

April 2024 market state: Neutral

MONTHLY MARKET STATE UPDATE

We use rules-based, quantitative methods to identify four distinct market environments, described as capital preservation, neutral, bullish and highly bullish. Each market state is generally characterized by a combination of yield-oriented fixed-income signals and equity signals:



We believe adjusting portfolio risk exposure based on this rules-based market-state classification process can lessen market-related losses when markets are down and still capitalize on opportunities when conditions are favorable.

Asset allocations are included for illustrative purposes only, subject to change and are not intended to be representative of any particular investment. Asset allocation varies by product and may not include all of the asset classes shown.

Current factors impacting the market state

EQUITY SIGNALS



Momentum

Looks at a ratio of short-term to medium-term momentum and seeks levels above 1 for a risk on signal.

Equity price gains continued to deliver strong momentum during March. Short-term price momentum stayed above the longer term trend during the month, allowing this signal to deliver a green light reading for the fifth consecutive month.



Volatility

Tracks short-term versus medium-term levels of equity volatility and ranks monthly reading against a median level.

Equity volatility moved lower in March, and a short-to-medium term volatility comparison for stocks moved back below median levels. In turn, this signal shifts from a red light to green as we start the month of April.



Relative valuations

Earnings yield for stocks versus government bond yields

The margin of difference between forward earnings yields for stocks and medium-term government bond yields still tracks at overtly narrow readings versus historical averages. As such, **the relative valuations for domestic large-cap stocks continues to look somewhat challenged.**

YIELD SIGNALS



Real yields

Compares nominal Treasury bond yields with the headline rate of inflation (CPI).

Levels of real yields have improved meaningfully over the past 12 to 24 months, and this signal has not delivered extreme readings for several quarters. With higher bond yields over the past year and a half, and headline inflation moving lower in recent quarters, this signal turned green approximately thirteen months ago, after having been red for nearly two years. Current year-over-year headline CPI is registering near 3.2%.



Yield curve

Measures the slope of the yield curve by comparing medium- and long-term yields.

The yield curve measure we track inverted in March of 2022 and starting in October 2023 this signal normalized to the extent where it delivered a green light reading. However, over the past few weeks this signal has flirted with a red light reading (e.g. inversion in the matched-pairs on the yield curve we monitor) and thus, our month-end reading for this signal remains in red territory.

Why we're staying in Neutral

For April, the market state classification remains in Neutral.

- Yield signals continue to deliver mixed readings.
 - Real yields remain positive, as nominal Treasury yields exceed headline inflation readings.
 - The slope of the yield curve remains narrowly inverted at month end.
- Equity price gains continued to deliver strong momentum during March. Equity volatility also moved lower in March, and, as such, these two critical signal inputs flag a favorable backdrop for risk-taking in equity markets.
- Relative valuations for domestic large-cap stocks continue to prevent the market state from assuming a more aggressive policy stance.
 - Using a simple comparison of forward earnings yield measures relative to intermediate-term government bond yields, the relative valuation of domestic large-cap stocks remains challenged.

Market states over trailing 12 months	2023 May	2023 June	2023 July	2023 Aug	2023 Sept	2023 Oct	2023 Nov	2023 Dec	2024 Jan	2024 Feb	2024 Mar	2024 Apr
HIGHLY BULLISH												
BULLISH												
NEUTRAL												
CAPITAL PRESERVATION												

Historic market states May 2023 to April 2024. Source: Columbia Management Investment Advisers, LLC based on internal model. Historical occurrences may not reflect future market conditions.

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