

The Stock Market Today
Investing Considerations
ETFs: Big and Getting Bigger

An ETF's Odd Strategy

INDICES & CATALYSTS

	Close	2023 Perf
DJIA	33,886	2.2%
S&P 500	4,138	7.8%
NASDAQ	12,123	15.8%
RUSS 2K	1,781	1.1%
VIX	\$17.07	-21.2%
BITCOIN	\$30,486	84.2%
OIL	\$82.68	3.0%

KEY TAKEAWAYS

- ⇒ *An ETF story that could be a harbinger of things to come. Don't know if is right, but it is noble*
- ⇒ *Market sentiment and considerations are as confused as ever*
- ⇒ *ETFs are again becoming a force and go-to category and sub-category for many investors.*

KEY FIGURES

	Fwd P/E	RSI
DJIA	18.3	63.5
S&P 500	18.9	62.5
NASDAQ 100	26.0	60.3
RUSS 2K	23.0	48.3

There were a lot of interesting data dumps and info on the ETF front last week. This has prompted us to do a deeper than normal dive than usual on ETFs. And it is fascinating and useful.

It is no secret I am a fan of ETFs. Almost 20 years ago, when managing money, my firm (I was CIO) introduced the first-ever ETF-focused 401(k)s that combined Lifestyle (Risk and objective) characteristics that went out every ten years. We got lots of press in The Wall Street Journal and other leading financial publications.

Still, this experience provided me with a unique perspective as a mutual fund manager, ETF manager, small cap fund manager, and investment product designer. So, when I discuss a new ETF and its design and approach, I believe that the feedback can be extremely worthwhile.

Last week, Harbor International introduced a new ETF: Harbor Corporate Culture Small Cap ETF, which is a small cap version of its \$10M in AUM Harbor Corporate Culture Leaders launched last year. They both target companies with strong corporate cultures, as determined by the scoring system used by Irrational Capital. The methodology scores companies based on criteria like employee engagement and motivation; trust and transparency; diversity of points of view and fairness in compensation.

This concept is noble although niche. Kudos to them. But is there really a correlation between stock performance and human capital, etc? I don't know. I also can't say how this will perform; I hope they do well. If they attract a lot of AUM, look for this approach to become more common. Seems odd, but could be a new way to generate alpha.



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U.S. Market Performance 4/14/2023						
Index	Close	Y/E 2022	YTD Perf	% off Hi	% from Low	% Abv/Bel 200 DMA
DJIA	33,886	33,147	2.2%	-4.5%	18.2%	4.2%
S&P 500	4,138	3,839	7.8%	-8.3%	18.5%	4.8%
NASDAQ	12,123	10,466	15.8%	-11.6%	20.2%	5.9%
Russell 2000	1,781	1,761	1.1%	-13.5%	8.5%	-2.4%
Bitcoin	\$30,486	\$16,548	84.2%	-28.9%	95.4%	43.9%
Average				-13.4%	32.2%	11.3%
Avg w/o BTC				-9.5%	16.4%	3.1%

Source: Barchart.com, Yahoo!Finance, Goldman Small Cap Research

Modest improvement was had across the board---except for Bitcoin which worse by more than 10%, continuing its strong YTD performance.

Notable Numbers

AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	33%	23%	38%
Neutral	32%	32%	32%
Bearish	35%	46%	31%



Future uncertainty, modest optimism, but caution and a lack of buying conviction.

Equity Fund Flows	
Lipper	ETF.com
<u>4/12/2023</u>	<u>4/13/2023</u>
Inflows (\$53M)	Reversal: from \$10.5B out a
Outflows Ex ETFs (-\$5.2B)	week ago to \$3.8B in
New inflow figure	Small outflows; Notable outflows
	are big tech and Russell 2000

ETFs are increasingly becoming a source of capital safety. Their performance, absent tools - related shadows, don't directly move stocks. However, the illustration of investor sentiment by the creations/redemptions are tangible, even if a lagging indicator, to a degree.

Investing Considerations...

...Banks are playing role in credit crunch and the big financials are still making, well, bank. This crunch might be bad for customers but reduce some risk for banks. So, should you invest in or avoid this sector? *We say avoid. Crypto moves help drive this consideration.*

...Will small caps be the beneficiary of a rotation, ever? *Yes. You will know it when volume comes back with more regularity, and fear of equity risk, not just economic risk, dissipates.*

...Are we near overbought time? *Looking at RSI and other data, I'd say yes. Maybe now.*



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ETFs: Big and Getting Bigger

According to a survey by PwC, global ETF assets could reach \$11 trillion by 2027. It's already \$9 trillion, with nearly \$7T of \$9T in US ETF assets.

How important are ETFs? The largest ETF provider is the 4th largest fund company and accounts for 25% of all ETF assets in the US. Plus, one of the biggest (#8) mutual fund companies in the country is hiring Head of ETF Capital Markets.

While the US equity ETFs represent around 14% of all equities, during 1Q23, US ETF trading volume accounted for nearly 40% in March 2023! It averaged over 31% of the entire quarter. March's volatility had a broad impact.

According to iShares, the major moves in VIX and ETF-related VIX assets were a big driver from the lower, average figures. We have been repeating this mantra for months so are not surprised.

Plus, the insanity in interest rates and inflation has prompted a renewed or even new interest in fixed income ETFs, notably US Treasuries, another factor we have discussed for several weeks. These assets are up by more than 25% in some cases since 2021.

Fixed income trend is palpable and could continue, until rates begin a potentially prolonged decline. Still, total ETF equity average volumes remain below 2022 levels---an indication of fewer investment dollars, caused in part by last year's investment losses.

Our Take: ETF assets, trading will be on the rise for an ever-increasing large percentage of assets and trading. This segment is clearly a go-to source of trading (VIX), strategic positioning (fixed income), diversification in a large percentage of equity holdings (S&P), and specialization (niche approaches and assets). Still, direct ownership in individual equities in large, mid, and small cap will remain the preferred strategy, for the foreseeable future. Small caps and alternative assets may especially carry higher risk profiles than an ETF, but upside and a sense of participation and pride in successes of such equities' performances shall always play a role in their attraction.

Thoughts on our ideas? Shoot me an email: rob@goldmanresearch.com.



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