1st Qtr. 2024 Investment Counsel Report

Market Summary

The beginning of 2024 offered a continuation of positive returns for equity investors. Despite worrying data points and some echos of market risks from years past, the net results were rewarding.

The large companies of the S&P 500 Index jumped +10.5% for the first three months of the year. Remarkably, this bellwether index that is dominated by a few very large and Technology sector companies extended its performance advantage over other market sectors. The small stocks of the Russell 2000 Index also enjoyed a positive result, climbing +5.2%. While noticeably behind the larger benchmarks, when annualized this represents a solid start to the calendar year. The foreign stocks of the EAFE Index notched a +5.8% gain as well.

Aurora Perspective

As mentioned in recent prior communications, the outlook for stock market investors heading into this year involves many cross currents and considerations. When assessing the macro view, the turbulant potential of violence and upheaval in the Middle East, vitriol heading towards US presidential elections, fiscal overspending and inflationary effects, and uneven post-Covid psyches yields some potentially unsettling concerns. While always focused on the longer term and fundamentals of the select companies Aurora chooses to invest with, these undercurrents certainly can cause unwelcome short term disruptions.

Assessing the economic landscape presents a bit more sanguine setting. Earnings forecasts for market averages and broad sectors are positive and can be the basis of higher stock prices should such growth materialize. Forecasts for the S&P 500 Index Earnings Per Share are seeking +9% growth over the next 12 months. While higher interest rates, inflation and some bank sector issues may hinder such growth, the overall economy seems capable of supporting at a less positive backdrop to continue growing earnings.

The final lens to consider in attempting to evaluate market conditions is valuation. Stock prices that have soared in recent months yield warning signs and risky levels that are likely hard to maintain. In prior periods of froth and ebullent emotions (such as the Internet boom), the unwinding of overly optimistic prices has been severe and painful. The recent splash of Artficial Intelligence and heady forecasts of never ending demand potential have left many market darlings with billions of dollars in excessive valuations should these forcasets disappoint. The ”echo” of the Internet bubble to our ears resides in the stratospheric stock prices and unsustainable valuations afforded to these darling stocks and sectors.

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Aurora Outlook

Aurora's insistent focus on our Growth At a Reasonable Price (GARP) investment discpline was quite successful in navigating the unwinding of the Internet bubble. By remaining focused on stringent financial metrics and avoiding excessive stock values relative to traditional measures, we attempt to lower the volatility and risk present in over priced equities. While we certainly capture some risk and downdrafts of overall market reversals, our record in such periods has shown the benefits of avoiding the most popular and overloved areas.

In closing, we also want to acknowledge that we have historically lagged some market measures at the tail end of cyclical climbs. While we are happy to report the positive returns of the recent past, the flip side of avoiding the hottest issues is to give up some short term participation. Never content with performance lags, it is most important to remain committed to our promises and mandate to our clients over the long run. In order to deliver on the long-term wealth building and protection ideals of our GARP discipline, there necessarily can be areas and periods of performance lag. Happily our track record and consistent adherence to our GARP discipline gives us optimism toward delivering on our long term Investment Policy objectives.

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