

Cycle Indicators, Risk Metrics, & Portfolio Positioning

Week of February 19, 2024

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Astoria's Portfolio Management Process



What are we trying to accomplish in our ETF portfolios?

- Astoria Uses Business Cycle, Earnings/Valuations, and Sentiment & Risk to Dictate our Asset Allocation/Portfolio Positioning. We incorporate a Dynamic Overlay depending on the 3 inputs above.
- Target OW assets that have earnings that are growing, cheaper than market, poor sentiment, and have a catalyst for upside
- Target UW assets that are **expensive**, earnings are **slowing**, **strong** sentiment, that **lack** a catalyst for upside
- Diversify our factor exposures
- Utilize liquid alternatives to hedge downside risk

Positive Business Cycle Indicators

- **Nonfarm Payrolls** continued to show strong job growth in Jan and came in at almost double expectations
- **ISM Manufacturing PMI** beat estimates & trended higher in Jan. It lies just below 50 and is inching closer to expansionary territory
- **US Real GDP** for Q4 2023 printed **3.3%**, well above the 2% forecast; **Atlanta Fed's GDPNow** also expects Q1 2024 GDP to print **2.9%**
- Credit spreads: **no significant widening** to note

Negative Business Cycle Indicators

- MarketDesk's US Aggregate Business Cycle Indicator – **neutral**; business cycle in slowdown phase
 - Strong labor market juxtaposed by historically weak **housing market, ISM New Orders and the yield curve**
- **All Jan CPI and PPI prints came in hotter than expected**. Core CPI remains at almost double the Fed's 2% target. Could this **reignite inflation worries**?
- Leading Economic Indicator (LEI) – **contraction** mode for **21** straight months
- **Retail Sales** declined more than expected in Jan. Is the **consumer weakening**, or can this be attributed to negative seasonal factors?
- Net % of Banks Tightening Lending Standards & Forecast – **tightening** on the margin leading to less credit availability

Positive Earnings/Valuation Indicators

- **Q4 2023 Earnings Season:** The blended (actual reported results and remaining estimates) Q4 2023 EPS growth rate is 2.6%, exceeding the 1.5% estimate from Dec 31, 2023
- Earnings expected to recover further/stabilize throughout 2024 amid margin expansion
- Though more expensive, the US and Japan have strong estimate revisions and growth estimates
- International markets are attractively valued with more upside potential in the event of a weakening dollar
 - Eventual weakening of the dollar means US exports are more attractive for buyers in other countries
- Other Valuations
 - Rest of US market (Mid, Small, Value, Dividends, Cyclical) are relatively cheaper

Negative Earnings/Valuation Indicators

- Corporate Earnings: **US large cap index valuations** have **increased** again
- Though **Europe** has cheaper valuations, **estimate revisions** and **growth estimates have fallen**. Could this be linked to **China exporting deflation**?
- Earnings Indicators:
 - **Earnings revision breadth** has improved recently **but is still negative**
 - Stimulus supporting consumer demand is **fading**
- Valuations
 - CAPE Shiller **20-year highs**; currently **31** vs 15 in GFC (2008) and 45 in tech bubble (2000)
 - S&P 500's stock multiple and forward P/E ratio remain **elevated**

Positive Sentiment

- Feb Michigan Consumer Sentiment Index (prelim) notched highest print since Jul 2021
- Jan Conference Board Consumer Confidence Index posted highest print since Dec 2021
- International CB policy: Japan and China continue to add liquidity

Negative Sentiment

- As evidenced by the ratio between the equal weighted and cap weighted S&P, **market breadth has deteriorated** since the start of the year
- Yield curve has been **inverted** for some time; usually recession hits 100% of the time over the past half a century.
 - Avoiding a recession would be historically unprecedented with a yield curve as inverted as it is
 - 16 months between inversion and recession in 2006-2008; 20 months since July '22 inversion
- Lending standards are **tightening** which will lead to **less credit**
- S&P **concentration risk remains high**

Portfolio Positioning

Tactical Models

- Renaissance:
 - **OW Quality**; **tilt away** from concentration risk using **EW strategies**
 - Closed sector UWs using EW technology & EW communication services ETFs; Now **OW** tech
 - Established a position in **Quality Growth**
 - **Outright** positions in **Europe/Japan**
 - Slight **OW** to inflation sensitive sectors but mainly industrials (sector with best combo of improving fundamentals); **EW** energy, and materials
- MARS:
 - **OW Quality**; **tilt away** from concentration risk using **EW strategies**
 - Closed tech-like sector UWs using EW technology & EW communication services ETFs; Now **OW** communication services
 - **OW** the **US** but maintained outright positions in **Europe/Japan**
 - Slight **OW** to inflation sensitive sectors (energy, industrials, materials)
 - **Decreased** inversely correlated alts as macro data has improved and rate cuts on the horizon

Strategic Models

- **Slight OW** to US, decreased exposure/**slight UW** to Europe/Developed Markets
- **OW Quality, Mix Value & Growth** (this is a change from last year), and slightly **UW** technology / communication services
- **Tilt away** from concentration risk using **EW strategies**
- **EW Duration** with the benchmark
- **Decreased** inversely correlated alts as macro data has improved and rate cuts on the horizon

Portfolio Positioning

		Aggressive UW/OW	Growth & Inc UW/OW	MARS UW/OW	RMDI UW/OW	Renaissance UW/OW
Asset Allocation	Equity	3%	2%	3%	1%	-2%
	US Equity	4%	3%	3%	5%	17%
	Non-US Equity	-2%	-2%	0%	-4%	-18%
	Fixed Income	-7%	-5%	-7%	-5%	1%
	Alternative	4%	4%	4%	4%	1%
Equity Regions	United States	3%	4%	1%	24%	18%
	Developed Markets	-2%	-2%	-1%	-17%	-10%
	Emerging Markets	-1%	-2%	-1%	-8%	-8%
Equity Sectors	Basic Materials	3%	2%	2%	4%	0%
	Communication Services	-2%	-2%	2%	-2%	1%
	Consumer Cyclical	0%	0%	-2%	-3%	1%
	Consumer Defensive	1%	1%	0%	1%	0%
	Energy	3%	2%	2%	5%	1%
	Financial Services	-2%	-2%	-2%	-1%	-5%
	Healthcare	1%	1%	-3%	0%	-1%
	Industrials	0%	0%	2%	-3%	3%
	Real Estate	0%	0%	0%	0%	-1%
	Technology	-3%	-2%	0%	-2%	4%
	Utilities	0%	0%	-1%	-1%	-1%

Source: BlackRock 360 Evaluator, Astoria Portfolio Advisors. Data as of February 19, 2024.

Portfolio Positioning

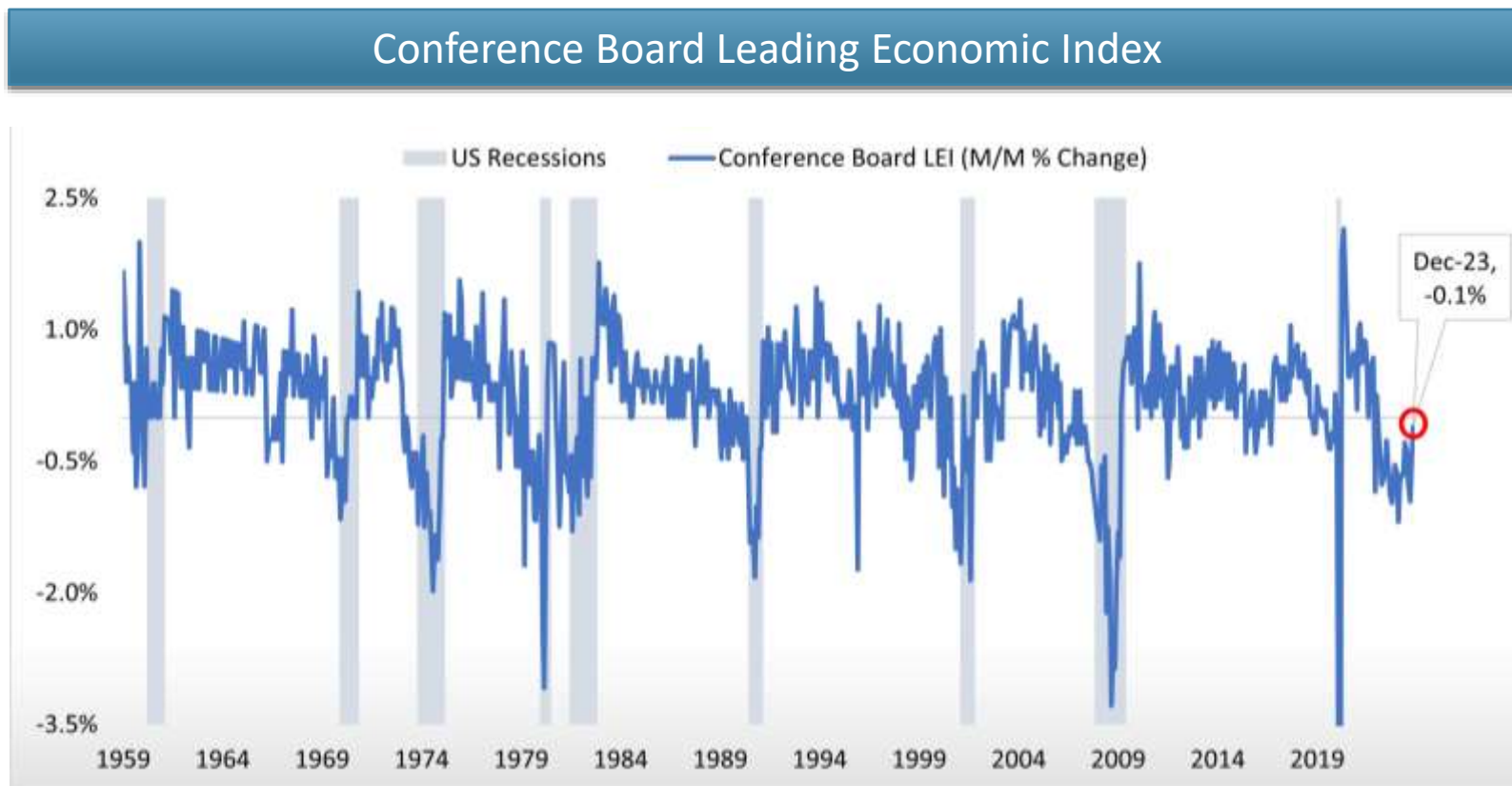
		Aggressive UW/OW	Growth & Inc UW/OW	MARS UW/OW	RMDI UW/OW	Renaissance UW/OW
Equity Style Box	Large	-24%	-23%	-22%	-30%	-17%
	Large Value	-6%	-6%	-5%	-9%	-7%
	Large Blend	-6%	-6%	-8%	-8%	-6%
	Large Growth	-11%	-11%	-9%	-13%	-4%
	Mid	20%	20%	18%	24%	17%
	Mid Value	8%	8%	6%	9%	4%
	Mid Blend	10%	11%	9%	13%	8%
	Mid Growth	2%	1%	3%	3%	5%
	Small	3%	3%	3%	5%	1%
	Small Value	0%	0%	0%	1%	-1%
	Small Blend	2%	2%	2%	3%	0%
	Small Growth	1%	1%	1%	1%	1%
Other Attrib	Standard Deviation	0.0%	-0.2%	0.3%	-0.1%	0.2%
	Avg. Effective Duration	-0.1	0.0	0.1	0.0	—
	12 Month Trailing Yield	-0.6%	-0.1%	-0.3%	-0.1%	-0.8%
Fixed Income Sectors	Government	3%	1%	-1%	-7%	—
	Municipal	-1%	-1%	-1%	18%	—
	Corporate	13%	14%	14%	3%	—
	Securitized	-16%	-15%	-13%	-14%	—
	Cash & Equivs.	0%	0%	0%	0%	—
Credit Quality	AAA	15%	12%	15%	-20%	—
	Inv. Grade	-15%	-12%	-15%	20%	—
	High Yield	0%	0%	0%	0%	—
	Not Rated	0%	0%	0%	0%	—

Source: BlackRock 360 Evaluator, Astoria Portfolio Advisors. Data as of February 19, 2024.

Business Cycle Indicators



The Conference Board's Leading Economic Index declined for the 21st straight month in Dec; However, rate of change of declines has been slowing



Source: Conference Board, Astoria Portfolio Advisors. Data as of January 20, 2024.

Feb's NAHB HMI strengthened on the back of falling mortgage rates. New Home Sales also climbed higher in Dec

NAHB Housing Market Index



Source: FactSet, NAHB - National Association of Home Builders, Astoria Portfolio Advisors. Data as of February 15, 2024.

New Home Sales



Source: FactSet, US Census Bureau, Astoria Portfolio Advisors. Data as of January 25, 2024.

However, Existing Home Sales missed estimates and fell further in Dec, and Building Permits (prelim) slightly decreased in Jan. Will this be their bottom?

Existing Home Sales



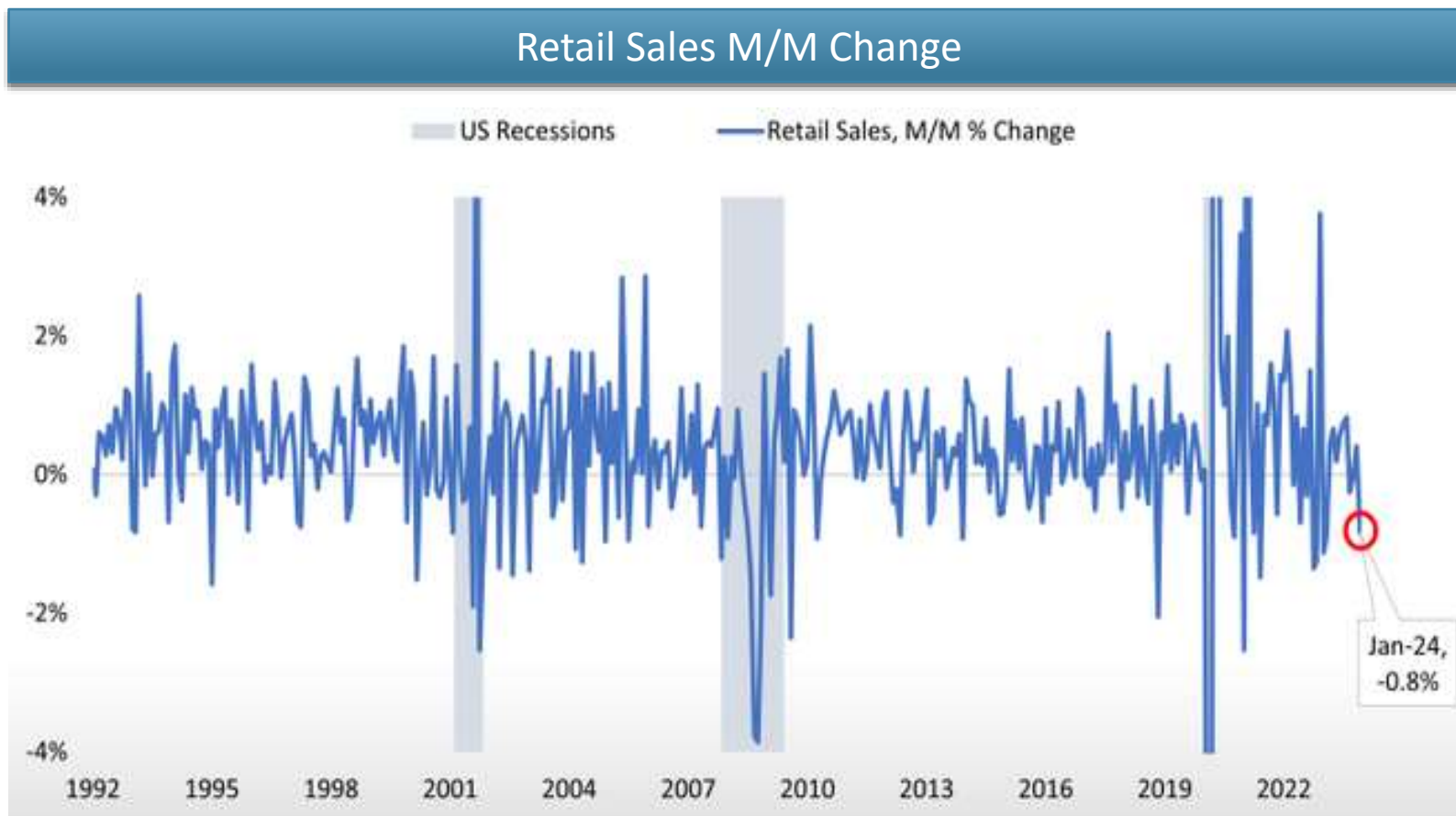
Source: FactSet, NAR - US National Association of Realtors, Astoria Portfolio Advisors. Data as of January 19, 2024.

Building Permits (Thousands)



Source: FactSet, US Census Bureau, Astoria Portfolio Advisors. Data as of February 16, 2024.

Retail Sales declined more than expected in Jan. Is the consumer weakening, or can this be attributed to negative seasonal factors?



Source: FactSet, US Census Bureau, Astoria Portfolio Advisors. Data as of February 15, 2024.

Initial jobless claims remain controlled but have ticked upwards to above 200k in recent weeks

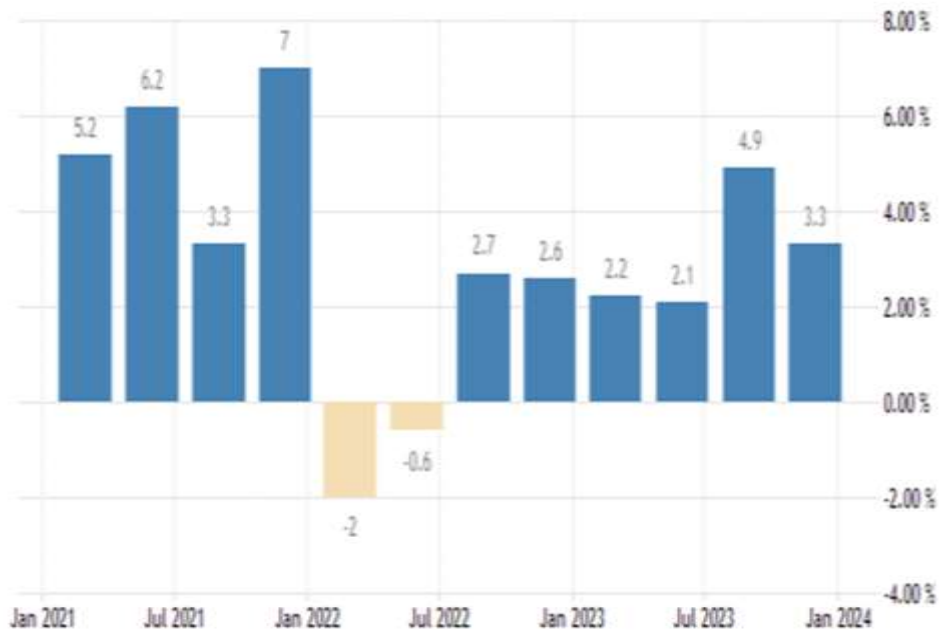
Initial Jobless Claims | 01/01/2022 to 02/14/2024



Source: FRED. Data as of February 14, 2024.

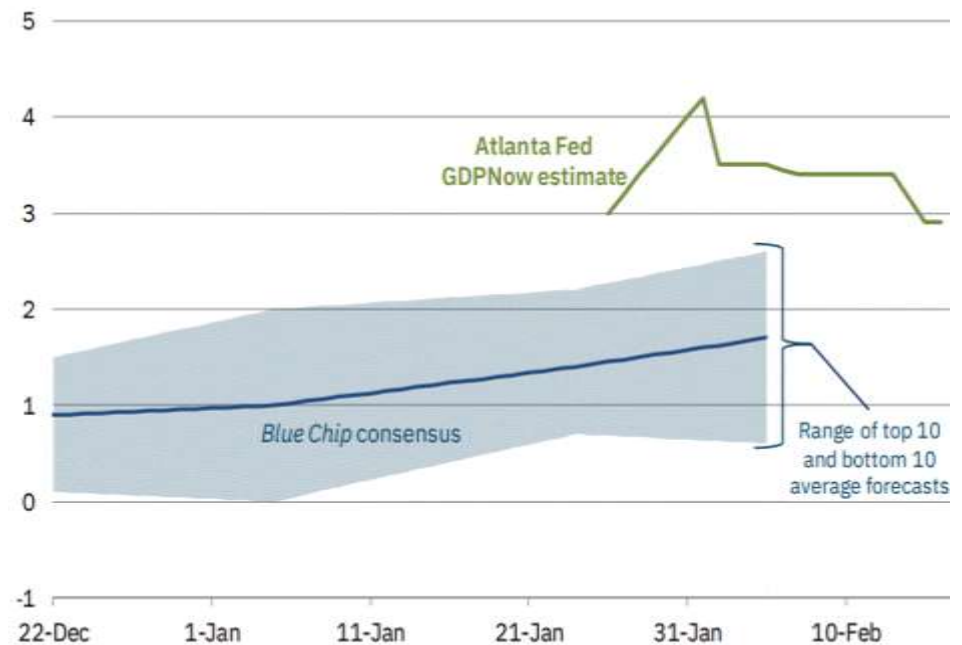
US Real GDP for Q4 2023 printed 3.3%, well above the 2% forecast. Atlanta Fed's GDPNow also expects Q1 2024 GDP to print 2.9%

US Real GDP YoY % Change through Q4



Source: Trading Economics. Data as of February 14, 2024.

Atlanta Fed GDPNow Q1 2024 Real GDP Est.



Source: Blue Chip Economic Indicators and Blue Chip Financial Forecasts. Data as of February 16, 2024.

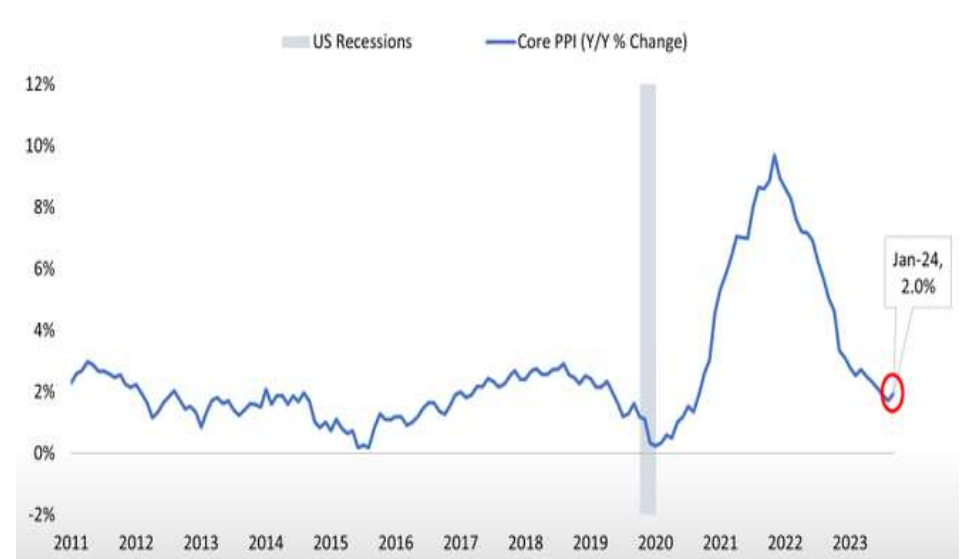
All Jan CPI and PPI prints came in hotter than expected. Core CPI remains at almost double the Fed's 2% target. Could this reignite inflation worries?

Core Consumer Price Index



Source: FactSet, U.S. Department of Labor, Astoria Portfolio Advisors. Core CPI (Consumer Price Index) excludes the prices of food and energy. Data as of February 13, 2024.

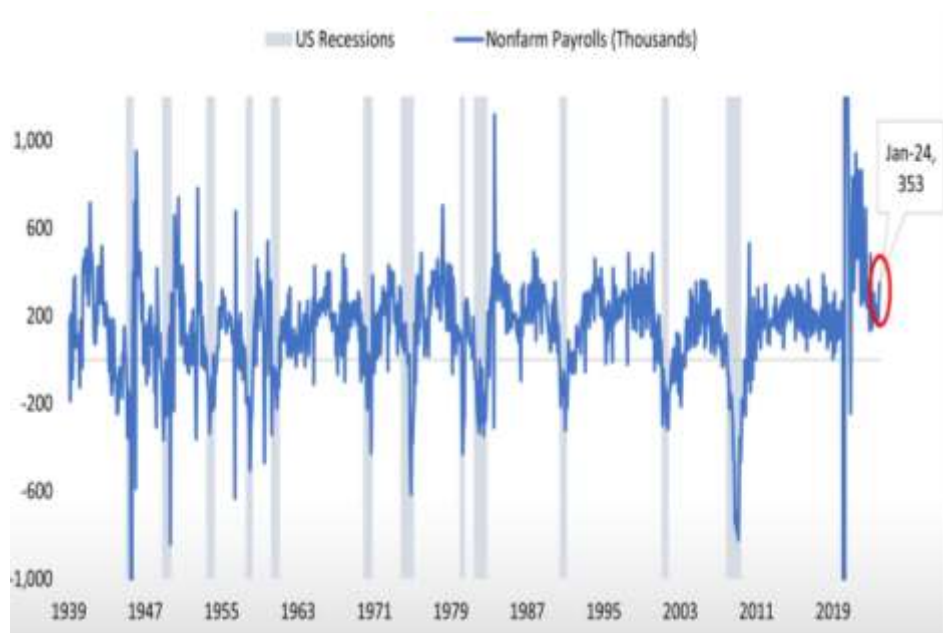
Core Producer Price Index



Source: FactSet, U.S. Department of Labor, Astoria Portfolio Advisors. Core PPI (Producer Price Index) excludes the prices of food and energy. Data as of February 16, 2024.

Jan Nonfarm Payrolls continue to show strong job growth and came in at almost double expectations. In Dec, JOLTS Job Openings also posted first print above 9,000k since Sep

Nonfarm Payrolls



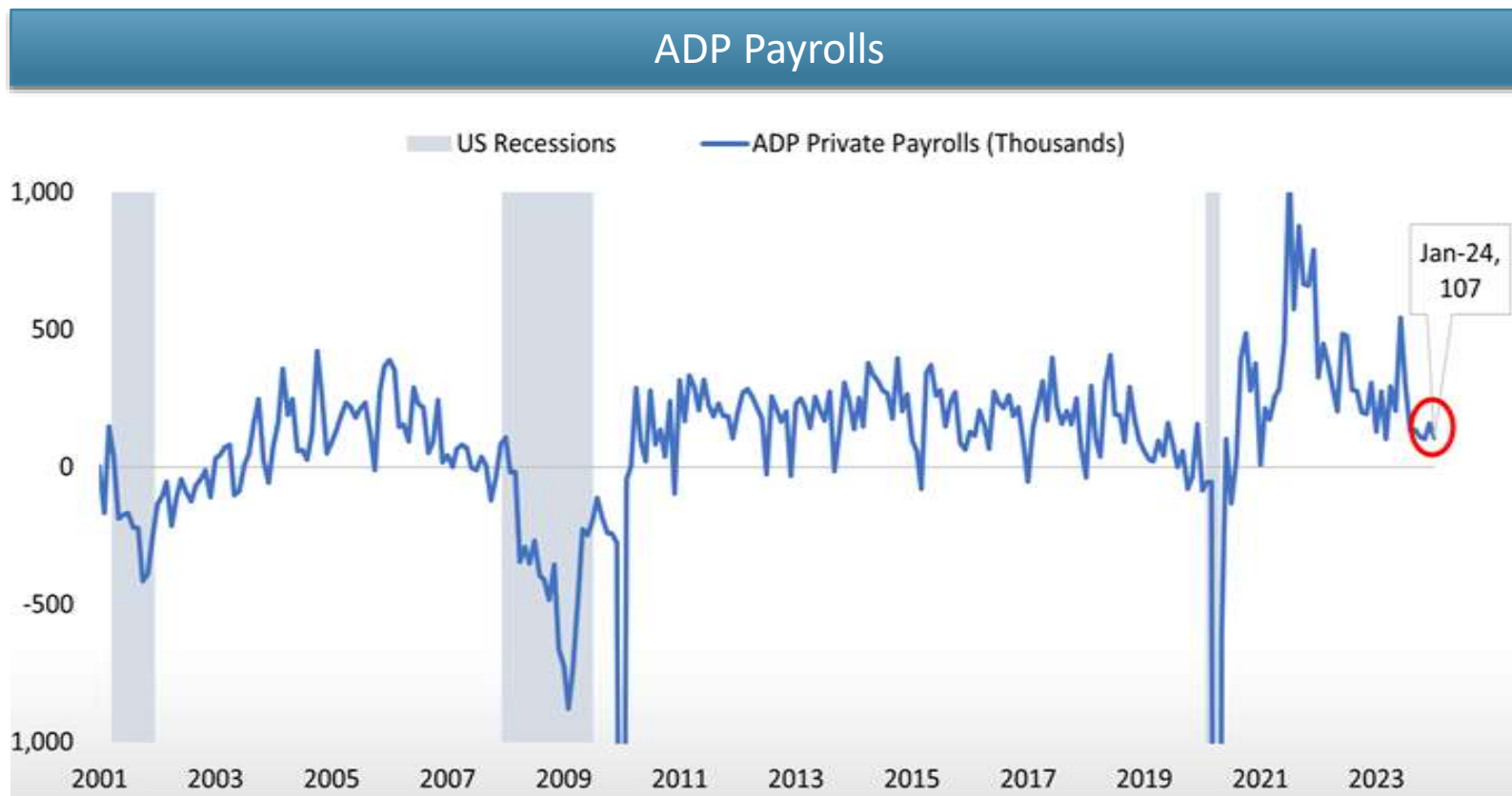
Source: FactSet, US Department of Labor, Astoria Portfolio Advisors. Data as of February 2, 2024.

JOLTS Job Openings



Source: FactSet, US Department of Labor, Astoria Portfolio Advisors. Data as of January 30, 2024.

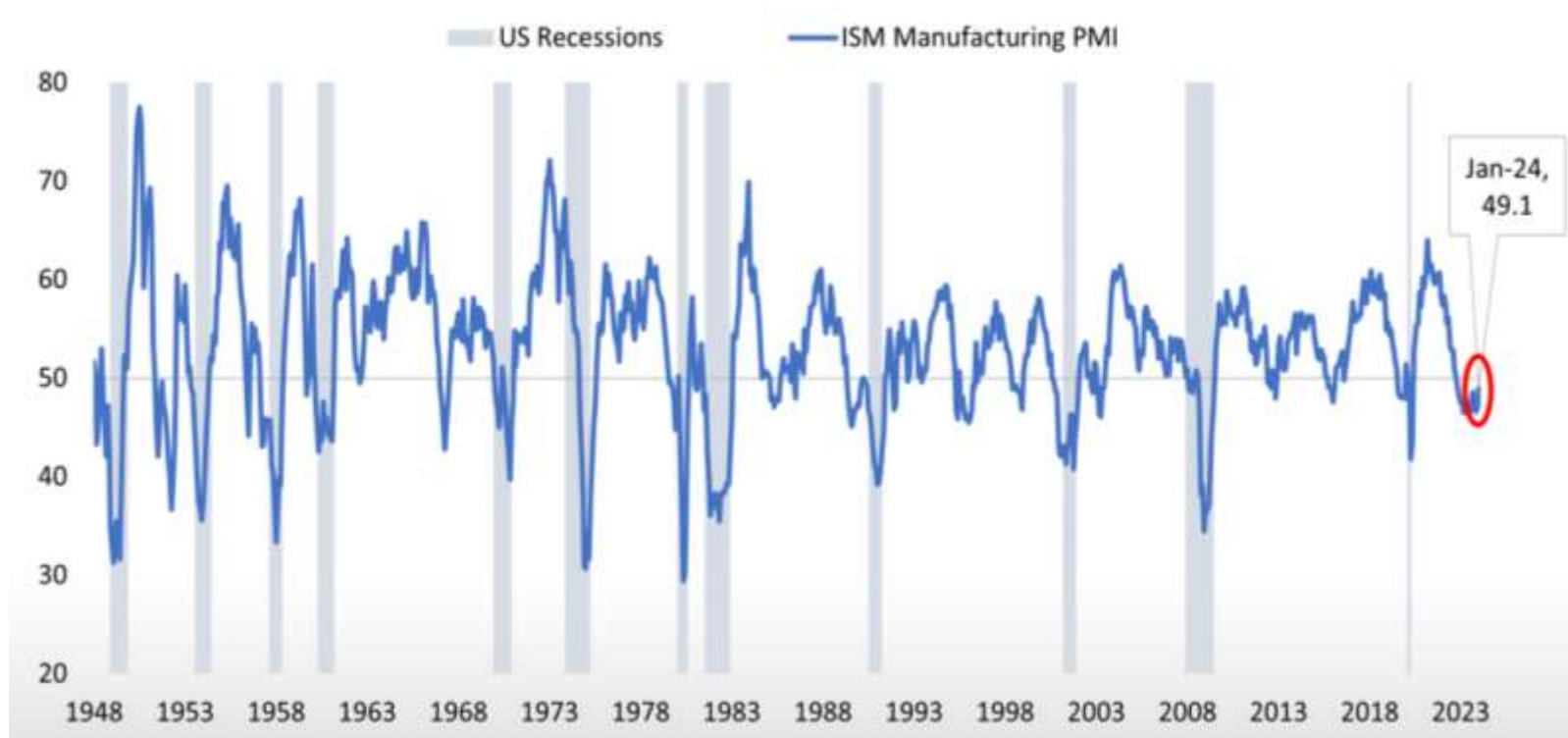
However, ADP Payrolls point to a slight loosening as the Jan report missed estimates and decreased from Dec



Source: FactSet, ADP, Astoria Portfolio Advisors. Data as of January 31, 2024.

ISM Manufacturing PMI beat estimates & trended higher in Jan. It lies just below 50 and is inching closer to expansionary territory

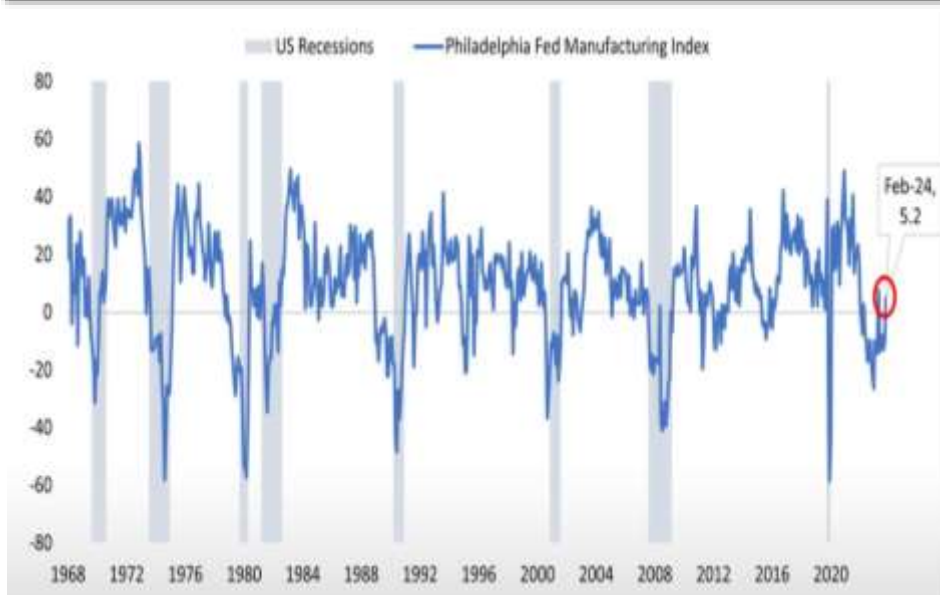
ISM Manufacturing PMI



Source: FactSet, ISM - Institute for Supply Management, Astoria Portfolio Advisors. Data as of February 1, 2024.

Feb's Philadelphia Fed Manufacturing Index also improved and posted its first positive print since Aug. Feb's Empire State Manufacturing Index strengthened meaningfully from Jan

Philadelphia Fed Manufacturing Index



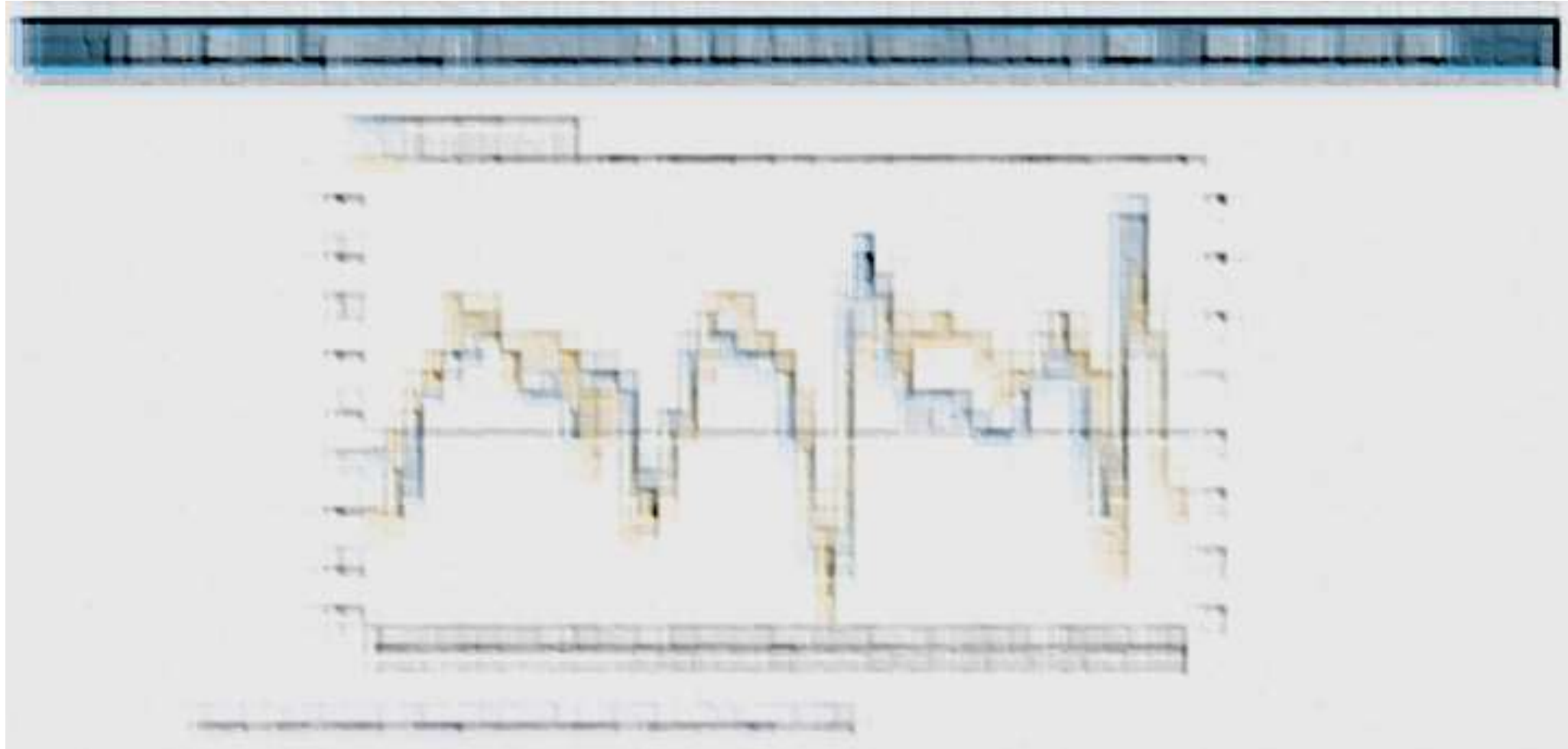
Source: FactSet, Federal Reserve Bank of Philadelphia, Astoria Portfolio Advisors. Data as of February 15, 2024.

Empire State Manufacturing Index



Source: FactSet, Federal Reserve Bank of New York, Astoria Portfolio Advisors. Data as of February 15, 2024.

To access more of our macroeconomic insights and business cycle indicators on slides 25-51, please contact Frank Tedesco (ftedesco@astoriaadvisors.com).



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