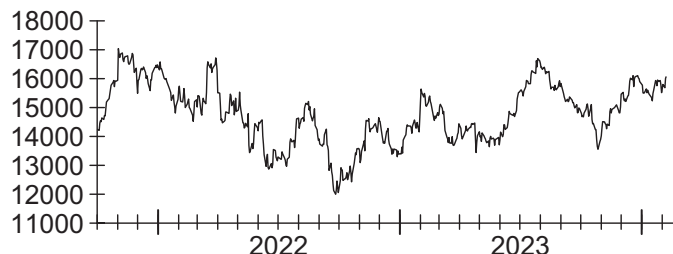
S&P 500



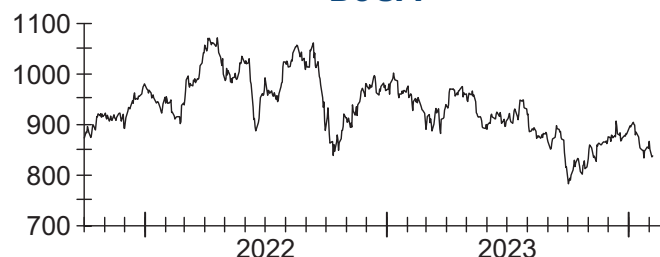
DJIA



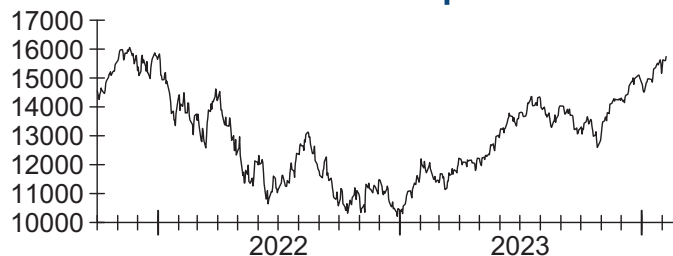
DJTA



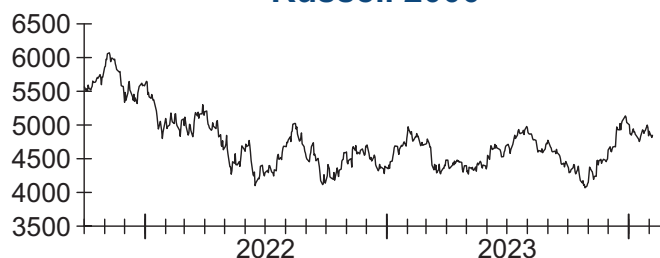
DJUA



Nasdaq

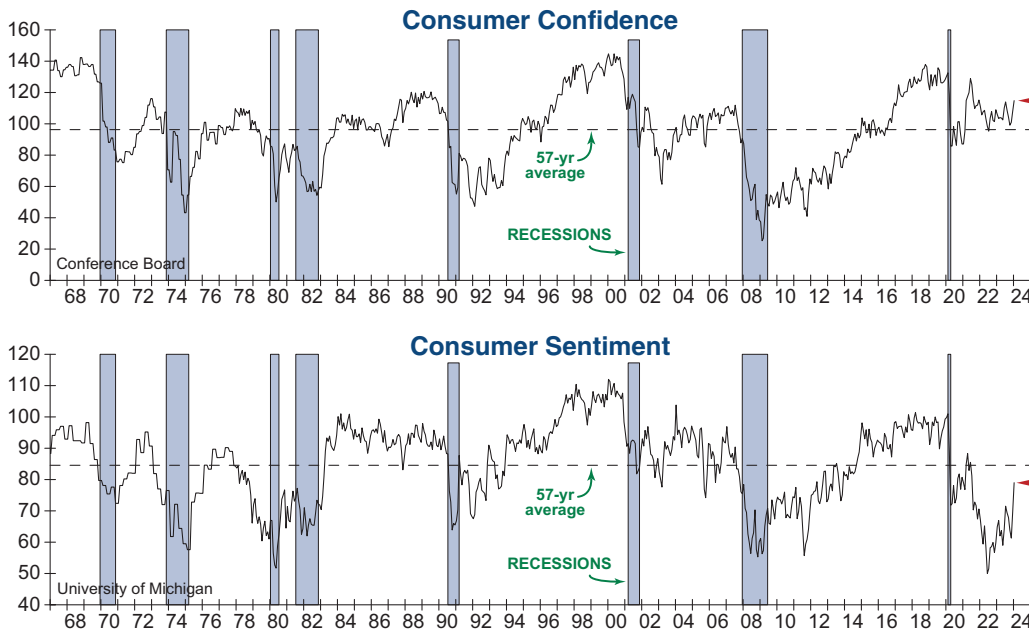


Russell 2000



Evidence of a [Possible] Soft Landing

Regardless of the ongoing divergences in the market, there is a possibility that a Goldilocks scenario may be emerging. Recently, consumer attitudes have rebounded, providing the most compelling evidence yet for a soft landing.

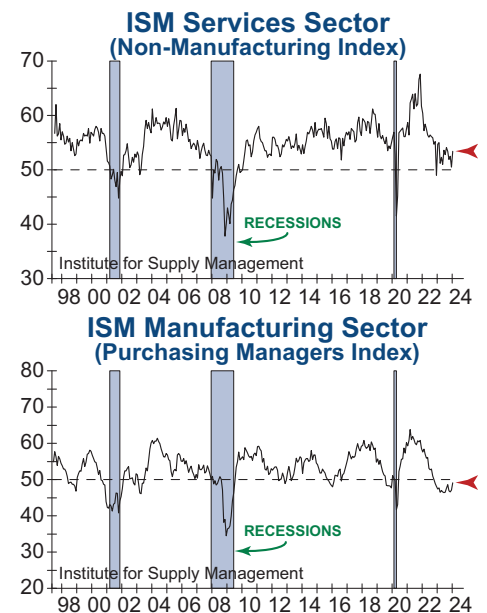


Both Consumer Confidence from the Conference Board and Consumer Sentiment from the University of Michigan have bounced back significantly since our last issue. Consumer Confidence (how consumers feel about the overall economy, employment, and spending) was up a hefty 6.8 points in January. Consumer Sentiment (how consumers feel about their own personal situation) shot up 9.3 points last month, though it's still below its 57-year average. Typically, these types of surges are not seen going into a recession. However, if they reverse again, a soft landing becomes far less likely.

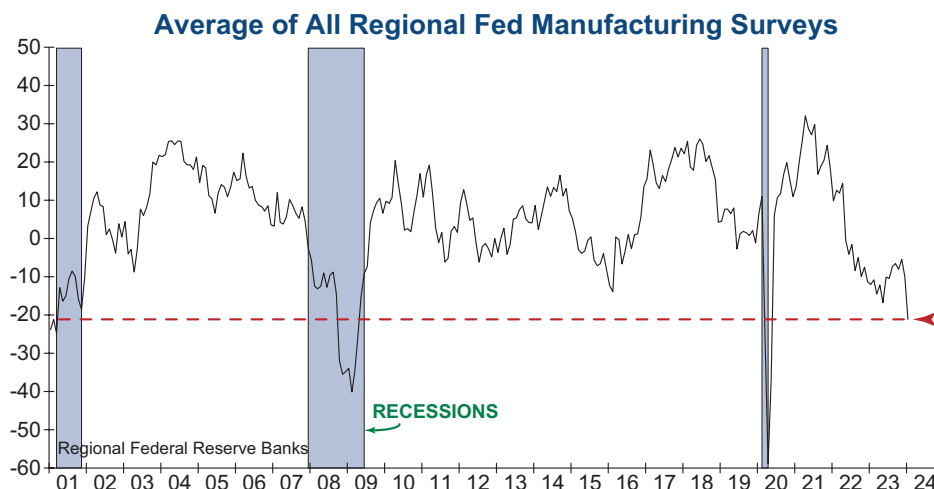
Similarly, after falling in recent months, the Institute for Supply Management's (ISM) Services Sector Index (top graph at right) has suddenly jumped higher and remains above contraction territory. The ISM Manufacturing Sector Purchasing Managers Index (bottom graph at right), which has been in contraction for fifteen months, has also finally started to show improvement. It is currently sitting at 49.1, only slightly below expansion territory (>50).

The bulk of these recent jumps can be attributed to increases in the New Orders Index, a subcomponent of each survey. Growth in new orders for both sectors in January suggests further improvement in these indexes in the months ahead.

Interestingly, while the broader ISM surveys have shown improvement, there is another side to the story. Manufacturing surveys from five regional Federal Reserve banks are tracked monthly and represent each region's manufacturing activity.



The average of these five (shown at left) has been in contraction (<0) for 6 months longer than the ISM Manufacturing PMI and has recently taken a dive. The January reading for the average of these monthly surveys came in at -21, its lowest level (outside of the pandemic) since the Great Financial Crisis. Such a stark dichotomy between the overall and regional surveys is not typical. This average would need to see a solid rebound for a soft landing to succeed.



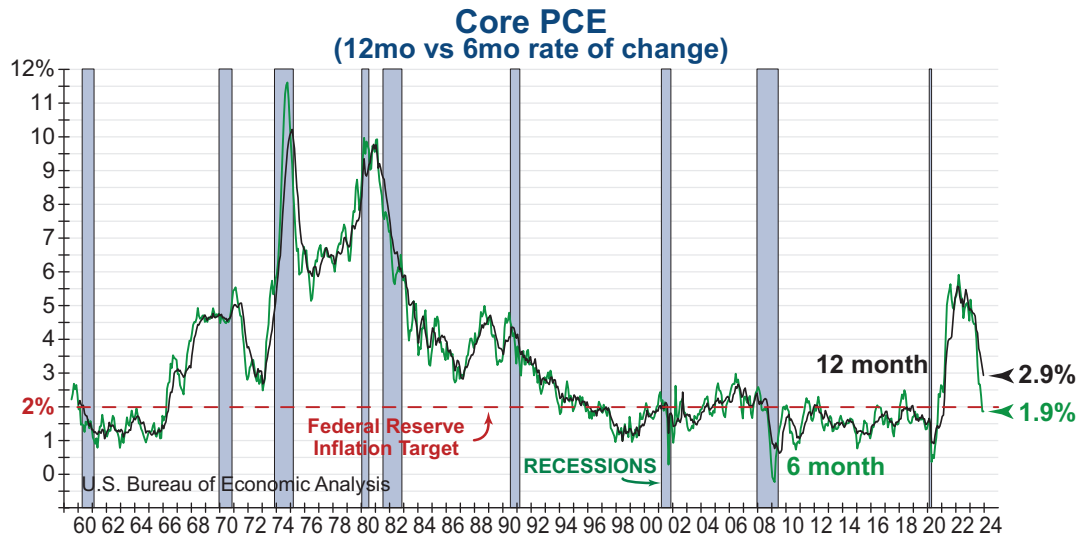
The Fed's Goldilocks Puzzle

Another potentially more important piece of evidence supporting a Goldilocks scenario is the continued easing of inflation pressures. While these pressures have not fully dissipated, they have declined over the past year and have given both consumers and investors hope.

Fed's preferred inflation gauge falls below 3% for first time since March 2021 – Yahoo! Finance, 1/26/2024

Inflation is down sharply, but getting to exactly 2% will be tough – CNN Business, 1/11/2024

Core Personal Consumption Expenditures (PCE), the Federal Reserve's preferred measure of inflation (black line on graph), is currently at 2.9% as of last month. While still almost a full percentage point higher than the Fed's target, it has been declining faster of late. The 6-month rate of change (green line on graph) has successfully reached the 2.0% target, but whether the 12-month Core PCE follows suit remains to be seen.

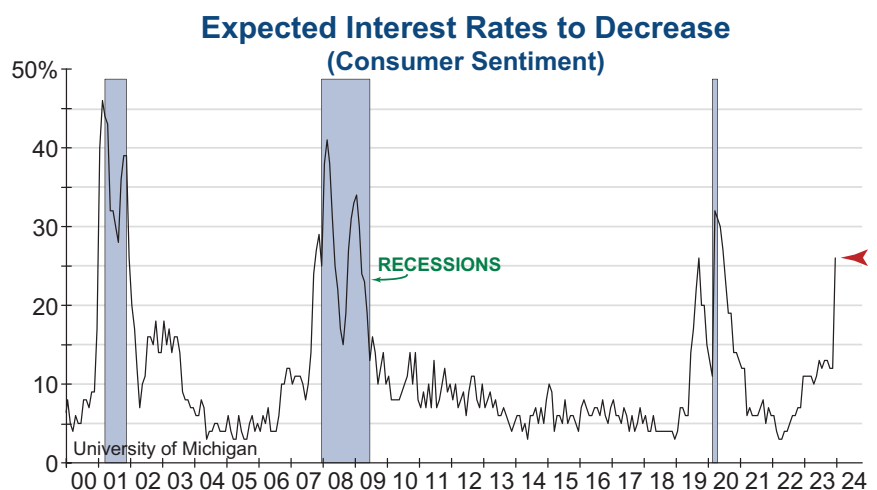


As increasing prices have slowed, wage growth has remained high. While wages are not a direct component of PCE, they permeate all sectors of the economy, and this stickiness underpins today's high prices. The Atlanta Fed's Wage Growth Tracker, at left, has retreated from its peak in 2022 but is still near the highest levels of the past 30 years and indicates that wage growth persists at 5.0% year-over-year. While good for consumers, this poses a problem for the central bank as it usually takes an economic recession to bring wage inflation down significantly. It's no surprise that the FOMC and Chairman Jerome Powell want to see improving evidence toward reaching their goal before cutting interest rates.

Powell insists the Fed will move carefully on rate cuts, with probably fewer than the market expects – CNBC, 2/5/2024

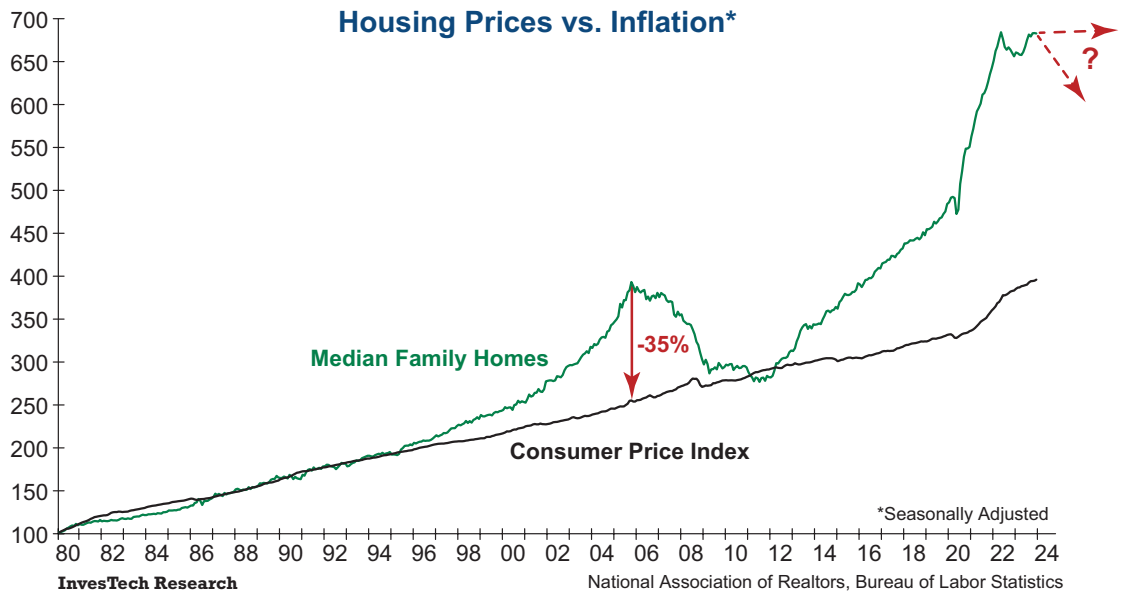
Fed policymakers signal no rush to cut US interest rates – Reuters, 2/8/2024

Eager anticipation of rate cuts for 2024 is one of the reasons consumers are finally feeling better. In fact, this was a major driving factor behind the recovery in Consumer Sentiment in January (see page 3). Last month showed a dramatic increase in respondents who believe that interest rates will head lower in the next twelve months (graph at right). Ironically, this level of consumers' expected interest rate cuts has typically only registered near or in recessions. While many cyclical price pressures have come down rapidly, the last mile down to the Fed's target might prove more difficult than expected and delay long-awaited interest rate relief.



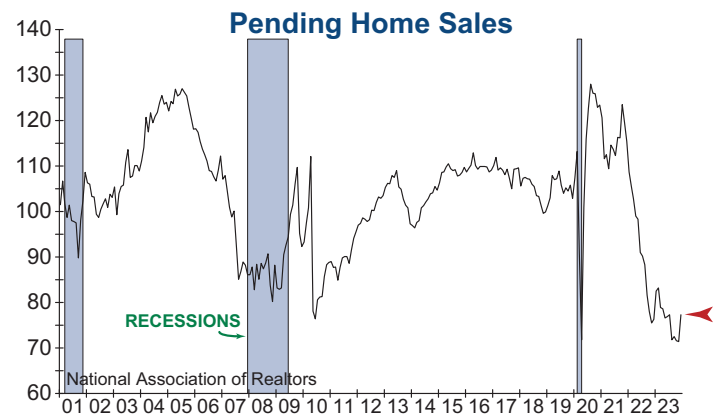
Systemic Risks: What could go wrong?

Despite the level of positivity in the Goldilocks camp, there are still a number of major systemic risks that keep us up at night. Leading these is the housing market, which remains one of the largest potential dangers today. It's impossible to look at the graph below without thinking, "This is going to end badly!"



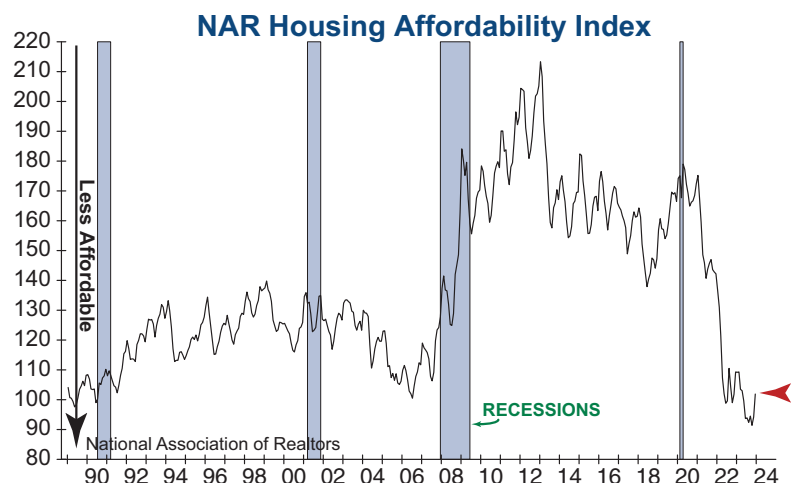
During the last housing crisis, we were one of few who highlighted the massive disconnect between Median Family Home prices and the Consumer Price Index. From the peak in 2005, it took over five years for home prices to return to reasonable levels – and this included one of the largest recessions of the past 100 years! While it's possible that home prices could slowly decline over the next five to ten years without a major collapse, historically this has never happened, and additional evidence suggests this outcome is highly unlikely.

For example, the 30-year mortgage rate shown below has eased from 20+ year highs, but it has had little effect on pending home sales (graph at right), which remain near their lowest since tracking began in 2001. The combination of high prices *and* mortgage rates has manifested itself in a substantial affordability problem.



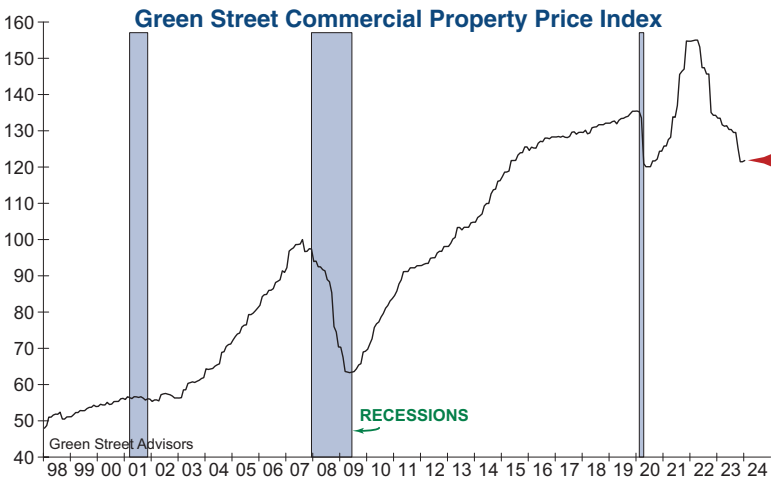
Housing costs now unaffordable for record number of renters in US – FOX Business, 1/26/2024

The housing sector's biggest cheerleader, the National Association of Realtors (NAR), admits that skyrocketing home prices have pushed their own Affordability Index near its lowest levels on record (see graph at right). Even if mortgage rates fell dramatically lower, current home prices are so extremely elevated that affordability would continue to be a major issue. This all makes a very difficult – if not impossible – path for home prices to fall in a manner that will not negatively impact the economy and stock market.



Piling on the Systemic Risk

Adding to potential systemic risks is the unwinding of the commercial real estate market, which could have far-reaching effects on the broader economy. The Green Street Commercial Property Price Index (CPPI), which we have



highlighted before, is appraisal-based and derived from price appreciation estimates of the property portfolios owned by a selection of U.S. Real Estate Investment Trusts. While the CPPI has moderated from its rapid 2022 decline, many are concerned about what comes next.

Banks are being rocked again as real estate losses mount – CNN Business, 2/2/2024

Dark days are coming for US commercial real estate and the banks holding the loans
"Goldman Sachs estimates \$1.2 trillion in mortgages is due this year and next, others say even more. Much of it underwater." – ForexLive, 2/3/2024

Janet Yellen is 'concerned' and sees a 'lot of stress' ahead for commercial real estate as wave of giant loans come due this year – Fortune, 2/7/2024

And some are even wondering if this crisis could spread...

Are apartments the next mess for commercial real estate? – Mercury News, 2/7/2024

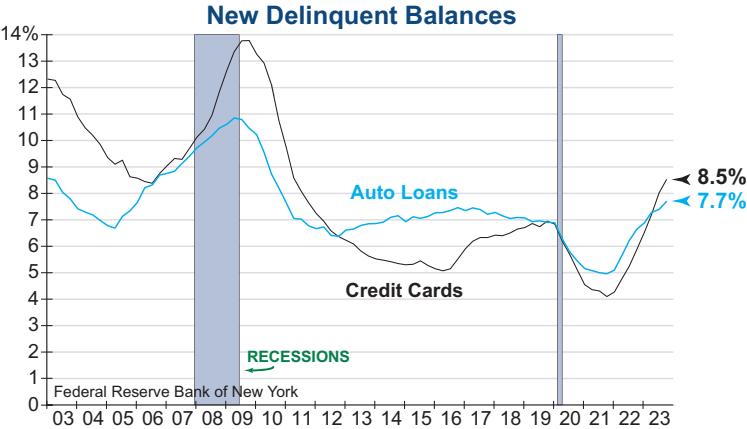
German bank warns of 'greatest real estate crisis since the financial crisis' as CRE contagion spreads – Financial Post, 2/7/2024

Japan Bank Aozora Tumbles as US Commercial Real Estate Bet Blows Up – Bloomberg, 2/1/2024

Not only is commercial real estate teetering on the verge of trouble, but consumers are experiencing growing credit weakness as well. Credit card debt recently hit a record high of \$1.13T, an increase of 32% over the past two years. This dramatic rise in personal debt has started to have an effect on borrowers, as evidenced by New Delinquent Balances (graph at right) which has climbed noticeably for both auto loans and credit cards.

Credit card delinquencies surged in 2023, indicating 'financial stress,' New York Fed says – CNBC, 2/6/2024

Debt and leverage have an uncanny ability to quietly build over many years during an economic expansion. Our concern is that cracks are beginning to form in the foundation, which could show us "who's been swimming naked" without a viable way out...



MODEL FUND PORTFOLIO

NEXT ISSUE: March 15, 2024

CHANGES SINCE THE LAST ISSUE: No changes to the Model Fund Portfolio have been recommended since the last issue. The Model Fund Portfolio now has an invested allocation of 49%, with the remainder (51%) held in short-term Treasuries or a money market fund.

FOR NEW SUBSCRIBERS: Purchases after our initial recommendation must be made at your discretion. We generally advise bringing your portfolio in line with the following allocation by phasing into the market over approximately two months.

Percent	Fund	Symbol	52-week		Init. Recommended Date	Recommended Price	Recent Price	Alternate Funds
			Hi	Low				
51.0%	T-BILLS/ CASH/ MONEY MARKET							Money Market Fund
7.0%	CONS. STAPLES SELECT SECTOR SPDR	XLP	75.85	65.72	7/1/11	22.50	73.63	
4.0%	ENERGY SELECT SECTOR SPDR	XLE	91.79	74.22	7/1/11	49.68	84.23	
12.0%	HEALTH CARE SELECT SECTOR SPDR	XLV	144.37	122.11	7/1/11	29.16	144.20	
5.0%	INDUSTRIAL SELECT SECTOR SPDR	XLI	117.12	94.98	7/1/11	29.72	117.12	SPDR S&P DIVIDEND (SDY)
3.0%	INVESCO S&P 500 EQUAL WEIGHT TECHNOLOGY	RSPT	34.32	24.88	9/18/20	16.55	34.23	
12.0%	PROSHARES S&P 500 DIVIDEND ARISTOCRATS	NOBL	95.94	83.54	7/20/23	95.06	95.56	
2.0%	UTILITIES SELECT SECTOR SPDR	XLU	68.20	55.67	9/9/22	73.78	60.97	
4.0%	VANECK VECTORS GOLD MINERS	GDX	35.29	25.49	9/29/17	21.28	27.29	

Where to Watch

As headlines abound over new all-time highs in the S&P 500, it is important to keep both the “downs” of 2022 and the “ups” of 2023 in perspective. While there is increasing evidence of a potential soft landing, the chances of achieving this much-anticipated Goldilocks scenario are inherently difficult. Unfortunately, the Fed has a dismal track record of success (see table at right)...

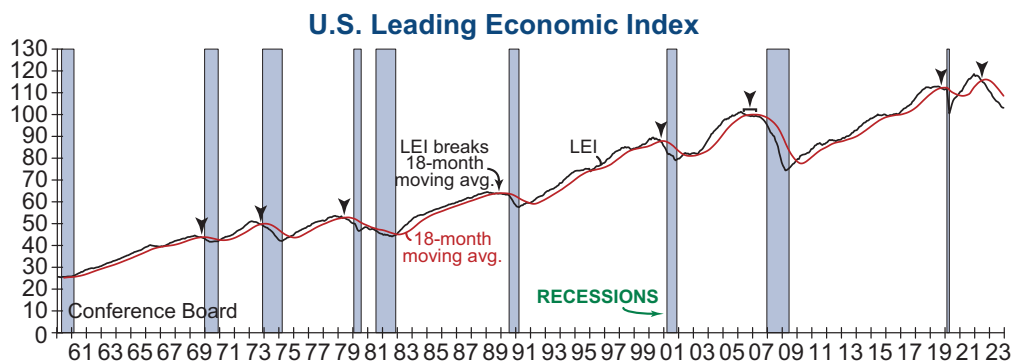
Below are some key areas of improvement we require in the weight of the evidence to become more aggressive on investment opportunities in the InvesTech Research Model Fund Portfolio:

Consumer Optimism

- Where consumer sentiment goes, the economy will likely follow! If Consumer Confidence and Sentiment continue moving higher, the probability of a soft landing improves. However, we still have serious concerns about mounting stress on consumers.

Absence of Recession Confirmation

- Historically reliable macroeconomic data such as the ISM Manufacturing and Services Indexes (see page 3) would need to see continued improvement.
- If the Leading Economic Index (LEI) shown below breaks out of its persistent downtrend (22 consecutive months!) and moves convincingly higher, it would signal that the economy is likely out of the recessionary woods.



Absence of New Technical Bear Market Risk

Similar to a lack of recession risk, the absence of technical bear market signals is absolutely necessary.

- Specifically, if bearish "Distribution" [*2 – shaded region] in our Negative Leadership Composite (NLC) remains absent, then significant downside risk is not likely on the horizon.
- Furthermore, the "Selling Vacuum" component [*1] of our NLC will need to resume an upward trajectory.

Even with improvement in these key areas, it's important to stay on guard. This is still a dangerous environment as systemic issues remain in terms of overvaluation, market concentration, and housing risks. While we may incrementally increase equity allocation based on measurable progress toward a soft landing, we will quickly step up defenses in line with our safety-first philosophy *if necessary*.



[*1 SELLING VACUUM [-BULLISH-]: This confirms the absence of negative or downside leadership. It is normally a very bullish signal since a stock market without any downside leadership is destined to move much higher.

[*2 DISTRIBUTION [-BEARISH-]: This signals that investors are anxious to sell stocks regardless of whether their position is at a loss, or the stock market is tumbling to new lows. It carries bearish implications as it suggests investors will use any rallies to get out of the market.

PERSONAL PERSPECTIVE

Famous Last Words ...and why you need to man your own lifeboat

In a recent interview on **60 Minutes**, in response to questions about Commercial Real Estate defaults, Federal Reserve Chairman Jerome Powell said, *"It should be manageable."* While that is reassuring to many, the more seasoned investors might remember Fed Chairman Ben Bernanke in 2007 saying, *"the impact on the broader economy and financial markets of the problems in the subprime markets seems likely to be contained."* Instead, the economy dropped into the deepest recession since the 1930s.

The abnormal developments (i.e. ongoing warnings) in this "presumed" new bull market have kept us on the defensive. And this month's surprisingly strong employment report triggered a 1.74% rally in the Nasdaq Index while almost two-thirds of Nasdaq stocks actually closed lower for the day! To show how abnormal that negative one-day breadth divergence is, it's occurred only ONCE in the Nasdaq's 53-year history: May 24, 2000 – two months after the Tech Bubble peak.

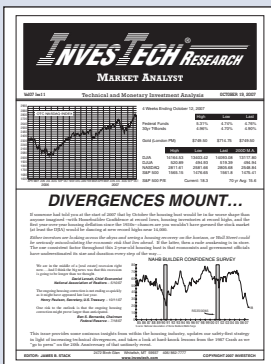
Whopper! Employers Added 353K Jobs in January, Blowing Past Estimates

U.S. News & World Report – 2/2/2024

Following the weight of the evidence...

New evidence inside this issue confirms the Fed just may (emphasis on "may") pull off a soft landing if consumer confidence holds firm... if new recession warning flags remain subdued or absent... and if the "stickiness" of inflation starts to soften. But this potentially good news is not without an unusual or even unprecedented list of systemic risks – any of which could trigger a very hard landing and recession.

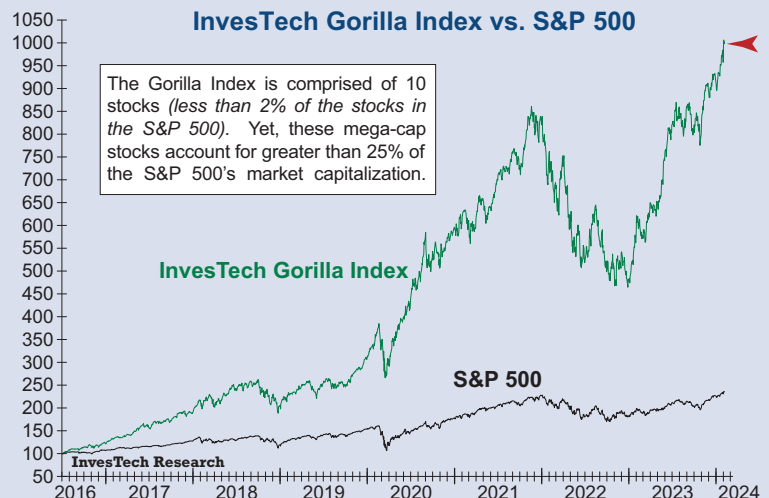
October 2007



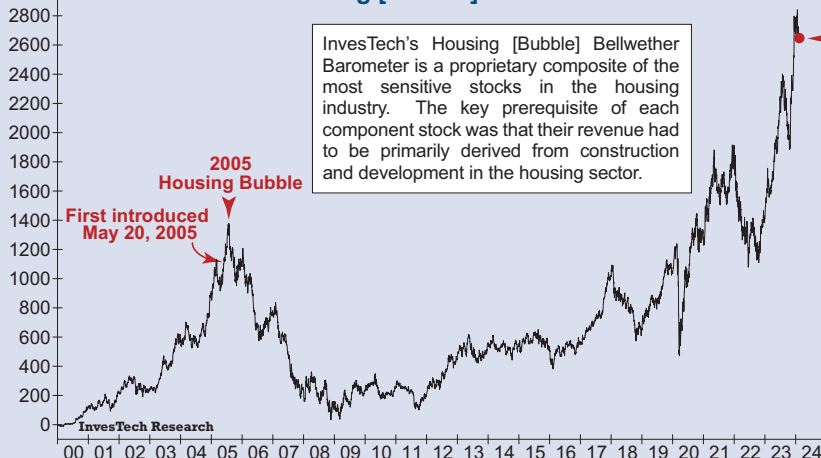
Our strategy is the same as it was in 2007 when both the Fed and economists were universal in forecasting a soft landing – but instead, it turned into a crash leading into the Great Recession.

Our October 2007 issue, published the same month the bull market peaked, was titled *"Divergences Mount..."* and highlighted the non-confirmations in market breadth, the DJ Transports & Utilities, AND the Russell 2000 index – identical concerns to those in this issue.

In the coming weeks and months, we'll track the critical evidence of a soft landing discussed inside. But more than that, we'll give you the tools to know if or when the landing gear is being ripped off the economic airplane... starting with keeping a close



InvesTech Housing [Bubble] Bellwether Barometer



eye on *InvesTech's* new Artificial Intelligence Index on page 1, our *InvesTech Gorilla* index of overvalued big-cap momentum stocks (above), and our *InvesTech Housing Bubble Bellwether Barometer* (at left).

If any of these break decisively and ominously to the downside –as each of them did in late 2021– then it will undoubtedly be time to start battening down the hatches to prepare for a hard landing...

James B. Stack

Stack Financial Management's Important Milestones to Celebrate!



30th Anniversary

This month marks the 30th anniversary of our founding of Stack Financial Management (SFM). Over the past three decades, we have helped clients navigate treacherous bear markets, protected their hard-earned capital, and built a foundation of long-term relationships with individuals and families across the country. We are greatly humbled by this milestone. SFM could not have survived and thrived as an independent Registered Investment Advisor over these many years without the unwavering confidence, trust, and loyalty of our clients.

Forbes 2024 List *“Top Women Wealth Advisors Best-in-State”*

We are excited to share that Annell Danczyk has been named to *Forbes* 2024 list of “Top Women Wealth Advisors Best-in-State.”¹ Annell is Stack Financial’s Vice President, a Senior Portfolio Manager with the firm, and has been an integral part of the SFM Team for over 20 years.



The *Forbes* ranking, developed by SHOOK Research, is based on algorithms of qualitative data, learned through surveys and interviews to evaluate best practices, such as service models, investing models and compliance records as well as quantitative data, such as revenue trends and assets under management. SHOOK accepts advisors who meet pre-determined minimum thresholds and acceptable compliance records. Out of over 44,000 nominations received, the list is narrowed to only 1,991 women. We are proud to have Annell join this selection of esteemed candidates.

About Stack Financial Management

Clients of SFM hire a firm, not an individual. Our team of caring professionals is committed to achieving the highest standard of honesty, integrity, and excellence in providing a concierge money management experience to every client. Our “safety-first” investment philosophy and focus on active risk management strives to help clients gain increased peace of mind in today’s volatile markets while achieving their long-term investment goals.

To learn more about Stack Financial Management
call (406) 862-8000
or visit www.StackFinancialManagement.com

¹Rankings Methodology and Important Disclosures

Forbes – On February 8, 2024, Annell Danczyk was ranked #3 out of 7 in the state of Montana on *Forbes* 2024 “Top Women Wealth Advisors Best-In-State” list. Data for *Forbes* rankings is developed by SHOOK Research (SHOOK). The rankings are based on algorithms of qualitative criteria, gained through telephone, virtual, and in-person due diligence interviews, and quantitative data. The algorithms weigh factors like revenue/production trends, assets under management, client-related data, compliance records, industry experience, community involvement, and approach to working with clients.

For more information about SHOOK’s methodology for the “Top Women Wealth Advisors Best-In-State” list, visit:

<https://www.forbes.com/sites/rjshook/2024/02/08/methodology-americas-top-women-wealth-advisors-2024/?sh=426358a04502>

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IMPORTANT DISCLOSURE INFORMATION: This is a paid insert from Stack Financial Management (SFM). SFM is a registered investment advisor and is a separate company from InvesTech Research.

Celebrating 30 years

Hosted by Stack Financial Management

GLACIER SUMMIT

June 12 - 14, 2024 ♦ Whitefish, MT

We are excited to be hosting the upcoming 2024 Glacier Summit Wealth Conference in our hometown of Whitefish, Montana, June 12-14, during the 30th anniversary of Stack Financial Management! This is the first time since 2014 that we have held this event which will bring together an elite group of like-minded investors from across the country for a truly unique experience that is both educational and entertaining.

While this event is currently sold-out from an early mailing to SFM clients and long-term InvesTech subscribers, don't despair – we are maintaining an active waiting list for those interested in attending. We expect a few cancellations and would love for you to join us.

Why attend the Glacier Summit Wealth Conference?

- ♦ Find out how our Portfolio Management Team is constructing our portfolios to maximize long-term returns while maintaining our “safety-first” philosophy during this tumultuous time in the market.
- ♦ Hear from our founder and CEO, Jim Stack, to learn how lessons of past market cycles are relevant in today's uncertain economic climate.
- ♦ Special Event! Nationally acclaimed expert on personal finance, the economy, and the markets as well as best-selling author, Terry Savage, will be moderating a spirited panel discussion with Jim and the SFM team during a lively exchange about the current economic climate.

To add your name to the waiting list and to see the complete conference schedule, visit:

<https://www.stackfinancialmanagement.com/glaciersummit/>

NOTE: We will also be recording presentations from the conference for viewing online after the event is concluded!



GLACIER SUMMIT AGENDA

Wednesday, June 12, 2024

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| 3:00 PM | Registration |
| 5:00 PM | Welcome Reception |

Thursday, June 13, 2024

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|----------------|--|
| 8:30 AM – Noon | Keynote & General Sessions |
| 12:00 PM | Lunch |
| Afternoon | Specialized Workshops |
| 6:30 PM | Dinner and Fireside Chat with Terry Savage & Jim Stack |

Friday, June 14, 2024

- | | |
|----------------|------------------|
| 8:30 AM – Noon | General Sessions |
| 12:00 PM | Lunch |
| Afternoon | Office Tours |

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