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Portfolio Update and Market Outlook

Baker's Dozen, Dividend, Small Cap Growth, Forward Looking Value

1. *Summary talking points for advisors and investors*
2. *Company overview and our enhanced selection process*
3. *Performance update*
4. *Overview of the <u>new Q1 2024 Baker's Dozen</u>*
5. *Market observations & outlook*

Updated 1/19/2024

Scott Martindale
President & CEO

David Brown
Founder & Chief Market Strategist

Summary Talking Points

1. Sabrient leverages a <u>unique collaboration of engineers and forensic accountants</u>, quantitative models, and a process-driven "*quant*amental" methodology (<u>quant</u>itative screen plus fund<u>amental</u> review & selection).

2. Our portfolios displayed <u>consistent outperformance</u> in 2009–2014 of, but then the market became narrow & news-driven leading to historic performance divergences in Growth over Value factors. So, in December 2019 we implemented <u>process enhancements</u> to make our portfolios more all-weather—*while maintaining the potential for significant outperformance vs. benchmarks.*

3. **<u>20 out of 32</u> <u>live and recently terminated portfolios have outperformed</u>** or stayed within 1% of their benchmarks (gross total returns), despite a challenging and often speculation-driven market and narrow market breadth. These include *Baker's Dozen*, Dividend, Small Cap Growth, and Forward Looking Value portfolios.

4. Although the terminating <u>Q4 2022 Baker's Dozen substantially underperformed</u> the S&P 500 (primarily due to an overweight in Energy and underweight in Technology relative to the benchmark), it is notable that **12 of the 13** <u>Sabrient portfolios that terminated during 2023 outperformed</u> their benchmarks (gross total returns).

5. **The new Q1 2024 Baker's Dozen launched on 1/19/24.** It holds 13 concentrated positions, a small-mid bias relative to the SPY benchmark, and a growth bias, which together offer the <u>potential "rocket fuel"</u> for outsized gains.

6. **Small Cap Growth 40** provides an <u>alpha-seeking alternative</u> to a passive position in the Russell 2000 for small-cap exposure, as small caps may be poised to outperform as market breadth improves.

7. **Dividend 46** employs a <u>GARP & Income strategy</u> that seeks capital appreciation from quality companies with a solid growth history that distribute reliable dividends. It pays a *current yield of* **<u>4.6%</u>** (as of 1/19/24).

8. <u>Core inflation continues to recede</u> as supply chain pressures ease, money supply growth stagnates, interest rates stay elevated, and wage growth slows. We believe the Fed has been overly hawkish and now lag effects are coming to roost, leading the Fed to soften its tone.

9. Elevated valuations on major indexes primarily driven by the "Magnificent Seven" (MAG7) Big Tech stocks. <u>Minus those stocks, valuations across the broad market are much more reasonable</u>. Forward P/E on SPY was 20.4x, but equal-weight RSP was only 16.8x as of 12/31/23.

10. Investors may do better with active stock selection that identifies under-the-radar/undervalued gems primed for explosive growth—*which is what **Sabrient portfolios seek to do*** by combining Value, Quality, and Growth factors and exposure to cyclical and secular growers.

Company Overview

➤ **Sabrient Systems LLC** – founded in 2000 in Santa Barbara, CA

    ▪ _**Quantitative**_ fundamentals-based multifactor models

    ▪ Diverse team of engineers/analysts/programmers, led by former **NASA** engineer (Apollo 11 moon landing) David Brown and former **Chevron** engineer Scott Martindale

    ▪ Numbers-driven; Bottom-up rather than top-down

    ▪ In 2009, introduced _quantamental_ GARP approach for _Baker's Dozen_ annual portfolio (13 top picks)

➤ **Gradient Analytics LLC** – founded in 1996 in Phoenix, AZ and acquired by Sabrient in 2011

    ▪ _**Fundamental**_ forensic accounting analysis (earnings quality)

    ▪ Team of finance & accounting analysts

    ▪ Together we built our proprietary **Earnings Quality Rank (EQR)**

➤ Combined team leverages a unique **collaboration of engineers and forensic accountants**:

    ▪ Engineers bring **process-driven** methodology and **scientific** hypothesis-testing approach

    ▪ Forensic accountants bring unique insights into **financial statement analysis**

    ▪ Together we offer quantitative and fundamental equity research, datasets, rankings, tools, strategies _=> including portfolios for UITs, indexes for ETFs and TAMPs, and insightful market commentaries_

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"Quantamental" approach with a forensic accounting overlay

1. Quantitative screen to narrow large eligible universe (50-100 names)

Forward P/E, Forward EPS growth, recent dynamics of analyst consensus estimates,
Earnings Quality Rank (EQR), and Growth Quality Rank (GQR)

2. Fundamental analysis to identify top candidates (~25 names)

Still mainly numbers-driven, but not algorithmic

3. Forensic accounting review of top candidates

Earnings quality, aggressive practices, insider selling, governance

4. Final Stock Selection (13 names)

Manual process, adhering to sector concentration limits

We believe a GARP strategy is "all-weather." So, what could go wrong? Two things:
1) Consensus EPS estimates are reduced after portfolio launch or the company fails to achieve them.
2) Investor sentiment turns defensive, leading to narrow market breadth and avoidance of lesser-known firms.

Note: This applies to Baker's Dozen selection, but we employ a similar approach for all portfolios (adjusted for appropriate universe or investment mandate).

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Sabrient Portfolios: leveraging the "quantamental" approach

➢ **Q1 2024 Baker's Dozen** (13 stocks) launched on 1/19/24

⇒ *Offers alpha-seeking opportunity thru a concentrated all-cap GARP portfolio that balances value/cyclical growth with high-quality secular growers*

➢ **Small Cap Growth 40** (50 stocks) launched on 11/3/23

⇒ *Offers alpha-seeking alternative to Russell 2000 for small cap exposure*

➢ **Dividend 46** (50 stocks) launched on 11/29/23

⇒ *High-quality GARP + Income portfolio; Current Yield of 4.6%* (as of 1/19/24)

➢ **Forward Looking Value 11** (34 stocks) launched on 7/24/23

⇒ *Less concentrated and more value-biased version of the Baker's Dozen*

Baker's Dozen – Model Portfolio Performance (rebalanced each January)

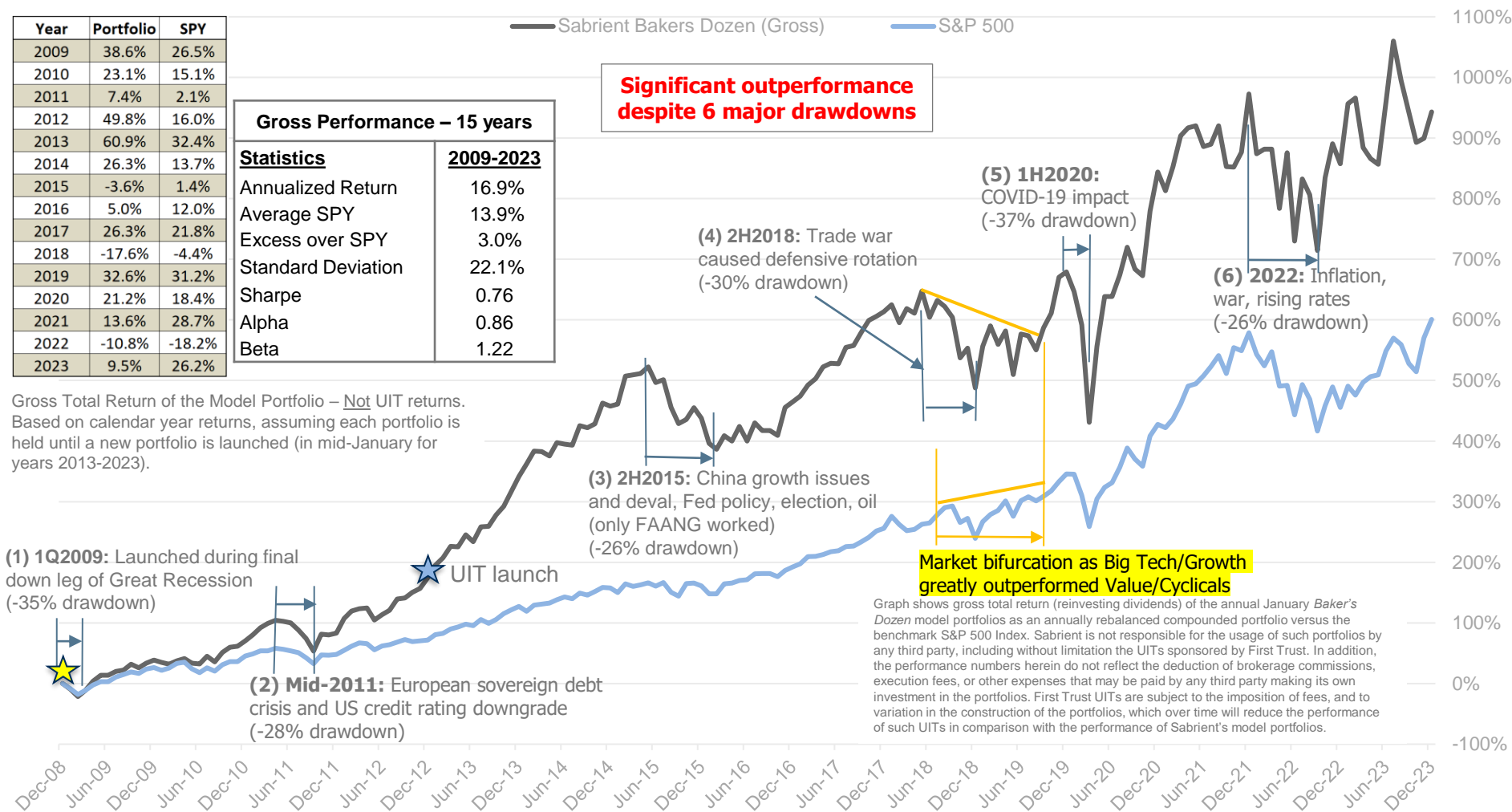(1/1/2009 inception thru 12/31/2023, <u>end-of-month</u> data points, updated quarterly)

Year	Portfolio	SPY
2009	38.6%	26.5%
2010	23.1%	15.1%
2011	7.4%	2.1%
2012	49.8%	16.0%
2013	60.9%	32.4%
2014	26.3%	13.7%
2015	-3.6%	1.4%
2016	5.0%	12.0%
2017	26.3%	21.8%
2018	-17.6%	-4.4%
2019	32.6%	31.2%
2020	21.2%	18.4%
2021	13.6%	28.7%
2022	-10.8%	-18.2%
2023	9.5%	26.2%

Gross Performance – 15 years	
Statistics	**2009-2023**
Annualized Return	16.9%
Average SPY	13.9%
Excess over SPY	3.0%
Standard Deviation	22.1%
Sharpe	0.76
Alpha	0.86
Beta	1.22

Gross Total Return of the Model Portfolio – <u>Not</u> UIT returns. Based on calendar year returns, assuming each portfolio is held until a new portfolio is launched (in mid-January for years 2013-2023).

Significant outperformance despite 6 major drawdowns

— Sabrient Bakers Dozen (Gross) — S&P 500

(5) 1H2020: COVID-19 impact (-37% drawdown)

(4) 2H2018: Trade war caused defensive rotation (-30% drawdown)

(6) 2022: Inflation, war, rising rates (-26% drawdown)

(3) 2H2015: China growth issues and deval, Fed policy, election, oil (only FAANG worked) (-26% drawdown)

Market bifurcation as Big Tech/Growth greatly outperformed Value/Cyclicals

(1) 1Q2009: Launched during final down leg of Great Recession (-35% drawdown)

UIT launch

(2) Mid-2011: European sovereign debt crisis and US credit rating downgrade (-28% drawdown)

Graph shows gross total return (reinvesting dividends) of the annual January *Baker's Dozen* model portfolios as an annually rebalanced compounded portfolio versus the benchmark S&P 500 Index. Sabrient is not responsible for the usage of such portfolios by any third party, including without limitation the UITs sponsored by First Trust. In addition, the performance numbers herein do not reflect the deduction of brokerage commissions, execution fees, or other expenses that may be paid by any third party making its own investment in the portfolios. First Trust UITs are subject to the imposition of fees, and to variation in the construction of the portfolios, which over time will reduce the performance of such UITs in comparison with the performance of Sabrient's model portfolios.

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Performance of live and recently terminated portfolios – as of 1/19/24

Baker's Dozen & FLV - Gross return thru: 1/19/2024

Portfolio	Launch	Close	Gross Return (FTP website)	SPY Return	Active Return
Q4 2021 BD	10/20/21	1/20/23	9.1%	-10.8%	19.9%
Q1 2022 BD	1/20/22	4/20/23	4.5%	-6.0%	10.5%
Q2 2022 BD	4/20/22	7/20/23	28.3%	3.8%	24.5%
Q3 2022 BD	7/20/22	10/20/23	15.8%	8.8%	7.0%
FLV 10	7/15/22	10/24/23	24.0%	12.2%	11.8%
Q4 2022 BD	10/20/22		-5.9%	34.6%	-40.5%
Q1 2023 BD	1/20/23		-7.9%	23.7%	-31.6%
Q2 2023 BD	4/20/23		26.1%	18.5%	7.6%
Q3 2023 BD	7/20/23		-2.0%	7.5%	-9.5%
FLV 11	7/24/23		2.8%	7.0%	-4.3%
Q4 2023 BD	10/20/23		8.0%	15.0%	-7.0%

Sabrient Dividend - Gross return thru: 1/19/2024

Portfolio	Launch	Close	Gross Return	SPYD Return	Active
Div 35	3/19/21	3/17/23	-3.3%	1.9%	-5.2%
Div 36	6/22/21	6/22/23	7.0%	-1.9%	8.9%
Div 37	9/20/21	9/20/23	21.3%	2.7%	18.6%
Div 38	12/20/21	12/20/23	15.3%	4.9%	10.4%
Div 39	3/18/22		-0.3%	-2.4%	2.1%
Div 40	6/15/22		12.4%	3.4%	8.9%
Div 41	9/12/22		-2.1%	-1.3%	-0.7%
Div 42	12/9/22		0.0%	1.6%	-1.6%
Div 43	3/8/23		6.3%	2.2%	4.2%
Div 44	6/5/23		11.9%	10.7%	1.2%
Div 45	9/1/23		2.6%	5.5%	-3.0%
Div 46	11/29/23		5.1%	7.2%	-2.1%

Small Cap Growth - Gross return thru: 1/19/2024

Portfolio	Launch	Close	Gross Return	IWM Return	Active
SCG 32	12/6/21	3/6/23	3.5%	-12.3%	15.8%
SCG 33	3/4/22	6/5/23	0.4%	-8.0%	8.3%
SCG 34	6/1/22	9/1/23	12.4%	5.5%	6.9%
SCG 35	8/29/22	11/29/23	5.0%	-2.4%	7.4%
SCG 36	11/14/22		-0.1%	6.2%	-6.3%
SCG 37	2/10/23		-8.1%	2.6%	-10.7%
SCG 38	5/8/23		13.8%	11.8%	2.0%
SCG 39	8/7/23		-4.5%	-0.1%	-4.4%
SCG 40	11/3/23		11.6%	10.7%	0.9%

All portfolios launched since December 2019 were created with our *enhanced* GARP selection process, which provides a balance between secular and cyclical growth and across market caps while striving for consistent "all-weather" performance … *and still maintaining the potential for significant outperformance.*

The **table** shows gross total returns (without transactional sales charge, as displayed on the ftportfolios.com website) versus a relevant benchmark for all the **live portfolios** plus those that recently terminated during 2023. [Note: We use S&P 500 High Dividend ETF (SPYD) as the appropriate Dividend benchmark here.]

20 of the 32 live or recently terminated portfolios shown have outperformed or are within 1% of the benchmark despite challenging and often speculation-driven market and narrow MAG7 leadership.

12 of the 13 Sabrient portfolios that terminated during 2023 (shaded in the table) outperformed their benchmarks (gross total returns)—however, the Q4 2022 and Q1 2023 Baker's Dozen portfolios have significantly underperformed the S&P 500 (primarily due to an *overweight* in Energy and *underweight* in Technology relative to the benchmark),

Notably, the **Dividend portfolio** is not purely yield-focused. Instead, it is a GARP+Income strategy that seeks *quality* stocks and a solid yield in the 4-5% range. (**Dividend 46 has a current yield of 4.6%.**)

As such, Dividend portfolios have been mostly *uncorrelated* with either high-dividend SPYD or growth-oriented SPY—sometimes outperforming or underperforming one or both benchmarks.

Past performance is no guarantee of future results. Refer to Disclaimer page for other important disclosures.

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Q1 2022 *Baker's Dozen* Model Portfolio – terminated 4/20/23

Launch date (1/20/2022) through termination (4/20/23)

Q1 2022 Baker's Dozen Portfolio						Est. NTM EPS	
Ticker	Company Name	Sector	Return	Fwd P/E at Launch	Current Fwd P/E	Growth at Launch	Actual EPS Growth
ACLS	Axcelis Technologies, Inc.	Information Technology	105.7%	16.5	14.6	-32.9%	36.7%
ACGL	Arch Capital Group Ltd.	Financials	58.2%	10.5	10.1	-20.3%	48.6%
DVN	Devon Energy Corporation	Energy	22.2%	9.3	7.5	-33.3%	-26.2%
TOL	Toll Brothers, Inc.	Consumer Discretionary	9.1%	5.9	8.0	-19.1%	0.4%
ARCB	ArcBest Corporation	Industrials	9.0%	10.2	11.8	-27.2%	-35.1%
TEX	Terex Corporation	Industrials	8.4%	10.8	8.2	-21.6%	35.5%
KLAC	KLA Corporation	Information Technology	-0.4%	18.1	22.9	-15.4%	-11.0%
AEL	American Equity Investment Life Holdi	Financials	-7.5%	8.6	7.8	7.3%	67.5%
DAR	Darling Ingredients Inc.	Consumer Staples	-10.8%	12.4	11.5	14.8%	-8.5%
PFE	Pfizer Inc.	Health Care	-23.2%	8.4	19.5	3.0%	-85.3%
HRI	Herc Holdings Inc.	Industrials	-30.5%	13.9	10.8	0.5%	10.9%
CHTR	Charter Communications, Inc.	Communication Services	-41.3%	18.4	11.0	3.6%	8.7%
WDC	Western Digital Corporation	Information Technology	-44.4%	7.2	NE	4422.2%	-2972.5%
		Average =	+4.5%	11.6	12.0	329.4%	-225.4%
SPY	SPDR S&P 500 ETF Trust		-6.0%				
RSP	Invesco S&P 500 Equal Weight		-4.6%				
IWM	iShares Russell 2000 ETF		-10.1%				
MDY	SPDR S&P MidCap 400 ETF Trust		-3.5%				

Strong performers led by a specialty semiconductor firm, an insurance company, and an oil & gas producer offset a variety of laggards from hard drive storage, cable TV/Internet, and an industrial equipment firms.

Overall, despite a severe pullback over the past month among Industrials, the portfolio outperformed all relevant large cap, mid-cap, and small-cap benchmarks (including both cap-weight and equal-weight).

It *beat* the S&P 500 by +10.5 pps (gross total return).

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Q2 2022 *Baker's Dozen* Model Portfolio – terminated 7/20/23

Launch date (4/20/2022) through termination (7/20/23)

Q2 2022 Baker's Dozen Portfolio							
						Est. NTM EPS	
Ticker	Company Name	Sector	Return	Fwd P/E at Launch	Current Fwd P/E	Growth at Launch	Actual EPS Growth
ACLS	Axcelis Technologies, Inc.	Information Technology	203.5%	13.5	14.6	-20.9%	33.2%
SAIA	Saia, Inc.	Industrials	93.1%	16.3	27.3	-5.3%	-1.8%
PHM	PulteGroup, Inc.	Consumer Discretionary	79.3%	4.1	8.9	-1.6%	5.5%
ON	ON Semiconductor Corporation	Information Technology	75.6%	13.6	16.3	-22.4%	-4.1%
AVGO	Broadcom Inc.	Information Technology	54.3%	16.2	22.3	-6.9%	6.9%
VLO	Valero Energy Corporation	Energy	16.3%	11.8	8.2	-68.8%	-17.0%
COP	ConocoPhillips	Energy	15.8%	7.7	11.7	-1.8%	-33.9%
BOX	Box, Inc.	Information Technology	-4.4%	28.5	15.2	-4.6%	19.8%
DVN	Devon Energy Corporation	Energy	-12.7%	8.4	7.5	-10.2%	-30.2%
MRC	MRC Global Inc.	Industrials	-17.1%	14.4	10.6	-22.9%	-14.0%
PFE	Pfizer Inc.	Health Care	-22.7%	9.1	19.5	-16.2%	-76.9%
CF	CF Industries Holdings, Inc.	Materials	-23.9%	7.1	11.7	-14.6%	-54.6%
AA	Alcoa Corporation	Materials	-62.0%	6.7	NE	63.5%	-130.6%
		Average =	+28.3%	12.1	14.5	-10.2%	-22.9%
SPY	SPDR S&P 500 ETF Trust		3.8%				
RSP	Invesco S&P 500 Equal Weight		-0.9%				
MDY	SPDR S&P MidCap 400 ETF Trust		2.2%				
IWM	iShares Russell 2000 ETF		-1.7%				

Strong performers led by three semiconductor makers, a homebuilder, and a trucker offset a variety of laggards from Materials, Healthcare, and Energy.

Despite several double-digit losers, this portfolio benefited from a number of outstanding performers.

Overall, the portfolio has outperformed all relevant large cap, mid-cap, and small-cap benchmarks (including both cap-weight and equal-weight).

It *beat* the S&P 500 by +24.5 pps (gross total return).

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Q3 2022 *Baker's Dozen* Model Portfolio – terminated 10/20/23

Launch date (7/20/2022) through termination (10/20/2023)

Q3 2022 Baker's Dozen Portfolio

Ticker	Company Name	Sector	Return	Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
AVGO	Broadcom Inc.	Information Technology	72.7%	12.9	22.3	4.8%	12.2%
TMHC	Taylor Morrison Home Corporation	Consumer Discretionary	43.3%	3.0	8.1	4.2%	-2.4%
ON	ON Semiconductor Corporation	Information Technology	41.2%	12.4	16.3	-6.9%	2.5%
PGR	The Progressive Corporation	Financials	39.6%	19.5	19.7	81.4%	32.3%
MRO	Marathon Oil Corporation	Energy	26.6%	4.4	7.4	17.1%	-35.6%
VLO	Valero Energy Corporation	Energy	25.0%	5.7	8.2	-18.3%	27.2%
HRI	Herc Holdings Inc.	Industrials	7.6%	7.8	10.8	26.4%	21.2%
CHDN	Churchill Downs Incorporated	Consumer Discretionary	3.8%	16.7	22.3	57.7%	21.0%
CF	CF Industries Holdings, Inc.	Materials	-0.8%	5.3	11.7	-0.3%	-33.8%
LNTH	Lantheus Holdings, Inc.	Health Care	-6.1%	22.7	10.9	1.4%	88.7%
DVN	Devon Energy Corporation	Energy	-8.7%	5.7	7.5	24.2%	-26.0%
PLAB	Photronics, Inc.	Information Technology	-11.3%	9.9	12.6	5.4%	3.5%
BOX	Box, Inc.	Information Technology	-13.3%	22.2	15.2	16.0%	33.0%
		Average =	**+15.8%**	**11.4**	**13.3**	**16.4%**	**11.1%**
SPY	SPDR S&P 500 ETF Trust		8.8%				
RSP	Invesco S&P 500 Equal Weight		0.0%				
MDY	SPDR S&P MidCap 400 ETF Trust		1.6%				
IWM	iShares Russell 2000 ETF		-6.4%				

Strong performers led by two semiconductor makers, a homebuilder, and a P&C insurance company have offset laggards from medical diagnostics, software, and oil & gas.

Overall, the portfolio has outperformed all relevant large cap, mid-cap, and small-cap benchmarks (including both cap-weight and equal-weight).

It *beat* the S&P 500 by +7.0 pps (gross total return).

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2022 Forward Looking Value 10 Model Portfolio – terminated 10/24/23

Launch date (7/15/2022) through termination (10/24/2023)

July 2022 Forward Looking Value 10 Portfolio

Ticker	Company Name	Sector	Return	Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
US: CLS	Celestica Inc.	Information Technology	166.8%	5.4	10.6	-1.2%	24.6%
ACLS	Axcelis Technologies, Inc.	Information Technology	166.3%	11.7	14.6	-2.5%	45.6%
PHM	PulteGroup, Inc.	Consumer Discretionary	65.4%	4.1	8.9	21.2%	21.7%
FANG	Diamondback Energy, Inc.	Energy	60.3%	4.0	7.5	18.6%	-17.1%
OC	Owens Corning	Industrials	56.9%	7.3	10.6	-12.0%	6.6%
COP	ConocoPhillips	Energy	53.6%	5.4	11.7	15.3%	-30.3%
HEES	H&E Equipment Services, Inc.	Industrials	53.1%	9.2	10.3	0.5%	64.1%
ON	ON Semiconductor Corporation	Information Technology	51.8%	11.3	16.3	-6.3%	2.5%
TMHC	Taylor Morrison Home Corporation	Consumer Discretionary	48.9%	2.9	8.1	4.2%	-2.4%
TOL	Toll Brothers, Inc.	Consumer Discretionary	47.9%	4.2	8.0	1.7%	12.9%
HAL	Halliburton Company	Energy	47.4%	11.8	10.8	57.1%	66.7%
NPO	Enpro Inc.	Industrials	46.6%	11.2	21.1	-2.2%	-6.3%
MRO	Marathon Oil Corporation	Energy	37.5%	4.0	7.4	16.4%	-35.6%
VNT	Vontier Corporation	Information Technology	35.4%	6.8	10.9	1.8%	-7.1%
COLL	Collegium Pharmaceutical, Inc.	Health Care	31.6%	2.5	5.8	127.4%	65.0%
PDCE	PDC Energy, Inc. (acquired by CVX)	Energy	30.8%				
VLO	Valero Energy Corporation	Energy	28.2%	6.1	8.2	-29.5%	27.2%
TXT	Textron Inc.	Industrials	24.9%	13.4	13.5	13.9%	30.7%
HRI	Herc Holdings Inc.	Industrials	17.8%	7.0	10.8	40.6%	21.2%
CMI	Cummins Inc.	Industrials	15.5%	10.0	12.3	30.2%	34.0%
PLAB	Photronics, Inc.	Information Technology	-0.2%	9.1	12.6	5.4%	3.5%
DVN	Devon Energy Corporation	Energy	-1.8%	5.2	7.5	24.0%	-26.0%
CF	CF Industries Holdings, Inc.	Materials	-2.7%	4.9	11.7	0.1%	-33.8%
US: MGA	Magna International Inc.	Consumer Discretionary	-5.4%	9.1	8.9	32.8%	11.2%
FOXA	Fox Corporation	Communication Services	-7.6%	9.0	9.5	24.6%	17.3%
WRK	WestRock Company	Materials	-8.2%	6.7	17.5	21.9%	-37.0%
PTVE	Pactiv Evergreen Inc.	Materials	-12.1%	7.9	12.8	149.6%	106.7%
ST	Sensata Technologies Holding plc	Industrials	-12.4%	9.3	9.5	26.6%	12.9%
IP	International Paper Company	Materials	-15.5%	7.7	18.6	42.8%	-30.6%
QCOM	QUALCOMM Incorporated	Information Technology	-21.8%	10.9	14.8	4.1%	-32.9%
TROX	Tronox Holdings plc	Materials	-27.2%	4.2	24.1	35.9%	-97.7%
DAR	Darling Ingredients Inc.	Consumer Staples	-31.2%	9.1	11.5	36.9%	-1.5%
PFE	Pfizer Inc.	Health Care	-38.4%	10.6	19.5	-25.7%	-56.0%
LNC	Lincoln National Corporation	Financials	-49.4%	4.3	4.1	-319.9%	199.2%
		Average =	**+24.0%**	7.5	11.8	10.7%	10.9%
SPY	SPDR S&P 500 ETF Trust		12.2%				
RSP	Invesco S&P 500 Equal Weight		3.1%				
MDY	SPDR S&P MidCap 400 ETF Trust		5.4%				
IWM	iShares Russell 2000 ETF		-1.8%				

Strong performers led by a diverse group of semiconductor equipment makers, homebuilders, industrial equipment, and oil & gas firms offset laggards from insurance, pharma, and packaging materials.

Overall, the portfolio has outperformed *by a wide margin* all relevant large cap, mid-cap, and small-cap benchmarks (including both cap-weight and equal-weight).

It *beat* the S&P 500 by +11.8 pps (gross total return).

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Q4 2022 *Baker's Dozen* Model Portfolio – terminating on 1/22/24

Launch date (10/20/2022) through current (1/19/24)

Q4 2022 Baker's Dozen Portfolio

Ticker	Company Name	Sector	Return	Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
PGR	The Progressive Corporation	Financials	44.3%	20.0	20.5	70.9%	32.3%
GPK	Graphic Packaging Holding Company	Materials	23.6%	9.3	8.9	32.1%	34.0%
IMO	Imperial Oil Limited	Energy	15.8%	5.3	8.2	60.8%	-6.0%
EWBC	East West Bancorp, Inc.	Financials	14.3%	8.0	8.9	35.3%	26.0%
HAL	Halliburton Company	Energy	9.6%	13.0	10.4	65.6%	66.7%
DE	Deere & Company	Industrials	6.4%	13.9	13.5	38.5%	53.4%
BOX	Box, Inc.	Information Technology	-4.5%	20.9	16.3	35.0%	33.0%
ALK	Alaska Air Group, Inc.	Industrials	-12.6%	8.5	8.5	91.1%	41.3%
MUR	Murphy Oil Corporation	Energy	-13.7%	5.9	7.9	130.3%	-3.7%
LNTH	Lantheus Holdings, Inc.	Health Care	-26.0%	19.4	8.8	66.1%	88.7%
NTR	Nutrien Ltd.	Materials	-36.7%	6.8	14.4	32.4%	-55.6%
DVN	Devon Energy Corporation	Energy	-38.0%	7.3	7.4	41.3%	-26.0%
DAR	Darling Ingredients Inc.	Consumer Staples	-41.0%	11.5	10.7	52.7%	-1.5%
		Average =	**-4.5%**	**11.5**	**11.1**	**57.8%**	**21.7%**
SPY	SPDR S&P 500 ETF Trust		34.6%				
RSP	Invesco S&P 500 Equal Weight		22.6%				
MDY	SPDR S&P MidCap 400 ETF Trust		23.1%				
IWM	iShares Russell 2000 ETF		16.1%				

This portfolio has suffered from a lack of big winners, underweight in high-flying Tech sector and overweight in dormant Energy. Top performers were stocks from insurance, packaging, and 1 oil & gas firm. But they couldn't offset a host of market laggards, including those from packaged foods, fertilizer, oil & gas, and medical diagnostics industries. Many of the stocks badly missed their EPS estimates.

Notably, LNTH, BOX, DE, and HAL all met or beat EPS estimates but still took large hits on share price and forward P/Es.

Overall, the portfolio has underperformed all relevant large cap, mid-cap, and small-cap benchmarks (including both cap-weight and equal-weight).

It *trails* the S&P 500 by -30.5 pps (gross total return) as of 1/5/24.

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New Q1 2024 Baker's Dozen Portfolio – statistics upon launch

Launch date: 1/19/2024

Ticker	Company Name	Sector	Industry	Mkt Cap ($B)	NTM EPS Growth	Fwd PE	Fwd PEG	Div Yield	EQR	GQR
ALKS	Alkermes plc	Health Care	Biotechnology	4.6	72.9%	12.0	0.16	0.0%	4	10
AMZN	Amazon.com, Inc.	Consumer Discretionary	Broadline Retail	1586.3	73.7%	45.8	0.62	0.0%	5	10
APP	AppLovin Corporation	Information Technology	Application Software	14.5	114.0%	11.3	0.10	0.0%	3	6
NE	Noble Corporation plc	Energy	Oil & Gas Drilling	6.2	85.3%	12.8	0.15	3.7%	3	6
NFLX	Netflix, Inc.	Communication Services	Movies & Entertainment	212.4	50.7%	32.1	0.63	0.0%	5	9
NVDA	NVIDIA Corporation	Information Technology	Semiconductors	1410.5	124.2%	29.3	0.24	0.0%	3	10
OTEX	Open Text Corporation	Information Technology	Application Software	10.9	35.3%	8.5	0.24	2.5%	5	6
PGR	The Progressive Corporation	Financials	Property & Casualty Insurance	99.4	76.4%	20.5	0.27	0.2%	5	6
PVH	PVH Corp.	Consumer Discretionary	Apparel, Accessories & Luxury Goods	7.0	25.3%	10.0	0.40	0.1%	4	9
RCL	Royal Caribbean Cruises Ltd.	Consumer Discretionary	Hotels, Resorts & Cruise Lines	32.1	103.0%	14.3	0.14	0.0%	3	7
TMUS	T-Mobile US, Inc.	Communication Services	Wireless Telecommunication Services	190.7	24.2%	18.0	0.74	1.6%	5	10
VC	Visteon Corporation	Consumer Discretionary	Automotive Parts & Equipment	3.3	39.7%	13.8	0.35	0.0%	4	9
WRB	W. R. Berkley Corporation	Financials	Property & Casualty Insurance	19.2	20.9%	13.2	0.63	2.6%	5	10
			Average:	276.7	65.0%	18.6	0.29	0.8%	4.2	8.3

Notes:

➤ Diverse Large/Mid/Small cap mix of 6/5/2
➤ 5 Value and 8 Growth stocks
➤ 9 *secular* growth InfoTech, Biotech, Comm Services, Insurance, and Software firms balanced with 4 *cyclical* growth Energy, Apparel, Travel, and Auto Parts

EQR has quintile scale of 1-5 (5 is best)
GQR has decile scale of 1-10 (10 is best)

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Tech-driven performance and valuation divergences in 2023
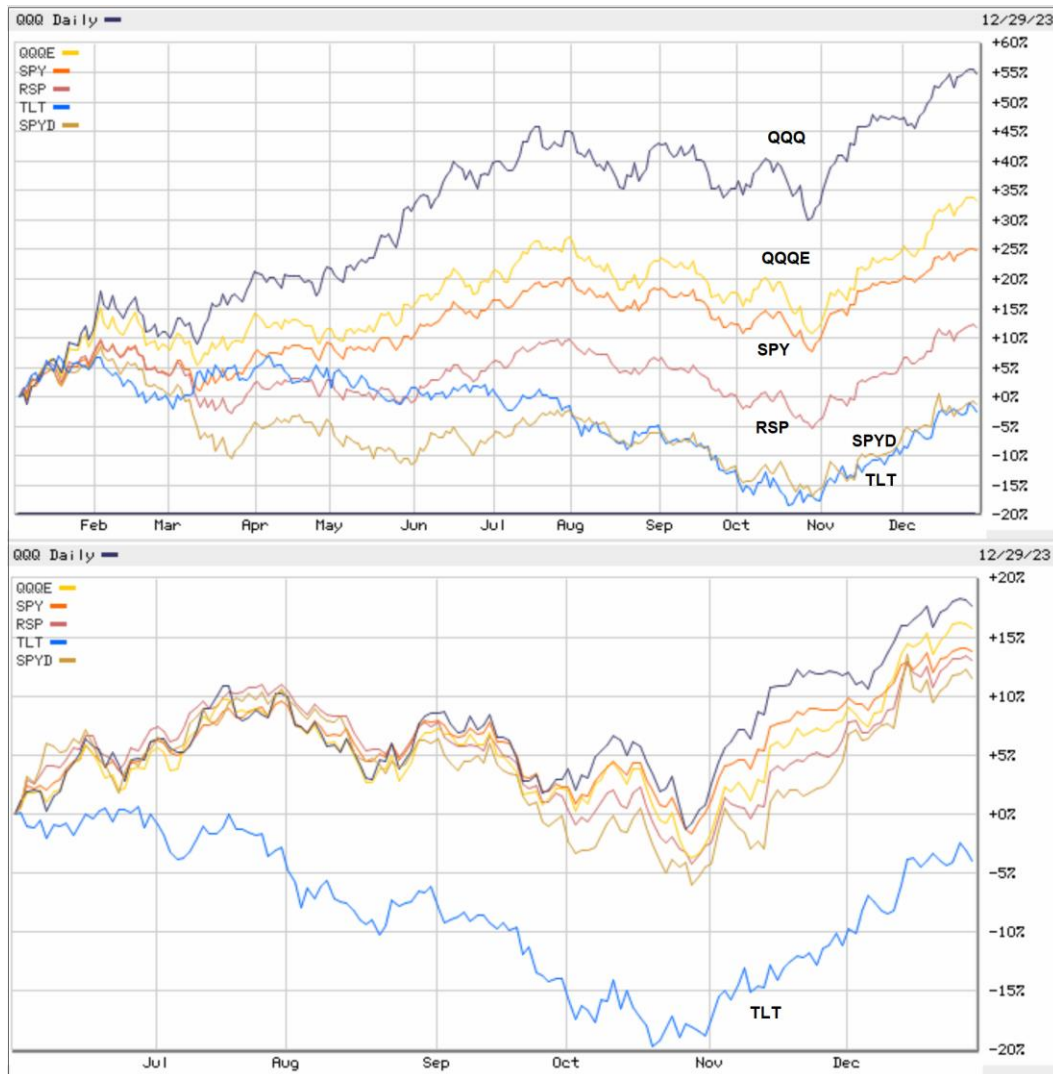
The MAG7-dominated QQQ and SPY surged in 2023 while equal-weight QQQE and RSP, along with small cap IWM and dividend-oriented SPYD, trailed far behind—the exact opposite of 2022 performance.

But starting June 1, highlighted in the second chart, there was **better market breadth** and a mean-reversion rotation into cyclicals, smaller caps, and dividend payers (even during the Aug-Oct correction, when the 10-year yield peaked at 5%). Breadth is healthy for equity markets.

Bonds sold off hard all year into October, but they seem to have pounded out a bottom—which would be favorable for both bonds and stocks as interest rates subside.

Forward P/Es (as of year-end 12/31/2023):

SPYD = 13.3 SPDR S&P 500 High Dividend
SPSM = 14.6 SPDR S&P 600 Small Caps (quality tilt vs. R2000)
IWM = 15.6 Russell 2000 Small Caps
RSP = 16.8 Equal Weight S&P 500
SPY = 20.4 S&P 500
QQQ = 25.7 Nasdaq 100 (secular growth, Tech-dominated)

Others for comparison:

RPV = 10.5 Large Cap Pure Value (subset of S&P 500)
RZV = 11.1 Small Cap Pure Value (subset of S&P 600)
XLE = 11.0 Energy Sector SPDR (subset of S&P 500)
XLF = 14.8 Financial Sector SPDR (subset of S&P 500)
MDY = 15.4 S&P 400 Mid Caps
ARKK = 33.1 ARK Innovation (speculative Tech growth)

SectorCast Rankings and Top-ranked ETFs

Sabrient SectorCast ETF Rankings
(as of 1/1/2024)

Dow Jones U.S. Sector Index	Tracking ETF	Outlook Score
TECHNOLOGY	IYW	85
INDUSTRIALS	IYJ	59
CONSUMER DISCRETIONARY	IYC	58
CONSUMER STAPLES	IYK	45
TELECOMMUNICATIONS	IYZ	41
HEALTHCARE	IYH	29
ENERGY	IYE	25
UTILITIES	IDU	25
FINANCIALS	IYF	20
BASIC MATERIALS	IYM	6

Current rankings lean mostly bullish, with cyclicals and secular growth sectors generally rated higher than defensives, with the notable exceptions of Materials and Financials mired at the bottom. Despite a high forward P/E (26.5x), Technology sits at the top, with strong EPS growth estimates (16.4%), improving earnings revisions from the analyst community, good return ratios, and strong insider sentiment (open market buying).

Top Ranked Nonleveraged Equity ETFs
(as of 1/1/2024)

Fund Name	Tracking ETF	Outlook Score
Invesco Building & Construction	PKB	100
ETFMG Travel Tech	AWAY	100
PGIM Jennison International Opportunities	PJIO	100
Invesco Dorsey Wright Consumer Cyclical Momentum	PEZ	99
First Trust International Equity Opportunities	FPXI	99
Fidelity Disruptive Technology	FDTX	99
Pinnacle Focused Opportunities	FCUS	99
Invesco Dorsey Wright Technology Momentum	PTF	98
Global X Social Media	SOCL	98
Global X Metaverse	VR	98
Putnam BDC Income	PBDC	97
Valkyrie Bitcoin Miners	WGMI	97
iShares Expanded Tech Sector	IGM	97
Invesco Gen Media and Gaming	GGME	97
Innovator IBD 50	FFTY	97
PGIM Jennison Better Future	PJBF	97
AdvisorShares Vice	VICE	96
VanEck Semiconductor	SMH	96
Direxion Work From Home	WFH	96
IQ Winslow Large Cap Growth	IWLG	96
Invesco S&P SmallCap Momentum	XSMO	95
AOT Growth and Innovation	AOTG	95
Clough Select Equity	CBSE	94
SoFi Web 3	TWEB	94

Current inflation trend based on 3-month annualized averages

Data through December, except Core PCE which is due out soon.

Rolling 3-month Annualized CPI and Core CPI (ex-food & energy) vs. 10-year Treasury Yield

Legend:
- 3-mo CPI
- 3-mo core CPI (x-F&E)
- 3-mo core PCE (x-F&E)
- 10-yr Treasury Yield

3-mo annualized **Core CPI for Dec = 3.33%**

3-mo annualized **Core PCE for Nov = 2.16%**

3-mo annualized **CPI for Dec = 1.79%**
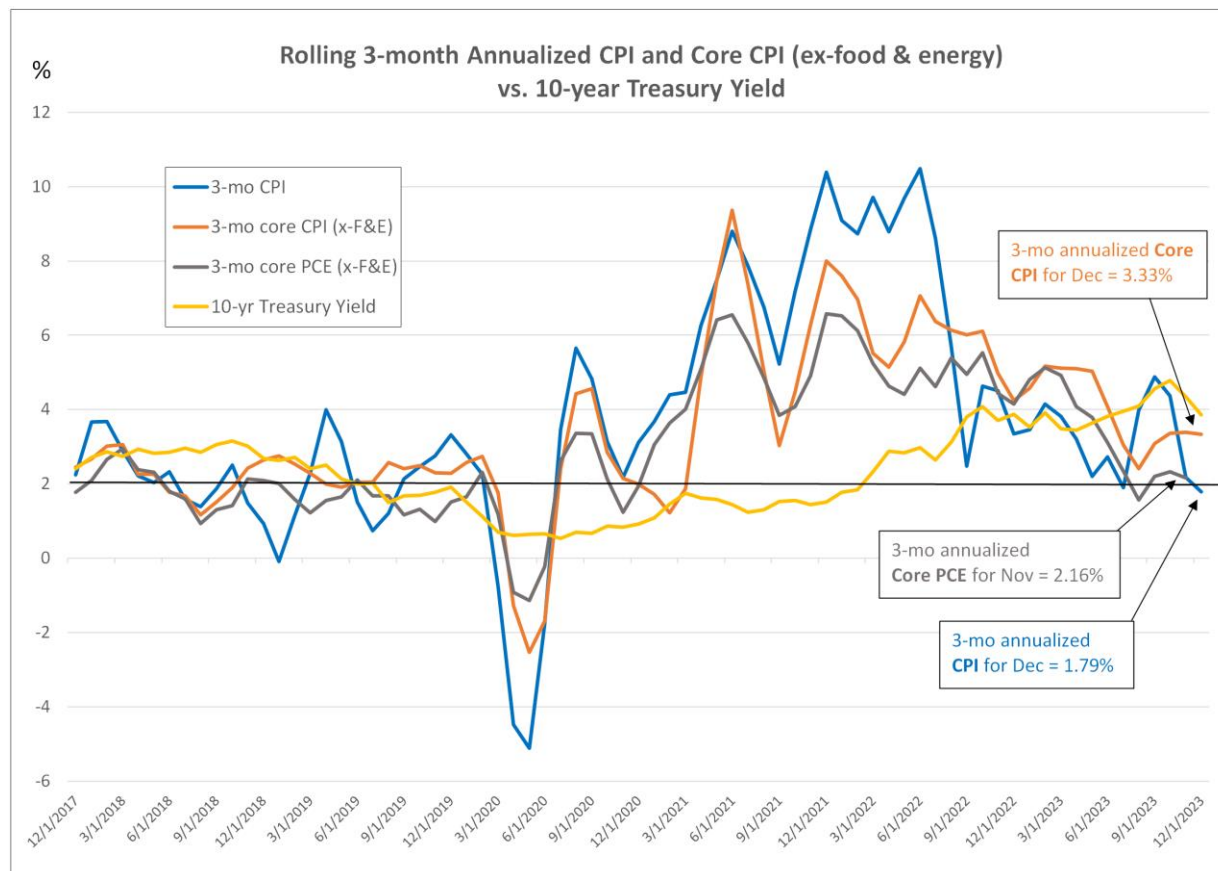
Because the Fed can do little about energy and food prices, we think it is best to focus on core inflation (excluding food & energy). Also, we compute **3-month rolling annualized** since it better reflects the current trend. Core CPI and PCE have fallen precipitously while the 10-year Treasury yield has risen, spiking real yields.

As shown, 3-month annualized **headline CPI** fell to a post-pandemic-recovery low of +1.90% in July but then resurged in August (+3.98%) and September (+4.88%), mainly due to a spike in gasoline prices in August (driven by a supply shortage of oil) followed by a +7.2% YoY surge in shelter cost in September (which accounts for 40% of CPI). But there is a long lag between the data used in CPI calculation and current shelter prices, so actual inflation today is likely lower.

The slight CPI uptick riled investors and the FOMC hawkishness, leading to a surge in Treasury yields and a selloff in stocks into October. But in December, **core CPI** (3-month annualized) came in at only +3.33% and **headline CPI** (3-month annualized) at only **+1.79%**.

Moreover, the Fed's preferred metric **core PCE** showed November MoM reading of only **+0.06%**, which annualizes to **+0.70%**, and the 3-month average annualizes to **+2.16%**, which suggests that no further rate hikes are necessary.

Velocity of Money Supply offsets M2 growth and contraction

S&P 500 vs. Inflation, Money Supply, and Velocity of Money Supply
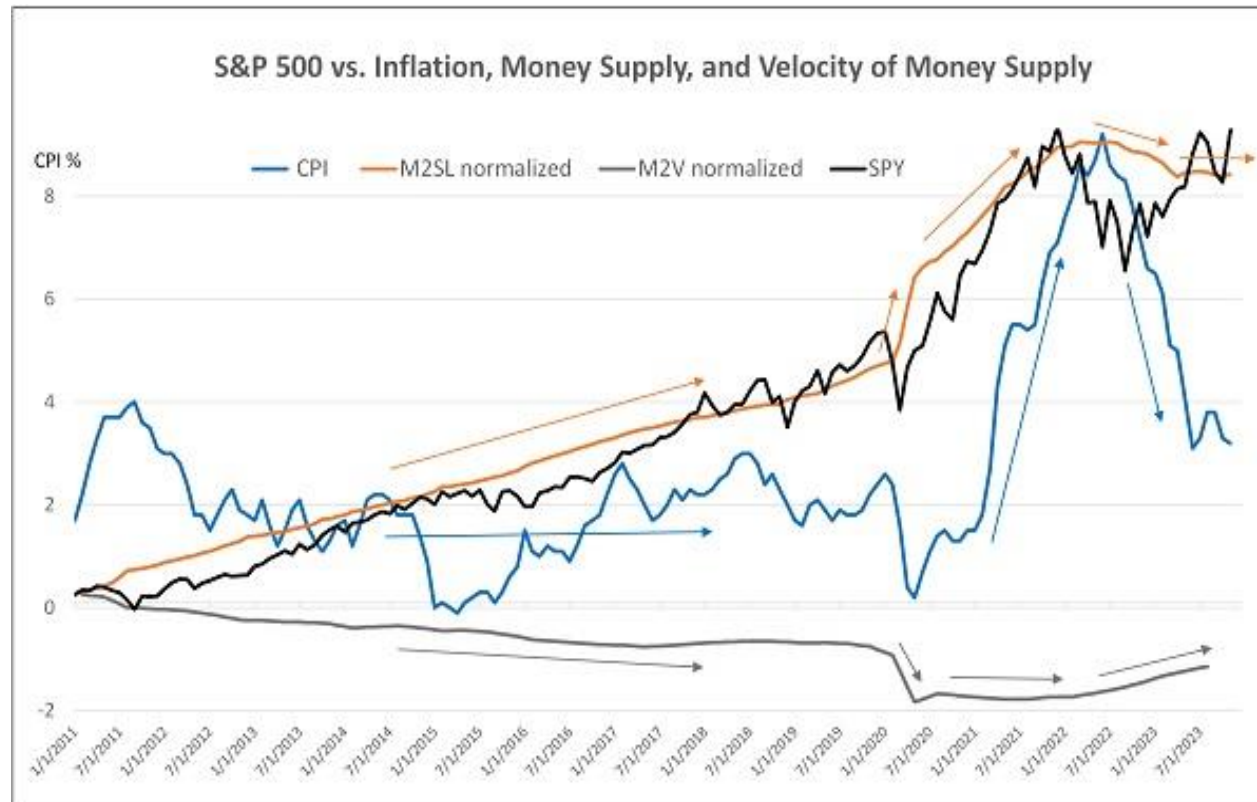
This chart compares movements in the S&P 500, inflation, M2 money supply, and the velocity of money supply since 2011. There was a close correlation between rising money supply and rising equity prices (aka asset inflation) until M2 peaked. Since then, the S&P 500 has round-tripped lower and then higher, back to where it was 2 years ago.

Meanwhile, CPI inflation seemed uncorrelated, oscillating in a trading range (0-4%) even while M2 rose, at least partly because velocity of M2 was falling, which largely offset the impact of M2 growth, even throughout the initial pandemic response when M2 surged and velocity plunged. Much of the new money was simply going into bank reserves and personal savings and investments.

But when velocity stabilized while M2 continued to surge higher, inflation soon followed M2 higher. You can see that stocks peaked right around the same time that money supply peaked, and then inflation peaked shortly thereafter.

As M2 has receded, velocity has increased, offsetting the negative effects of shrinking money supply so that stocks have recovered while inflation falls back towards its historical range. A return to modest money supply growth may be appropriate for balancing both economic growth and inflation moderation.

Inflation recedes as supply chains mend

Global Supply Chain Presure Index vs. CPI and PPI

CPI/PPI %

GSCPI

— CPI   — PPI   — GSCPI

1. GSCPI tends to presage PPI, which in turn presages CPI.
2. GSCPI peaked in Dec 2021, followed by a peak in PPI and then CPI followed.
3. Month-to-month volatility is normal, but the trend is down.
4. Averages for CPI and PPI over 13-yr timeframe are both 2.6%, although PPI has a wider range.

November 2023:   December 2023:
GSCPI = +0.13   GSCPI = -0.15
PPI = +0.8%   PPI = +1.0%
CPI = +3.1%   CPI = +3.4%

Pandemic lockdown
supply chain shock

Movement, peaks, and troughs in GSCPI tend to presage PPI, which in turn presages CPI, each with a slight lag. PPI, CPI, and GSCPI all surged when COVID lockdowns were instituted and M2 money supply surged, and all 3 have fallen precipitously once supply chains rapidly recovered while M2 crested and interest rates surged, creating increased supply and less demand.

GSCPI peaked in Dec 2021 (at an all-time high of +4.31), followed by M2, PPI, and CPI a few months later. It then plummeted to a deeply *negative* May 2023 level of -1.57. Recently, GSCPI, CPI, and PPI all ticked up slightly, but inflation likely will continue to slide toward the Fed's 2% target as long as GSCPI remains at or below its historical average (zero line). The December GSCPI reading shows a downtick back to negative, which bodes well for upcoming inflation metrics, particularly as the demand side remains constrained (stagnant money supply and elevated interest rates).

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Market Observations & Outlook

1. Core inflation continues to recede as supply chain pressures ease, money supply growth stagnates, interest rates stay elevated, and wage growth slows. We believe the Fed has been overly hawkish and now lag effects are coming to roost, leading the Fed to soften its tone.

2. With the 2-year Treasury yield back to well below 5% (my "line in the sand"), the economy and stocks should be fine, and the extreme yield curve inversion has begun to reverse.

3. Market breadth has improved since June 1, with small caps, value, quality, high dividend, and equal-weight performing well, which bodes well for market health entering 2024.

4. High valuations on major indexes were primarily driven by a few mega-cap Tech names, e.g., the AI-oriented "Magnificent Seven" (MAG7). Minus those, valuations across the broad market are more reasonable. To illustrate, as of 12/31/2023, forward P/E on QQQ was 25.7x and SPY 20.4x, but equal-weight S&P 500 (RSP) was 16.8x and S&P 600 small caps (SPSM) 14.6x.

5. Rather than the passive indexes, investors may be better served by active stock selection that seeks to identify under-the-radar and undervalued gems primed for explosive growth. This should continue to be favorable for Sabrient's portfolios, which combine Value, Quality, and Growth factors and provide exposure to both secular and cyclical growth trends.

> => *I discuss all of this in greater detail in my market commentaries*

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Resources

1. **Latest Baker's Dozen slide deck and holdings report**

    ➢ Go to: bakersdozen.sabrient.com/bakers-dozen-marketing-materials

2. **Sector Detector newsletter/blog post**

    ➢ Go to sign-up box at: sabrient.com home page => Please email me your comments!

3. **Quarterly Baker's Dozen mailing list**

    ➢ Send email request to: support@Sabrient.com

4. **SmartSheets for Stocks and ETFs** (screening/ranking tool)

    ➢ Go to: sabrientsystems.com/sabrient-smartsheets => I'd love to hear your feedback!

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Proposal: Sabrient Quality Index Series (for ETF or TAMP licensing)

Comprises 5 broad-market and 5 sector-specific, rules-based, quarterly rebalanced, strategic beta and thematic indexes for ETF licensing (the timeliest are **highlighted**):

1. **Sabrient Quality Growth Plus Income Index** (combines solid growth with high dividend yield)

2. **Sabrient Quality Growth Index** (similar to *Baker's Dozen* quant prescreen)

3. **Sabrient SMID Quality Growth Index** (similar to *Small Cap Growth* portfolio)

4. **Sabrient Earnings Quality Leaders Index** (focusing on Gradient's EQR model)

5. **Sabrient Defensive Equity Portfolio** (for tumultuous market conditions)

6. **Sabrient Quality Growth Healthcare Index**

7. **Sabrient Quality Growth InfoTech Index**

8. **Sabrient Quality Growth Infrastructure Index**

9. **Sabrient Quality Energy Index**

10. **Sabrient Quality Legacy & Green Energy Index**

> **If you are interested in any of these concepts, please tell your favorite ETF wholesaler … or contact me about TAMP access!**

Plus: **Sabrient Space Exploration & Sustainability Portfolio**, which leverages Sabrient founder David Brown's NASA (Apollo 11) pedigree

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