Cycle Indicators, Risk Metrics, & Portfolio Positioning

Week of August 5, 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

Business Cycle Indicators

- Jul **Nonfarm Payrolls** came in **well below consensus** and declined from Jun. Report revealed **unemployment unexpectedly rose** from 4.1% to **4.3%, highest since Oct 2021**

- **Initial Jobless Claims** have been consistently **elevated** in recent weeks, with latest print notching **highest level since Aug 2023**. **Continuing Claims** also registered **highest since Nov 2021**

- Jul **ISM Manufacturing PMI** fell deeper into **contractionary** territory, marking **lowest since Nov**. Jul **Markit Manufacturing PMI** (final) also posted **first print in contractionary territory in 2024**

- However, Jul **ISM Services PMI** printed **up largely** from Jun, back to **expansionary** territory. Jul **Markit Services PMI** (final) declined slightly from Jun but also **remained in expansionary** territory

- **Inflation** via Jun **CPI** report came in **cooler across the board**, sparking **rate cut expectations** in **Sep**. In contrast, **PPI** report saw **hotter** measures, but this did **not throw off rate cut hopes**. For Jun, ann. headline **PCE eased** slightly from May hitting **lowest since Mar 2021**, while ann. core PCE remained at 2.5%. Report **likely to leave Sep rate cut intact**

- US Real **GDP for Q2 2024** printed **2.8% per the first estimate**, up from **Q1 2024's 1.4%.** GDPNow also expects **Q3 2024 GDP** to remain **strong** via the latest **2.9% forecast**, but the **Conference Board LEI fell** for the **4th consecutive month** in Jun, signaling **softer economic conditions** ahead

- Jun **Retail Sales** came in **flat** compared to last month's increase. Print adds **growing skepticism on consumer resilience** story

- Jul **NAHB HMI** sank **deeper into contractionary** territory while Jun **New Home Sales** decreased from May, **marking 3rd consecutive decline**. Both signal **weakness** in the **housing market**

- **High Yield** Credit **Spreads increased** slightly, with **more widening likely** if the **economy meaningfully weakens** ahead

Earnings/Valuation Indicators

- **Q2 2024**: **75%** reported, **78% beat**, companies are reporting earnings that are **4.5% above estimates**. **Earnings growth** for the quarter is expected to be **11.5%, above the Jun-end estimate of 8.9%.** Earnings growth in **Q2** is on track to **meaningfully strengthen from Q1**

- **Earnings revision breadth** has recently **turned negative**, following its **trend of seasonal weakness**

- Analysts project that **earnings growth of the Mag 4** will **slow** while that of the **remaining 496 will increase** and hit **double-digits in Q4 2024**, while **earnings growth** is expected to come from **areas outside the Mag 7 in 2025**

- The **S&P 500's** current **P/E ratio of 21.6x** is **one standard deviation above** the median, suggesting **valuations** are **expensive**, and the S&P 500 **Equity Risk Premium** remains at **20-year lows**

- When observing **relative valuation premiums** of **growth** stocks vs. **value** stocks, **value** stocks have become **more attractive** as **growth** stocks appear **meaningfully overvalued**

- **Small-cap** stocks remain **historically cheap compared** to **large-cap** stocks as the **relative Forward P/E** of the **Russell 2000** vs. **Russell 1000** stands near **0.7x**, compared to the **historical average of 1.0x**

- On a **63-day rolling** basis, the **correlation** of **large-caps relative to small-caps** recently reached its **second-lowest level in history**

- The **2s10s Treasury yield curve inversion** deepened earlier this year amid **hotter inflation** prints, but has **now uninverted significantly** amid **weakening economic** data

Sentiment/Flows/Risk Indicators

- Jul **Conference Board Consumer Confidence** Index slightly beat estimates and **improved** from Jun. Print noted **better consumer feelings** though **labor market outlook declined**

- Jul **Michigan Consumer Sentiment** Index (final) declined from Jun, posting **lowest since Nov 2023**. Report suggested **elevated prices** continue to **weigh on lower income consumer**

- Amid a US **growth scare**, **VIX** crossed 65 on the morning of **Aug 5th**, hitting its **highest level since 2020** and **3rd highest in history**. However, it closed at 38.57 for the day and has **subdued thereafter**

- Although **market health** via **percentage of S&P 500 companies** trading **above** their **50 and 20-daily moving averages improved**, recent **market turbulence** has caused these to **decline**

- The **NAAIM Exposure** Index is now at **83.93**. It **increased** from **last week's 76.70** but still **down meaningfully** from **103.66** three weeks ago

- The **Fear and Greed** Index has moved into **extreme fear** from **last week's neutral** print. **Market momentum, put to call ratio**, and **junk bond demand** all **deteriorated**

- The **spike** in the **Fed's balance sheet** that occurred during the **banking crisis earlier in 2023** has now been **completely undone**, and the Fed's **assets continue to decrease**

- As evidenced by the **ratio** between the **equal & cap weighted S&P**, **breadth improved** in the **end** of **2023**, **deteriorated** in the **first half of 2024**, and **rose notably higher** recently amid **rate cut hopes**

- History implies that **equal weighted outperforms market-cap** weighted when the **economy comes out of a downturn** as **breadth increases** on the back of **improved economic conditions**

Portfolio Positioning

Tactical Models

Renaissance:
- OW Quality; tilt away from concentration risk using EW strategies
- Established position in defensives/increased Min Vol; macro data volatile/weakening; OW staples, health care, utilities
    - Also established small position in inversely correlated alts
- Established slight position in small-caps ahead of rate cuts
- Decreased but maintain exposure to Growth; large-cap tech companies less vulnerable to macro/rates/cycles
    - However, there is a higher bar for earnings for these companies
- Decreased but maintain exposure to int. developed; outright positions in Europe/Japan (hedged & unhedged)
- Slightly OW/EW real asset sectors (industrials, energy, materials)

MARS:
- OW Quality; tilt away from concentration risk using EW strategies
- Increased Min Vol; macro data volatile/weakening; OW health care; slightly OW/EW staples, utilities
    - Also established small position in inversely correlated alts
- Decreased but maintain exposure to Growth; large-cap tech companies less vulnerable to macro/rates/cycles
    - However, there is a higher bar for earnings for these companies
- Decreased equities to slightly UW vs benchmark, but still OW US; maintain exposure to int. developed (hedged & unhedged)
- OW real asset sectors (industrials, energy, materials)
- Increased fixed income overall via Treasuries; increased duration to approx. EW vs benchmark; higher probability of rate cuts

Strategic Models

- OW to US, UW to int. developed/Europe
- OW Quality, mix Value & Growth (change from last year); tilt away from concentration risk using EW strategies
- Maintain position in Growth; EW most tech-like sectors
- OW real asset sectors (industrials, energy, materials)
- Duration approx. EW vs benchmark
- Maintain gold alt; decreased inversely correlated alts in Q1; macro data is weakening but not yet severely/rate cuts to occur

Portfolio Positioning

		Aggressive UW/OW	Growth & Inc UW/OW	MARS UW/OW	RMDI UW/OW	Renaissance UW/OW
Asset Allocation	Equity	2%	1%	-2%	0%	-5%
	US Equity	3%	2%	3%	3%	14%
	Non-US Equity	-1%	-2%	-5%	-2%	-20%
	Fixed Income	-6%	-4%	-4%	-4%	2%
	Alternative	4%	3%	6%	3%	4%
Equity Sectors	Basic Materials	2%	2%	2%	2%	0%
	Communication Services	-1%	-1%	-2%	-2%	-2%
	Consumer Cyclical	1%	1%	0%	0%	-2%
	Consumer Defensive	0%	0%	1%	0%	4%
	Energy	2%	2%	2%	3%	0%
	Financial Services	-6%	-6%	-5%	-6%	-6%
	Healthcare	0%	0%	2%	1%	4%
	Industrials	3%	3%	3%	5%	1%
	Real Estate	-1%	-1%	-1%	-1%	-1%
	Technology	0%	0%	-2%	-1%	-2%
	Utilities	-1%	-1%	0%	-1%	3%
Equity Style Box	Large	-17%	-18%	-15%	-21%	-12%
	Large Value	-3%	-4%	-2%	-2%	-1%
	Large Blend	-5%	-5%	-4%	-5%	1%
	Large Growth	-9%	-9%	-9%	-14%	-11%
	Mid	16%	17%	12%	20%	9%
	Mid Value	8%	8%	5%	10%	4%
	Mid Blend	7%	7%	6%	9%	5%
	Mid Growth	1%	1%	1%	1%	0%
	Small	1%	1%	3%	1%	3%
	Small Value	0%	0%	1%	0%	1%
	Small Blend	1%	1%	1%	1%	1%
	Small Growth	0%	0%	0%	0%	0%

Source: BlackRock 360 Evaluator, Astoria Portfolio Advisors. Data as of August 6, 2024.

Portfolio Positioning

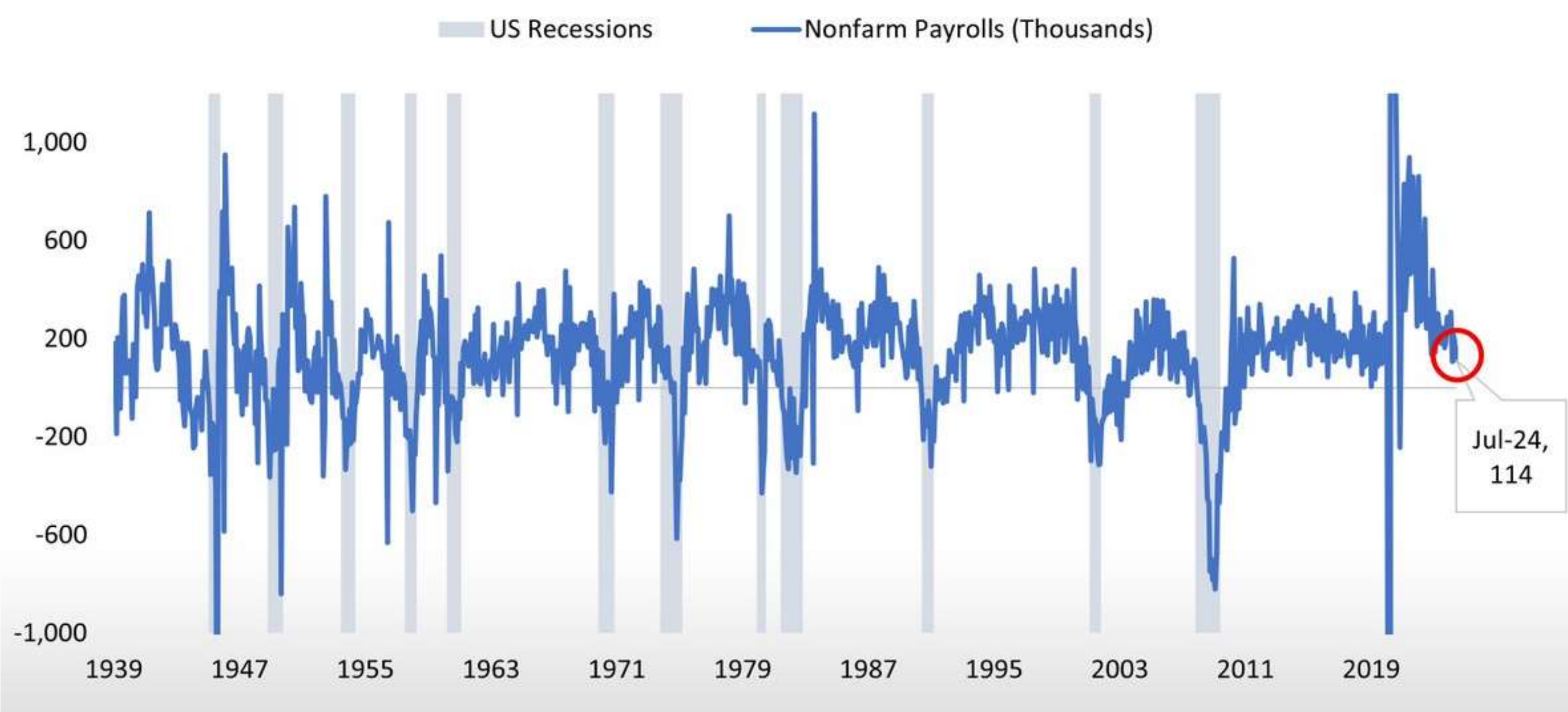
		Aggressive UW/OW	Growth & Inc UW/OW	MARS UW/OW	RMDI UW/OW	Renaissance UW/OW
Other Attrib	Standard Deviation	0.1%	-0.1%	-0.9%	-0.3%	-1.8%
	Avg. Effective Duration	-0.5	-0.2	-0.4	0.0	—
	12 Month Trailing Yield	-0.5%	-0.3%	-0.1%	-0.1%	-0.2%
Fixed Income Sectors	Government	5%	3%	2%	-5%	—
	Municipal	0%	0%	0%	17%	—
	Corporate	11%	13%	11%	3%	—
	Securitized	-17%	-17%	-13%	-17%	—
	Cash & Equivs.	1%	1%	1%	1%	—
Credit Quality	AAA	2%	-1%	1%	-6%	—
	Inv. Grade	-3%	1%	-1%	6%	—
	High Yield	0%	0%	0%	0%	—
	Not Rated	0%	0%	0%	0%	—

Source: BlackRock 360 Evaluator, Astoria Portfolio Advisors. Data as of August 6, 2024.

Business Cycle Indicators

Jul Nonfarm Payrolls came in well below consensus and declined from Jun. Report revealed unemployment unexpectedly rose from 4.1% to 4.3%, highest since Oct 2021

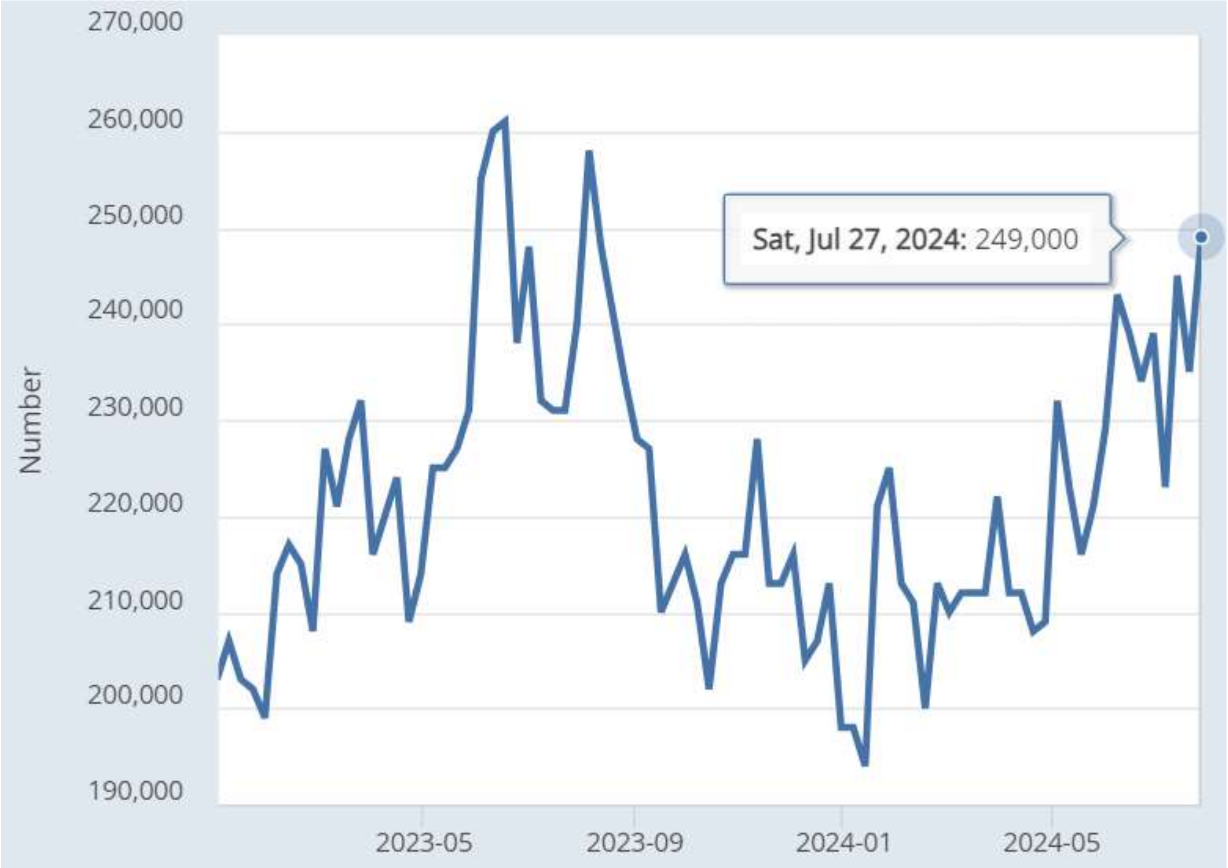
Nonfarm Payrolls



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

Initial Jobless Claims have been consistently elevated in recent weeks, with latest print notching highest level since Aug 2023. Continuing Claims also registered highest since Nov 2021

Initial Jobless Claims | 01/01/2022 to 07/20/2024



Source: FRED. Data as of July 25, 2024.

Jul ADP Private Payrolls missed estimates and declined from Jun, hitting lowest since Jan, while Jun JOLTS Job Openings beat estimates for a larger decline, but still slightly down from May

ADP Private Payrolls

Source: FactSet, BEA – US Bureau of Economic Analysis, Astoria Portfolio Advisors. Data as of July 31, 2024

JOLTS Job Openings

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

Jul ISM Manufacturing PMI fell deeper into contractionary territory, marking lowest since Nov. Jul Markit Manufacturing PMI (final) also posted first print in contractionary territory in 2024

ISM Manufacturing PMI

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

Markit Manufacturing PMI

Source: FactSet, Markit Economics (NTC), Astoria Portfolio Advisors. Data as of July 24, 2024

However, Jul ISM Services PMI printed up largely from Jun, back to expansionary territory. Jul Markit Services PMI (final) declined slightly from Jun but also remained in expansionary territory

ISM Services PMI

Source: FactSet, ISM - Institute for Supply Management, Astoria Portfolio Advisors. Data as August 5, 2024.

Markit Services PMI

Source: FactSet, Markit Economics (NTC), Astoria Portfolio Advisors. Data as of August 5, 2024.

Inflation via Jun CPI report came in cooler across the board, sparking rate cut expectations in Sep. In contrast, PPI report saw hotter measures, but this did not throw off rate cut hopes

Core Consumer Price Index

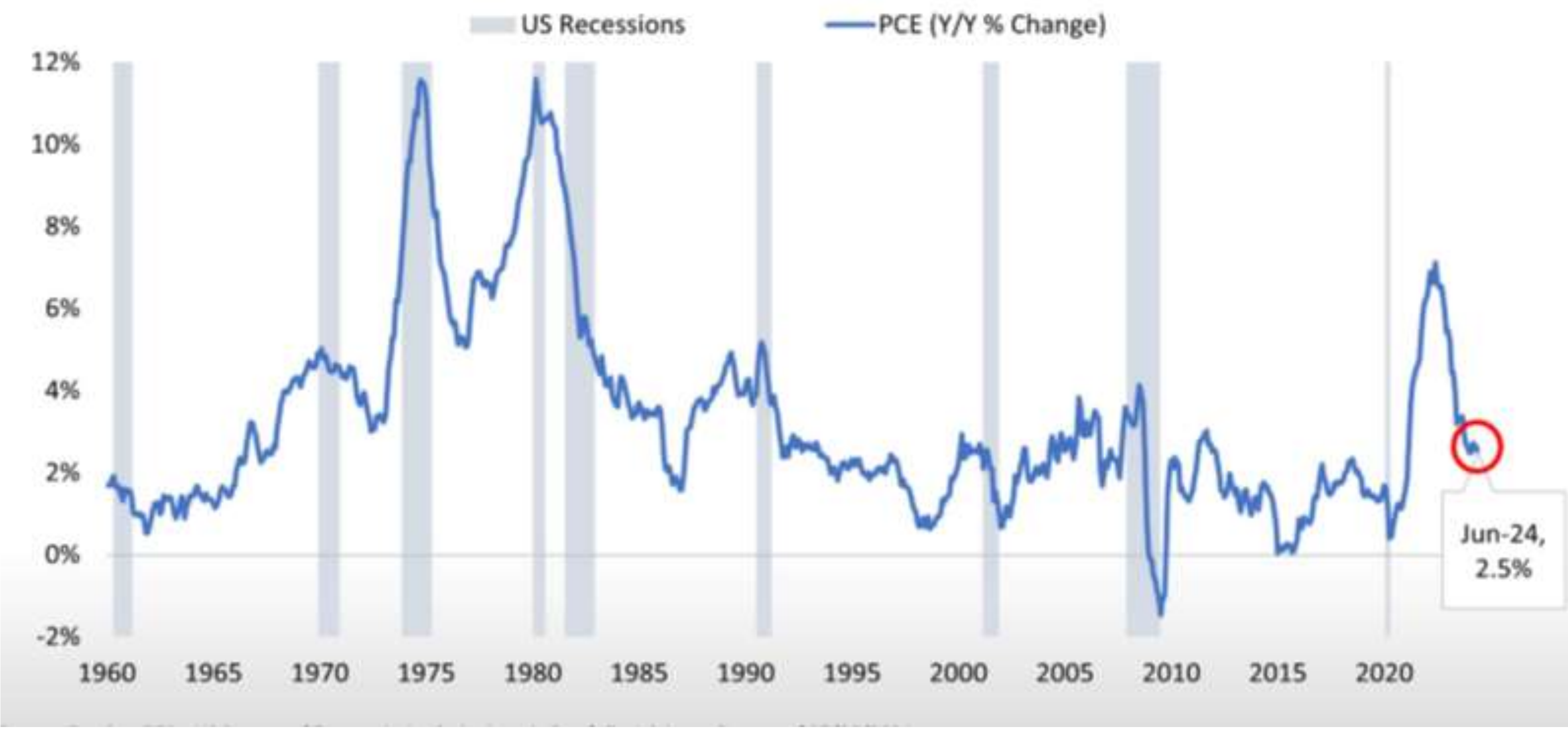
Source: FactSet, U.S. Department of Labor, Astoria Portfolio Advisors. Core CPI (Consumer Price Index) excludes the prices of food and energy. Data as of July 11, 2024.

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 July 12, 2024.

For Jun, ann. headline PCE eased slightly from May hitting lowest since Mar 2021, while ann. core PCE remained at 2.5%. Report likely to leave Sep rate cut intact

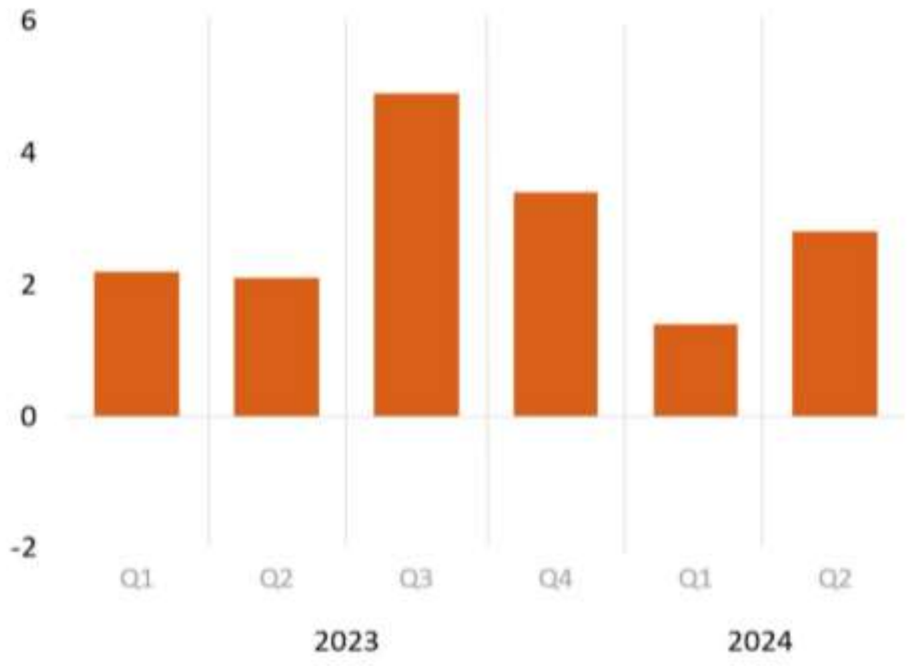
Core Personal Consumption Expenditures (PCE) Price Index



Source: FactSet, BEA – US Bureau of Economic Analysis, Astoria Portfolio Advisors. Data as of July 26, 2024

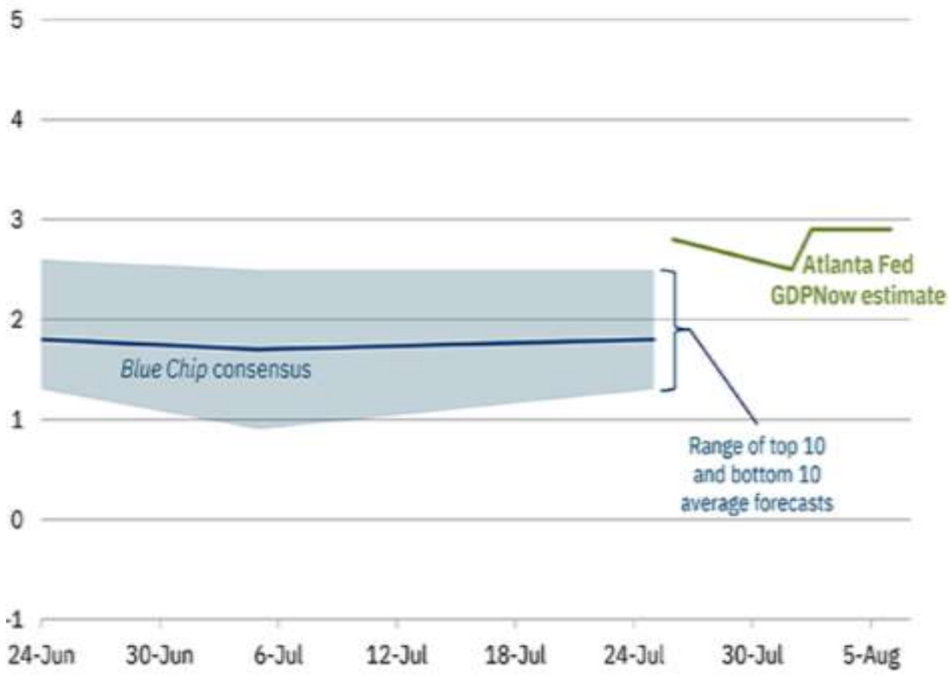
US Real GDP for Q2 2024 printed 2.8% per the first estimate, up from Q1 2024's 1.4%. GDPNow also expects Q3 2024 GDP to remain strong via the latest 2.9% forecast…

US Real GDP YoY % Change through Q2 2024



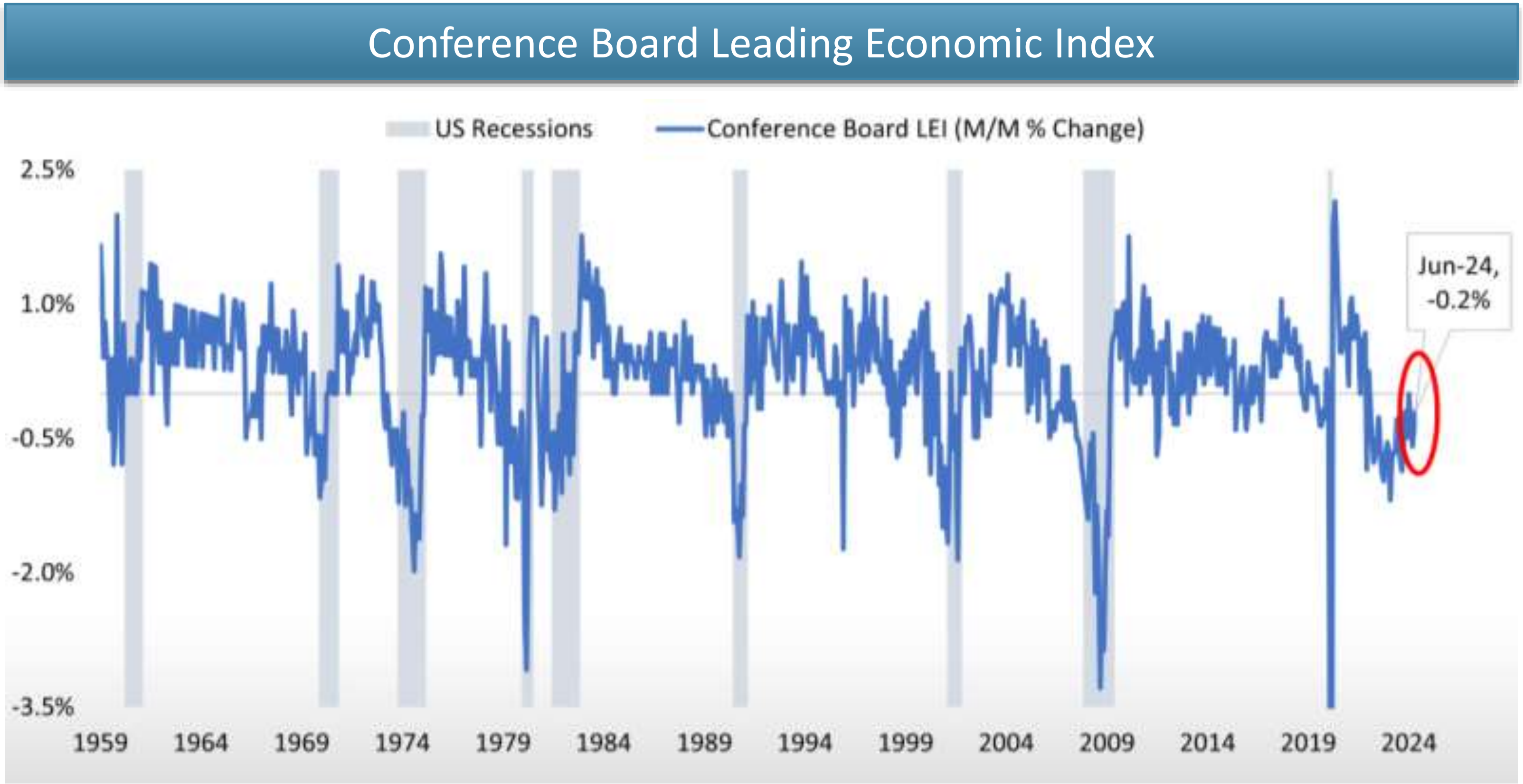
Source: U.S. Bureau of Economic Analysis. Data as of July 25, 2024.

Atlanta Fed GDPNow Q3 2024 Real GDP Est.



Source: Blue Chip Economic Indicators and Blue Chip Financial Forecasts. Data as of August 6, 2024.

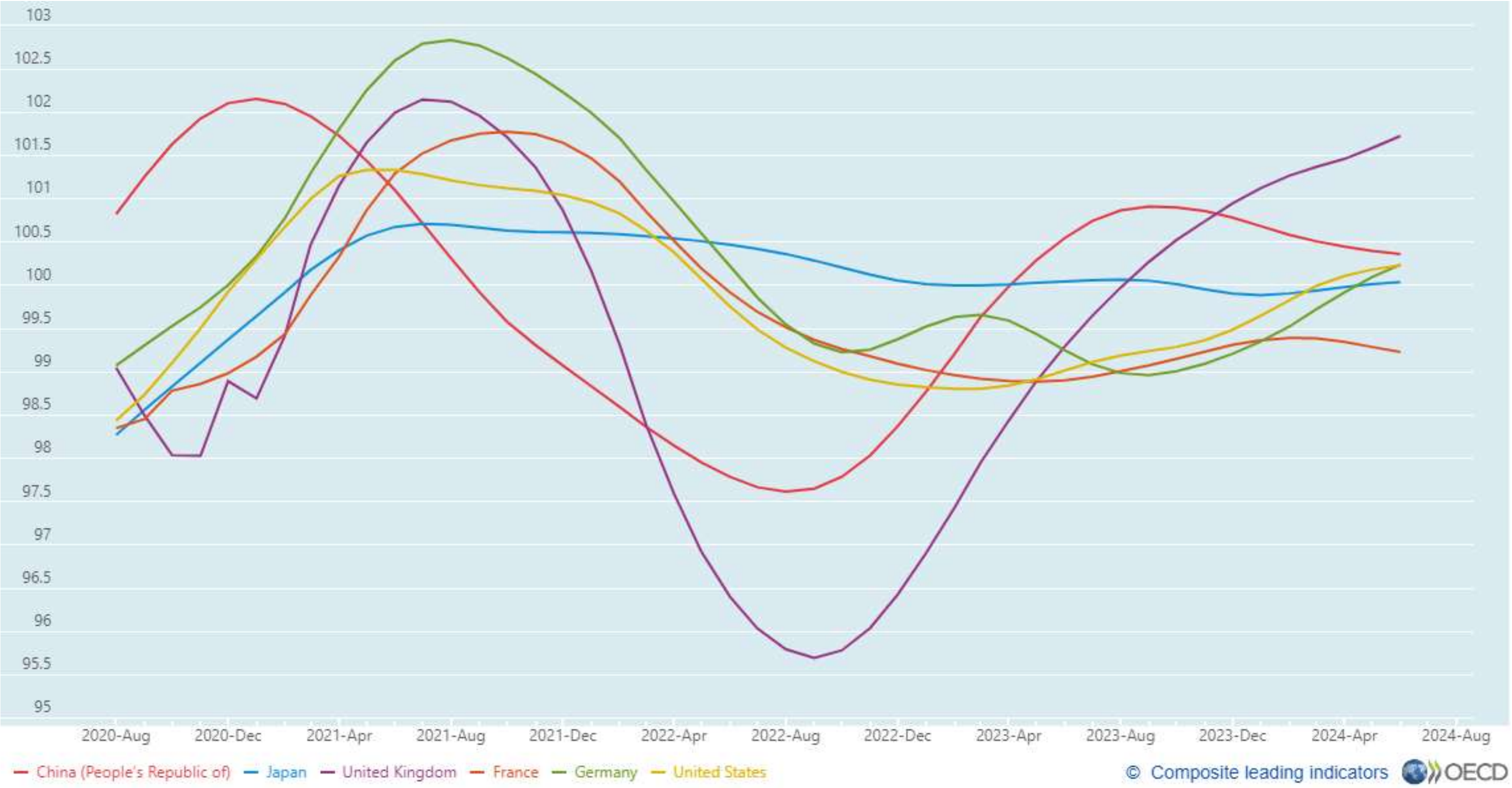
… but the Conference Board LEI fell for the 4th consecutive month in Jun, signaling softer economic conditions ahead



Source: Conference Board, Astoria Portfolio Advisors. Data as of July 18, 2024.

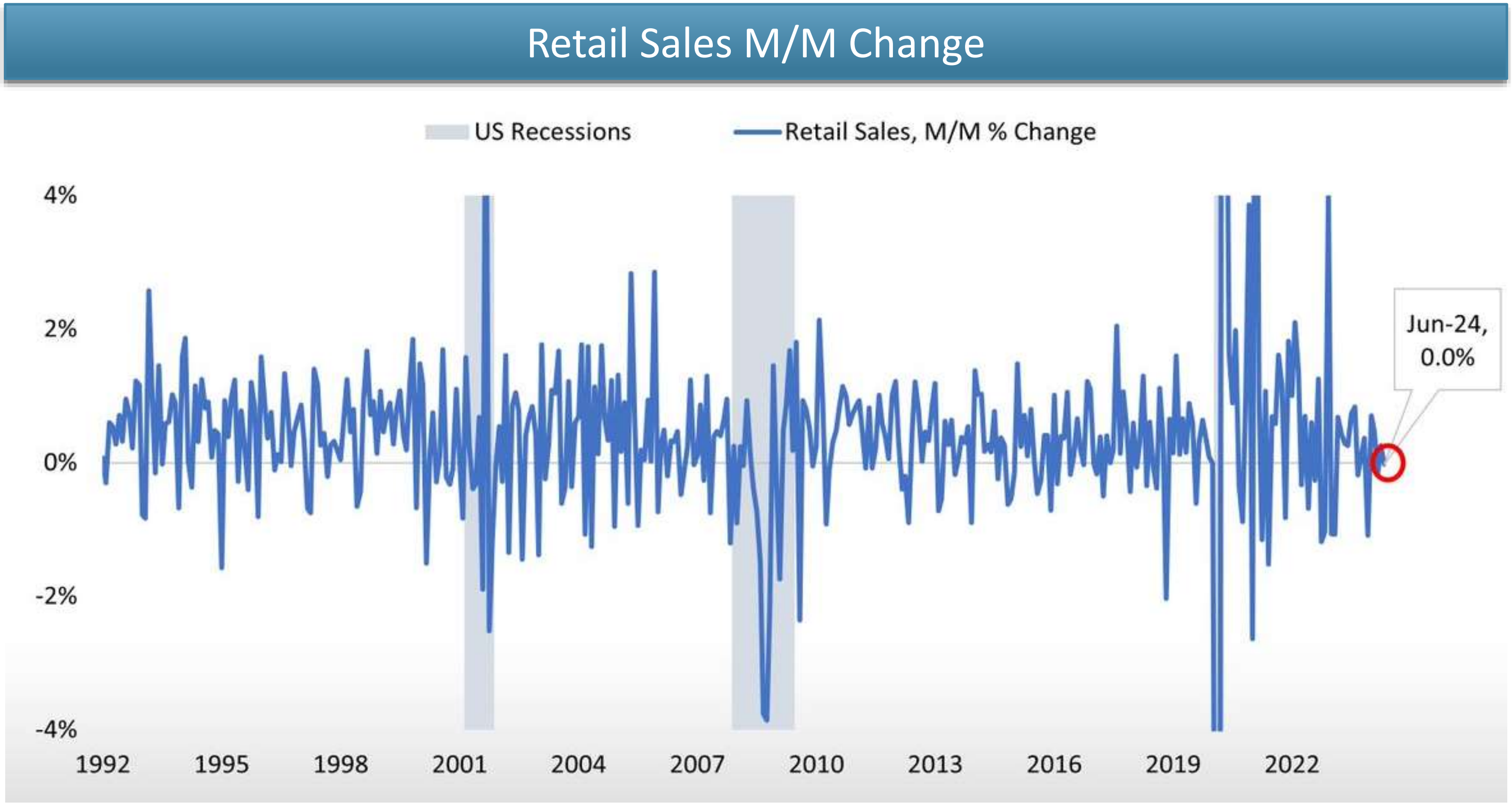
Leading Indicators have improved in the US (yellow), the UK (purple), and Germany (green). Otherwise, Japan (blue) seems flat while China and France have started declining (100 = hist. median)

OECD Composite Leading Indicators



Source: OECD.org. Data as of July 29, 2024.

Jun Retail Sales came in flat compared to last month's increase. Print adds growing skepticism on consumer resilience story



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

Jul NAHB HMI sank deeper into contractionary territory while Jun New Home Sales decreased from May, marking 3rd consecutive decline. Both signal weakness in the housing market

NAHB Housing Market Index

Source: FactSet, NAHB - National Association of Home Builders, Astoria Portfolio Advisors. Data as of July 16, 2024.

New Home Sales

Source: FactSet, US Census Bureau, Astoria Portfolio Advisors. Data as of July 24, 2024.

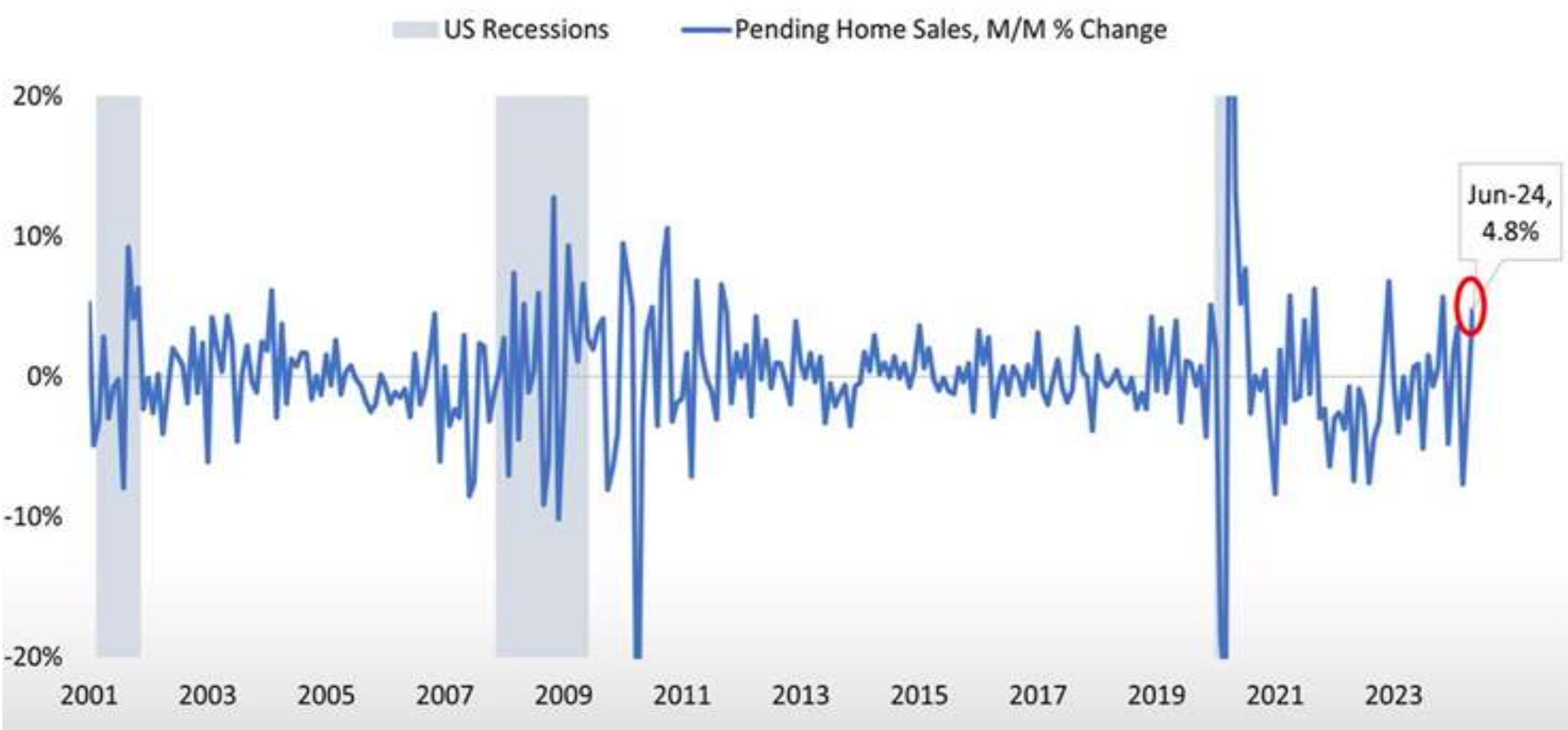
Jun Existing Home Sales came in well below expectations and hit slowest monthly pace since Dec. Median prices notched an all-time high

Existing Home Sales

Source: FactSet, NAR - US National Association of Realtors, Astoria Portfolio Advisors. Data as of July 23, 2024.

However, Jun Pending Home Sales beat estimates and increased from May amid improving supply…

Pending Home Sales



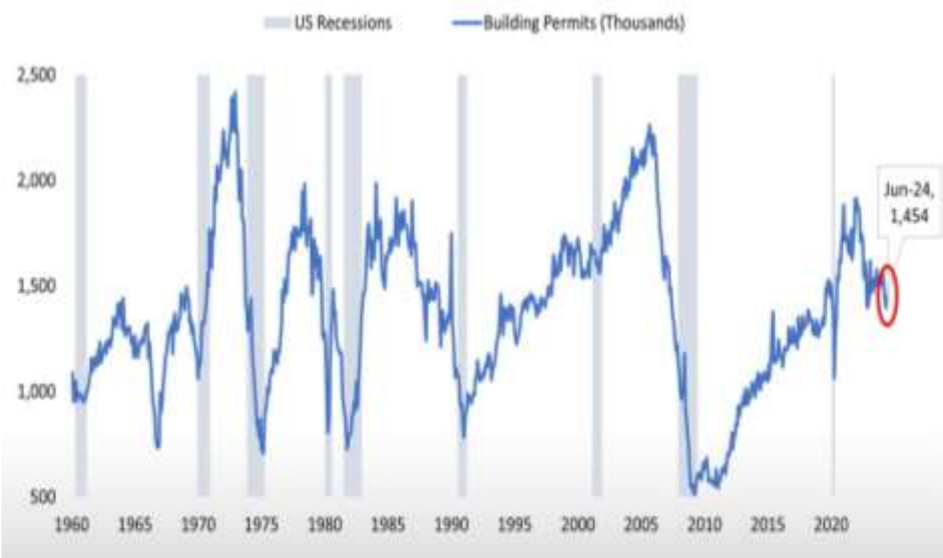
Source: FactSet, NAR - US National Association of Realtors, Astoria Portfolio Advisors. Data as of July 31, 2024.

… and both Jun Housing Starts and Building Permits beat consensus and increased from May, suggesting a slight and uneven recovery in the housing market

Housing Starts

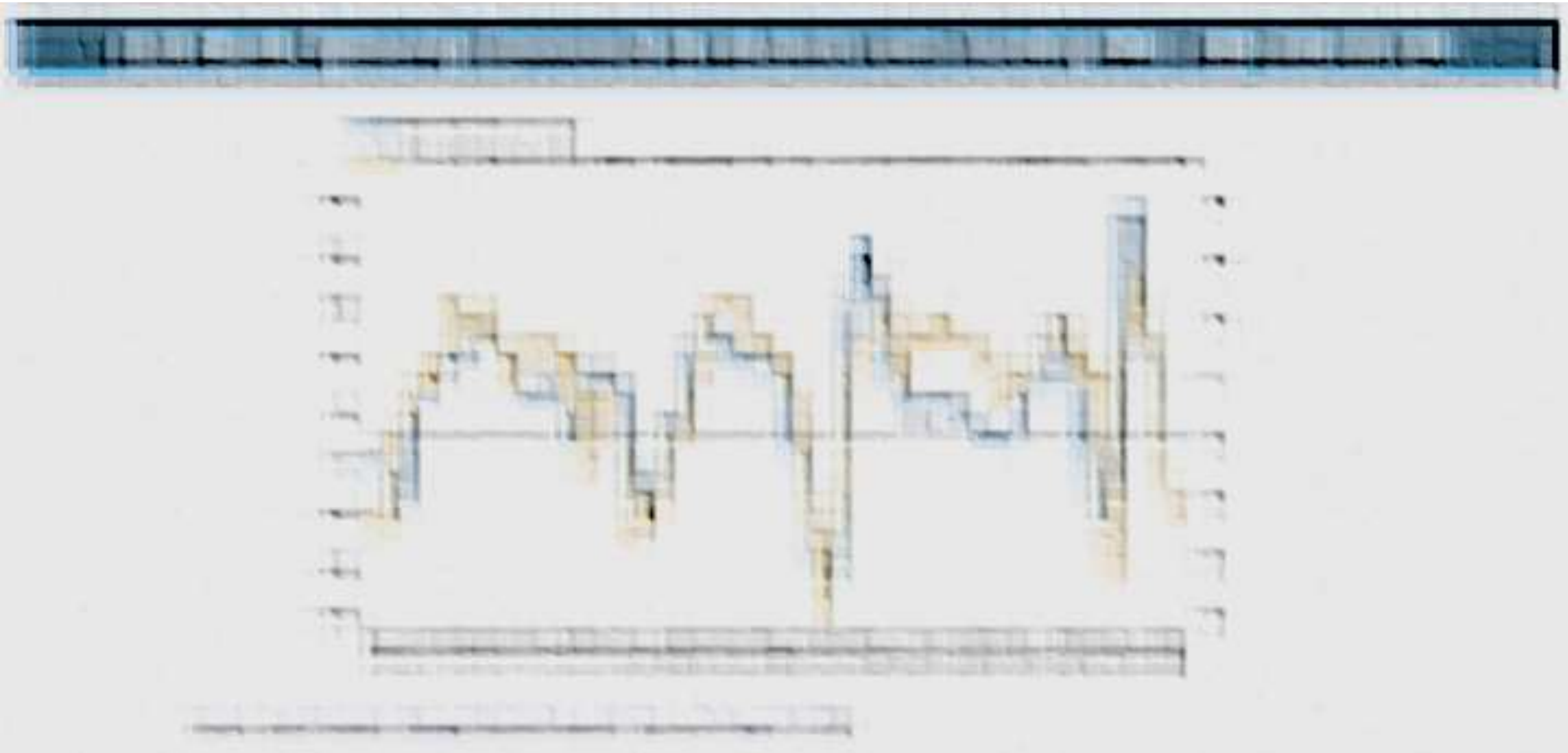
Source: FactSet, US Census Bureau, Astoria Portfolio Advisors. Data as of July 17, 2024.

Building Permits



Source: FactSet, US Census Bureau, Astoria Portfolio Advisors. Data as of July 24, 2024.

To access more of our macroeconomic insights and business cycle indicators on slides 26-58, please contact Frank Tedesco (ftedesco@astoriaadvisors.com).



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- Futures Contracts Risk: The Fund expects that certain of the Underlying ETFs in which it invests will utilize futures contracts for its commodities investments. The risk of a position in a futures contract may be very large compared to the relatively low level of margin the Underlying ETF is required to deposit. In many cases, a relatively small price movement in a futures contract may result in immediate and substantial loss or gain to the investor relative to the size of a required margin deposit. The prices of futures contracts may not correlate perfectly with movements in the securities or index underlying them.
- TIPS Risk: Principal payments for Treasury Inflation-Protection Securities are adjusted according to changes in the Consumer Price Index (CPI). While this may provide a hedge against inflation, the returns may be relatively lower than those of other securities. Similar to other issuers, changes to the financial condition or credit rating of the US government may cause the value of the Fund's exposure to US Treasury obligations to decline.
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