

2024 Second Quarter Commentary

Markets began the second quarter of 2024 with a sharp pullback because inflation data, which had been trending lower, seemed to have stalled above the Federal Reserve’s target of 2%. As a result, investors had to rethink their timetable for any interest rate cuts by the Fed, leading to skepticism about the overall health of the economy. This pessimism was short-lived. “Sell in May and go away,” as the saying goes, would not have worked this year as stocks and bonds recovered quickly. The rally was led by good earnings reports accompanied by new data indicating a slowing economy and that inflation was still headed lower. The possibility of at least one cut in interest rates sometime this year was back on the table. The S&P 500 rose an impressive 4.3% for the quarter, but it was disproportionately driven by ten companies including many of the same mega cap tech names that powered returns in 2023.¹ Their concentrated impact on the S&P 500 is best illustrated if you look through a different lens, one giving “equal weight” to all the constituents of the S&P 500 (rather than attributing gains to just a few). From this perspective the S&P 500 finished down for the quarter by an average of -2.6%.² We view this as good news. As the year goes along, we expect performance to broaden out to the “other 490” companies, especially to small cap stocks. All told, it was a good quarter and has been a good year thus far for investors; at the mid-year point the Dow Jones Industrial Average posted a gain of +4.7% while the S&P 1500, our benchmark, is up +13.53%.

Our diversified portfolios performed very well in the first half of the year. We expect parallel performance over time to our benchmark (the S&P 1500) given our inclusion of growth stocks (SCHG) and mega cap stocks (MGK), but also our allocations to artificial intelligence (AIQ), quantum computing (QTUM), small caps (TMSL, SMOT), and global stocks (SGIIX, CGGO). In addition, we maintain core positions (VIG, FFLC, SPYV) in domestic blue-chip companies and dividend payors such as Walmart, Berkshire Hathaway Inc., Johnson & Johnson, J.P. Morgan, and United Healthcare, to name a few. Fewer and less severe spikes in interest rates have restored bonds to their safer haven status and coupons are still attractive. In addition to our core managed fund (PIMIX), we extended duration by adding longer maturities of investment grade corporate bonds yielding roughly 5% through 2027 (IDDQ, IBDR, IBDS).³ The internal expense ratio of our portfolios (which is the cost to own our holdings), remains very low (roughly .28%). Low expenses paired with low advisory fees help to improve long-term performance.

¹ J.P. Morgan Asset Management. (2024, June 30). *S&P 500: Index concentration, valuation and earnings*. Guide to the Markets. <https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/>

² YCharts. (2024, June 30). *Invesco S&P 500® Equal Weight ETF (RSP) Fundamental chart*. RSP Chart.

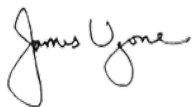
³ *Ishares® ibonds® Dec 2025, 2026, 2027 term corporate ETF: IBDQ, IBDR, IBDS*. BlackRock. (n.d.).

It has been a while since the S&P 500 has experienced a 10% decline, otherwise known as a correction. This lack of volatility has been noteworthy, and many investors wonder if markets can go higher from here. Markets seem to be acting upon Newton's Law of Motion that moving objects continue in their path unless another force changes their direction. We believe the primary forces that could change market direction remain inflation or a misstep by the Fed to control it. Perhaps a "soft landing" is still in the works. A soft landing is when the Fed successfully achieves its price stability objectives without tipping us into a recession. However, soft landings have been rare during periods of high inflation because the Fed has much less flexibility and fewer tools to respond to weaker growth.⁴ Geo-politics, particularly the uncertain impact of tariffs, may also make the Fed's job more difficult.

The presidential election will likely be the source of market volatility in the third quarter. However, elections are not a long-term threat for markets, nor do they act as a turning point. For this reason, we advise clients not to vote with their investments. Solid economic fundamentals and particularly strong employment data continue to support the economy. Corporate earnings are projected to stay strong for the remainder of this year and into 2025⁵ as the adoption of artificial intelligence continues to benefit more companies and industries. An interest rate cut would further bolster the economic outlook, especially for small caps that stand to benefit the most from a drop in borrowing costs. We would use any near-term volatility as an opportunity to maintain or increase our exposure to stocks in moderate and conservative portfolios.

Of course, anything can happen at any time, and for that reason we believe the best preparation for the unknown is to fully understand the role stocks and bonds play in *your* portfolio. Markets do not travel in a straight line. Anyone nearing retirement that intends to rely on their financial capital must be prepared for the impact of a steep decline. Please enjoy the remainder of the summer and call us to schedule an appointment to review your plan and investment policy either in person, by phone, or online.

Thank you.

A handwritten signature in black ink that reads "Jim Ugone". The signature is written in a cursive, flowing style.

Jim Ugone, CEPA

⁴ Friedman, S. (2022, March 31). *Hard Truths on Soft Landings*. MacKay Shields, A New York Life Investments Company. <https://www.newyorklifeinvestments.com/mackay-shields/insights/hard-truths-on-soft-landings0>

⁵ *Market Briefs*. Merrill Lynch. (2024, June 12). <https://www.ml.com/articles/washington-update.html>