

FORTITUDE FOCUS



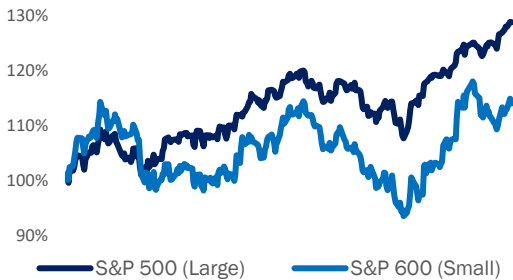
Investment Department

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THE STORY

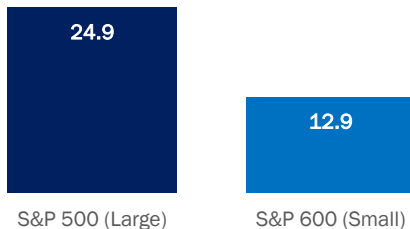
Divergent Performance

2023 Through Jan 2024



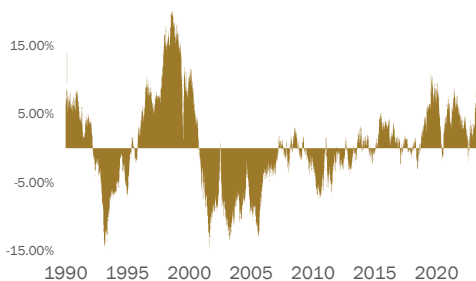
Divergent Valuations:

Trailing P/E Ratios



Performance Cycles:

Large Minus Small 3Y Ann Spread



*Sources: Valuation & performance data computed internally from Morningstar Direct data as 2/1/2023

MARKET DISPERSION: A TALE OF BOOMS & BUSTS

Markets have a long and fabled history of tortuous booms and busts. As if by evolutionary design, this cycle invokes pain for both bulls and bears alike.

Today, this phenomenon appears to be manifesting itself yet again in the continuing divergence between US large and US small cap equities.

Since the end of 2022, a handful of goliath, mega cap stocks have continued to benefit from expanding multiples and fervent investor optimism while small caps have largely been left behind, fatigued & festering.

This persistent underperformance of small caps has resulted in historic valuation spreads which suggest significant differences in their expected returns (see charts).

While this valuation gap has been expanding for years, the trend has yet to reverse itself - though that's not to say those bears won't be proven right in the future.

As shown in the final chart, rolling performance cycles do tend to revert sharply - but they also tend to last much longer than anticipated

This is why we must avoid the temptation to actively jump in or out of specific market exposures. While the long-term prospects of assets will fluctuate over time, we must remember that the opportunity costs of the durable classes are reliably positive.

Therefore, even though history may tilt the odds in favor of small caps today, we must still maintain a sufficient allocation to large caps in order to avoid missing out on what could be a continued boom.



UPCOMING EVENTS

Monthly CPI – 2/13

President's Day – 2/19

FOMC Minutes – 2/21

Leap Year! – 2/29

**“In Investing,
What Is
Comfortable Is
Rarely
Profitable.”**

- Robert Arnott



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Reference Above	Benchmark Index	Reference Above	Benchmark Index
US Large	S&P 500 Index	Hedge Funds	Eurekahedge Hedge Fund NR Index
US Mid	S&P 400 Index	Managed Futures	Credit Suisse Mgd Futures Liquid TR
US Small	S&P 600 Index	Ultra-Short	Bloomberg US Treasury Flt Rate Index
Global ex-USA	MSCI World ex-USA All Cap NR Index	Short	ICE US Treasury 1-3Y Bond Index
Intl Dev	MSCI EAFE NR USD Index	Core	Bloomberg Aggregate Bond Index
Emerging	MSCI EM NR US Index	Long-Term	ICE US Treasury +20Y Bond Index
Gold	S&P GSCI Gold TR	High Yield	Bloomberg US Corporate HY Index
Merger Arbitrage	IQ Hedge Merger Arb TR USD Index	US TIPS	ICE US Treasury Inflation Linked Index
Infrastr (Infrastructure)	MSCI ACWI Infrastructure NR Index	Intl Bonds	Bloomberg Global Agg ex-USD Index
Direct Lending	Cliffwater Corporate Lending I	EM Bonds	Morningstar EM BD GR Index