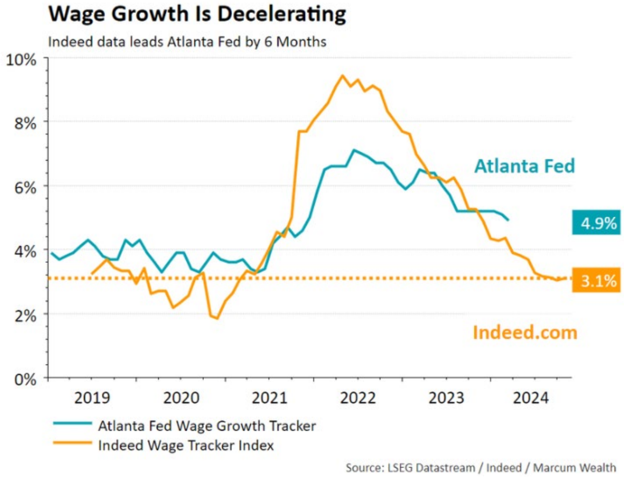
Strategy Newsletter – 3rd Quarter 2024

- Inflation data cools while the unemployment rate moves higher.
- Large caps lead the way again for stocks.
- The interest rate cutting cycle may finally be within view.
- REITs hit attractive levels for long-term investors.

Economy

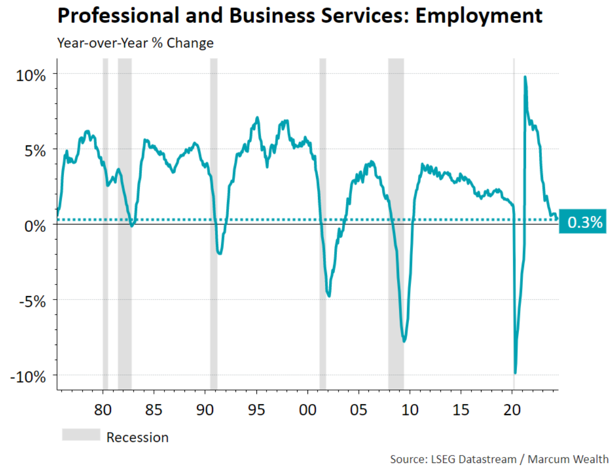
During Fed Chairman Powell's Congressional testimony in early July he stated, "Labor is not a source of inflationary pressure." As we can see from job postings data from Indeed.com, this leading indicator points to the normalized level seen prior to 2020.



This is important as worries about a wage spiral higher leading to inflation fade away. The Consumer Price Index data in the second quarter rose at a slower pace than the first quarter as core services and home prices increased at a slower pace.

Jobs growth shifted to a lower gear this year. The unemployment rate moved from a low of 3.4% in 2023 to 4.1% in June. Although low on an absolute level, the momentum higher gives reason for caution.

Professional and business services employ 23 million people in the US. The employment growth for this sector grew only 0.3% from the prior year, adding just 66,000 jobs, according to the Bureau of Labor Statistics. It was never this low outside of recessions, though, one could have said the same a year ago. Yet this time, it is closer to turning negative on an annual basis.



The downward trend in prices and softness in the job market will likely give the Federal Reserve enough evidence to lower interest rates in the second half of the year.

Consumers continue to spend, as travel and leisure activities hit record levels. The excess savings from the past few years will likely be gone by the end of 2024. The economy will depend more on the fundamentals of the jobs market to attempt a soft landing and keep this economic cycle going.

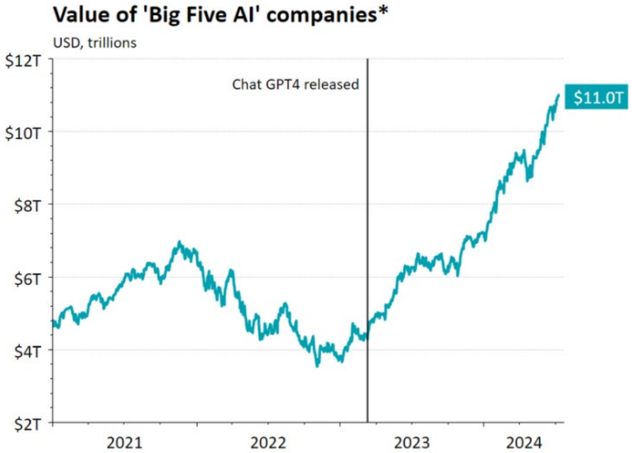
Equity

The benchmark S&P 500 Index posted its third straight quarterly gain as large technology companies led the price gains.

U.S. Equity	2Q 2024
Large Cap Stock	
S&P 500	4.3%
Small & Mid Cap Stock	
S&P 400 Mid Cap	-3.4%
S&P 600 Small Cap	-3.4%
All Cap Style Indices	
S&P 1500 Value	-2.3%
S&P 1500 Growth	8.6%
International Equity	**2Q 2024**
MSCI EAFE	-0.2%
MSCI EAFE Value	0.4%
MSCI EAFE Growth	-0.6%
MSCI Emerging Markets (EM)	5.1%
MSCI EM Value	5.2%
MSCI EM Growth	5.0 %

After a correction in 2022, the five companies most exposed to the artificial intelligence trend saw their decline market value decline by $3 trillion. Since the beginning of 2023, these names have added $7 trillion in value.

Value of 'Big Five AI' companies*



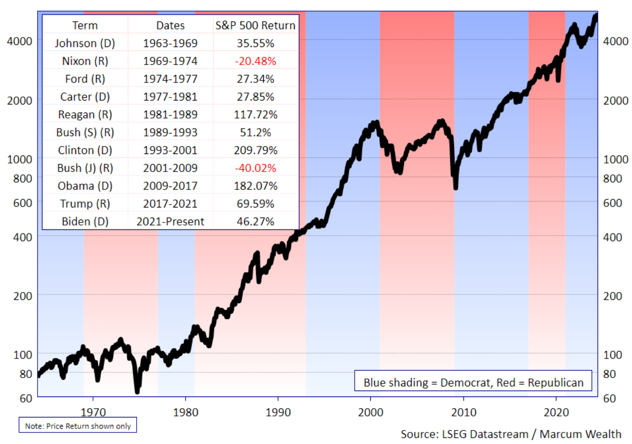
Alphabet, Amazon, Meta, Microsoft and Nvidia

Source: LSEG Datastream / Marcum Wealth

The fundamentals earnings story is there, with these firms outpacing analyst expectations. Some question how a down cycle might impact the businesses, or if we are in the middle of a new secular trend.

Investors are turning their attention toward the November Presidential election. Looking back through history, no definitive pattern of one party winning leads to better or worse gains in the equity market.

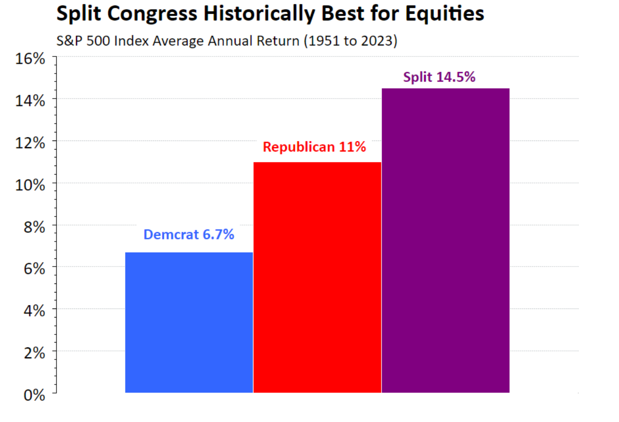
S&P 500 Index Returns and US Presidents



Source: LSEG Datastream / Marcum Wealth

On the other hand, Congress is a different story over time. Markets prefer the status quo and not many changes. Historically, a split Congress produced the top average returns for markets.

Split Congress Historically Best for Equities



Source: LSEG Datastream / Marcum Wealth

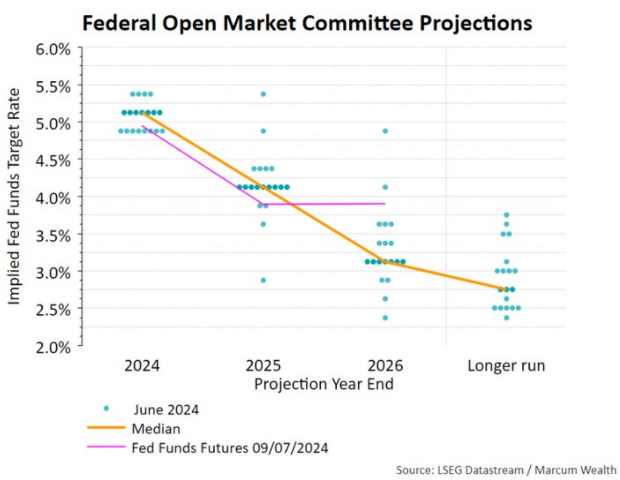
The Marcum Wealth Asset Allocation Frameworks remain equal-weight equities relative to the strategic long-term targets.

Fixed Income

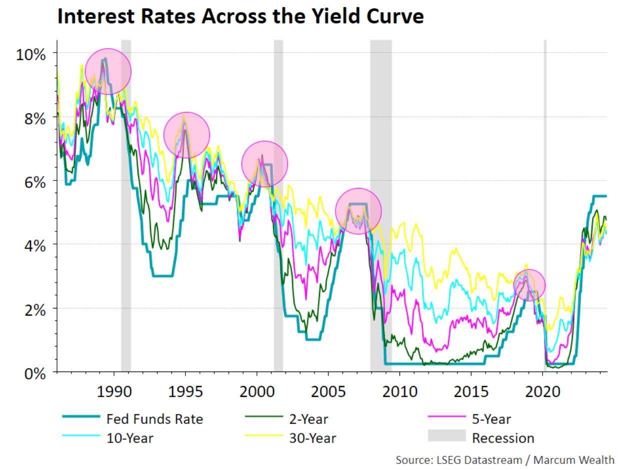
High yield and Treasury Inflation-Protected Securities led performance this quarter. The 10-year Treasury began the quarter at 4.21%, went up to 4.70% in April, and ended June at 4.37%.

Fixed Income	2Q 2024
Bloomberg U.S. Aggregate Bond	0.1%
Bloomberg Corporate Inv. Grade	-0.1%
Bloomberg High Yield Bond	1.2%
Bloomberg Global ex. U.S. Treas.	-2.8%
Bloomberg Municipal Bond	0.0%
Bloomberg TIPS	1.1%

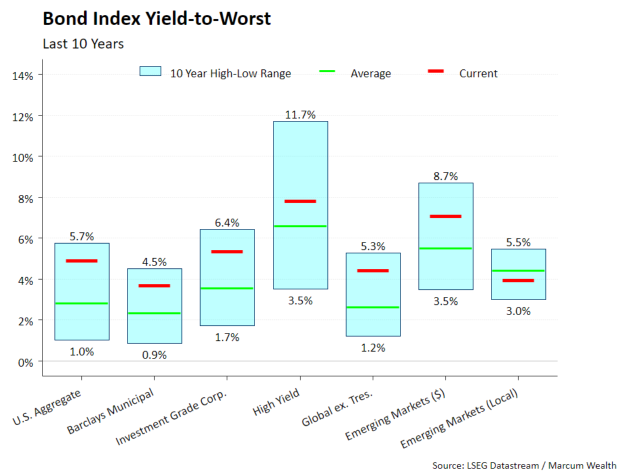
The bond market now expects at least two interest rate cuts by the end of the year, with the possibility of a third. The trend looks clear, assuming inflation and employment trends continue. The Fed is aligned with the market's views of interest rate cuts throughout 2025. The question of where long-term rates settle is up for debate.



Treasury yields across the curve are below the Fed fund rate. This is unique compared to past hiking cycles except for the 2004 to 2006 period. During the 1990s and 2010s, the front end of the yield curve stayed above the Fed fund rate for a little while. We mention all of this because a substantial fall in interest rates will depend on how far rates are cut. During each of the prior interest rate-cutting cycles since 1990, yields moved lower with short-term interest rates. Regardless, we believe lowering the reinvestment risk of bonds coming due leads thoughtful investors to lock in yields for a greater duration of time.



The chart below shows the current menu of yield available along with the high and low range over the past decade. Quality bonds, including investment grade corporates and municipals for taxable investors, look attractive.



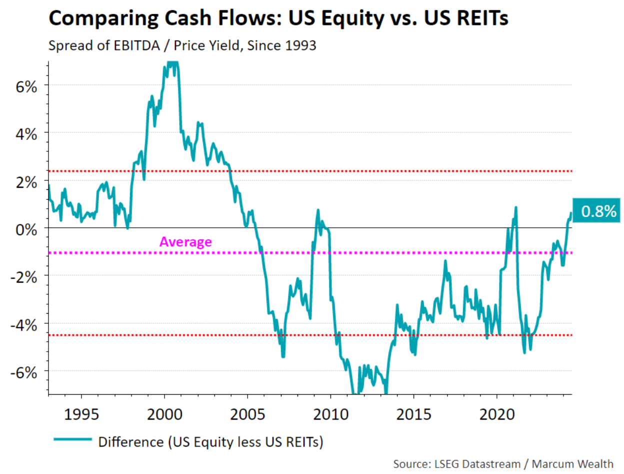
The Marcum Wealth Asset Allocation Frameworks hold fixed income at equal weight to the strategic targets.

Real Estate

REITs were flat during the quarter as the rise in interest rates detracted from results.

Real Estate	2Q 2024
Wilshire U.S. REIT	-0.2%
Wilshire Int'l REIT	-2.2%

The REIT sector is as cheap as it was in 2009 and 2021, as measured by various metrics, including the yield shown below. This is relative to the broad US equity market.



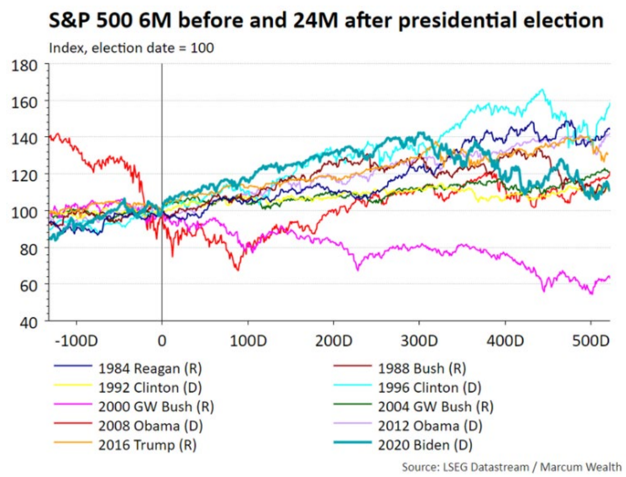
While everyone is aware of the negative sentiment in the office sector along with rising interest costs, the discount may have gone too far. Many large institutional investors are taking private attractively priced publicly REITs. The fundamentals remain strong in apartments and industrials.

The Marcum Wealth Asset Allocation Framework maintains equal weight exposure to REITs.

Summary

During election years, we often remind investors that making political decisions with our money is not a good process. This time, we understand that the 2024 election weighs heavily on the future path for the economy and markets. The expiration of the Tax Cuts and Jobs Act at the end of 2025 means a new tax bill will be completed under the next administration. The regulatory regime, along with geopolitical risks, among many others, will be affected.

The chart below looks back at the six months before each election and the following two-year period for the S&P 500 Index. Many events occurred throughout, with some years more volatile than others. Markets and the economy ultimately survived. Substantial price drawdowns occurred in 2000 and 2008. Only following the tech bubble in 2000 were stocks negative over the two years following the election. Even during that time, diversified portfolios did well, and asset classes outside of U.S. large cap stocks produced returns.



Marcum Wealth Asset Allocation Frameworks

	Income	Conservative	Balanced	Moderate	Growth
Asset Class	Strategic	Strategic	Strategic	Strategic	Strategic
Equity	**20%**	**35%**	**50%**	**65%**	**80%**
U.S. Equity	12%	21%	30%	39%	48%
International Equity	6%	11%	15%	20%	24%
Emerging Markets Equity	2%	4%	5%	7%	8%
Fixed Income	**77%**	**62%**	**47%**	**32%**	**17%**
US Fixed Income	69%	56%	42%	29%	15%
Global Bonds	8%	6%	5%	3%	2%
Real Estate / REITs	**3%**	**3%**	**3%**	**3%**	**3%**

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.