Seelaus Asset Management, LLC
26 Main Street, Suite #304
Chatham, NJ 07928
(855) 212-0955
www.rseelaus.com
IR@seelausam.com

January 2024 Market Commentary

Jed Glick, CFA – Portfolio Manager

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Strong start to the year for the broader stock market averages. The major stock market averages started off the year on a strong note once again driven by the strength of the mega caps. The S&P 500 gained 1.7%, The Dow rose 1.3% and the NASDAQ advanced 1%.

More of a mixed picture under the surface. Despite the S&P 500 making a new all-time high in January, market breadth deteriorated with more stocks falling than advancing and there were fewer S&P 500 stocks making new 52-week highs in January than in December. Underscoring the narrow market leadership, the equally weighted S&P 500 was down 0.82% for the month and the Russell 2000 small cap index dropped 3%. Only five of the eleven S&P sectors had a positive start to 2024. Communication Services was the best performing sector with a 4.4% gain, followed by Financials (+3.1%) and Health Care (+2.9%). The laggards this month were Utilities (-3.0%), Materials (-3.9%), Consumer Discretionary (-4.4%), and Real Estate (-4.8%).

Industrial economy emerging from recessionary conditions. Many economists anticipated the U.S. economy would slip into a recession last year due to the impact from higher interest rates. But a downturn never materialized, and in fact, the economy grew at a healthy 3.3% seasonally and inflation-adjusted annualized pace in the 4th quarter, fueled by household and government spending. Yet, while the broader economy has held up, many sectors have been negatively affected by the higher rates, including manufacturing. The Institute for Supply Management's Purchasing Managers Index, or PMI, has been sub 50%—indicating contraction—for 15 consecutive months, a long stretch typically only seen during broader recessions. The January reading came in at 49.1%, still in contraction territory, but up from 47.1% in December and it looks to be turning up. Moreover, the New Orders component, which is a better forward indicator, did cross into growth territory coming in at 52.5%, up from 47% in December. With a potential multi year tailwind thanks to the surge in mega projects from onshoring, electrification, and stimulus related projects, industrial related companies remain a focus for us.

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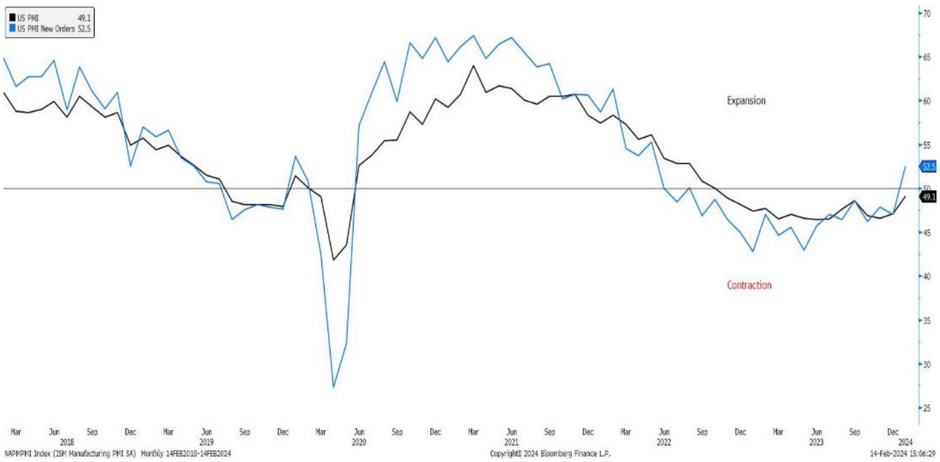
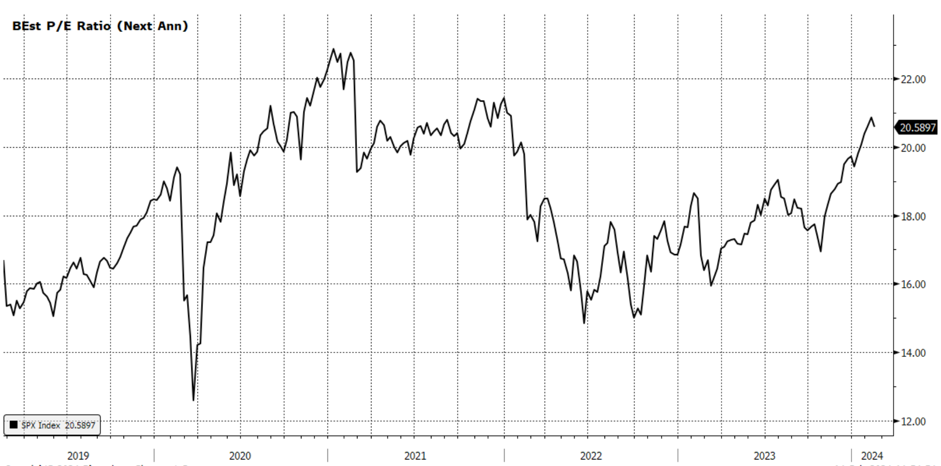
Institute for Supply Management Industrial Purchasing Manager Index



Source: Bloomberg

We continue to see more opportunities in laggards. At the end of January, the top 10 largest stocks in the S&P 500 made up over 33% of the index, the highest level in over 5 decades. Moreover, valuations of large caps are starting to look full, given the forward price-to-earnings multiple on the S&P 500 crossed over 20x for the first time in two years. Accordingly, we continue to find more compelling opportunities in areas that have lagged to start the year, including within the aforementioned industrial sector and small caps, which have already given up most of their outperformance from the rally at the end of last year.



Source: Bloomberg

As always, we would enjoy hearing from you. Please reach out with any comments or questions.

26 Main Street | Suite #304 | Chatham, NJ 07928 | T: (212) 935-0755 | F: (888) 901-4201 | www.rseelaus.com

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