Westwood®

Westwood Broadmark **Tactical Growth Strategy**

# Market Update

July
**2024**

## Strategy Overview

Westwood Broadmark Tactical Growth Strategy is designed to help investors sidestep market downturns, while participating in its growth via the continuous and active management of portfolio market exposure. The strategy seeks to manage risk and enhance alpha with the flexibility to be long, short or neutral on the market.

- The strategy is designed as a core investment for those who worry about losing money in equity market downturns but also want to participate in the market's upside. Using active market exposure management, the strategy moves in and out of the market incrementally based upon macro and technical factors.
- The strategy invests primarily in a diversified portfolio of exchange-traded funds (ETFs) and instruments providing exposure to indices, sectors and industries based on its four-pillar process.
- Proprietary Volume/Breadth-Based Momentum models are used to determine optimal stock market exposure, including entry points, the amount of exposure, the type of exposure and exit points.

## Market Review

After the S&P 500 Index's 10.55% jump in the first quarter, which was the 11th highest gain for a quarter since WWII, positive momentum carried the market upward in the second quarter (Q2).[1] The S&P 500 posted a gain of 4.28% in Q2, and the S&P 500's year-to-date 2024 gain of 15.29% was the second strongest election year gain since 1944.[1] Stock market history tells us that when the first half of an election year is positive, this momentum often carries into the end of the year, although the data also shows volatility often increases as well.[1] In this uncertain election year fraught with geopolitical risks, the investment team will be keeping a close eye on our momentum models, which are currently indicating some negative divergences. Nonetheless, the team continues to maintain a net long position in its Tactical Growth strategy in deference to the market's positive momentum.

The technology sector continued to lead the way in July with the Nasdaq-100 Index up 6.27%.[1] Small cap stocks continued to lag, with the Russell 2000 Index down -0.93% for the month.[1] The S&P 500 gained 3.59% in July, and the more defensive Dow Jones Industrial Average was up 1.23%.[1]

Equity valuations are still elevated by historical standards.[2] When we adjust for inflation using the Consumer Price Index (CPI), valuations have climbed to their highest level in two years.[2] Nonetheless, both absolute and relative valuations are still below the extremes reached at the 2000, 2009 and 2022 market highs, particularly when we adjust for the long-term upward cyclical bias in price-earnings (P/E) multiples.[2] Given the market's positive momentum and continued earnings trends, valuations may have some room to expand but are still in the top quintile of historical valuations.

Interest rates declined in June but ticked up at the end of the month. The 10-year U.S. Treasury Note closed the month with a 4.36% yield, which is down from the 4.51% yield at the end of May, amid signs that inflation is moderating.[3]

[1] Bloomberg, June 30, 2024
[2] Ned Davis Research, June 30, 2024
[3] U.S. Department of the Treasury, June 30, 2024

Credit spreads remain narrow. While the yield curve remains inverted, which is a negative long-term indicator, monetary policy and credit conditions are more neutral now, provided that the Federal Reserve's (Fed's) "higher for longer" policy does not have a major negative impact on consumer spending and economic activity. Investor sentiment is negative, with our intermediate-term investor sentiment model near its most optimistic levels of the year, which is negative from a contrary point of view.

While the market's momentum remains compelling, the team is seeing a divergence between our breadth model and the market. Our breadth model has made lower lows despite the stock market reaching new highs. Our volume models have also recently begun to show the same divergences. The team has diversified the portfolio due to relative strength in some more defensive sectors. The portfolio is now invested in the cap-weighted and equal-weighted S&P 500 indexes as well as the health care, utilities and communication services sectors. The team would raise exposure if our volume and breadth momentum models continued to improve and potential volume and breadth momentum divergences were resolved to the upside. The team would decrease exposure if interest rates rose, credit spreads widened and if volume and breadth momentum models weakened.

Our assessment of the four pillars of our investment process is as follows:

1. ***Valuation:*** When we adjust the S&P 500's median P/E ratio for inflation, valuations are still at their highest level in two years (*Figure 1*). Nonetheless, both absolute and relative valuations are below the extremes reached in 2000, 2009 and 2022. Indeed, when we adjust P/E multiples for their long-term upward secular trend, valuations appear far more reasonable (*Figure 2*). While this gives P/E multiples room to expand, valuations are in the top quintile historically and remain high by historical standards.

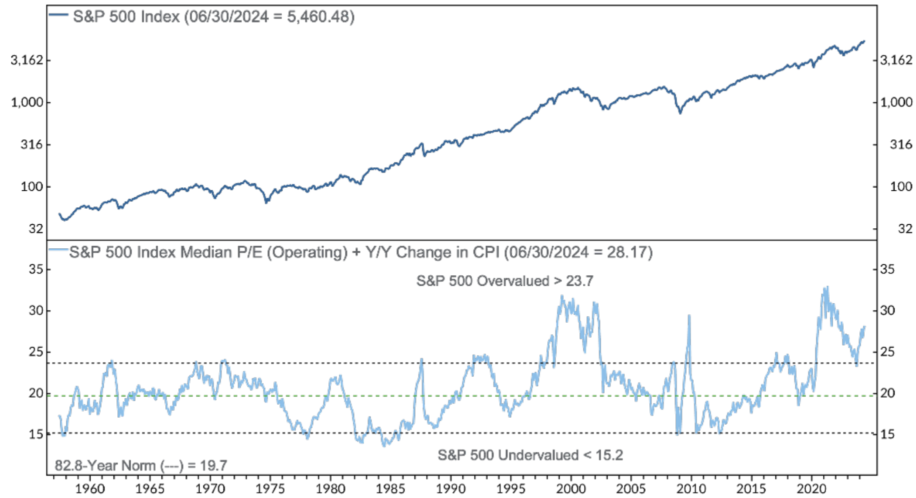
2. ***Monetary factors and credit conditions:*** The 10-year U.S. Treasury Note ended the month with a 4.36% yield, down from 4.51% at the end of May. Narrow credit spreads tell us that credit and financial conditions remain reasonably healthy (*Figure 3*). On the other hand, the narrow credit spreads indicate strong economic activity, which is a headwind in the fight against inflation and makes it more difficult for the Fed to cut interest rates. The Fed's "higher for longer" policy on interest rates, coupled with an inverted yield curve, could have a negative effect on consumer spending and economic activity.

3. ***Sentiment:*** Both our daily and intermediate sentiment measures show elevated optimism, which is negative from a contrary point of view. In particular, our intermediate sentiment model has remained in negative territory for a month (*Figure 4*).

4. ***Momentum:*** The team's measures of momentum continued in positive territory in June. However, our breadth model has not risen in line with the new highs in the major market averages (*Figure 5*). Our up-down volume momentum model has also recently failed to make a new high along with the market averages (*Figure 6*). We will be keeping an eye on these divergences. If these divergences continue, they could indicate some future market weakness to correct this imbalance, particularly if volatility increases prior to the November election.

## Figure 1.

### S&P 500 Index vs. S&P 500 Operating P/E + Year-to-Year Change in CPI




Signals = Ratio rises above upper bracket (sell) or falls below lower bracket (buy) for first time in six months.

Current month uses CPI estimate. Starting in 1984, chart uses S&P 500 operating earnings.

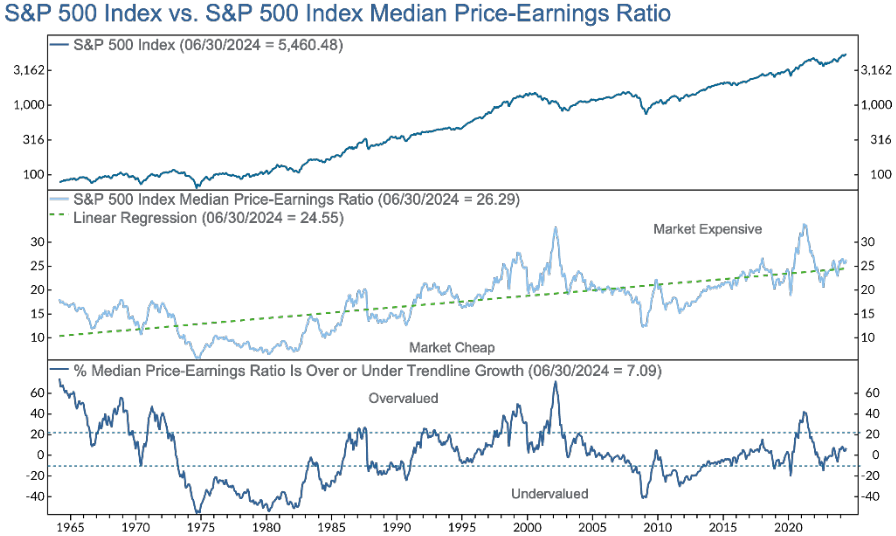
Mean S&P 500 % Returns
06/30/1957 – 06/30/2024

| | Months Later | | | | | |
|---|---|---|---|---|---|---|
| | 3 | 6 | 9 | 12 | 24 | 36 |
| After Sells | -0.0 | 0.2 | 2.5 | 5.3 | 14.0 | 20.3 |
| After Buys | -0.2 | 7.9 | 15.6 | 20.0 | 37.5 | 50.2 |
| All Periods | 2.1 | 4.2 | 6.3 | 8.4 | 16.9 | 26.6 |

Sources: Ned Davis Research (NDR), S&P Dow Jones Indices, Bureau of Labor Statistics. Monthly data 06/30/1957 to 06/30/2024. *Past performance does not guarantee future results. For illustrative purposes only.*

## Figure 2.

### S&P 500 Index vs. S&P 500 Index Median Price-Earnings Ratio




S&P 500 Gain/Annum Performance
03/31/1964 – 06/30/2024

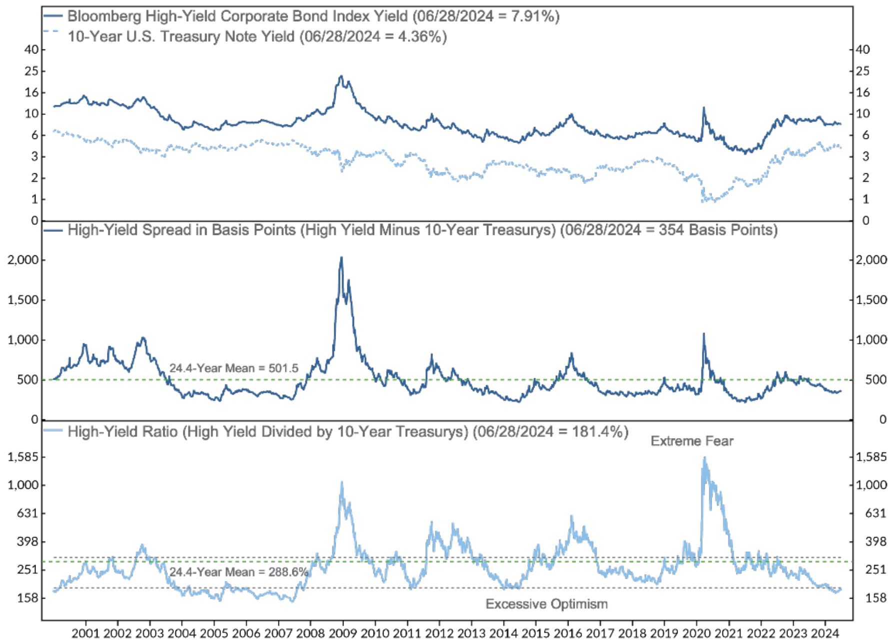
| % Over/Under Trend | % Gain/ Annum | % of Time |
|---|---|---|
| Above 22.0 | -3.86 | 19.90 |
| -10.1 – 22.0 | 9.39 | 47.47 |
| Below -10.1 | 11.50 | 32.62 |

*Buy/Hold = 7.28% Gain/Annum*

Sources: Ned Davis Research (NDR), S&P Dow Jones Indices, S&P Capital IQ Compustat. Monthly data 03/31/1964 to 06/30/2024. *Past performance does not guarantee future results. For illustrative purposes only.*

## Figure 3.

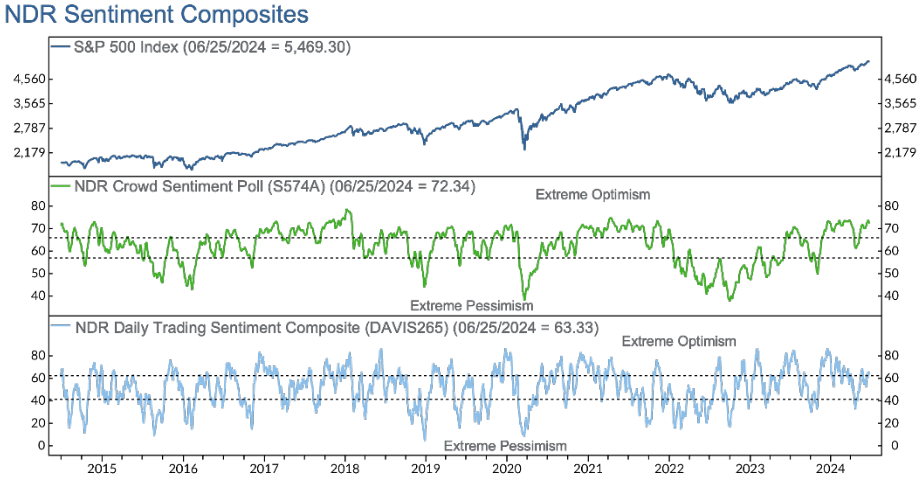
### High-Yield Corporate Spreads




Sources: Ned Davis Research (NDR), Bloomberg Indices, Federal Reserve Board. Daily data 01/03/2000 to 06/28/2024. *Past performance does not guarantee future results. For illustrative purposes only.*

## Figure 4.

### NDR Sentiment Composites




S&P 500 Index Performance
12/01/1995 – 06/25/2024

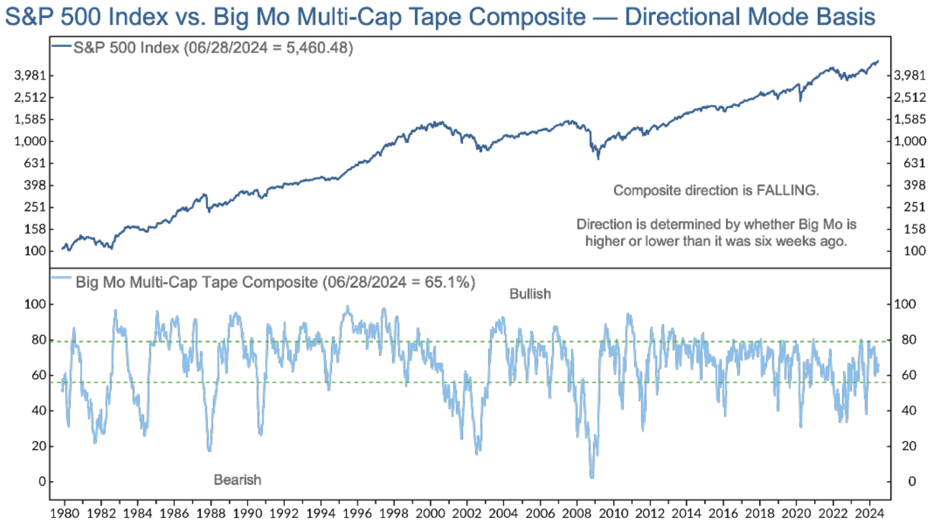
| Sentiment Indicators | % Gain/ Annum | % of Time |
|---|---|---|
| Both Optimism | -1.85 | 16.76 |
| 1 Optimism, 1 Neutral | 1.30 | 21.22 |
| Both Neutral | 8.78 | 18.79 |
| 1 Neutral, 1 Pessimism | 15.98 | 20.08 |
| Both Pessimism | 22.42 | 20.31 |
| S574A Optimism, DAVIS 265 Pessimism | 5.86* | 0.39 |
| S574A Pessimism, DAVIS 265 Optimism | -27.75* | 2.44 |
| *Buy/Hold = 7.99% Gain/Annum* | | |
| ** Cases less than one year are not annualized* | | |

S&P 500 Index Performance
07/01/2014 – 06/25/2024

| Sentiment Indicators | % Gain/ Annum | % of Time |
|---|---|---|
| Both Optimism | 7.42 | 22.79 |
| 1 Optimism, 1 Neutral | 4.44 | 23.58 |
| Both Neutral | 13.14 | 17.88 |
| 1 Neutral, 1 Pessimism | 17.08 | 18.62 |
| Both Pessimism | 14.69 | 14.70 |
| S574A Optimism, DAVIS 265 Pessimism | 6.29* | 0.93 |
| S574A Pessimism, DAVIS 265 Optimism | -2.19* | 1.51 |
| *Buy/Hold = 10.74% Gain/Annum* | | |
| ** Cases less than one year are not annualized* | | |

Sources: Ned Davis Research (NDR), S&P Dow Jones Indices. Daily data 07/01/2014 to 06/25/2024. *Past performance does* not *guarantee future results. For illustrative purposes only.*

## Figure 5.




**Big Mo Tape Is Falling**
S&P 500 Index Performance
12/28/1979 – 06/28/2024

| Big Mo Tape Is: | % Gain/ Annum | % of Time |
|---|---|---|
| Above 79.0 | 19.77 | 8.82 |
| 56.0–79.0 | 7.55 | 28.18 |
| Below 56.0 | -19.08 | 14.50 |

*Buy/Hold = 9.21% Gain/Annum*

**Big Mo Tape Is Rising**
S&P 500 Index Performance
12/28/1979 – 06/28/2024

| Big Mo Tape Is: | % Gain/ Annum | % of Time |
|---|---|---|
| Above 79.0 | 33.02 | 15.43 |
| 56.0–79.0 | 12.40 | 22.25 |
| Below 56.0 | 4.90 | 8.29 |

*Buy/Hold = 9.21% Gain/Annum*

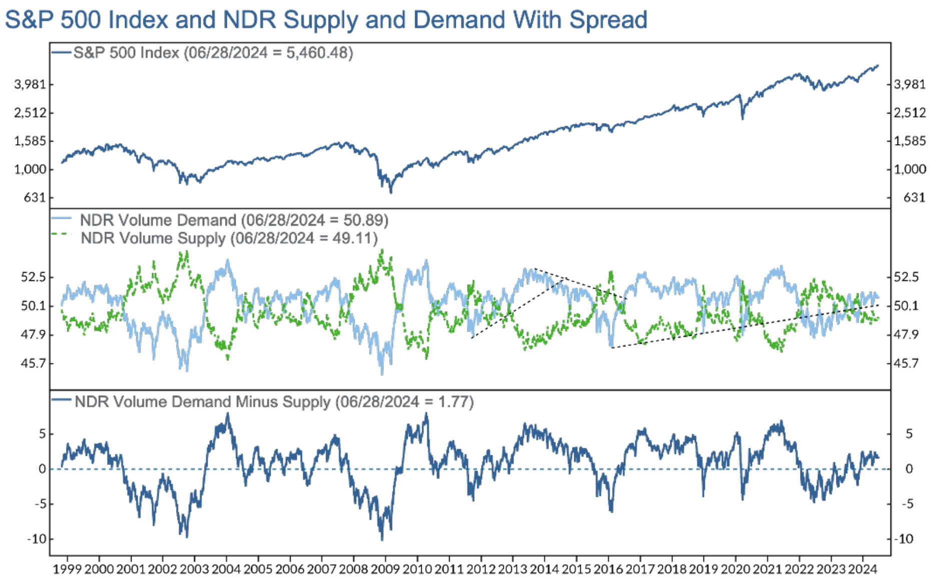
**Returns Regardless of Direction**
S&P 500 Index Performance
12/28/1979 – 06/28/2024

| Big Mo Tape Is: | % Gain/ Annum | % of Time |
|---|---|---|
| Above 79.0 | 28.52 | 25.11 |
| 56.0–79.0 | 9.81 | 51.68 |
| Below 56.0 | -9.52 | 23.21 |

*Buy/Hold = 9.21% Gain/Annum*

Sources: Ned Davis Research (NDR), S&P Dow Jones Indices, NDR Multi-Cap Institutional (Universe), S&P Capital IQ, MSCI, Inc (GICS). Weekly data 11/16/1979 to 06/28/2024. *Past performance does not guarantee future results. For illustrative purposes only.*

## Figure 6.




S&P 500 Index Performance
10/30/1998 – 06/28/2024

| NDR Volume Demand Is: | % Gain/ Annum | % of Time |
|---|---|---|
| Above 0.0 | 11.37 | 67.28 |
| Below 0.0 | -3.01 | 32.72 |

*Buy/Hold = 6.44% Gain/Annum*

Sources: Ned Davis Research (NDR), S&P Dow Jones Indices. Daily data 10/30/1998 to 06/28/2024. *Past performance does not guarantee future results. For illustrative purposes only.*

## About Westwood

Westwood Holdings Group, Inc. is a focused investment management boutique and wealth management firm.

Westwood offers high-conviction equity and outcome-oriented solutions to institutional investors, private wealth clients and financial intermediaries. The firm specializes in two distinct investment capabilities: U.S. Value Equity and Multi-Asset, available through separate accounts, the Westwood Funds® family of mutual funds and other pooled vehicles. Westwood benefits from significant, broad-based employee ownership and trades on the New York Stock Exchange under the symbol “WHG.” Based in Dallas, Westwood also maintains an office in Houston. For more information, please visit westwoodgroup.com.

### Important Information

The **Tactical Growth composite** seeks to produce above-average, risk-adjusted returns, in any market environment, while exhibiting less downside volatility than the market itself. The strategy is designed to evaluate potential long and short investments in an attempt to isolate those securities believed to be undervalued or overvalued relative to their intrinsic value and offer the greatest risk-adjusted potential for returns. The portfolio primarily invests in ETFs of securities and security indices that can represent long, short, levered long or levered short positions in general asset classes of both U.S. and overseas equity markets. For comparison purposes, the composite’s benchmarks are the HFRX Equity Hedge Index and the S&P 500 Index. The HFRX Equity Hedge Index comprises private funds with strategies that maintain both long and short positions primarily in equity securities and equity derivatives. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value-weighted index and one of the most widely used benchmarks of U.S. stock performance. On January 1, 2019, the HFRX Equity Hedge Index replaced the S&P 500 Index as the strategy’s primary benchmark index because the new index more closely aligns to the strategy’s investment methodologies. Prior to December 31, 2018, the Morningstar Long/Short Equity Index was the secondary benchmark. It is no longer shown as the HFRX Equity Hedge Index more closely aligns to the portfolio’s investment strategies.

Separately managed account strategies may not be appropriate or suitable for all investors. There is no guarantee that the strategy’s objective will be achieved. It should not be assumed that investments in this strategy have been or will be profitable.

Past performance does not guarantee future results.

Other than levered and inverse ETFs, leverage or derivatives are not used. The use of levered and inverse ETFs is anticipated to be infrequent and may not materially impact returns.

The risks associated with ETFs are detailed in the individual ETF’s prospectus, which will be provided upon request.

The portfolio is sub-advised by Broadmark Asset Management LLC, an independent registered investment advisor.

Westwood Management Corp. (“WMC”) is a wholly owned subsidiary of Westwood Holdings Group, Inc. (NYSE: WHG). WMC is an SEC registered investment adviser under the Investment Advisers Act of 1940. This information is being provided solely for educational purposes and is not an offer to sell or solicitation of an offer to buy an interest in any investment fund. Any such offer or solicitation may only be made by means of a confidential private offering memorandum or prospectus relating to a particular fund and only in a manner consistent with federal and applicable state securities laws.

### Westwood Investment Glossary

**10-year U.S. Treasury Note** is a debt obligation issued by the U.S. Treasury that has a term of 10 years.

**Alpha** is a technical risk ratio that shows a fund’s excess return relative to the performance of its benchmark index.

**Basis point (bps)** is a unit of measure that is equal to 1/100th of 1% and used to denote a change in the value or rate of a financial instrument.

**Bloomberg U.S. Corporate High Yield Bond Index** covers the USD-denominated, noninvestment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below.

**Breadth** is a technique used in technical analysis that attempts to gauge the direction of the overall market by analyzing the number of companies advancing relative to the number declining.

**Buy/hold = x.xx% gain/annum** is a calculation that shows a period of time during which a buy/hold signal is in effect and the percentage of gain or loss during that period calculated on an annual basis.

**Consumer Price Index (CPI)** is an index number measuring the average price of consumer goods and services purchased by households. The percentage change in the CPI is a measure of inflation.

**Credit spread** is the spread between Treasury securities and non-Treasury securities that are identical in all respects except for quality rating.

**Dow Jones Industrial Average** is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry and are listed on the New York Stock Exchange.

**Exchange-traded funds (ETFs)** track an index but trade like a stock on an exchange.

**Federal Reserve** is the central bank of the United States that is responsible for regulating the U.S. monetary and financial systems.

**Inflation** is the rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling.

**Momentum** is the rate of acceleration of a security's price or volume.

**Nasdaq-100 Index** is a modified capitalization-weighted index that includes the largest nonfinancial U.S. and non-U.S. companies listed on the NASDAQ stock market across a variety of industries, such as retail, healthcare, telecommunications, wholesale trade, biotechnology and technology.

**NDR Big Mo Multi-Cap Tape Composite** model uses trend and momentum indicators to provide a composite reading on the technical health of the broad equity market.

**NDR Crowd Sentiment Poll** is a composite reading based on seven different individual sentiment indicators designed to highlight short- to intermediate-term swings in investor psychology.

**NDR Daily Trading Sentiment Composite** use various measures of investor sentiment such as surveys, put/call ratios, etc. to define the levels of pessimism that are currently priced into equities.

**Price-earnings (P/E) ratio** is a measure of the price paid for a share of stock relative to the annual income or profit earned by the company per share. A higher P/E ratio means that investors are paying more for each unit of income.

**Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index represents approximately 98% of the investable U.S. equity market.

**S&P 500 Index** is an unmanaged index of 500 common stocks chosen to reflect the industries in the U.S. economy.

**Spread** is the difference between the rate of volume demand and the rate of volume supply.

**Valuation** is the process of determining the value of an asset or company based on earnings and the market value of assets.

**Volume** is the number of shares or contracts traded in a security or an entire market during a given period of time.

**Volume/Breadth-Based Momentum Model** is a proprietary model used by Broadmark Asset Management to determine optimal market exposure.

**Yield** is the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost or on the U.S. Government's debt obligations.

**Yield curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.

One cannot invest directly in an index.