iSectors®, LLC 1st Quarter 2024 Summary Commentary

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iSectors® Model Commentary Introduction

Gold, Stagflation, and Money Supply

- The Federal Reserve is caught between a rock and a hard place.
  - If they cut rates, the threat of even higher inflation increases.
  - If they raise rates, they risk pushing the US economy into recession.

- We believe iSectors® Post-MPT Allocations are positioned for both outcomes, as well as the more likely outcome, the Fed doing little or nothing, resulting in continued stagflation.
  - Both models hold a near maximum weighting to gold bullion (30%).
  - Technology and healthcare exposure is still included as well if the strong stock market performance continues despite these risks.

- Despite the fact that money supply (M2) is falling, our preferred broader measure of money supply (M3) has been rising.
  - The M2 Money supply year-over-year change is negative, but the change in the broader measure of money supply (M3) started rising again beginning in December.
  - M3 is no longer published by the Fed, but it is available online. iSectors® research indicates (M3) is a much more valuable indicator of money supply.
  - If money supply (M3) does continue to increase going forward, inflation could rebound more strongly than expected even if the Fed does not cut interest rates.

- Other iSectors® models positioned for persistent inflation:
  - iSectors® Inflation Protection Allocation
  - iSectors® Precious Metals Allocation

Continue reading to learn more about these and the rest of iSectors' models, and how they performed in the first quarter of 2024.

Broad Index Q1 2024 Overview

- S&P 500 Index
  - Q1 2024 return: 10.56%.
  - Q4 2023 and Q1 2024 first back-to-back quarters of double digit returns since Q4 2011 and Q1 2012.
  - Last 12-month return: 29.88%.
- MSCI All Country World Index
  - Q1 2024 return: 8.32%.
  - Last 12 months: 23.81%.
- Bloomberg U.S. Aggregate Bond Index,
  - Q1 2024 return: -0.78%.
  - Last 12 months: 1.70%.
  - Last three years annualized: -2.46%.
- Bloomberg 1-3 Year Government/Credit Bond Index
  - Q1 2024 return: 0.42%.

    - Last 12 months: 3.49%.
    - Outperformed aggregate bond index in the quarter because of higher credit quality and shorter duration, as yields rose in Q1.
- S&P Goldman Sachs Commodities Index
    - Q1 2024 return: 10.36%.
    - Last 12 months: 11.14%.
    - Positive performance in the quarter mainly driven by increasing energy prices.
    - The 1-year return lags stocks but has outperformed bonds.
    - 3-year annualized return outpaces both stocks and bonds at 18.05% vs. 11.49% and -2.46%, respectively.

iSectors® Allocation Q1 2024 Return Attribution Review

iSectors® CryptoBlock® Allocation

- Q1 2024 return
    - Model: 38.82%
    - Benchmark (INDXX Blockchain Index): 5.73%
- Last 12 months return
    - Model: 89.47%
    - Benchmark: 19.23%
- Holdings with positive contribution to returns during the quarter (descending order):
    - Spot Bitcoin ETFs
    - Crypto miner focused ETFs
    - Blockchain equity ETFs
- Bitcoin miners and Bitcoin itself both contributed outsized positive returns to the model in the quarter, with Bitcoin outpacing miners, after the miners had outperformed in 2023. The model's more broad-based blockchain equity exposure also had positive performance in those periods, albeit more in line with traditional technology stocks.
- In January 2024 spot Bitcoin ETFs were approved by the SEC, and in late February three of them were implemented in the iSectors® CryptoBlock® Allocation to diversify exposure amongst various Bitcoin custodians. With the addition of these spot ETFs and the crypto miner/blockchain technology ETFs that are also utilized, the average underlying expense ratio of the model has been reduced to 0.26%.

iSectors® Post-MPT Allocations

- iSectors® Post-MPT Growth Allocation
    - March 2024 return: 3.91%.
    - Benchmark (S&P 500): 3.22%.
    - Model Q1 2024 return: 5.86%.
    - Benchmark: 10.56%.
    - Model last 12 months return: 13.98%.
    - Benchmark last 12 months: 29.88%.
- iSectors® Post-MPT Moderate Allocation
    - Q1 2024 return: 7.36%.

  - 60/40 stock/bond benchmark: 5.94%. (60/40 = 60% S&P 500 and 40% Bloomberg U.S. Aggregate Bond Index).
  - Model last 12 months return: 9.02%.
  - Benchmark last 12 months: 17.97%.

- Holdings with positive contribution to returns during the quarter (descending order):
  - Technology ETFs
  - Gold bullion ETFs
  - Healthcare ETFs

- Holdings with negative contribution to returns during the quarter (most negative to least negative):
  - Long-term treasury bond ETFs
  - Real estate ETFs

- As mentioned previously, both Post-MPT models remain positioned for potential stagflation, with large weightings in gold. They each also have a portion of their portfolios allocated to traditional equity sectors such as technology and healthcare in similar weights to their respective benchmarks in case stock market strength continues despite the risks.

- Historically, the iSectors® Post-MPT Growth Allocation and the iSectors® Post-MPT Moderate Allocation tend to outperform the S&P 500 index when the S&P 500 index's returns grow at an annualized rate of less than 10% or when the S&P 500's returns are negative.

iSectors® Capital Preservation Allocation

- Q1 2024 return
  - Model: 0.98%.
  - Benchmark (Bloomberg 1-3 Year Government/Credit Bond Index): 0.42%.
- Last 12 months return
  - Model: 4.48%.
  - Benchmark: 3.49%.

- Holdings with positive contribution to returns during the quarter (descending order):
  - Short-term government bond ETFs.
  - Investment grade corporate bond ETFs.
  - High yield bond ETFs.

- With rate cut odds dropping since the start of the quarter, bond yields rose during the first three months of the year, allowing the iSectors® Capital Preservation Allocation to outperform both its short-term bond benchmark and the Bloomberg US Aggregate Bond Index.

- Since the model's January 2010 inception, it has offered better risk-adjusted returns than both the Bloomberg 1-3 Year Government/Credit Bond Index and the Bloomberg US Aggregate Bond Index, as represented by its higher Sharpe ratio of 0.52 vs. 0.36 and 0.32, respectively.

- The iSectors® Capital Preservation Allocation offers a high-quality cash alternative with short durations to preserve investment principal in our current economic environment characterized by high and volatile interest rates. It also provides the potential for enhanced returns versus money market funds while maintaining daily liquidity.

iSectors® Domestic Fixed Income Allocation

- Q1 2024 return
  - Model: 0.87%.
  - Benchmark (Bloomberg US Aggregate Bond Index): -0.78%.

- Last 12 months return
  - Model: 4.54%.
  - Benchmark: 1.70%.

- The model has also outperformed the Bloomberg US Aggregate Bond Index over the past 3-, 5-, and 10-year periods.

- Holdings with positive contribution to returns during the quarter (descending order):
  - Investment grade corporate bond ETFs.
  - Treasury bond ETFs.
  - High yield bond ETFs.

- It is essential to note the difference in yield metrics reported for fixed income investments. The 30-Day SEC Yield for this model is 5.46% net of iSectors fees, while the 12-month trailing yield is 4.10%. This is a very attractive yield for a short duration laddered bond portfolio with an average investment grade rating.
- The SEC yield measures the income a bond fund is expected to pay out over the next year. It is calculated by dividing the fund's total current income by its net asset value. The 12-month yield measures the income a bond fund has actually paid out over the past 12 months. It is calculated by dividing the fund's total income over the past 12 months by its average net asset value over the same period. The SEC yield is a more accurate measure of a bond fund's income potential because it takes into account current interest rate expectations.

iSectors® Inflation Protection Allocation and *iSectors® Precious Metals Allocation*

- Inflation Protection
  - Q1 2024: 2.46% return.
  - Last 12 months: 1.93%.

- Precious Metals
  - Q1 2024: 3.33% return.
  - Last 12 months: 1.52%.

- Holdings with positive contribution to returns during the quarter (descending order):
  - Gold and silver bullion ETFs/closed-end funds (both models)
  - Broad commodity and natural resources ETFs (Inflation Protection)

  - Short-term TIPS (Inflation Protection)

- Holdings with negative contribution to returns during the quarter (most negative to least negative):
  - Rare earth/strategic metals ETF (Inflation Protection)
  - Platinum and palladium ETFs (Precious Metals)

- At iSectors® we believe the unprecedented growth in money supply in recent years is causing, and will continue to cause, persistent price inflation over many years to come. Basically, the purchasing power of people's savings will slowly be drained over time. Therefore, most investors would be wise to allocate at least a portion of their savings to investments that will maintain their purchasing power despite the loss of purchasing power of the dollar brought about by inflation.

iSectors® Future Growth Allocation

- Q1 2024 return
  - Model: 13.55%.
  - Benchmark (MSCI All Country World Index): 8.32%.
- Last 12 months return
  - Model: 70.43%.
  - Benchmark: 23.81%

- Holdings with positive contribution to returns during the quarter (descending order):
  - Semiconductor ETF.
  - Blockchain equity ETF.
  - Fintech ETFs.
- The iSectors® Future Growth Allocation is a diversified portfolio of growth stocks that are on the cutting edge of the technological revolution brought about by the changing digital economy. The combined individual stock holdings of the underlying ETFs total about 250 publicly traded companies, diversified across many sectors.

iSectors® Tactical Global Balanced Allocation

- Q1 2024 return
  - Model: 2.97%.
  - Benchmark (60/40 Stock/Bond): 7.36%.
- Last 12 months return
  - Model: 3.05%.
  - Benchmark: 17.97%.
- Holdings with positive contribution to returns during the quarter (descending order):
  - Gold ETF.
  - Domestic equity ETFs.
  - Developed international equity ETF.

  - Real estate ETF.
- Holdings with negative contribution to returns during the quarter (most negative to least negative):
  - Intermediate bond ETF.
  - Emerging market equity ETF.
- The iSectors® Tactical Global Balanced Allocation is currently fully invested in the following asset classes: gold, broad commodities, domestic large and small-cap equities, developed international equity, emerging market equity, aggregate bonds, and REITs.

iSectors® Domestic Equity Allocation

- March 2024 return
  - Model: 4.10%.
  - Benchmark (S&P 500): 3.22%.
- Q1 2024 return
  - Model: 6.95%.
  - Benchmark: 10.56%.
- Last 12 months return
  - Model: 15.92%.
  - Benchmark: 29.88%.
- Holdings with positive contribution to returns during the quarter (descending order):
  - Large cap growth ETF.
  - Dividend grower ETFs.
  - Quality dividend ETFs.
- Growth ETFs, driven mainly by their outsized technology exposure, have outperformed quality dividend/value ETFs for most of the last 12 months. The tide could be turning, however, as dividend ETFs outperformed growth ETFs in the month of March. The iSectors® Domestic Equity Allocation employs a dividend/value overweight, which has led to a lower volatility profile of the model vs. its benchmark. Over the last three years, the annualized standard deviation of the model is 15.51% vs. 17.60% for its benchmark, with a maximum drawdown of 19.33% vs. 23.87% for the S&P 500.

iSectors® Enhanced Allocations

- Q1 2024 return
  - Model (represented by the iSectors® Enhanced Balanced Allocation): 4.39%.
  - Benchmark (Morningstar Moderate Target Risk Index): 3.91%.
- Last 12 months return
  - Model: 10.89%.
  - Benchmark: 12.77%.

- The drivers of returns in these models are the same as those in the iSectors® Domestic Equity Allocation, the iSectors® Domestic Fixed Income Allocation, and the iSectors® Post-MPT Growth Allocation.
- The iSectors® Enhanced Allocation series includes Income, Conservative, Balanced, Growth, and Aggressive allocation models. Each allocation blends short-term laddered bonds, and equities focused on owning stocks that have increased their dividends for many consecutive years, with a 20% satellite allocation to the dynamic iSectors® Post-MPT Growth Allocation. Since inception, each Enhanced Allocation has lower volatility and drawdown than their corresponding Morningstar Target Risk Index benchmark with a comparable level of return.

iSectors® Global Allocations

- Q1 2024 return
  - Model (represented by the iSectors Global Balanced Allocation): 3.06%.
  - Benchmark (50/50 Stock/Bond Index): 4.80%.
- Last 12 months return
  - Model: 9.28%.
  - Benchmark: 12.34%.
- Holdings with positive contribution to returns during the quarter (descending order):
  - Domestic and international large-cap growth ETFs.
  - Domestic and international dividend/value ETFs.
  - High yield bond ETFs.
  - Investment grade corporate bond ETFs.
- Holdings with negative contribution to returns during the quarter (most negative to least negative):
  - Long-term government bond ETFs.
  - International corporate bond ETFs.
  - Mortgage-backed securities ETF.
- Over the last year, the iSectors® Global Equity Allocation has underperformed the MSCI All Country World Index due to a similar underweight to growth exposure that is employed by the iSectors® Domestic Equity Allocation.
- On the other hand, the iSectors® Global Fixed Income Allocation has outperformed the FTSE World Government Bond Index in the last 1-, 3-, 5-, and 10-year periods, primarily due to the model's modest overweight to USD-denominated bonds and lower effective duration (approximately 5.0 for the model and 7.5 for the FTSE WGBI).

iSectors® Liquid Alternatives Allocation

- Q1 2024 return
  - Model: 4.64%.
  - Benchmark (HFRX Global Hedge Fund Index): 2.52%.
- Last 12 months return

- Model: 9.53%.
- Benchmark: 5.71%.

- Holdings with positive contribution to returns during the quarter (descending order):
  - Gold and silver bullion ETFs.
  - Broad commodity and natural resources ETFs.
  - Managed futures ETF.
  - Infrastructure ETF.
  - IPO index ETF.
  - Market neutral mutual funds.
- Holdings with negative contribution to returns during the quarter (most negative to least negative):
  - Clean energy ETF.
- The iSectors® Liquid Alternatives Allocation added a tactical commodity ETF this quarter and sold out of the clean energy ETF it owned. Over the last year, the iSectors® Investment Committee has made a concerted effort to re-emphasize the focus of this model more squarely on hedge fund strategies and real asset exposure, with a smaller allocation to quasi-private equity strategies to provide a return stream that more closely resembles true alternative investments. This has manifested in outperformance vs. the model's hedge fund benchmark over the last year and in other recent periods.
- The iSectors® Liquid Alternatives Allocation provides access to a broad array of alternative and hedge fund-like exposures while providing tax efficiency (no K1s) and daily liquidity without any high performance-based fees or the need to be an accredited investor.

iSectors® Endowment Allocation

- Q1 2024 return
  - Model: 3.82%.
  - Benchmark (60/40 Stock/Bond Index): 3.95%.
- Last 12 months return
  - Model: 10.72%.
  - Benchmark: 17.97%.
- Holdings with positive contribution to returns during the quarter (descending order):
  - Pipeline and MLP ETFs.
  - Domestic and international dividend equity ETFs.
  - High yield bond ETFs.
- The iSectors® Endowment Allocation prioritizes current income over the protection of principal and invests across multiple asset classes including, equity, fixed income, and alternatives. The high-income focus of the model is what has held it back from outperforming its benchmark in recent periods, as value and income-oriented products have been out of favor.

- In the first quarter, the high yield ETF bond ladder that was employed by this model was sold and replaced with different high yield bond ETFs to give the model access to areas of the high yield market that no other iSectors® model currently has. New preferred stock and senior loan ETFs were also added to the model during the quarter.
- The 30-day SEC yield of this model is 6.27%, and the 12-month trailing yield is 6.07%.

All model returns presented net of iSectors' management fee. Index comparisons are provided for information purposes. You cannot invest directly in an index, only in index funds that charge fees.

Disclosure

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