

## Volatility and the Market

After starting slow with a volatile October, the market had a phenomenal fourth quarter, ending the year with a blistering rally of +11.68% for the S&P 500. While during the first half of the year the upside was largely driven by the 'Magnificent 7', the upside in the fourth quarter was much broader and left only one sector behind and in the red (energy). The main driver of the rally was the market's expectations of the Fed achieving a soft landing and cutting rates in 2024, with inflation cooling off in 2023 and the economy remaining resilient despite elevated interest rates.

Reviewing sector performance, the leaders for the quarter were Real Estate (+18.83%), Information Technology (+17.17%), and Financials (+13.98%). Real Estate and Financials both had a great 4th quarter that brought their full year performance back into positive territory. The worst performing sectors this quarter were Health Care (+6.41%), Consumer Staples (+5.54%), and Energy (-6.99%). On a full year basis, only Energy and Utilities ended in the red. While the average sector performance was nicely positive last year, the upside the S&P 500 experienced was largely driven by Information Technology and Telecommunications (both of which were up over 55%) followed by Consumer Discretionary (+42.3%).

Looking back on the economic data for the quarter, inflation has continued to trend lower but remains just above the desired level between 3-4%, and unemployment stayed under 4%. Throughout the quarter, all eyes were on the Fed and the economic data driving their interest rate policy decisions. The market ended the year with optimism about the Fed's ability to navigate a soft landing and the prospect of rate cuts in 2024.

## Shelton Equity Income Strategy

During the fourth quarter the Equity Income Portfolio outperformed the CBOE BuyWrite Index (BXM) by 3.84%, delivering a gross return of 8.03% compared to the BXM return of 4.19%. On a full year basis the strategy outperformed BXM by 0.72% (-0.76% net), with a gross return of 12.54% (11.06% net) compared to the BXM return of 11.82%. The strategy generated 1.19% cash flow from option premiums and 0.47% from dividends during the quarter, bringing the full year cash flow from options and dividends to 7.63% (6.26% net).

Our strongest performers this quarter were Wabtec Corp (WAB), Amazon Inc (AMZN), Bank of New York Mellon Corp (BK), Tapestry Inc (TPR), and Lennar Corp (LEN). We continue to hold all the above except WAB and LEN, both of which we have been allowing to get called out of the portfolio.

Our underperformers for the quarter were Exxon Mobil Corp (XOM), Pfizer Inc (PFE), Schlumberger Ltd (SLB), Corteva Inc (CTVA), and Cisco Systems Inc (CSCO). We continue holding all the above names except for PFE, which we have been transitioning out of the portfolio.

## What We See Moving Forward

As we turn the corner into 2024 all eyes are on the Fed, looking for it to deliver a soft landing and begin cutting rates. This year also brings a presidential election in the US, and market participants will be keeping an eye on myriad geopolitical risks to assess the potential for them to spill over and impact the market here. With the conflicts in Israel and Ukraine ongoing, and US-China tensions remaining elevated with more import and export restrictions than this time last year, we expect volatility to remain elevated in 2024. In a year with so much going on and the market starting off near record highs, we believe the Equity Income strategy is well positioned to seek to take advantage of, and capitalize on, the volatility and uncertainty.

## IMPORTANT INFORMATION

*Option trading is not suitable for all investors. Prior to buying or selling an option, a person must receive a copy of Characteristics and Risks of Standardized Options. Copies of this document may be obtained from your Investment Advisor, from any exchange on which options are traded or by contacting The Options Clearing Corporation, One North Wacker Dr., Suite 500, Chicago, IL 60606 (1-800-678-4667). All analysis and projections depicted herein are for illustration only, and are not to be representations of generalized Shelton Equity Income performance or expected results. Past performance is not a guarantee of future results. Supporting documentation for any claims, comparisons, recommendations, statistics or other technical data will be furnished upon request to Shelton Capital Management. Investing involves risk, including possible loss of principal. The information contained in this document is given on a general basis without obligation and on the understanding that any person acting upon or in reliance on it, does so entirely at his or her own risk. Any projections or other forward-looking statements regarding future events or performance of countries, markets or companies are not necessarily indicative of, and may differ from, actual events or results. This information is intended to highlight views of the authors at the time created and not to be comprehensive or to provide advice. These views are subject to change at any time based on market and other conditions. Data and other materials appearing that are provided by third-parties are believed by Shelton Capital Management to be obtained from reliable sources, but Shelton Capital Management cannot guarantee and is not responsible for their accuracy, timeliness, completeness or suitability for use. For a complete list of portfolio strategy investments and their respective contribution for the preceeding 12 months, and the methodology for calculating contributions, please call 1-800-955-9988. INVESTMENTS ARE NOT FDIC INSURED OR BANK GUARANTEED AND MAY LOSE VALUE.*

## Strategy Management

### Shelton Capital Management

Founded by Richard Shelton in 1985, Shelton Capital is a privately owned investment management firm with over \$4.7 billion AUM (12/31/2023). The firm offers its investment management through a series of open-end mutual funds and separately managed accounts (SMAs).

### Barry Martin, CFA

Senior Portfolio Manager



Barry Martin, CFA, joined the firm in 2008 and is a Portfolio Manager for Shelton Capital Management's Option Overwrite Strategies. Prior to joining Shelton Capital, Barry was Senior Vice President of portfolio management for an investment management firm specializing in option strategies and has been managing options for over 20 years.

### Nick Griebenow, CFA

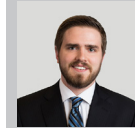
Portfolio Manager



Nick Griebenow, CFA, joined the firm in 2018 and is a Portfolio Manager for Shelton Capital Management's Option Overwrite Strategies. Prior to joining Shelton Capital, Nick was a Senior Derivatives Trader for a large national brokerage firm.

### Jason Goldenberg

Investment Operations Analyst



Jason Goldenberg joined Shelton Capital Management in 2017 and is an Investment Operations Analyst that services all strategies of the Separate Account program.